

Addressing Income inequality in Pakistan through exploration of it in Brazil

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INTRODUCTION

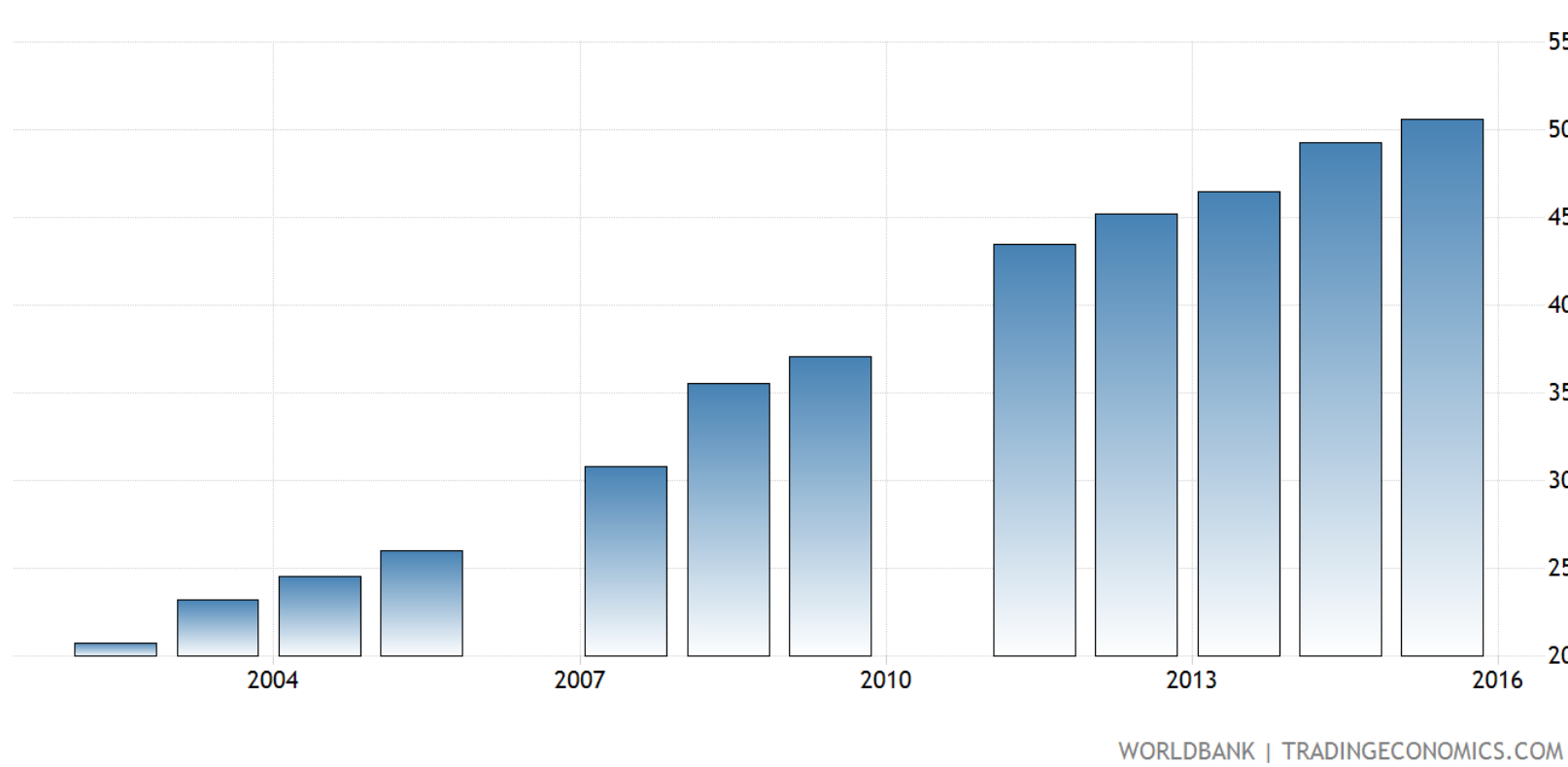
Brazil is the world's fifth-largest country by area and population. The economy of Brazil is the world's eighth largest economy by nominal GDP but unequal distribution of income has been a major concern for the economy of Brazil. Through this poster, I will examine the causes of this problem and the steps taken to improve this growing issue.

Pakistan is the sixth most populous country in the world and 42nd largest in terms of nominal GDP but income inequality has been a prevalent issue in this nation too. Belonging to Pakistan, I will also explore in this poster my experiences towards income inequality through my trip to Brazil and the existing research to see if it is possible to counteract this problem in Pakistan.

FACTORS LEADING TO INCOME INEQUALITY IN BRAZIL

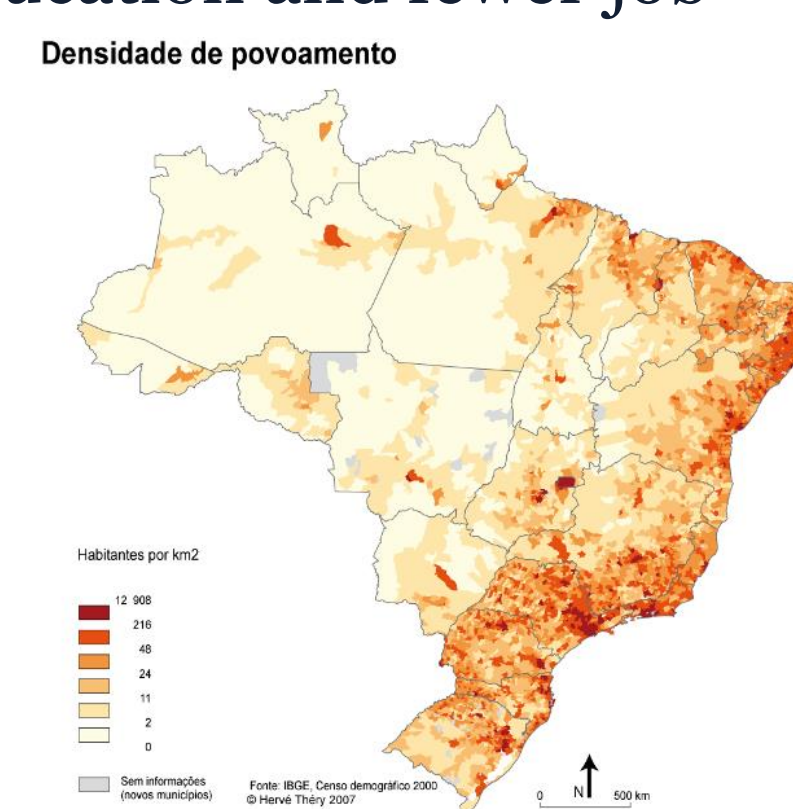
Causes:

- History of the economy of Brazil has a huge part to play in the inequality of income. The 2014 recession, for example, led to a declining GDP and an increase in the inflation rate. This meant low government spending in the social dimension and an increase in unemployment. Brazil has had this problem multiple times in the history which is a major cause for income inequality.
- Education is a solution to many of the economics problems in a society. Lower education means a lower wage job. The rich are able to afford tertiary education and hence get the jobs with high salaries but the poor suffer as they fail to afford it leading to an increase in the unequal distribution of wealth.



School enrollment, tertiary (% gross) in Brazil was reported at 50.6 % in 2015, according to the World Bank collection of development indicators, compiled from officially recognized sources.

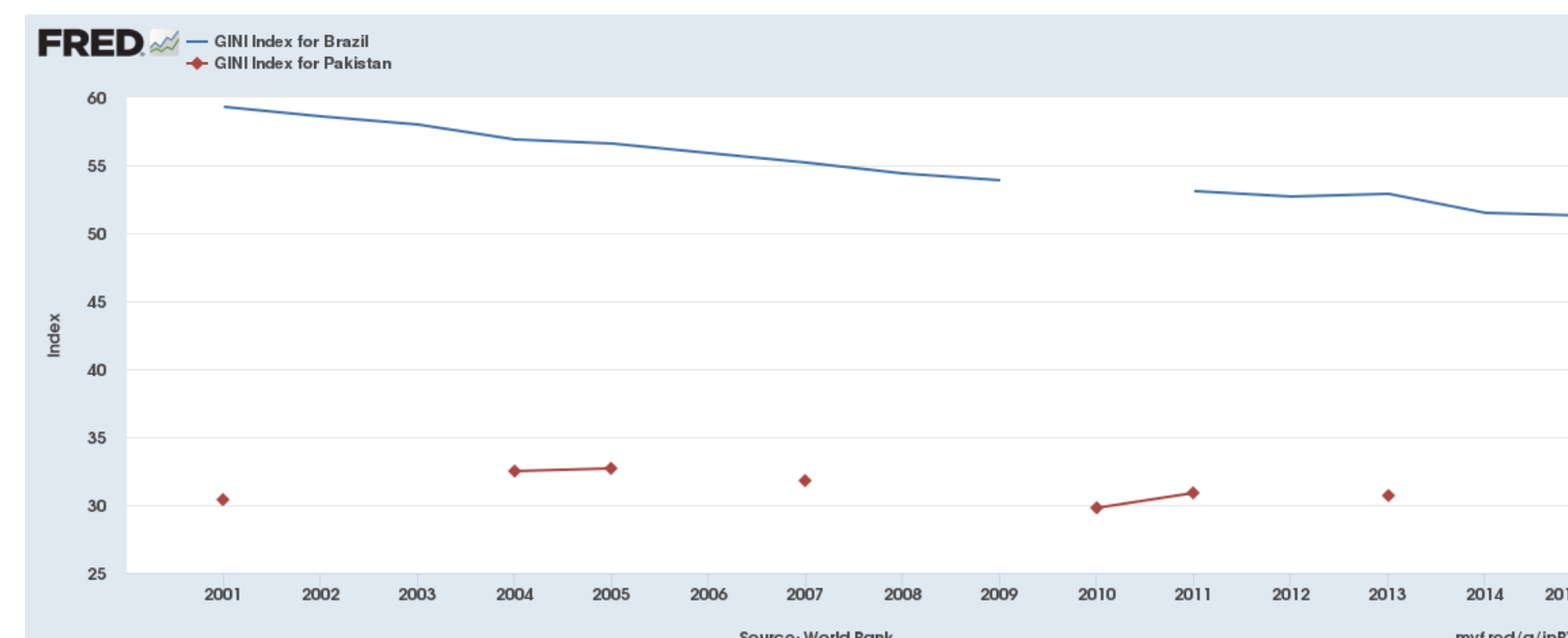
- Geographic distribution of population affects the distribution of wealth if population is not evenly distributed. The population in Brazil is concentrated near the coastlines. Those living away from the municipalities tend to be poor as they have less education and fewer job opportunities.



COMPARISON OF THE CURRENT INEQUALITY SITUATION THROUGH RESEARCH

Gini index

Through this index is measured the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

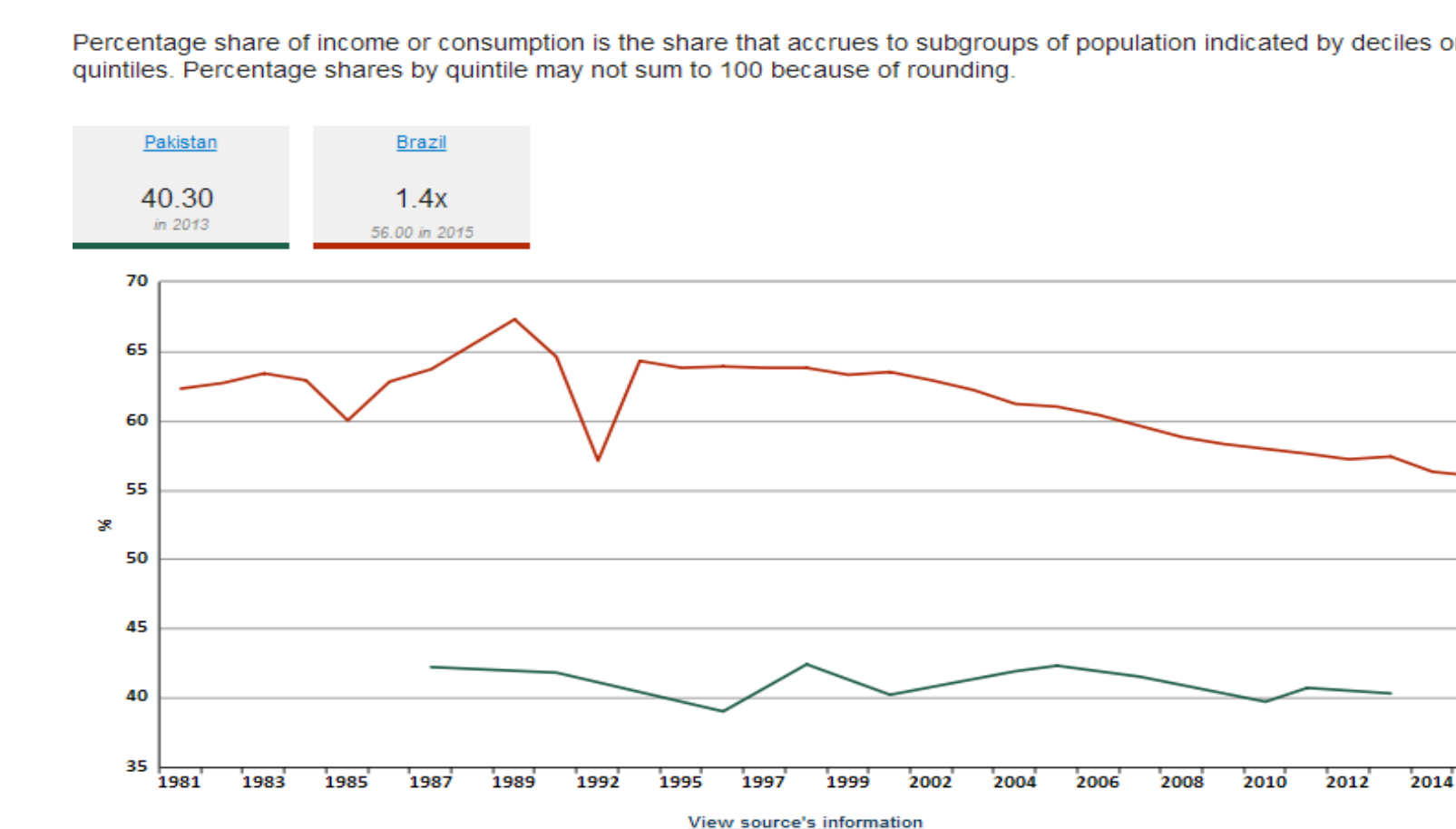


Annual Gini index, Brazil and Pakistan (2000-2015). Source: World Bank

When compared with Pakistan, although Brazil has a constantly declining slope, the Gini index for Pakistan was 30.7 while it was 51.3 for Brazil in 2015.

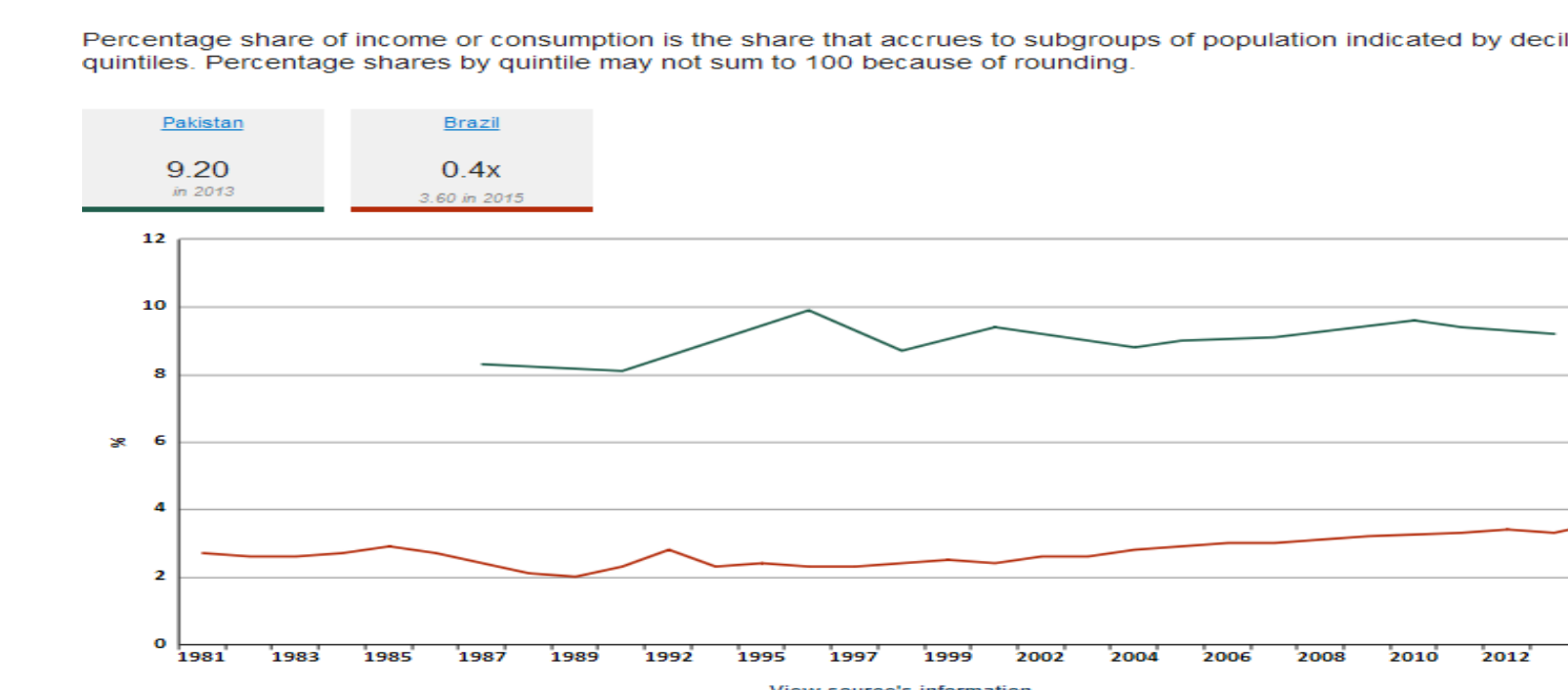
Income Share held by top 20% and bottom 20%

Pakistan - Income share held by highest 20% (%)



The richest 20% of the income earners in Brazil earn 56% of the total income share while in Pakistan, the top 20% of the income earners have a share of 40.3% of the total income earned in the economy. On the other extreme, the bottom 20% make up a share of 3.6% in Brazil while 9.2% in Pakistan. This clearly shows how unevenly income has been distributed across the population in both nations.

Pakistan - Income share held by lowest 20% (%)

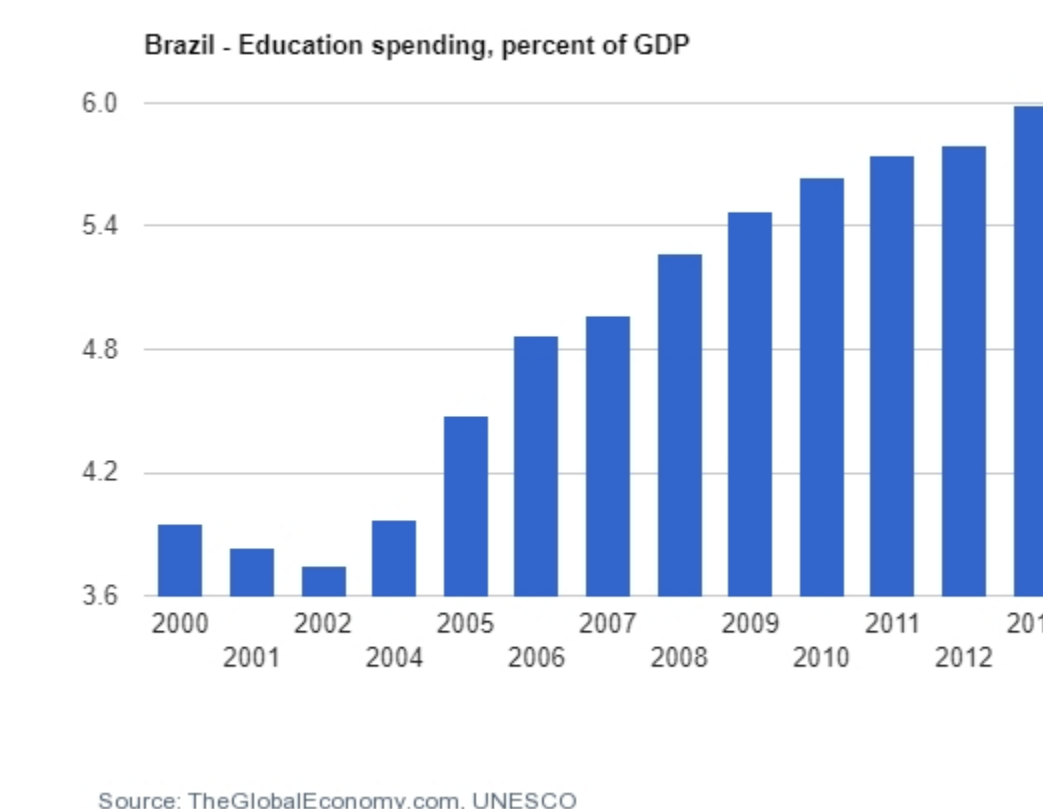


WHAT IS BRAZIL DOING TO REDUCE THE GAP?

Education

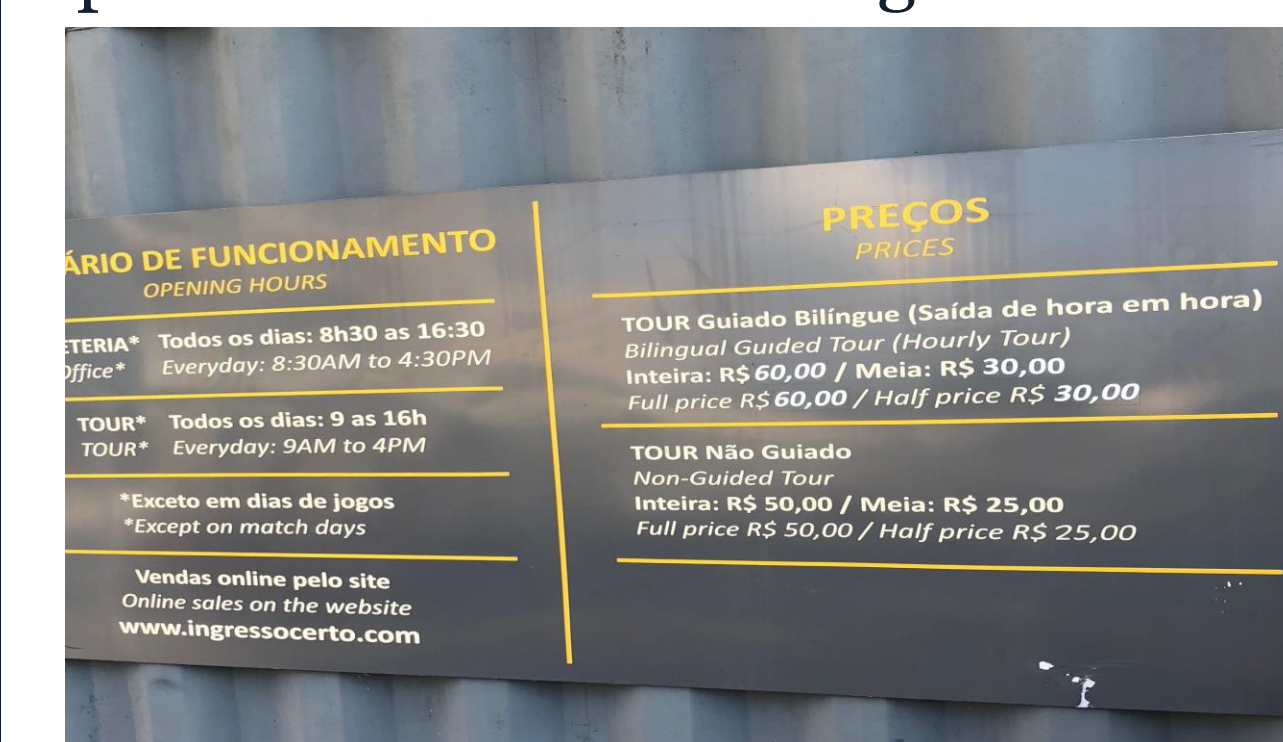
The government of Brazil has been working to promote education through programs such as the Bolsa Família (Family Scholarships). Being the largest conditional cash transfer program in the world, it aims to keep children in school by providing their families with small cash transfers.

Public spending on education as a share of GDP increased from 3.7% in 2002 to 6% in 2013. Through these education reforms, education is improved which results in better skilled workers, higher incomes and thus a reduction in income inequality.



Source: TheGlobalEconomy.com, UNESCO

During my trip to Brazil, we visited Natura which is a cosmetic manufacturer and I learned that even they had been contributing towards education through Instituto Natura. The Instituto Natura was responsible for managing and investing the funds raised from the sale of the 'Believing is Seeing' line and putting it in education. Moreover, discounts for the students in different places was a good tactic to promote education such as the half price for students visiting the Maracanã Stadium.



Price for students at Maracanã Stadium was R\$ 2500 while for the rest it was R\$ 5000.

Minimum Wage

Income inequality has definitely been a huge problem in Brazil which is being tackled through different policies. Increasing the minimum wage has definitely made a considerable difference as the minimum wage has risen from a record low of 64.79 BRL per month in August of 1994 to an all-time high of 954 BRL per month in January of 2018.



SOURCE: TRADINGECONOMICS.COM - THE INSTITUTE FOR APPLIED ECONOMIC RESEARCH (IFEA)

WHAT CAN PAKISTAN DO TO REDUCE THE GAP?

Public spending on education, total (% of GDP) in Pakistan was reported at 2.6 % in 2015, according to the World Bank collection of development indicators. With a huge population of uneducated people in the country, this clearly shows the need for a better plan by the government to provide more people with education.

There are assistance programs being provided by the government such as the Punjab Educational Endowment Fund which aims to provide scholarships to the talented and needy students, but this is not enough. Pakistan has five provinces and this plan is being targeted for a specific province. The government of Pakistan should look towards educating the nation together rather than focusing on certain regions and allocate more share of the budget to education to reduce the income inequality gap. A program like Bolsa Família would be a good way to encourage more people to go to schools.

The government should also adjust the minimum wage according to the rising prices and provide equal labor wages for both men and women. 34.89% of the population of Pakistan is younger than 14 years hence, the government of Pakistan should utilize this fact to reduce income inequality in the future by educating the children today.

CONCLUSIONS

Income inequality is a serious problem that affects an economy from growing. It is the root of several problems present in a society such as unemployment, which leads to crimes and affects the economy for example, by a decrease in investment in the country because of security issues. Getting rid of income inequality can solve most of the problems and boost the economy overall. Brazil has been doing a good job on working to address the roots of the problem by promoting education through educational reforms and spending on social welfare. Pakistan should look into the effective reforms implemented by the Brazilian government to tackle this problematic issue.

Sources:

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