Latecomer Brazil

Brazil’s demographic transition began in the 1960s and 1970s. The country’s age structure has been very favorable since the 1990s, but Brazil is a latecomer regarding its ability to capitalize on its demographic dividend. While in the 1990s economic growth was highly volatile, Brazil failed to make sufficient use of its large labor force. Only in the twenty-first century has Brazil seen an economic upturn paralleled by an increase in employment rates and a decrease in poverty and inequality. Yet despite the chances this offers, recent protests on the streets of Brazilian cities indicate that parts of the population are dissatisfied. The protesters were demanding better public services like health and education and more effective anti-corruption measures. Although the country has come a long way in improving socio-economic conditions in recent years, it still faces major problems.

Brazilian Population and Its Composition

The protests are mainly driven by a huge cohort of young people aged 15-24 representing nearly 20 percent of the population, most of them with secondary education. More than a tenth of this cohort will receive tertiary education in the coming years, far more than in previous generations. And although youth unemployment rates have been high in recent years (data available until 2009), they have not exceeded 20 percent since 2001 coming from 26 percent in 2000. The street demonstrations can hence be read as an expression of the desire of the first generation able to profit from the demographic dividend for more investment to be made in social and economic development.
Economic Reforms

Such investment has indeed come very late in Brazil since for a long time the country failed to reap the benefits of the demographic bonus. The reasons for this can be traced to the major economic reforms, which presented an obstacle to cashing in on the dividend in the short run but served as the basis for economic upturn in the long run:

Following highly unsuccessful measures to stabilize its economy in the 1980s, Brazil spent the 1990s restructuring its economy.ii Facing high inflation rates and external shocks throughout the decade, Brazil undertook two major currency reforms between 1994 and 1999. Even more important, beginning in the early 1990s, Brazil followed a trade liberalization strategy, which represented a critical break with the import-substitution policies of earlier decades.iv This led to a reduction of tariffs from 63 percent on average in 1987 to slightly above 15 percent in 1997.iii Furthermore, state companies were successively opened up for private investment.vi

Instable Development

![Graph showing development of the Brazilian economy between 1971 and 2013. (Data source: The World Bank (2013): World Development Indicators, own calculations)](image)

This enabled the South American state to make use of earlier investments it had made in research and development (R&D) in order to increase productivity.vii The research activities of the 1970s and 1980s had covered very diverse areas of the economy, among them the agricultural sector, aircraft
manufacturing and offshore oil exploration and production. In the 1990s, these sectors were not yet advanced enough to induce economic growth, but the combination of know-how and a strong influx of direct foreign investment enabled them to transform sufficiently to the growing competition on the world markets. Especially in these export-oriented sectors with a comparative advantage productivity grew faster than production and induced displacements. There was a significant drop in the employment-to-population ratio (EMPR) from 65 percent in 1995 to 62.6 percent in 1996. This development is crucial in explaining Brazil’s failure to make full use of its favorable age structure. The demographic dividend is a dividend only if the economy is able to create sufficient jobs for a growing population of working age.

The situation changed, however, in the 2000s when worldwide commodity prices for food, minerals, agriculture and petroleum started to rise. Brazil experienced an economic upturn and so far in the twenty-first century exports of goods and services have accounted for between 10 and 16 percent of GDP.

The earlier R&D investment in sectors as diverse as agriculture, telecommunications or aerospace technologies together with the trade liberalization strategy of the 1990s has enabled innovative multinational corporations to be competitive on the world markets and deliver manufactured goods. What in the short run had led to the destruction of jobs, now turned out to have positive long-term effects, enabling the country to make delayed use of its demographic bonus. Economic growth rates were stable throughout the 2000s, and production increased, leading to a rising demand for workers. Robust job creation has been observable in most sectors, especially in construction and services and has offset population growth. With the exception of 2009, Brazil has created one million jobs annually since 2004 and the EMPR has been rising.

The Brazilian population has profited from the economic upturn. The increased prosperity is mirrored in household expenditure on consumption, which increased strongly throughout the 2000s. Private consumption today makes up about 60 percent of GDP. If it continues at this rate, this boost in consumption may further accelerate economic growth. According to the Centro de Políticas Sociais, average individual income increased through all social strata between 2001 and 2006. Between 2002 and 2009, the income of the bottom 10 percent grew at almost 7 percent annually, whereas that of the rest of the population grew considerably slower.

A situation has hence emerged that enables the Brazilian state not only to harvest the fruits of the demographic bonus but also to distribute the economic return more equally. Poverty rates have decreased as has inequality in income distribution.

**Challenges Ahead**

In order to prepare for a second transformation in which the population ages and both the share and absolute number of people in the labor force falls, Brazil will have to invest in education and create a viable social security system.

Human capital is crucial if economic performance is to be sustained with a smaller labor force. In the first round of the OECD PISA study in 2000 Brazil was ranked lowest among all the countries participating. Since then, however, the country has tried to invest in the quantity as well as the quality of schooling. Between 2005 and 2009 the country’s expenditure per student in primary and secondary education rose by 149 percent – the most dramatic change among all the thirty-two
countries compared by the OECD. xxiv Brazil has set itself the target of reaching the OECD PISA average performance by 2021 and has already managed to improve its scores on various dimensions. xxv A Social Fund financed out of the country’s oil revenues has been established, most of which is earmarked for education. xxvi These investments are crucial regarding the demographic transformation.

Changes in the age structure together with economic development have opened a window for a second demographic dividend: As the share of people of working age becomes larger and those who work become wealthier, savings rates rise. This in return leads to capital accumulation and investments, which further stabilize the economy and increase economic growth. xxvii But savings rates so far have been low in Brazil, compared with the other BRIC-countries Russia, India and China. This is also due to disincentives to savings inherent in the pension system: xxviii

Shifts in Weight of Dependent Age Groups

![Graph showing shifts in weight of dependent age groups](chart.png)


The current system guarantees payments to contributors (earnings-related) and non-contributors (means-tested). Furthermore, people are entitled to receive those payments at an early age, which encourages early retirement. xxix This makes the pensioners-to-population ratio much higher than in other economies. In 2008, according to the Brazilian Social Security Administration, 40 million workers contributed to the system, which at that time supported 23 million beneficiaries. xxx The system’s funding gap has already reached 10 percent of GDP, and the International Monetary Fund assumes that it will rise to over 60 percent within the next fifty years if the current arrangements are
not changed.xxi

The Brazilian state will hence no longer be able to afford the current system. If the system stays as it is, it will increase ancillary labor costs, decreasing the competitiveness of the Brazilian economy in the long run. Although a reform concept is in the offing, it has not passed the senate yet. According to the UNPD medium-variant, in 2060 more than one Brazilian in four will be aged 65 or older.xxxii In order to lower the costs of an aging population, the country must find ways of making the system more viable.
Endnotes

3 Pareira, L.V. (n.a.), Brazil Trade Liberalization Program, n.a.
4 Moreira, M.M. (2009), Brazil’s Trade Policy: Old and New Issues, IDB WORKING PAPER SERIES.
12 Filho and Muendler (2007, p. 16)
16 Ministério do Trabalho e Emprego (2012), Evolução do Emprego Formal.

