Singh, Khumar. 1996. *The Co-operative movement in Mozambique.* Paper presented at the third multilateral workshop on the right to development and capacity building for sustainable development and democratic governance, Maputo, 9–11 Dezember 1996.

Tindifa, Samuel B. 1996. *Empowerment of Civil Society through traditional institutions.* Paper presented at the third multilateral workshop on the right to development and capacity building for sustainable development and democratic governance, Maputo, 9–11 Dezember 1996.

Weimer, Bernhard. 1996. *Participation, Decentralization and Local Government for Sustainable Development and Good Governance – Some Focal Issues and Strategy for Further Research.* Paper presented at the third multilateral workshop on the right to development and capacity building for sustainable development and democratic governance, Maputo, 9–11 Dezember 1996.

Andreas Auprich, Institut für Völkerrecht und Internationale Beziehungen, Universitätsstraße 15/A4, 8010 Graz, e-mail: andreas.auprich@kfunigraz.ac.at

Journal für Entwicklungspolitik XIV/3, 1998, S. 277–294

Günther Schönleitner

Poverty and Inequality in Brazil: obstacles to economic development and democratic consolidation?[1]

1. Introduction

The impact of economic crises and adjustment during the "lost decade" and the early 1990s has drawn much attention to the plight of the poor and vulnerable who have suffered substantial and increased hardship in Brazil (and elsewhere). A series of studies has shown that both income inequality and poverty increased, confirming the suspicion that the burden of economic adjustment (as well as the cost of non- or late adjustment) was not borne equally by all social groups: the poor became poorer and the rich richer. This tendency was not a novelty in Brazil's history. Poverty and extreme inequality have a long tradition. The fruits of decades of sustained growth have reached the poor only in a selective, dividing and overall meagre way. The efforts during the 1990s to resume growth under a new economic model and within a democratic political system, have triggered interesting debates about the relationship between poverty and inequality on the one hand and economic development and democracy on the other. Some argue that growth alone can bring about a reduction in poverty. Others question, whether growth-alone policies are compatible with democracy, and advocate redistribution in order to let the poor share the fruits of growth, and to make democracy work. Finally, it has been argued that growth itself is constrained by high levels of inequality. This leads us to the question, whether Brazil's high levels of poverty and inequality are likely to pose obstacles to both economic development and democratic consolidation.

I intend to address this question by looking first at the impact of the 1980s on poverty and inequality and by reviewing the dimensions and magnitude of the problem. Then I will discuss the underlying determinants and deep-rootedness of poverty and inequality by highlighting three aspects of Brazil's inequity in more detail. In the second section I shall discuss the relationship between social inequity and the diverse economic models adopted in Brazil's history, focusing on their underlying theoretical approaches with regard to inequality and poverty. In the third part I will propose an institutional explanation and analysis of the persistence of inequity and the lack of redistribution even under democratic conditions, drawing on the "new institutionalism" and the work of Kurt Weyland. This framework is then applied to assess the impact of inequity on democracy in the forth section. Finally, I will review recent research on the relationship between inequality and growth, and discuss the arguments being put forward with focus on Brazil.

2. Sources and dimensions of poverty and inequality in Brazil

In their study of the impact on poverty and inequality of the economic crises and the consequences of Brazil's policy of "non-adjustment" during the 1980s, Ferreira and Litchfield found that between 1980 and 1991 the shares in total income of all but the richest 20 percent fell, and these gained chiefly at the expense of the poorest groups: The poorest decile lost 20 percent of its original share, the fifth decile lost 9 percent and the rich gained by almost 6 percent (1996: 255). All indexes of inequality (Theil index, Gini-coefficient and coefficient of variation) showed an unambiguous tendency to rise.[2] According to the World Bank, in 1994 the richest 10 percent concentrated 51.3 percent of total income whereas the poorest 20 percent saw their share restricted to 2.1 percent. A rise in inequality in times of slow or negative growth is likely to imply increased poverty. According to the aforementioned study (using regionally specific poverty lines based on FAO calorie requirements and basic non-food expenditure), poverty rose during the 1980s in terms of numbers of poor people (headcount-index), intensity of poverty (poverty gap: the poor were further away from the poverty line) and in terms of more inequality among the poor (FGT-index).[3] In 1990 43 percent of households lived in poverty (in urban areas 39 percent and in rural areas 56 percent) and in 1992 estimated 32 million Brazilians were subjected to indigence or absolute poverty, while living in the world's tenth largest economy in terms of GDP.

The crises and recessions of the 1980s had clearly an adverse impact on the already highly skewed distribution of income, and a devastating effect on urban poverty. The slowdown of economic growth from an annual average rate of 6.0 percent of GDP per capita during the 1970s to –0.6 percent during the 1980s, the sharp rise in inflation, increased unemployment in the formal sector, the enormous expansion of informal sector activities associated with very low incomes, and the need for fiscal austerity were the most obvious immediate factors that reinforced pre-existing social cleavages. However, understanding poverty and inequality in Brazil requires more than looking at macroeconomic variables and their change during a disastrous decade. Poverty and inequality are deeply rooted in Brazilian society and the country's political and economic structures. The patterns of highly unequal distribution of wealth (e.g. land ownership), income, human capital (education, health) and social capital (the capability to organisation, co-operation, and trust) can sometimes be traced back to the very origins of colonisation. The underlying cleavages run across society in various ways: (1) geographically, associated with huge differences between regions (especially the poor Northeast and the relatively prosperous Southeast) and a marked urban-rural contrast; (2) in terms of a somewhat obscured but non-the-less effective racial divide; (3) in a gender-related way, as a result of what is called "machismo"; (4) in terms of social groupings and classes, associated, for instance, with significant differences in returns to capital relative to labour; and (5) sectorally, referring to the deep gap between the urban formal and informal sectors. All these social cleavages are inter-related and interact with each other in complex ways. Three examples should illustrate the deep-rootedness and dizzying dimensions of the inequalities within the Brazilian society.

High concentration of land ownership has been a major source of rural inequality in Brazil. Going back to large land grants by the Portuguese crown (sesmarias), the latifundio system has become the dominant characteristic of the rural economy for centuries. Since land was relatively abundant and labour scarce, a free market exchange would have favoured labour, making the large holdings relatively worthless. It was through the forced labour of millions of imported African slaves that the advantage was shifted to landowners who concentrated in their hands not only the land but also the earnings of land relative to labour (Ramos 1996: 147). The slave population was kept at the subsistence level. Although slavery was abolished in 1888, in the absence of land reform or any other attempt to integrate the former slave workers, the patterns of land ownership and income inequality in the countryside have changed little over time. In 1980 the Gini-coefficient for family land ownership was 0.86, and when landless families working in agriculture are included, it was 0.9 (Maddison 1992: 91). In 1985 the top 2 percent of landowners controlled 57.0 percent of total farm land, while the bottom 30 percent owned just 1.0 percent of total farm land (Hall 1990: 206). Although both the importance of agriculture vis-à-vis other sectors and the influence of the traditional land elite have declined since the 1930s, there is still a culture of inequality, dependence and domination in Brazil's countryside.

A further striking feature of Brazil's inequality is the skewed distribution of education. As Maddison (1992: 87) points out, it is clear that educational inequality plays a major role in transmitting poverty from one generation to the next. Even by Latin American standards, Brazil's levels of education are low. On average, Brazilians had only 1.8 years of schooling in 1950 and merely 3.9 years in 1980 (ibid.). In 1990 this figure had increased to 4.9 years of formal education and illiteracy had dropped to 19 percent.[4] Maddison questions, however, quite rightly nominal literacy rates for being "based on the flimsy evidence of answers to questions in the population census. Functional literacy is usually attained after four years of completed formal education and by 1980 only 41 percent of the population had achieved this". Average education rates mask, of course, high regional and rural-urban differences in school attendance and illiteracy as well as the correlation of education levels and household incomes. In Brazil, children of poor families have commonly access only to lower-quality public schools. They exhibit high drop-out rates and their education is often sacrificed when their work is needed to contribute to the household income. In addition, the low quality of public primary and secondary schools usually does not enable poor children to access high-quality federal universities. Instead, they have to attend costly but lower-quality private universities. The middle and upper classes send their children to private schools that offer higher-quality primary and secondary education. These privileged children will later attend heavily subsidised state universities which offer better quality than private universities (Maddison 1992:

87). It appears needless to say that inequality in education is not just a function of income inequality. It is in itself a major source of high earning differentials, since there is high demand for a scarce, highly educated workforce but an oversupply of unskilled labour. In 1980, the incomes of the illiterates were only 6.5 percent of the amount going to university graduates (Reynolds 1996: 42).

Brazil's tax system is a strong example of inequality-enhancing public policy. It is, as Maddison points out, highly regressive and makes income more unequal after than before tax. The system is characterised by heavy reliance on indirect taxes, a modest proportion of direct taxation and social security levies that do not affect income beyond a certain level. The only progressive element, personal income tax, is outweighed by other regressive taxes (1992: 107). A study by Eris et al. (1983) confirmed the regressiveness of the system by showing that in 1975 those who earned less than one minimum wage per month paid 37.3 percent of their disposable income, whereas the richest, with a monthly income more than 100 times the minimum wage, paid only 13 percent (quoted by Maddison 1992: 108). This absurd outcome is further exacerbated by pervasive tax evasion in the highest income deciles.

3. Changing economic models: persistent poverty and inequality

The perhaps most striking aspect of poverty and inequality in Brazil is their remarkable persistence to change vis-à-vis substantial shifts in overall economic policy and development strategies. Despite decades of rapid and sustained growth before the 1980s, no significant reduction in income inequality could be achieved. The development of the Gini-coefficient shows a steady upward trend, interrupted only by a slight decrease during the 1970s and in 1989–90, while thereafter it continued its overall rise. With regard to poverty, the country has registered a slight decline in rural poverty, albeit this was probably a result partly of mass migration from rural to urban areas. Some relief of urban poverty should only be achieved after the 1994 stabilisation plan. Before attempting to explain this resilience of inequality and poverty over time, it is worthwhile to examine briefly the different economic models applied in Brazil's more recent history with regard to their underlying theoretical approaches to inequality.

The "primary-exports model" up to the 1920s was based on the latifundio-system, relying on the export of primary commodities such as sugar, cotton, coffee etc. Growth and profits depended largely on the access to foreign markets and the levels of international demand. The domestic demand and consumer market were negligible and indeed neglected, since the primary interest of the landowner class (coroneis) was to minimise labour costs rather than to increase their workers' purchasing power. Their reliance on slavery during some 380 years and, thereafter, on semi-feudal relations of production, makes it clear that this model was *built* upon inequality, laying down the foundations of Brazil's ongoing "culture of inequity". This model, based on the classical pillars of private

ownership, a free market economy and a passive state, would only be abandoned when collapsed foreign demand as a result of the Great Depression and the two World Wars revealed its vulnerability to external shocks and rendered its export-led strategy unfeasible.

Contrary to the former model, domestic demand was an essential element of the Import-Substituting Industrialisation (ISI) strategy that was implemented in Brazil under the populist regime of Getúlio Vargas. Hence, one would expect significant changes in the patterns of income distribution. However, this was clearly not the case. Brazil's ISI was concerned primarily with changing the structure of production and economic growth, not with redistribution. Investment in physical infrastructure was given priority over that in social infrastructure. The dual-economy argument and the Lewis model suggested that rapid industrialisation would finally absorb the labour surplus and lead to rising real wages. However, this has never been achieved and significant segments of society such as the rural poor and the growing urban informal sector remained excluded and marginalised. On the other hand, the Brazilian elites "captured" the dirigist ISI-model, pursuing their own vested interests, in a way that hindered liberalisation and a gradual shift to a more outward-looking stance. Thus they prevented the economy both from relying on a much larger domestic consumer market than it actually did and from gaining sufficient competitiveness for its successful integration with the international market. Anglade and Fortin's class based explanation (1985: 32ff) argues that the presence of a large agricultural labour surplus transformed a potential conflict between the landed elite (engaged in primary exports) and industrialists into an alliance between them, since their interests were made compatible by the unlimited availability of surplus labour and the resulting low wages. Conventional explanations for increasing inequality under ISI-policies stress the "Kuznets effect". Kuznets' hypothesis asserts that the impact of industrial growth on income distribution in developing countries follows an inverted u-shaped curve of first increasing and then decreasing inequality, since the gap between traditional and modern/industrial sectors widens as the economy grows. It has been argued that Brazil's modern sector is too advanced for "traditional equality" but not developed enough to integrate most parts of the population into the modern sector, thus reducing inequality again. An essential part of Kusznets' argument is the notion that initially a fast growing modern sector faces a shortage of highly skilled labour which in turn results in high pay differentials between an educated managerial and professional workforce and unskilled workers. From a neo-structural perspective, Ramos (1996: 152) adds to this argument the important role played by the slow diffusion of modern technology which enables the few firms using "best practice" technology to keep the "monopoly surplus" while having to pay their workers only the "going wage", disregarding increased productivity.

This theoretical debate is partly reflected within Brazil by the Fishlow-Langoni controversy of the early 1970s over the causes of inequality. Fishlow (1972) blamed the government of pursuing a deliberate policy of squeezing real wages after 1964, whereas Langoni ignored the wage squeeze but stressed "non-policy Kuznetsian forces inherent in a situation of fast growth" (Maddison 1992: 83). As Maddison correctly stresses, there is no necessary conflict in the two viewpoints. Each may be a partial explanation. With regard to Fishlow's argument, there can be little doubt that the wage squeeze actually happened: While between 1964 and 1980 real GDP per capita rose by 5.2 percent a year, the minimum wage fell in real terms by 1 percent per year (ibid.). It seems, however, more difficult to maintain the Kuznetsian hypothesis. Apart from the fact that there has never existed anything like "traditional equality" in Brazil, it is also contradicted by the East Asian growth stories and inequality records, since in Korea and Taiwan, for instance, growth and equality have not been negatively correlated. Moreover, after nearly 60 years of industrialisation it appears futile to expect the graph of Brazil's Gini-coefficient to follow the downward movement predicted by the Kuznets curve in the second stage.

The neo-liberal New Economic Model (NEM) currently being implemented in Brazil has been proposed as a way of improving efficiency and accelerating growth. Its impact on income distribution and poverty have not been central considerations (Bulmer-Thomas 1995: 296). The theoretical framework underlying the NEM, neo-classical theory, does not directly address the issue of equity. The market result in distributional terms depends on initial endowments of wealth, talents and human capital. According to this theory, there are few, if any, redistributive state interventions that do not imply losses in economic efficiency. Neo-classical authors emphasise the trade-off between efficiency and equity and advise developing countries not to worry too much about income distribution, if their objective is rapid growth (e.g. Johnson and Lal). In the longer term, the fruits of growth would "trickle down" to the poor. Bulmer-Thomas argues convincingly that despite its almost exclusive focus on efficiency and growth, the model is not neutral in terms of income distribution and poverty since it is likely to reduce real wages and increase open unemployment as well as the size of the informal sector. A reduction in poverty can only be expected under the assumption of high rates of economic growth that is led by non-traditional, labour-intensive exports. A reduction in income inequality, he argues, would require rising real wages through a tightening labour market and state subsidies and transfers to the poorest (1995: 300f). However, even the growth record of the NEM has so far been disappointing in Latin America, since (with the exception of Chile and Argentina) growth rates have largely remained below pre-1980s levels.

It is certainly too early to assess the impact of the NEM on poverty and inequality in Brazil, since the model itself has not yet been fully implemented. Nevertheless, in a study of the impact of the 1994 "Plano Real" on income and poverty in six Brazilian metropoles, Rocha (1996) found that the massive drop of inflation allowed the incidence of poverty to decline from 42 percent to 28 percent, on average. The poverty gap remained constant despite the reduced number of the poor. The FGT-index also showed stability between July 1994 and January 1996. The study confirms the trend of an informalisation of the labour market due to losses of jobs in the most modern and dynamic sectors and a simultaneous increase in informal activities. According to Rocha, this tendency has been evident for some time and was not triggered by the stabilisation plan. However, due to reform elements like privatisation, trade liberalisation and public spending cuts, the NEM tends to have increase, further an informal sector which had already grown by some 70 percent in the 1980s (creating estimated 17 million "jobs"), exacerbating thus the low income levels and deepening the formal-informal divide. As argued by Altimir (1996: 60), the dynamics of growth have not worked in favour of improving the distribution of income. And the experience of other countries of the region suggests that the current change in Brazil's development strategy is unlikely to achieve any equalising outcomes "beyond the counter-cyclical restoration of pre-adjustment inequalities" (ibid.), if it relies on growth alone.

4. An institutionalist explanation of Brazil's extreme inequality and lack of redistribution

The foregoing discussion of the relationship between social equity and the different development strategies adopted by Brazil, leaves us with the unsatisfactory notion that the diverse economic models and their theoretical underpinnings neither offer a sufficient explanation of nor adequate solutions to the deeply rooted inequality and poverty in Brazil. It appears that whatever model is implemented under whatever kind of political regime, the outcomes tend to be diverted and biased to the detriment of the poor and to the advantage of the rich. There seems to exist some invisible "software" (for not to blame the Invisible Hand) operating within society that frustrates or weakens attempts to overcome these tragic patterns.

In recent years the "New Institutional Economics" has attempted to analyse the broader institutional framework of a society within which both market and state (themselves institutions) operate. Institutions, indeed, can be seen as the "software" of a society, or as the formal or informal "rules of the game" that structure human interaction and reduce uncertainty in economic exchange, aiming at minimising transaction costs. According to North (1995), transaction costs are the key to the performance of economies and institutions their underlying determinants. To understand the outcomes of institutions, it is crucial to know how they emerge and change over time. The neo-classical notion that non-market institutions are created by rational, self-interested individuals, seeking to overcome market failure and social dilemmas (that arise when individual self-interest becomes incompatible with the common good), is flawed for the reasons pointed out by Bates (1995: 41ff) and others: the various actors would find it difficult to agree upon a single solution since different possible institutions would produce different outcomes in terms of distribution. Moreover, institutions are themselves a public good which means that they are associated with the same collective dilemmas regarding their creation (e.g. free-riding) than those they are supposed to overcome. Why would self-interested individuals choose (and co-operate) to establish institutions to solve problems that are defined by the needs of society? Knight (1992) suggests therefore rightly the primary importance of distributional conflict: unbalanced "bargaining power" within society enables dominant groups to impose institutions that are favourable to them in distributional terms. The main goal of those who shape institutional rules is to gain a strategic advantage vis-à-vis other actors. The resulting institutions may or may not be socially efficient. Inefficiency may arise if less efficient alternatives give greater gains to those with the strongest bargaining power. These institutions (created in the political arena) tend to be "path dependent": once set up they shape the direction of long-term economic and social development (North 1995).

The examples given in the first section (land ownership, education and tax system) and many others that can easily be found in such diverse areas as judiciary and electoral institutions, economic regulation or public administration underline not only the inequity but also the social inefficiency of Brazil's institutional design, if viewed from the perspective of society as a whole and not just from that of the ruling elites. A comparison with countries like Taiwan and South Korea suggests that the latters' elites had significantly less bargaining power, not because of more democracy, but due to strong external threats of being overrun by the communist parts of their countries which exerted a particular appeal to the impoverished peasants. Hence, institutional design in these countries has tended to be both much more equalising *and* more efficient. The current financial crisis in Asia should not distract from the enormous economic and social achievements in these countries which pushed, for instance, South Korea's per capita income from LLDC to OECD levels. It is quite instructive, though, that much of the current crisis appears to be caused by the remaining institutional inefficiencies associated with what is called "crony capitalism".

It is a puzzling question, why Brazil's poor and excluded sectors have not been able to challenge the exclusionary system imposed on them, when the democratisation and the extension of the franchise to illiterates has made it possible for them to use their large numbers to press for redistribution? Why is it that the elites could maintain their power and block any serious attempts at redistribution, despite substantial changes in the political rules of the game? Weyland argues that in a democratic system redistribution can be achieved either by top-down autonomous state action or by bottom-up pressure channelled through autonomous interest associations, social movements and political parties (1996: 18ff). Although such organisations exist in Brazil, they have been unable to become effective, encompassing agents for social change like the class-based trade unions or the "catch-all" parties associated with the success of Europe's social democracy. Instead, Weyland argues, Brazilian society is characterised by widespread organisational fragmentation that hinders the potential beneficiaries of redistribution to form a united front. This clearly favours elite groups such as "big business" which "do not need broad-based organisation for exerting influence because they have considerable clout individually and through their narrow associations" (1996: 32). Weyland identifies two major forces behind the fragmentation of society: clientelism and segmentalism. The former is understood as a pyramidal system of personalist relations based on unequal though reciprocal exchange. It discourages or suppresses horizontal linkages and has a strong disaggregative effect. Segmentalism means the prevalence of splintered sectoral or class organisations that pursue narrowly defined, specific demands and rival with each other for public resources. Relying on restricted social bases, none of these organisations has a rational interest in broader, systemic goals (1996: 54). Clientelism and segmentalism not only affect the capacity of the popular sectors to represent their interests and press for redistribution, they pervade also the state bureaucracy, interfering with public recruitment and resource allocation (e.g. political appointments, favouritism, and corruption). By establishing outside loyalties they undermine the unity of the state and make it particularly difficult to pursue any overall state interests that might include redistribution (Weyland, ibid.).

It appears obvious that Brazil's societal cleavages (cultural, regional, formal/informal etc.) fuel its organisational fragmentation which, by impeding redistribution, in turn tends to reinforce these cleavages. Thus it is not only the elite and middle classes, but also the relatively privileged formal-economy sectors of the urban working class that are interested in the continued exclusion of the informal and marginalised sectors. There appears to exist a vicious circle of social exclusion, set in motion during the colonial regime by a deliberate divide-and-rule strategy that shows a strong "path-dependent" inclination to persist. Within such an institutional framework, individual and collective actors tend to seek particularistic advantages rather than the collective benefit of a class, let alone of society as a whole. In Putnam's outstanding account of social capital and institutional success, this is well expressed: "Once trapped in this situation, no matter how exploitative and backward, it is irrational for any individual to seek a more collaborative alternative. Actors ... may well realise that they are worse-off than in a more co-operative equilibrium, but getting to a happier equilibrium is beyond the power of any individual." (1993: 177). The material deprivation of Brazil's poor is only matched by their lack of political power and effective organisation deriving from vertical rather than horizontal linkages. A popular saying in north-eastern Brazil runs: "We poor have to lean on a tree that gives shadow." It is a recipe for perpetuating inequality and poverty.

5. Inequality and Democracy in Brazil: a knock-out game?

At first sight, Brazil's democracy has been fairly successful and stable since 1985. Free and reasonably fair elections with universal suffrage are becoming routine. Civil rights and liberties such as the freedom of expression, association and press are largely guaranteed. No major challenges have put the survival of democracy at risk so far. The way in which the political crisis around the impeachment of President Collor was managed, notably the political abstinence of the military, is widely held as a sign of growing maturity of Brazil's democracy. This apparently optimistic picture may, however, be deceptive. None of the big social challenges has been tackled, poverty and abysmal inequality persist. Apart from the extension of some social benefits to the rural poor and a recent alleviation of poverty as a result of the elimination (or better reduction) of the inflation tax, virtually no significant redistribution has taken place. Agrarian reform has been blocked and the new economic model is likely to exacerbate inequality, at least in the short term.

Democracy and inequality of Brazil's type are hardly reconcilable. According to transition theorists, high inequality threatens democracy by creating an "overload of redistributive demands" that might threaten the status quo and the privileges of the middle and upper classes, inducing them to call for the military to overcome "social unrest". Apart from potentially leading to political instability or ungovernability, it is argued that demands for redistribution may also put at risk the very success of adjustment policies, sacrificing possible long-term gains through resumed growth by the pursuit of short-term redistributive goals. On the other hand, the continued frustration of their redistributive aspirations may make the poor popular sectors susceptible to populist and anti-democratic politicians from either the right or the left. All these arguments express real dangers and they reflect partly historical experiences in Brazil's past. They have in common, however, that they regard as the central problem threatening democracy not the disease – inequality – itself, but the strong demands for the remedy – redistribution – that it creates. It is sometimes overlooked that inequality in Brazil (and probably elsewhere) affects the very "micro foundations" of democracy.

It is clear that real (as opposed to formal) democracy and the exercise of citizenship depend on the capability of the actors to be aware of and articulate their real interests as well as to organise themselves to pursue them. This requires levels of education which are largely unavailable to Brazil's poor. Moreover, poverty combined with inequality "forces the poor into clientelistic bonds with elites who offer minimal benefits and protection in exchange for obedience and political support" (Weyland 1996: 5). Thus the poor are co-opted and manipulated so as to vote in accord with clientelistic loyalties rather than in line with their real interests. This takes often the form of "selling" their votes in exchange for small gifts, a phenomenon that expresses nothing less than the abdication of their citizenship (and democratic rights) for satisfying immediate basic material needs or, in many cases, the preference of dependent survival over independent deprivation. Public service provision has been "captured" by the elites and is still largely characterised by poor performance, political clientelism, corruption, and collusion between influential landowners or entrepreneurs, state officials and local politicians. The pervasiveness of these patterns may explain, at least partly, the low programmatic profile, instability and fragmentation of the political parties (except perhaps the PT), which serve mainly as vehicles for the personal promotion of their members and candidates.

A further, very serious aspect of inequality affecting Brazil's democracy is the widespread perception that equality before the law exists only on the paper. This

notion is, unfortunately, not entirely mistaken. Brazil's judiciary works slowly and badly. Impunity is widespread and the likelihood that a perpetrator is judged and actually punished is reduced even further, the richer and the more influential he is or, at least, his patrons are. This not only undermines citizenship but reinforces clientelistic networks. The largely inexistent "rule of law" is not only incompatible with democracy, it implies also a huge economic cost due to increased transaction costs (e.g. regarding contract enforcement) and the distortions of allocation decisions it causes. The detection of enormous corruption schemes involving democratically elected politicians in recent years and the fact that, despite the pressure of publicity, rigorous punishment has been the exception rather than the rule, has – in conjunction with the absence of redistribution – strongly undermined the legitimacy of the democratic establishment. There is considerable frustration and disappointment regarding democracy, which may, in the longer term, be more dangerous for democracy than an "overload" of redistributive demands which have, as Weyland has shown, remained fragmented and largely ineffective.

It becomes evident that Brazil's democracy and its extreme social inequality are irreconcilable enemies. In the longer term, either democracy reduces inequality or inequality undermines and eventually knocks out democracy. Rueschemeyer and Stephens argue that democracy can only survive if there exists a strong institutional differentiation of politics from the overall system of inequality in society (1992: 41). Such a differentiation presently does not exist and is unlikely to be attainable in Brazil in the short term. Therefore, it is primarily through comprehensive redistribution of wealth, income and human capital (and hence of power) that the undemocratic patterns of clientelistic domination could be broken. This does not mean, however, that in the absence of redistribution a "social explosion" or a return to military rule are inevitable. More likely seems to be a gradual process of democratic erosion and political decay, quite similar to the "stylised process" described by Haggard and Kaufman (1992: 349): fragmentation leading to an erosion of state power, "an increase in political cynicism and apathy, a decline in effective political participation, and an inability for the political system to generate representative ruling coalitions. In the next stage crime, civil violence, and organised revolutionary or anti-revolutionary activity could contribute to a gradual erosion of the substance of democratic rule ...". The enormous increase of crime rates, violent struggles over land rights in the countryside, and organised criminality to the degree of a virtual loss of government control over some urban areas (for instance in Rio de Janeiro's morros), are signs that Brazil is not so far away from this scenario. At the final stage, electoral institutions could be rendered a façade and democracy a mere formal sham.

6. Are poverty and inequality harmful to Brazil's economic development?

The standard arguments against redistributive measures have been that the country could not afford them, they would jeopardise economic recovery, hamper growth and put at risk macro-economic stability through irresponsible („populist") expansionary policies. Moreover, they would scare-off foreign capital, pose disincentives to entrepreneurs and imply losses in economic efficiency. These arguments are entirely in line with the conventional wisdom that inequality is not only a by-product of growth, but also conducive to it. The latter assumption has been justified on the grounds that the rich would save more of their income than the poor who spend most of it on consumption. Higher saving rates would increase investment which in turn accelerates growth.

It is, once again, East Asia that has challenged these widely accepted propositions. The amazingly successful post-war development of countries like Taiwan and Korea was initiated by redistributive policies such as land reform and massive investment in human capital. Their rapid growth has been accompanied by increasing social equality. While Brazil's Gini-coefficient for income distribution lies above 0.6, East Asian figures are around 0.25. At the same time they have much higher rates of private domestic savings than Brazil and growth rates have tended to be higher in these countries than even those of pre-1980 Brazil. Although these empirical findings are not sufficient to establish a causality running from low inequality to growth, they do permit the conclusion that inequality is neither a necessary precondition nor an inevitable by-product of economic growth. Currently empirical and theoretical research on the links between inequality, growth and savings is being undertaken. Some theorists have come to establish a negative correlation between inequality and growth. Even the World Bank (1993) has recognised that low inequality or "shared growth" has been an essential element of the East Asian success.

Some of the arguments put forward in favour of the proposition that inequality hampers growth refer to the political economy approach that high inequality increases redistributive pressure by the poor which is likely to lead to political instability or to generate policies that allow less private appropriation (high taxation). This would discourage accumulation, investment and growth (Persson/Tabellini 1991). Once again, the problem is said to be the medicine, not the disease. The argument comes down to the assertion that *democracy* is harmful for growth, since growth would possibly be maximised if redistributive demands could be suppressed. Moreover, the argument ignores that economic inequality is regularly associated with inequality in the distribution of political power and organisational capacity. This may reduce the likelihood that inequality leads to effective demands for distribution.

Other authors stress that an excessive concentration of income and wealth restrains the domestic demand and thus creates an obstacle to growth. This process was probably one of the factors leading to the exhaustion of ISI in Brazil. Urani (1994: 45f) confirms that, by reducing the consumer market, poverty constrains the capacity of some Brazilian industries to reach the necessary scale for their competitive insertion into the world market. Another line of argument emphasises the connection between income distribution and fertility rates: higher income shares of the popular and middle classes would result in lower fertility rates which in turn affects growth per capita positively.

Birdsall et al. (1996) explore the links between inequality, savings and growth: the credit-constrained poor cannot borrow even to finance high-yielding investments and their poverty precludes a substantial reduction of consumption to finance investments. However, if returns to labour are sufficiently high, a rational poor household will intensify its work effort to generate additional income for productive investment (e.g. in the education of their children or new agricultural technologies). In order to trigger an investment boom by poor households, both returns to investments of the poor and returns to their labour will have to increase. However, there is no consensus about the virtues of redistribution with respect to savings. Schmidt-Hebbel and Servén (1996) found no evidence that income inequality affects aggregate saving across countries. They argue that, on theoretical grounds, higher inequality is, ceteris paribus, likely to be associated with higher savings. In practice, however, this is less obvious: Berry and Cline (1979: 28) reported, for instance, that simulations for Brazil indicated only a limited impact of rural income redistribution on rural savings rates. Moreover, it is not only the quantity of private domestic savings that matters for accelerating growth, but also the quality and the quantity of productive investment that is financed out of them. Perhaps more emphasis should be given to the question of what happens to the savings of the rich if compared to those of poorer social groups. It seems that the latter are less likely to end up as flight capital, as investments in unproductive luxury goods or as speculative capital than the former.

Altimir (1996) and Birdsall et al. (1994; 1996) stress correctly that investment in education is a key to economic growth. According to the former, rapid growth can only be sustained through international competitiveness based on technological progress which in turn requires an increasingly skilled labour force. Technical progress must pervade the whole economic system. Hence the population in general has to have access to adequate education and training in order to increase overall productivity (1996: 66f). Moreover, at a moment when manufacturing no longer is growing at rates required to absorb the mass of unskilled labour, it is the services sector that is often considered to be the future engine of growth. However, services are knowledge-intensive which is another reason why Brazil's high inequality and low overall levels of education tend to constrain long-term economic performance. Education not only increases productivity, it has also an equalising effect and helps to consolidate democracy. A cross-country growth regression by Birdsall, Ross, and Sabot in 1995 (quoted in Birdsall et al. 1996: 3) came to the conclusion that if Korea had had Brazil's 1960 school enrolment rates, its per capita GDP in 1985 would have been 11.1 percent less than Korea actually attained. The impact of different rates of overall inequality on economic performance in both countries is also significant. Birdsall and Sabot (1994: 2) argue: "The ratio of the income shares of the top 20 percent to the bottom 20 percent is 26 in Brazil and 8 in Korea. Simulations suggest that if, in 1960, Brazil had had Korea's lower level of inequality Brazil's predicted growth rate over the following 25 years would have been 0.66 percentage points higher each year. This implies that after 25 years GDP per capita in Brazil would have been 17.2 percent higher."

7. Conclusions

Brazil has accumulated levels of inequality and social debt that place it as the second most inequitable country in the world. Poverty and inequality have persisted despite profound changes in its economic models and political regimes. This can hardly be explained by focusing on "Kuznetsian forces" inherent in a situation of rapid growth. Poverty and inequality are deeply rooted in Brazil's societal, political and economic structures. This is caused and reflected by the design of its institutional matrix of formal and informal rules. In conjunction with the Portuguese institutional heritage, the extremely unbalanced bargaining power within Brazilian society has favoured, from the beginning of colonisation, the emergence and preservation of institutions that have produced inequality and social exclusion, and simultaneously, have caused inefficiencies affecting the country's economic development.

Brazil's high levels of poverty and inequality have favoured the workings of a social and political order based on clientelism and segmentalism that is incompatible with real democracy. Extreme inequality in education, income and wealth as well as the widespread lack of equality before the law perpetuate the dependence of the poor on vertical clientelistic networks, as well as political domination. The weakness and fragmentation of horizontal organisations favour the prevalence of parochial interests rather than the effective pursuit of broader systemic goals aiming at eliminating the causes of inequity. Hence, both a comprehensive democratic transformation of society and redistribution have not materialised. Thus, Brazil's democracy has so far failed to deliver the aspirations of a significant part of its population. This disappointment could easily erode the substance of democracy and undermine the stability of the democratic system.

Social inequity is likely to affect Brazil's economic development in various ways: (1) By restricting the access of the poor sectors to high-quality education, it prevents the economy from relying on a sufficiently skilled workforce that is required to boost the services sector as well as to increase overall productivity in manufacturing and agriculture. (2) By reducing the investment opportunities of the poor (e.g. by blocking agrarian reform) the country leaves under-utilised a significant potential source of growth. (3) By restraining domestic demand it contributed to the exhaustion of ISI. (4) Social inequity is likely to cause both crime rates and social unrest to rise even further. This will also impose significant economic costs. (5) By undermining the rule of law the inequitable system affects severely the transparency and efficiency of the public sector and favours corruption, patronage, rent-seeking cronyism and inefficient allocation decisions. Moreover, it increases uncertainty in economic exchange and, thereby, raises transaction costs. The lack of both real democracy and the rule of law is

bound to produce institutional inefficiencies that eventually can lead to economic collapse. Even with this respect, East Asia provides important lessons for Brazil.

If poverty and inequality in Brazil are caused mainly by institutional factors partly with long historical roots, the question arises, what are the prospects for social change? Can the country's institutional matrix be easily reshaped? Path dependence means that, where a society can go to, depends on where it is coming from. Brazil's inequitable institutional design comprises informal rules like cultural norms, traditional values and behavioural standards (probably strongest in the Northeast) that change only slowly. Therefore one should not be too optimistic about "institutional engineering". As North emphasises, it is necessary to change both the institutions and the belief systems (1995: 25). As far as equality-enhancing reforms of formal institutions such as the constitution, laws and economic or political "rules of the game" can be achieved at all (sometimes driven by international influence, committed technocrats or "populist" leaders), they tend to have limited immediate impact, being often diverted to the detriment of the poor. Hence, social change in Brazil is likely to be a question of decades rather than years. However, the cultural dimension associated with informal norms is not static either. It interacts with and is influenced by changes of formal institutions. Therefore, despite significant institutional and power-related constraints, it is crucial to initiate an inverted (hopefully path-dependent) virtuous circle of gradual social integration. It would far exceed the scope of this paper to discuss in detail the policy prescriptions deriving from this analysis. But they would certainly include much of the "integrated approach" of simultaneous growth-promoting and equity-enhancing policies, currently advocated by ECLAC.[5]

Abstracts

Dieser Artikel behandelt die Beziehung zwischen Armut und sozialer Ungleichheit in Brasilien einerseits und der wirtschaftlichen Entwicklung und Demokratisierung des Landes andererseits. Es werden zunächst die Dimensionen der sozialen Gegensätze aufgezeigt und deren Determinanten herausgearbeitet bzw. in den Kontext der diversen ökonomischen Modelle in Brasiliens Wirtschaftsgeschichte gestellt. Weiters wird eine institutionelle Erklärung und Analyse der sozialen Ungleichheit bzw. der (selbst unter den derzeitigen demokratischen Bedingungen) unterbliebenen Umverteilung vorgeschlagen. Schließlich werden die negativen Auswirkungen von Armut und Ungleichheit auf Demokratie und wirtschaftliche Entwicklung untersucht.

This article is about the relationship between poverty and inequality in Brazil on the one hand and the country's economic development and democracy on the other. First of all it highlights the dimensions and determinations of Brazil's social inequity and puts them in the context of the diverse economic models adopted in Brazil's history. The essay suggests an institutionalist explanation and analysis

of poverty and inequality as well as the lack of redistribution even under the current democratic conditions. Finally it analyses the negative consequences of poverty and inequality for both democracy and economic development in Brazil.

Anmerkungen

1 Essay submitted in partial fulfilment of the requirements of the degree at the London School of Economics and Political Science during MSc in the Faculty of Economics (Development Studies) 1997, GV444 "Democracy and Development. in Latin America".
2 Ferreira and Litchfield (1996: 265) stress that the real macroeconomic force behind this rise in inequality is inflation, which is a highly regressive way of financing public deficits. Contrary to the traditional view, they found economic growth, unemployment and real wages not to be central determinants of Brazil's inequality record during the 1980s. Paes de Barros et al. (1995), on the other hand, suggest that both the level of unemployment and inflation are positively correlated with the level of income inequality.
3 The increase in poverty seems to be driven by different forces. Ferreira and Litchfield (ibid.) blame increased unemployment, slow growth and lower real wages for the rise in poverty during the 1980s. However, they consider curbing inflation important for reducing poverty in so far as inflation is incompatible with net investment and sustained growth which is crucial for job creation and a rise in real wages. Paes de Barros et al. (1995) stress the decline in GDP per capita associated with an increase in income inequality as causes of poverty. They argue that the slowdown in economic growth during the 1980s had little impact on the creation but serious consequences for the quality of employment that shifted largely to services and the urban informal sector.
4 Sources: IBGE and CEPAL as quoted by Paes de Barros et al. (1996: 256).
5 UN Economic Commission for Latin America and the Caribbean.

References

Altimir, O. 1991. "Economic Development and Social Equity: A Latin American Perspective". In: *Journal of Interamerican Studies & World Affairs*, Vol. 38, No. 2/3, Special Double Issue: Poverty and Inequality in Latin America: 47–71.

Anglade, C., C. Fortin. eds. 1985. *The State and Capital Accumulation in Latin America.* London.

Bates, R. 1995. "Social Dilemmas and Rational Individuals". In: Harriss, J. et al. eds. *The New Institutional Economics and Third World Development.* London.

Berry, R. A., W. R. Cline. 1979. *Agrarian Structure and productivity in developing countries: a study prepared for the ILO within the framework of the World Employment Programme.* The Johns Hopkins University Press: Baltimore and London.

Birdsall, N., R. Sabot. 1994. "Inequality as a Constraint on Growth in Latin America". In: *Development Policy,* Sept. Inter-American Development Bank (IDB): Washington, D.C.

Birdsall, N., T. C. Pinckney, R. Sabot. 1996. "Inequality, Savings and Growth". In: *Development Policy,* March. Inter-American Development Bank: Washington D. C.

Bulmer-Thomas, V. ed. 1996. *The New Economic Model in Latin America and its Impact on Income Distribution and Poverty.* Institute of Latin American Studies, MacMillan: London.

Castañeda, J. G. 1994. "Democracy and Inequality. In: Latin America: A Tension of the Times". In: Domingues, J. I., A. F. Lowenthal. eds. *Constructing Democratic Governance: Latin America and the Caribbean in the 1990s.* The John Hopkins University Press: Baltimore and London.

Ferreira, F., J. Litchfield. 1996. "Inequality and Poverty in the Lost Decade: Brazilian Income Distribution in the 1980s". In: Bulmer-Thomas, V. ed. *The New Economic Model in Latin America and its Impact on Income Distribution and Poverty.* Institute of Latin American Studies, MacMillan: London, 249–270.

Glade, W. 1996. "Institutions and Inequality in Latin America". In: *Journal of Interamerican Studies & World Affairs,* Vol. 38, No. 2/3. Special Double Issue: Poverty and Inequality in Latin America: 159–179.

Haggard, S., R. R. Kaufman. 1992. "Economic Adjustment and the Prospects for Democracy". In: S. Haggard, R. R. Kaufman. eds. *The Politics of Economic Adjustment,* Princeton University Press: Princeton, New Jersey.

Hall, A. L. 1990. "Land Tenure and Land Reform in Brazil". In: Prosterman, Roy L. et al. eds. 1990. *Agrarian Reform and Grassroots Development: Ten Case Studies.* Boulder & London: 205–232.

Knight, J. 1992. *Institutions and Social Conflict.* Cambridge University Press: Cambridge.

Maddison, A. and associates. 1992. *The Political Economy of Poverty, Equity and Growth: Brazil and Mexico.* Published for the World Bank, Oxford University Press: Oxford.

North, D. 1995. "The New Institutional Economics and Third World Development". In: Harriss, J. et al. eds. *The New Institutional Economics and Third World Development.* London.

Paes de Barros, R., R. Mendonça, S. Rocha. 1995. "Brazil: Welfare, Inequality, Poverty, Social Indicators, and Social Programs in the 1980s". In: Lustig, N. ed. *Coping with Austerity: Poverty and Inequality in Latin America.* The Brookings Institution: Washington.

Persson, T., G. Tabellini. 1991. *Is Inequality Harmful for Growth? Theory and Evidence.* Discussion Paper No. 581. Centre for Economic Policy Research: London.

Putnam, R. 1993. *Making Democracy Work: Civic Traditions in Modern Italy.* ch. 6. Princeton University Press: Princeton.

Ramos, J. 1996. "Poverty and Inequality in Latin America: A Neostructural Perspective". In: *Journal of Interamerican Studies & World Affairs,* Vol. 38, No. 2/3, Special Double Issue: Poverty and Inequality in Latin America: 141–157.

Reynolds, L. G. 1996. "Some Sources of Income Inequality in Latin America". In: *Journal of Interamerican Studies & World Affairs,* Vol. 38, No. 2/3, Special Double Issue: Poverty and Inequality in Latin America: 39–46.

Rocha, S. 1996. *Renda e Pobreza: Os Impactos do Plano Real.* IPEA/DIPES: Rio de Janeiro.

Rosenthal, G. 1996. "On Poverty and Inequality in Latin America". In: *Journal of Interamerican Studies & World Affairs,* Vol. 38, No. 2/3, Special Double Issue: Poverty and Inequality in Latin America: 15–37.

Rueschemeyer D., E. Stephens. 1992. *Capitalist Development and Democracy.* Chicago University Press: Chicago.

Schmidt-Hebbel, K., L. Servén. 1996. *Income Inequality and Aggregate Saving: The Cross-Country Evidence.* Policy Research Working Paper 1561. The World Bank: Washington D.C.

Urani, A. 1994. "Consequências Macroeconômicas da Pobreza" (1994). In: *O Brasil no Fim do Século: Desafios e Propostas para a Ação Governamental.* IPEA/DIPES: Rio de Janeiro.

Weyland, K. 1996. *Democracy without Equity: Failures of Reform in Brazil.* University of Pittsburgh Press: Pittsburgh.

Weyland, K. 1996a. "Development, Democracy and Inequity: New Contributions on the Brazilian Political Economy". In: *Latin American Research Review,* Vol. 31, No. 3: 189–202.

World Bank. 1993. *East Asian Miracle: Economic Growth and Public Policy.* Oxford University Press: Oxford.

Günther Schönleitner, Baumgasse 10/2, A-1030 Wien
e-mail: office@oedwien.org

Journal für Entwicklungspolitik XIV/3, 1998, S. 295–310

Günter Spreitzhofer

Hilltribe-Trekking In Nordthailand
Ethnotourismus als Produkt synthetischer Authentizität?

Thailand gilt als touristisch aktivste Region des Großraums Südostasien. Jährliche Wachtumsraten von 10% im Verlauf des letzten Jahrzehnts (WTO 1996) dokumentieren die boomende Entwicklung des Subkontinents (vgl. Harrison 1992), dessen touristische Attraktivität nicht zuletzt auf der Vermarktung ethnischer Minderheiten beruht[1], die – klischeegerecht – als Repräsentanten ‚wahrer', traditioneller Kultur herhalten müssen. Der Zusammenprall konträrer Kulturen wie Interessen ist soziologisch und ethnologisch unterrepräsentiert, die existente Literatur fokusiert auf soziokulturellen Wandelerscheinungen, ohne die sozialpolitischen und ökonomischen Spannungsfelder im Dunstkreis einer subtil-synthetischen Authentizität (‚Drogen-Dorado Nordthailand') als imagebelastete Reisemotivation wie -attraktion näher zu analysieren.

Den Schwerpunkt dieses Beitrages bildet eine exemplarische Erfassung der Situation der Bergstämme Nordthailands (‚Hilltribes'), der ein definitorischer Einstieg vorangestellt wird. Eine kritische Analyse des mythenumrankten ‚Golden Triangle'-Raumes im Spannungsfeld von Trekking, Drogen und Ethnotourismus ist Kernstück des anschließenden empirischen Teiles, der Ambiguität und Wechselwirkung von Tourismus und Lokalpolitik an der Peripherie Südostasiens aufzuzeigen versucht.

Die Hauptdevisenquelle Thailands bildet seit Jahrzehnten der Tourismus, dessen ungebremster Aufschwung – 4.2 Mio. Touristen 1988, bereits 5,9 Mio. 1994 (The Far East and Australasia 1996: 1016) – allerdings nicht zuletzt aufgrund weltweiter Öffentlichkeit der intensiven Drogenproblematik 1990–92 deutlich stagnierte und die thailändische Regierung unter Handlungsdruck setzte: Die Hilltribe-Gebiete stehen – auch auf Druck der USA – seit geraumer Zeit unter totaler Regierungskontrolle, wofür einerseits die politisch brisante strategische Lage an der Grenze zu Myanmar und Laos verantwortlich ist; andererseits sollen gezielte Maßnahmen zur Reduzierung der Opium-Produktion gesetzt werden (Hinton 1993).

1. Terminologische Anmerkungen zum Stand der Forschung

1.1 Interkulturelle Kommunikation

Kultur und Kommunikation bilden zwei Ebenen, die einander interdependent bedingen. Nach O'Grady (1982: 36) ist Kultur definierbar als der *„Rahmen, in*