

Unequal Forever Unequal? A new institutionalist perspective on inequalities Persistence in Brazil¹

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Abstract

The level of income distribution has a significant impact on the countries' development. The effects may be adverse, since inequality is normally correlated to socio-political instability; inhibition of private savings, worse economic performance and more restrictions on the exercise of citizenship, among other complex issues. After the 2008 crisis, inequality continued to grow among developed and emerging nations. However, in Latin America, the income distribution levels are the one less functional in the world. In the Brazilian case, recent studies are showing that, spite of the governmental initiatives, such as new welfare and labor policies, inequality levels are higher than previously estimated and that there has been little change in these levels over time. This continental-sized developing country with a long and persistence inequality history presents an interesting object of study in the political economy field. There is a certain consensus that the economic determinism for inequality does not explain it all. Therefore, the paper, based on the new institutionalism approach, starts from the premise that the political process is central in getting functional institutions oriented to development, in this case, better income distribution level. It is assumed that they are a matter of politics and policies resulted from collective choices that reflect differences in political institutions and different of political power sharing. The research's findings show that electoral rules are the political institutions that generate several number of candidates and parties, hence, it increases the electoral competitions, including intraparty, and makes the campaigns extremely expensive. Consequently, these favors the richest candidates and those linked to the private sector that can more easily fund their campaigns or get funded. As a result, *de jure* and *de facto* political powers tend to be concentrated in the hands of the own business and rural representatives or with politicians and top level bureaucrats appointed or with close linkage with the private sector. Lastly, the process outcome, the persistence of income inequality in Brazil, is a consequence of the prevailing of economic institutions, supported and sponsored by this governing elite, that is analyzed with empirical examples in four key dimensions: i) tax policy; ii) human capital formation; iii) labor market and legislation and; iv) welfare system.

Keywords: political economy; inequalities; institutions; Brazil.

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1. Introduction

The level of income distribution has a significant impact on the countries' development. The effects may be adverse, since inequality is normally correlated to socio-political instability; inhibition of private savings, worse economic performance and more restrictions on the exercise of citizenship, among other complex issues.

After the 2008 crisis, inequality continued to grow among developed and emerging nations. In Latin America, the income distribution levels are the one less functional in the world. Specifically, in Brazil is considered the one of the most unequal in the region, recent studies are showing that, spite of the governmental initiatives, such as new welfare and labor policies, inequality levels are higher than previously estimated and that there has been little change in these levels over time. This continental-sized developing country with a long and persistence inequality history presents an interesting object of study in the political economy field.

There is a certain consensus that the economic determinism for inequality does not explain it all. Therefore, the paper, based on the new institutionalism approach, starts from the premise that the political process is central in getting functional institutions oriented to development, in this case, better income distribution level. It is assumed that they are a matter of politics and policies resulted from collective choices that reflect differences in political institutions and different of political power sharing.

Therefore, the inquiry aims at exploring the relationship between inequalities resilience and the Brazilian political system that generate dysfunctionality of the economic institutions. To do so, a detailed overview of these institutions, understood as rules of the game that set "constraints" on human behavior, is provided and discussed in the paper, since they entail a political equilibrium and collective choices resilient to change in the inequality dimension. The article employs a process tracing method in order to depict the causal mechanism that maintain the status quo and might be used in further case studies to explain the key inequality dimensions.

Besides this introduction, we paper presents other four sections. The next briefly discuss the different perspectives regarding the relation of Inequality and Development. The third section emphasizes the persistence of the income concentration in Brazil and the recent methodological improvement in its estimation. The Brazilian current academic debate and a possible explanation for the tenacity of inequality are the main topics of the fourth section. Lastly, the paper ends with some conclusions and with subjects that can be part of the future research agenda.

2. Inequality and Development

The literature focused on the relationship between inequalities and development of nations has occupied a prominent place in the political economy field since the nineteenth century. In the classical debate, Karl Marx argued that the "principle of infinite accumulation," in other words, the inexorable tendency of capital to accumulate and concentrate in the hands of few, would lead to the bankruptcy of the capitalist system. The two possible causes of socioeconomic and political imbalance: (i) a continuing decline in the return rate of the capital, which would hinder the process of accumulation and thus generate conflicts between the capitalists; (ii) the capital's increasing control by the economic elite would end up with a system rupture due to the proletariat insurgency (Piketty, 2013).

At the other extreme, the studies of Simon Kuznets and Robert Solow emphasize a positive perspective for this relationship, both in the mid-1950s. The theory of the former suggests that, initially, per capita income inequality tends to grow in beginning of a country development, as in the transition from rural to industrial economies. However, after the peak of inequality, the more advanced stages of capitalism would push it down, thus creating an inverted U-shape between inequality and per capita income, known as the "Kuznets curve" (Dominicis, Florax and Groot, 2008). In the same vein, Solow argued that by achieving a "balanced growth trajectory," that is, a relatively uniform growth of macroeconomic variables (production, income, profits, wages, capital, etc.), all social groups would benefit without differences (Piketty, 2013). Therefore, both agreed that reducing inequalities would be a natural consequence of economic growth.

Noticeably, the last decades helped to overcome these two views. Regarding the direct effects of inequality on economic development, synthesized by the growth of the gross domestic product (GDP), although some studies have shown positive impact, it is increasingly agreed that they are restricted to the short term and do not generate sustainable development for more than ten years (Galor, 2009, OECD, 2015). In this sense, it is becoming more and more consensual that a bad income distribution is associated with the inhibition of private savings; low level of long-term investments; precarious formation of human capital, which, therefore, reflect in low economic growth.

The worsening or at least the stabilization of inequality has been affecting both the emerging and developed economies in the last thirty years, albeit with distinct patterns

and intensities. The international crisis of 2008 has contributed to aggravate this distributive framework (Cingano, 2014; OECD, 2015; World Inequality Lab, 2017).

Recent research indicates that the advancement of inequalities imposes economic, social and political challenges to countries, such as regime instability, restrictions on citizenship activities, compromises social mobility and promotes protectionist positions (OECD, 2011; 2015). In the same direction, the World Bank, in its annual reports, has placed inequality not only as a hindrance to economic development, but as inherent part of it. Put differently, the current and comprehensive understanding is that the nation's development is not restricted to growth, nevertheless, in fact, it also includes dimensions of equality and security (World Bank, 2017).

Income Inequality in Brazil: a persistent phenomenon

Much of the contemporary emphasis on inequality stem from recent research that demonstrate the persistence of inequalities in the world (Atkinson, Piketty and Saez, 2011; Piketty, 2013; 2015; Atkinson, 2015). The previous findings on income distribution were based on purely theoretical speculations and weak empirical bases. Current studies have gone beyond the analysis of household survey data and have also incorporated capital income information from the wealthy group of the population through income tax statements and national accounts. The results of this new approach have confirmed processes of income concentration advancement in the world.

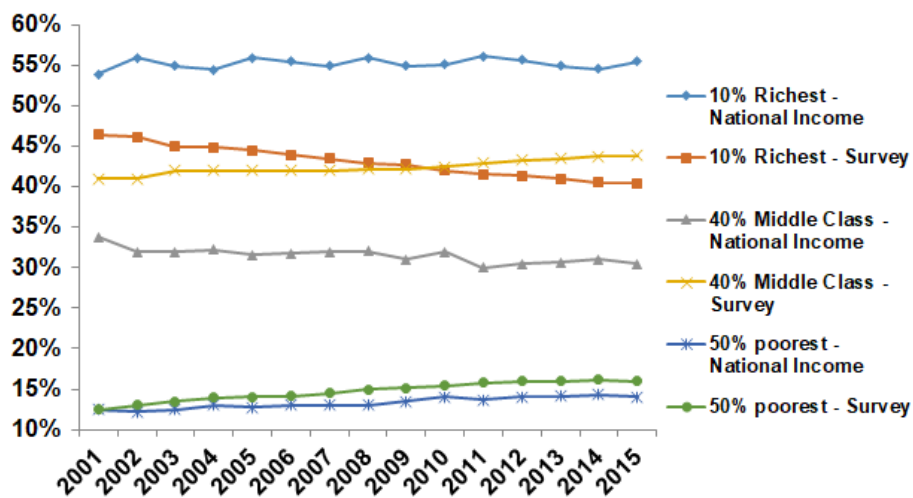
In Latin America, research based on household surveys show that both poverty indicators and income inequality in the region decreased between 2002 and 2014, mainly due to the revenue growth of the low-income population. However, there is a clear slowdown in this trend in recent years (ECLAC, 2016; 2018).

This same pattern was identified in Brazil, the region's most unequal nation and one of the worst income distributions in the world. Since 1988, the Gini coefficient has dropped by 16%, from 0.61 to 0.51 in 2015. However, more recent literature incorporating other data sources in addition to household surveys has shown that the concentration patterns continue high and stable (Medeiros and Souza, 2013, 2016, World Inequality Lab, 2017, Assouad, Chancel and Morgan, 2018). Moreover, the public sector itself contributes to worsen the situation, since governmental transfers created to face inequality, such as welfare benefits and direct taxes, tend to be invalidated by the regressive transfers

of the social security pensions and the high wages of the civil services (Medeiros, Galvao and Nazareno, 2015).

Figure 1 below illustrates this stability as well as the different findings of these methodologies employed to observe income concentration of three segments of the population - 10% richest, 40% middle class and 50% poorest. The results of the series restricted to household surveys and the national income, which is composed by data from surveys, income tax and national accounts.

Figure 1 - Evolution of the National Income Distribution in Brazil, 2001-2015



Source: Morgan (2017).

It is noticeable that the differences are, in fact, significant between the methodologies. While the restricted to the surveys shows constant improvement in the distribution, the strategy that also aggregates the capital income data indicates strong resilience to change (Morgan, 2017). Despite the of contemporary structural transformations in the Brazilian economy, such as monetary stabilization, combined with the advances in redistributive public policies (real raise of minimum wage and focalized income transfers to poor families), were not sufficient to change the high pattern of income concentration in the country. The gains of the poorest 50% explain the reduction in poverty and absolute poverty indicators but did not change the share of the wealthiest 10%. Therefore, it is evident that those who lost effectively were the intermediate 40%, who objectively dropped from 34% to less than 31% in the national income share.

In this sense, this paradox of long and persistent inequality presents itself as a relevant subject of study in political economy. If the literature can explain the reasons for the bad distribution of wealth in Brazil and its deleterious effects on the country

development, how can we explain the failure of the Brazilian public sector to change this scenario?

An Institutional Approach

The economic determinism no longer stands as the only explanatory strategy for the distribution of wealth and income, mainly because it is a problem eminently political. As Piketty emphasizes (2013, p.29):

"The history of inequality is shaped by how political, social, and economic actors see what is fair and what is not, as well as by the relative influence of each of these actors and the collective choices that come from it. That is to say, it is a result of the combination of interaction forces from all actors involved. "

Since the mid-1980s, political economy has been struggling to deal with complex phenomena from the new institutional approach (Evans, Rueschemeyer and Skocpol, 1985). Institutions consist on formal or informal rules that player follow for normative, cognitive, or material interests, while organizations are durable entities with formally recognized members whose rules also contributes to institutions of the political economy (North, 1990). In this context, politics and public policies originated from collective choices reflect differences in institutions and the political power sharing (World Bank, 2017). In other words, political institutions affect social interactions, resolution of conflicts of interest and play an important role in defining the economic performance of the nations (March and Olsen, 1989; Easaw and Savoia, 2009).

If, for decades, most social scientists were focused on how to do 'right' economic policies, with principles and examples of different political, social and economic contexts, the current and more realistic emphasis is on investigating what, especially, why developing nations continue to do the 'wrong' ones. To this end, identifying the institutions that generate the persistence of inequalities is a promising analytical strategy. Logically, that history matters, especially due to path dependence processes, which means that a set of decisions at a specific moment is limited by previous decisions or events (Pierson, 2000). However, it is not necessary to go far back in time to explain income concentration, especially since the view of inequality origins strictly to the colonial past is already seen as a myth (Williamson, 2015). The most relevant point is not in the reasons for inequalities, but in the factors that reproduce them and keep them unchanged nowadays.

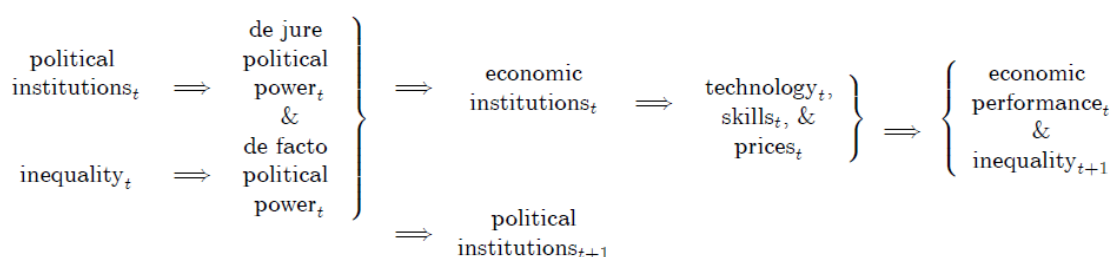
The main argument for this analysis relies on the fact that economic performance is directly related to the institutional arrangement and political process that determine the economic institutions (Acemoglu, Johnson and Robinson, 2005; Acemoglu and Johnson, 2008). Inequalities, therefore, can be explained by the interaction between political and economic institutions, in which unequal societies the exploitative and inefficient institutions prevail (Easaw and Savoia, 2009).

Acemoglu and Johnson (2012) advance at characterizing these complex causal mechanisms. To do so, the authors classify institutions as inclusive and extractive. In the first case, the institutional arrangement is prone to economic growth, since in the politics environment fosters pluralism, encourages broad citizen participation and imposes restrictions and controls to politicians' behavior. While the inclusive economic institutions ensure the rights of property, law and order, free openness for new business, access to education and opportunities to a large majority of citizens. In the interaction between these institutions, investments in new technologies are encouraged and the process of creative destruction (Schumpeter, 1941) is not contained.

At the other extreme, extractive institutions in politics culminate in the concentration of power in the hands of a few individuals and/or social groups, weaknesses and volatility in accountability, in the mechanisms of checks and balances or in the rule of law. In the economic sphere, there is lack of law and order, unsafe property rights; barriers to entry and regulations that hinder the efficient and free operation of markets. As a result, although there have been cases of growth in the context of extractive institutions, they are normally short and mid-term and, above all, tend to favor elites (Acemoglu and Johnson, 2012).

Considering this taxonomy, what would explain the persistence of these extractive institutions? In the case of inequalities, its impact consists on the concentration of state benefits and wealth in the hand of a small part of the population. To understand specifically the dynamics of inequities in societies, Acemoglu and Johnson (2015) proposed an alternative approach that take into account both the effect of different types of institutions on the distribution of resources and the endogenous evolution of these institutions. The framework is an adaptation from the one presented in Acemoglu, Johnson, and Robinson (2005), used to explain countries' economic growth. Figure 2 below outlines the interaction between political and economic institutions and their impact in terms of development (growth and equity).

Figure 2 - Institutions and Development Cycle



Source: Acemoglu and Robinson (2015).

In this framework, the arrows describe influences, that are mediated by various stochastic events and political economy interactions. Their interactions will produce very different institutional answers depending on the prevailing political equilibrium (Acemoglu and Johnson, 2015).

The prevailing political institutions, together with inequality in society, at a certain time affects the distribution of *de jure* political power as well as the *de facto* political power. The first reflects the political institutions formally present in a country, including the form of government (democracy versus autocracy) and the extension of restrictions to political elites, as well as the distribution of resources in society. In fact, political power is still influenced by the logic of collective action and by the effective sharing of power. All these factors affect both the configuration of economic institutions and the maintenance or change in the political *status quo* in $t + 1$. Obviously, in a nation with a high concentration of resources in the hands of a few, when extractive political institutions prevail, the probability of $t + 1$ reinforces this context in both politics and economics.

It is *de facto* power the agent of the *status quo*. The uneven distribution of resources in the society favors the wealthy minority to establish the rules of the game, both formal (*de jure*) and informal (*de facto*), that strengthens its political power. Similarly, the economic institutions tend to affect the supply of skills - essential as a determinant of inequality, and technology, including whether and how efficiently existing technologies are employed and improved in a particular economy.

Consequently, the elite not only reproduces these political institutions but, above all, preserves the economic institutions, such as a regressive tax system or labor legislation pro employers, that reinforce the income concentration. The extreme inequality, persistent in Brazil, affects and is affected by these institutions that, in the case of extractive in the oligarchic political context, generate pursuit of rent seeking and constant distributive conflicts.

Acemoglu and Johnson (2015) highlight the both technology and factor prices are shaped by the evolution of institutions and political equilibria—and institutions themselves are endogenous and are partly influenced by, among other things, the extent of inequality. In a scenario of extractive institutions, the framework described tend to generate vicious cycle in terms of economic performance and inequality.

The theoretical framework is highly convergent with Immergut (1996) findings. Analyzing the behavior of the actors involved in health policy discussions in France, Switzerland and Sweden, she argues that constitutional norms and electoral results constrain the capacity of governments to reform. Such institutions change the relative power of the actors and, thus, influence the strategies adopted by interest groups in defending their preferences. The author concludes that the distinct results in social policy can only be explained on the basis of the analysis of the political institutions of each country. The framework of these institutional arrangement, composed by *de jure* rules - institutional design - and *de facto*, stemmed from the electoral results and party systems and determines decision logic, which define the parameters of government action and the influence of groups of interest. The conclusions corroborate with Thelen and Steinmo's (1992) statement that institutional structures influence outcomes, although not their only cause. More important than the formal characteristics of state and social institutions is how the given institutional configuration shapes the political interactions.

The Case of Brazil

Literature in Brazil

As in the global debate, the field of study of inequalities in Brazil has occupied even more space in recent years. In this sense, the analytical efforts present different but complementary approaches insofar as they incorporate into the analyzes the concern about the relationship and the effects of political and economic institutions on the inequality dynamics.

The first, as mentioned in the previous section, involves studies that explore the composition and evolution of income inequality in the country. If during the last decade a positive view of the concentration reduction was predominant (Barros, Foguel and Ulysea, 2007), the progress of the research, beyond the focus on household research, has shown little effective change in the scenario (Medeiros, Galvao and Nazareno, 2015; Inequality Lab, 2017; Assouad, Chancel and Morgan, 2018).

Another important analytical strategy is the emphasis on the configuration and impact of the tax system and social expenditures on inequality in Brazil. To a large extent, the studies converge with the perspective that the low progressive nature of taxes and distortions in the prioritization of certain social policies do not contribute to the reduction of income concentration (Silveira *et al.*, 2013; Gobetti and Orair, 2015).

In a more comprehensive approach, both in a time and a thematic point of view, a collection of articles organized by Marta Arretche (2015) reinforces the perception that inequalities are much more complex than the monetary dimension. Therefore, its trajectories in 50 years (1960 to 2010) are analyzed in five perspectives: i) political participation; ii) education and income; iii) public policies (health, housing and territorial); iv) demography and; (v) the labor market. In general, the book concludes that the main changes in the pattern of inequalities occur in democracy since the 1990s and not in the period of military dictatorship and that public policies have played a central role in promoting of advances in the Brazilian social and economic order.

More recently, Arretche (2018) attempts to explain that reducing the differences between the outsiders of the social policy system and, consequently, redistributive policies in the last decades is more related to the role of political competition, in the democratic context, than the theory of median voter and the parliamentary force of the left-wing.

Finally, it is worth mentioning the continuing work of multilateral organizations and civil society associations (OECD, 2011, 2015, ECLAC, 2016, 2018, Oxfam, 2017) as well as the academy (Muineló and Sagales, 2011; Atkinson, 2015) to investigate which economic and political institutions in effect cause scenarios of inequalities and what would be the ways or measures to be taken to minimize their effects.

Reasons of Inequality Persistence in Brazil

The paper explanation for the tenacity of inequality relies on principles of the new institutionalism theory. The premise is that the political process is central to understand how dysfunctional institutions can hinder development, in this case, bad income distribution level. It is assumed that it is a matter of politics and policies resulted from collective choices that reflect differences in political institutions and different of political power sharing.

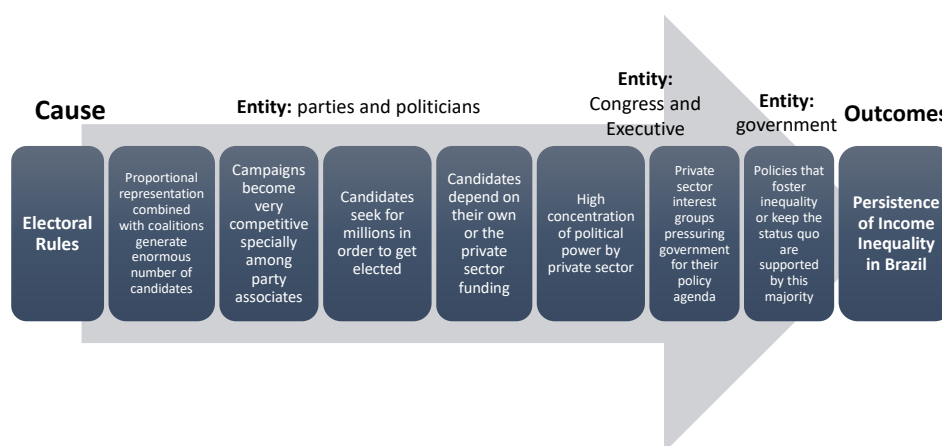
The main theoretical claim of this paper is that the extractive institutions in Brazil, together with the high level of inequality in the economy, generate concentration of *de*

jure and *de facto* political power that keep the political *status quo* and prevent effective distributive public policies. As Acemoglu and Johnson (2015) argue, the institutional arrangement dominated by extractive institutions consists in a vicious cycle that can explain the inequality persistence.

Considering the complexity of the phenomenon, the inquiry employs process tracing to identify this cycle and, primarily, the casual mechanisms behind it. In sum, process tracing is a qualitative method used to investigate, in dynamics contexts, interactive influence of causes upon outcomes and, in particular, how causal forces are transmitted through a series of interlocking parts of a causal mechanism to produce an outcome (Beach and Pedersen, 2013).

Therefore, the Figure 3 below traces the process of how the sequence of these interactions can explain the outcome - persistence of income inequality in Brazil.

Figure 3 – Causal Mechanisms of the Persistence of income Inequality in Brazil



Source: Author's Elaboration.

The first cause comes from the electoral rules. Brazil is a relatively new democracy with a complex and confusing political systems. This context is mostly due to party and electoral rules that have been constantly changed since the promulgation of the Federal Constitution in 1988. Although the country is formally considered free, by the Freedom House ranking², in a more comprehensive approach of democracy the quality of democracy in Brazil could be assessed less positively. For instance, the well-known

² <https://freedomhouse.org/report/freedom-world/freedom-world-2018>.

concept of polyarchy of Robert Dahl that means the state that has certain procedures that are necessary conditions for following the democratic principle of “the continuing responsiveness of the government to the preferences of its citizens, considered as political equals” with unimpaired opportunities (Dahl, 1973). Polyarchy is a system that manages to supply a high level of inclusiveness and a high level of liberalization to its citizens, thus, the existence of inequalities in these two dimensions is seen as a barrier to an effective democracy (Dahl, 1989).

Since 1988, every election in Brazil has suffered changes because of party and electoral reforms, however none of them has in fact brought significant modification in the political system. The main reason is that the system combines proportional representation combined with party coalitions without any barrier clause that generates enormous number of candidates. For examples, last election for the 513 seats of the House of Representatives (lower chamber) gathered over seven thousand candidates in 35 different parties. This increases the competition, including among party associates (Silva, 2017), that together with the size of the many states makes the campaigns very expensive. According to Superior Electoral Court (*Tribunal Superior Eleitoral – TSE*), on average, to become a federal representative would cost over US\$ 2 millions, not mentioning the part of the campaign accounting that is not informed to the electoral justice, a common practice in the Brazilian political system.

Although the public funding covers part of the costs, for the Legislative posts it is far from enough to undertake a successful campaign which leaves the candidates with two choices: self-funding or search for private funding. Although citizens are allowed to donate for parties and candidates, it is not a usual practice in the country (Speck, 2011; Mancuso and Ferraz, 2012).

The next part of this process is the candidates seeking for private funding or, in the case of rich politicians, investing a huge amount of own money in their campaigns. This tends to generate a high concentration of the political power in the hands of the private sector, especially, business and rural sectors. The distribution of power *de jure* and *de facto* in the National Congress may be measured by size of the business and the rural

caucuses. The table 1 below show number and percentages of them in the current legislature:

Table 1 - Business and Rural Caucuses in the National Congress (55th Legislature 2015-2019)

	Total		Business Causus		Rural Causus	
	N		N	%	N	%
House of Representatives	513		246	48%	228	44%
Senate	81		27	33%	27	33%
National Congress	594		273	46%	255	43%

Source: www.camara.gov.br

Both caucuses are over represented in Congress, in comparison to their percentage in the general population of the country. In both legislative houses, they gather a considerable number of congressmen, from all parties and country's regions, that allows them to control some strategic committees, propose any kind of bills, filibuster or act as crucial veto players in any bill in course in the parliament. As a result, this reflects on several successful initiatives to change or to keep the *status quo* in favor of the business and rural sectors (Simionatto and Costa, 2012; Rangel, Bolonha and Faroni, 2015).

This representative issue is also observed in the Executive branch, since the businessmen and landlords have also historically occupied strategic posts, primarily, in the ministries related to economic policies (Cavalcante and Palotti, 2015). Besides, the parties in Congress, allied to the President, appoint most of them. This situation clearly deviates the political system from the polyarchy system and, on the contrary, approximates it to an elite arrangement similar to the iron triangle (Adams, 1981).

In the same direction, the political institutions and their effects that generate a high concentration of political power in these specific groups are also responsible for dependence of the majority of the congressional representatives to the private companies that funded their campaigns. If it is not *de jure* political power, definitely, it is *de facto*.

For instance, in the 2010 Brazilian elections, over 75% of the electoral funding comes from the private companies; however, only seventy companies made half this donation (Mancuso and Ferraz, 2012). Moreover, Speck (2011) has shown that the private sector favor incumbents instead of challengers, center and right wing candidates, bigger parties and the ones part of the presidential coalition. In individual terms, men with college education and businessmen are also prioritized by the private sector. Subsequently, not only top raiser in the corporate funding are more likely to be elected than the other candidates, but also the rules of the political game promote reduction in the turnover rate as well as a close relationship (if not dependence) between private sector interest groups and the government.

The interaction between the inequality in the economic field and the prevailing electoral rules culminate in a setting of *de jure* and *de facto* political power that, invariably, tend to end up in economic institutions, supported by this governing elite, that foster inequality or keep the *status quo*. In terms of income distribution, four main dimensions reflected in public policies that generate the process outcome, depicted in the figure 3, the persistence of income inequality in Brazil.

The first dimension involves the current tax policy. The Brazilian taxation system is known by its unfairness to the poorest and the middle class, since it is highly regressive. For example, while in the OECD countries, on average, the income and profit tributes represent over 35% of the tax revenue, in Brazil they are around 18%. On the contrary, the taxes on goods and service, tributes less progressive, exceeds 50% while in the OECD countries are less than half of it (OECD, 2015). Any attempt to change this scenario, especially, by increasing the income rates (since 1998 the maximum is 27.5% with deductions) suffer criticism and resistance from the private sector and the media inside Congress. Consequently, since then, any bill proposing to raise the rates or creating tax for big fortunes has never passed the committees to the floor.

Secondly, policies regarding the human capital formation, a crucial condition for economic development and social mobility, are also a dimension that promotes inequalities in the country. Undoubtedly, the countries' educational levels have significantly

changed, primarily, in the last two decades, with expansion of access and quality improvements from elementary school to college. However, the kindergartens and infant schools supplies are still far from the need, high rates of school evasion, especially of black youth, and the low quality of public education continues to reinforce the gap between the poor and the rich population that can afford private schools (Ribeiro, Ceneviva and Brito; 2015; Menezes Filho and Kirshbaum, 2015). As an aggravating factor, the bulk of the federal budget (approximately 60%) focuses on the superior level that is also unequal, since the majority of the public universities students come from the private schools (Ribeiro and Schlegel, 2015).

The third dimension of inequality regards the labor market. Unemployment and precarious job condition, primarily, the ones related to informal workers that receive low wages and no formal contracts or benefits, have severely impacts on increasing income inequality. Despite of some concerns of the International Labor Organization (ILO/UN), in 2017, the Congress approved a labor reform, proposed by the Executive branch, after a strong pressure and involvement of the business sectors (banks, transport and industry). For instance, almost 40% of the amendments to the original bill come from these interests groups. After some months of implementation, the reform, profit-oriented instead of wage-oriented, is not showing the promised results, i.e., employment and job formalization growths.

Lastly, welfare system and distributive policies are historically effective as medicine to face income concentration. As mentioned before, policies implemented during this century, such as real increase of minimum wage and new cash transfer focalized to poor families, have affected the poverty reduction. However, they also have their effects, in terms of facing inequality, weakened by the regressive transfers of the social security pensions and the high wages of the civil services (Medeiros, Galvao and Nazareno, 2015). Although the recommendations highlight the importance of expansion of public expenditures on education, health, social assistance, sanitation, housing and public transportation as strategy to reduce inequality and promote economic development, in 2016, the

Parliament approved a Constitutional amendment establishing a spending ceiling goes towards an opposite direction.

Final Remarks

This paper's goal was to investigate an alternative explanation for the inequality persistence in Brazil during the last fifteen years. To do that, first, the inquiry briefly discussed the evolution of the views regarding the relation between inequality and development. Then, the complexification of the inequality measures were presented in order to demonstrate how the phenomenon, in fact, has not changed during this period in the Brazilian society.

The main purpose of the research is grounded in the premise that the explanation for the inequality's tenacity must come from a new institutional approach. Then, the theoretical claim is that inequality, as the other studies focused on economic performance, is a consequence of the institutional arrangement and political process that determine the economic institutions, in turn, affect inequality patterns. This vicious cycle is possible because of the prevailing of extractive institutions, both political and economic.

Based on that, the paper employs process tracing method to depict the causal mechanism that keep the *status quo* of bad income distribution in the country. To do so, the paper discussed the each part of the process showing empirical evidence to reinforce the arguments.

The research's findings show that electoral rules are the political institutions that generate several number of candidates and parties, hence, it increases the electoral competitions, including intraparty, and makes the campaigns extremely expensive. Consequently, these favors the richest candidates and those linked to the private sector that can more easily fund their campaigns or get funded. As a result, *de jure* and *de facto* political powers tend to be concentrated in the hands of the own business and rural representatives or with politicians and top level bureaucrats appointed or with close linkage with the private sector. Lastly, the process outcome, the persistence of income inequality in Brazil, is a consequence of the prevailing of economic institutions, supported and sponsored by this governing elite, that is analyzed with empirical examples in four key dimensions: i) tax policy; ii) human capital formation; iii) labor market and legislation and; iv) welfare system.

The causal mechanism discussed by the process are quite interesting. However, the persistence of inequality is a complex and multicausal subject, so the paper's findings must be analyzed with certain caution. It seems that the macro level of analysis proposed by the causal mechanism leaves some margin for doubts or need for information. Notwithstanding, the next steps in the research agenda are to explore how each of these four dimensions of economic institutions have been established and have evolved to, effectively, describe the impact of political institutions and the subsequent *de jure* and *de facto* political powers concentrated in the hand of the elite impact the inequality persistence.

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