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**Brazil isn't growing—so why are  
Brazilians so happy?**

May 7th 2013, 23:50 by H.J. | SÃO PAULO

IN THE decade after Jim O'Neill of Goldman Sachs coined the acronym “BRICs” in 2001, grouping together four big countries with the potential for sustained growth, the “B”, Brazil, really put itself on the economic map. Having grown by 2.3% a year between 1995 and 2002, it grew by 4% annually in the following eight years. But [Brazil then ran out of puff](#)



(<http://www.economist.com/news/americas/21567945-long-awaited-recovery-still-fails-materialise-stalled>) . It grew by a disappointing 2.7% in 2011, and [a dismal 0.9% in 2012](#) (<http://www.economist.com/news/americas/21569706-more-inflation-less-growth-wrong-numbers>) . Yet Brazilians seem blissfully unconcerned. IPEA, a Brazilian research institute, regularly finds that two-thirds to three-quarters of families say their financial situation improved during the past year, and that they expect it to get even better in the year ahead. In December Gallup, a global pollster, found that those optimistic about the economy outnumbered pessimists by a wider margin in Brazil than in any other large economy. Given that growth has stalled, why are Brazilians so happy?

The underlying reason is that even though the country as a whole is struggling, most families' incomes are still rising fast. Unemployment is close to record lows and pay rises are comfortably outstripping inflation, partly because of big hikes to the minimum wage, but also because of that tight jobs market. Meanwhile, the gradual weaving of a social safety-net is [rescuing many Brazilians from destitution](#) (<http://www.economist.com/blogs/americasview/2013/02/social-spending-brazil>) . The result is [falling inequality, a growing middle class](#)

(<http://www.economist.com/news/americas/21565930-decade-social-progress-has-created-bigger-middle-class-but-not-yet-middle-class>) —and a disconnect between GDP growth and most Brazilians' actual experience.

To see how the distribution of growth affects incomes, imagine a country of just ten people, with one earning \$1,000 a month, another earning \$2,000 a month, and so on up to the tenth, who earns \$10,000 a month. Between them, these ten people earn \$55,000 a month. Now suppose that in a year the economy grows by a modest 1.8%, so that there is an extra \$1,000 to go around each month. If the richest person captures all that growth, it will give him a 10% pay boost. But he will hardly feel it, because he is already rich, and the average pay rise across the entire population would be just 1%. But if the poorest resident got all the extra money, his income would double. That would make a huge difference to his life—and the average pay rise in our little country would be a whopping 10%, far higher than the meagre overall growth rate. In general, the more of the \$1,000 that goes to those on lower incomes, the bigger the average pay rise it causes, and the more impact it has.

After many decades in which the spoils mostly went to the richest, more of Brazil's growth is now going to those on modest incomes. That is the long-term result of economic stabilisation and the universalisation of primary education in the 1990s, together with recent hikes to welfare payments and the minimum wage. So does it matter if overall Brazil's economy barely grows? The short answer is “yes”, though not necessarily straight away. Despite recent improvements Brazil is still a painfully unequal country, and it is poor Brazilians who pay the biggest share of their income in tax and get the least back from government spending.

[Reducing, or preferably reversing, regressive public policies](#)

(<http://www.economist.com/node/2155583>) would allow most families' incomes to grow, even if the economy continues to sputter. But if wages continue to rise, those Brazilians working in the tradeable sector—that is, those whose jobs could be done abroad—will be priced out of the global jobs market. Poor education and infrastructure, not to mention enterprise-killing bureaucracy, mean the average Brazilian worker is only a quarter as productive as an American one. And if Brazil is to join the ranks of rich countries, its GDP will have to get much bigger. At only \$11,000 per capita, there will not be enough to go round otherwise—no matter how fairly it is shared out.

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