

How changes in households consumption and income affects the Brazilian economy: an input-output approach for 2003 and 2009

Topic: Household Impacts

Author: Marcus Vin cius Amaral Silva

Co-Authors: Fernando Salgueiro Perobelli

Throughout the 1980s and early 1990s, the Brazilian economy experienced a period characterized by high inflation rates and economic stagnation. Due to this macroeconomic disequilibrium, there was a decline in the rate of economic growth, low generation of new jobs and high income inequality. Only in the mid-1990s, with the implementation of the Real Plan, the country's economy began to recover, with the control of inflation. Since 2003, the expansion of cash transfer programs, such as Bolsa Familia, generated benefits to lower-income segments of the population, considerably reducing income inequalities in the country. Given this scenario, how the output of the economy react to these changes? Reducing inequalities changed the dependence of the productive sectors of the different income classes? To answer these and other questions, we intend to analyze the impacts of the Brazilian households consumption and income structure on the sectorial output of the economy. To achieve this, the information of the World Input-Output Database (WIOD), for years 2003 and 2009, were calibrated for 35 productive sectors. The household consumption and income structure were endogenized on the model and decomposed into eight intervals. The information on consumption and household income were obtained through the Pesquisa de Or amento Familiar (POF) and Pesquisa por Amostra de Domic lio (PNAD), respectively. The extraction method is used in this study, however, rather than the extraction of a sector, were extracted the consumption and income stratum. Thus, it is possible to quantify how much sectorial and total output of the economy changes due to loss of a hypothetical household group. In this regard, the results allow us to evaluate, in particular, two points: (1) how changes in consumption and income structure, between 2003 and 2009, impact the sectorial output of the economy; and (2) how the hypothetical subtraction of a layer of consumption and income affect the production structure in Brazil. This approach may provide a basis for formulation of policies toward increasing domestic production. When the productive structure is more sensitive to changes in income, the promotion of policies in this area is more efficient, since the response of production given incentives that modify the income occurs more intensely. Thus, governmental actions that operate directly on the income, as employment incentive programs and cash transfer programs, should be prioritized. A different situation occurs when the production structure is more sensitive to changes in consumption. In this case, state action can be given through policies that stimulate consumption, such as reducing taxes and the increase credit. The main results indicate that when we analyze the income structure, there was a reduction of domestic production dependence over the richest household group. That is, the extract containing the households with the highest per capita income lost importance for production, during the study period. However, despite the reduction of inequality, the sectorial production structure were very dependent on the group of the wealthiest household. Thus, policies that focus negatively on income/consumption of this group, can be harmful for production. Therefore, a central question is how to fight the problem of income inequality in Brazil, without reducing the sectorial production.