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The International Policy Centre for Inclusive Growth is jointly supported by the United Nations Development Programme and the Government of Brazil.

ONE PAGER 370

November 2017 ISSN 2318-9118

The concentration of income at the top in Brazil, 2006–2014

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For most of the past decade, Brazil seemed to be on track to reduce its hitherto extreme level of income inequality. All survey estimates pointed in the same direction: the country was finally experiencing pro-poor growth.

However, household surveys have some well-known limitations, especially when it comes to assessing the incomes of the rich. Consequently, data from personal income tax declarations are invaluable to assess the concentration of income at the top. Indeed, estimates based on publicly available income tax tabulations published over the past few years shed new light on the level and evolution of income inequality in Brazil.

This One Pager summarises the results of a larger Working Paper (Souza and Medeiros 2017), showing that top income shares are higher and did not change between 2006 and 2014. Whereas household surveys suggest that the share accruing to the top richest 1 per cent of the population fell from 14.8 per cent to 12.9 per cent, our tax-based estimates yield a much higher and much more stable figure: 22.4 per cent at both the start and the end of the period. The same applies to the income share of the richest 10 per cent: according to surveys, there was a 4.8 percentage point drop, from 49.4 per cent to 44.5 per cent, while our results are much less sanguine, indicating a modest 0.7 percentage point reduction—from 50.3 per cent to 49.6 per cent.

These figures are in line with previous estimates and are robust to a range of different methodologies. Profits and investment income seem to explain the divergence in levels, and capital gains are the most likely culprit for the divergence in trends.

The stability of the concentration of income at the top in Brazil is worrisome because the levels are very high compared to international standards. The richest 1 per cent of the population receive, on average, just 12 per cent of total income in a cross-section of 29 countries with recent tax estimates. Granted, international comparisons are never perfect, and the sample is biased towards developing countries.

Still, Brazil is a clear outlier, as it is one of just five countries where the top 1 per cent receive more than 15 per cent of total income—alongside Argentina, Colombia, South Africa and the USA.

It is not possible to estimate the Gini coefficient exclusively from tax data, since only about 20 per cent of the adult population file income tax returns in Brazil. The best alternative in this case is to combine tax and survey data, taking advantage of the strengths of each data source—that is, using the income tax tabulations for top incomes and surveys for the rest of the distribution. Then we can estimate scalar measures of inequality for individual incomes among the adult population.

The results vary somewhat depending on the threshold or cut-off point chosen to merge the two data sources. Our preferred series uses the absolute values from surveys up until the 85^{th} or 90^{th} percentile, and relies on the interpolated income tax tabulations for the top decile or so. In this case, the 8 per cent fall in the Gini observed in Brazil's National Household Sample Survey (*Pesquisa Nacional por Amostra de Domicílios*—PNAD) turns into a modest 1 per cent decrease. Moreover, even when the distributions are merged only at the 99^{th} percentile, the drop in the Gini also becomes more muted (4 per cent).

Further analysis shows that there was in fact some redistribution among the three middle quintiles of the distribution of income, which was, however, offset by stability elsewhere. Since income is very concentrated at the top, the net result was a much smaller decline in inequality than suggested by the PNAD alone.

In short, surveys seem to underestimate the level of inequality and to overstate recent changes.

Reference:

Souza, Pedro Herculano Guimarães, and Marcelo Medeiros. 2017. "The Concentration of Income at the Top in Brazil, 2006–2014". *Working Paper*, No. 163. Brasília: International Policy Centre for Inclusive Growth.