Inflation and income distribution in Brazil from a Kaleckian perspective

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Stylized facts about Brazil

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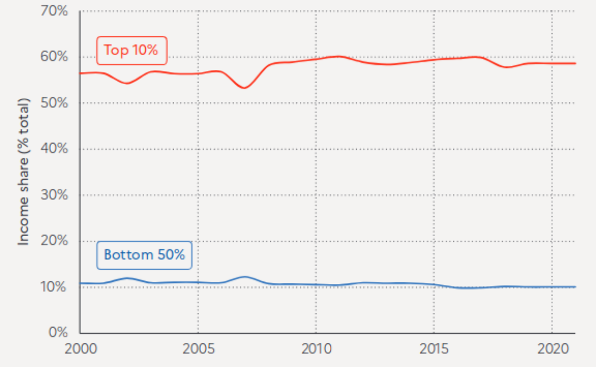

Source: Chancel et al. (2021, p. 185)

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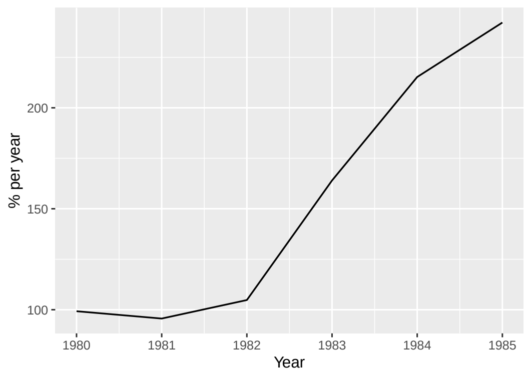

Source: Ipeadata (Own elaboration).

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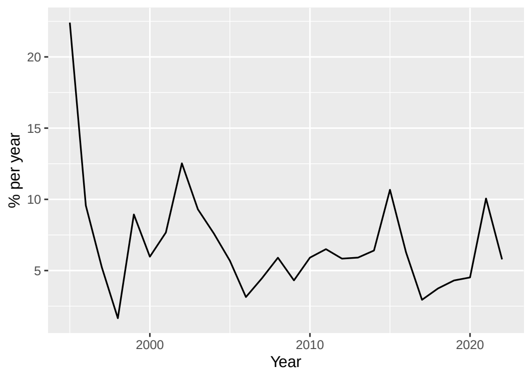

Source: Ipeadata (Own elaboration). Time span: 1995 to 2022.

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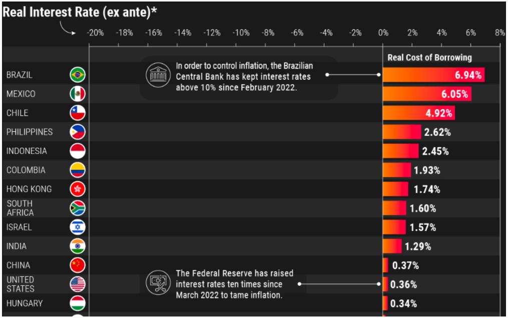

Source: `https://www.visualcapitalist.com/visualized-real-interest-rates-by-country/`.

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In such a context, the relationship between inflation and inequality becomes ambiguous.

Introduction

Theory

Inflation and income distribution in Brazil

The missing inequality puzzle: a sectorial analysis

Distributive conflict

Managing the distributive conflict

Conclusion

Inflation and distribution in Kaleckian theory

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- Profit inflation
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  - Reduce real wages and wage share
- Wage inflation
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  - Increase real wage and wage share

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Summarizing

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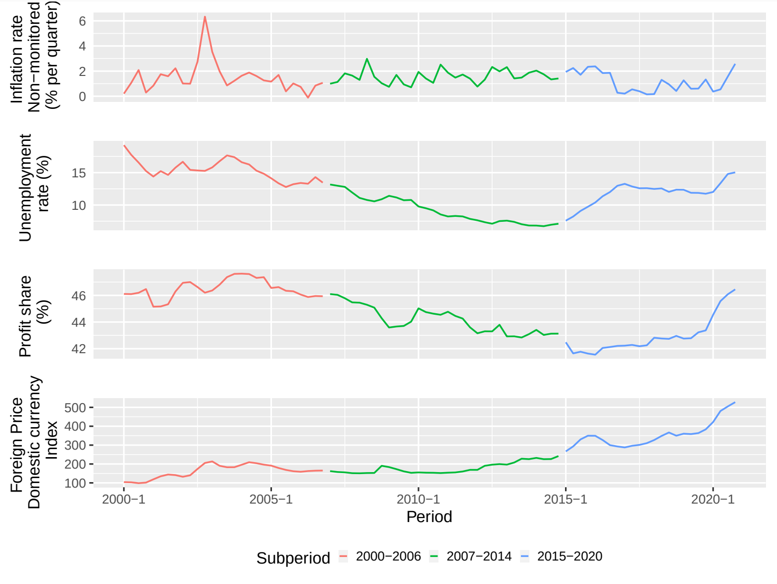
However, this is just one of possible sources of inflation.

Inflation can be related to lower wage share and real wages in the case of profit inflation, imported inflation, and inflation of demand-determined prices.

Brazil from 2000 to 2020



Source: Banco Central do Brasil and IBGE (Author's own elaboration). Quarterly data seasonally adjusted.

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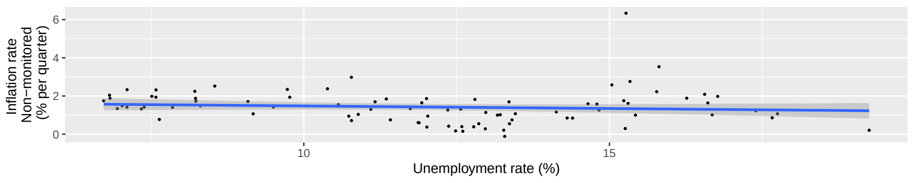
- The different degrees of exposure to international competition leads to different dynamics of inflation in the tradable and non-tradable goods sectors

  (Baltar, 2015)

Is there a Phillips curve in Brazil?



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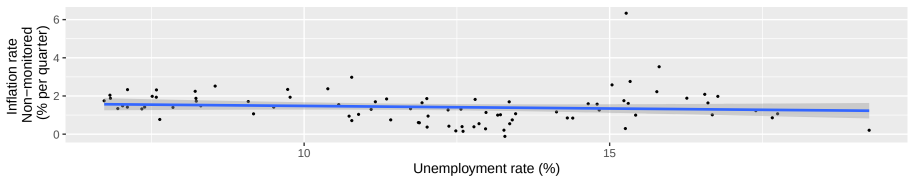

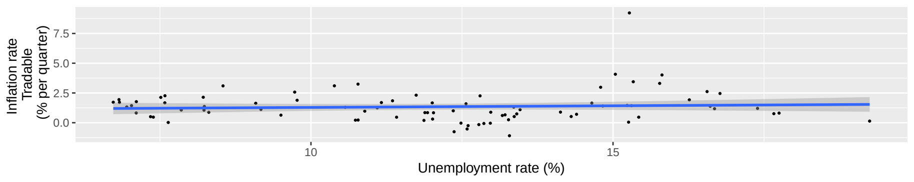

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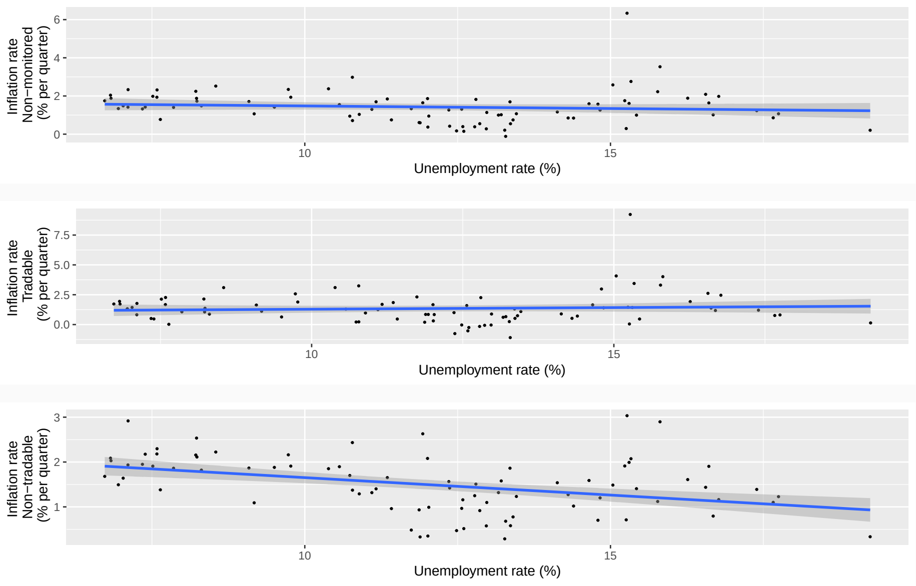

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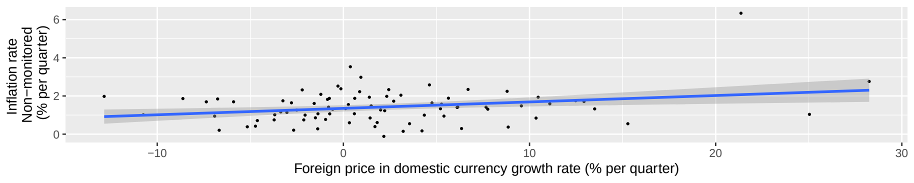

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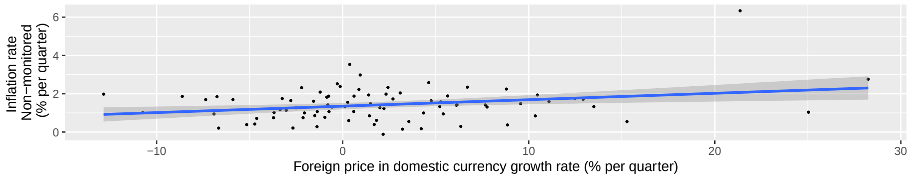

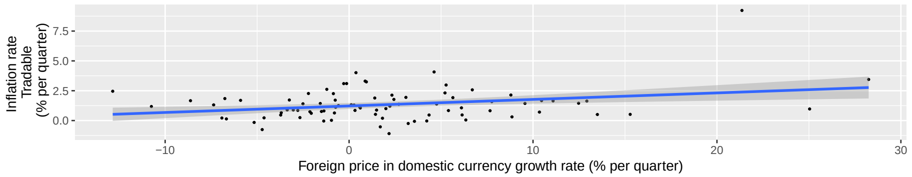

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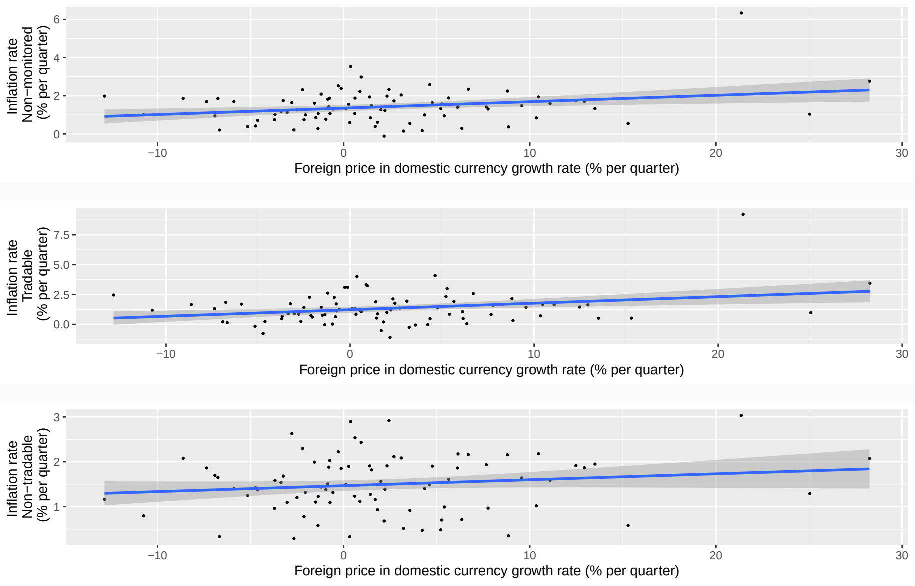

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Inflation as a multidimensional phenomenon

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Link between foreign sector and inflation rates

Through the tradable goods sector, inflation dynamics is strongly connected to the foreign sector

Implications for income distribution

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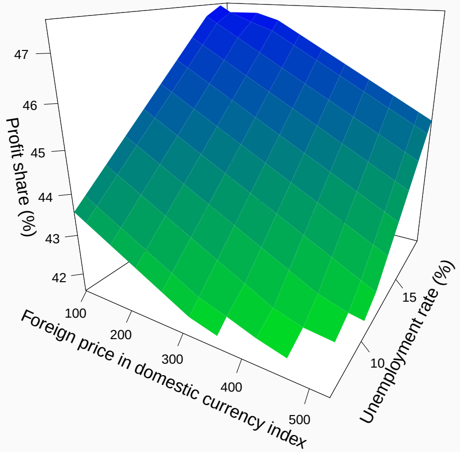
From a Kaleckian standpoint, we would expect to see:

- Higher unemployment rates being associated with higher profit shares
- Higher level of foreign prices and/or exchange rate being associated with higher profit shares

Income distribution and its determinants



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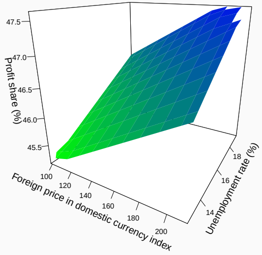
Subperiod analysis



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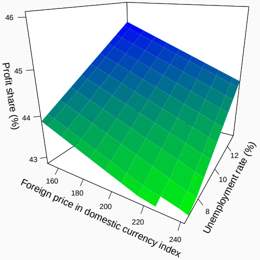

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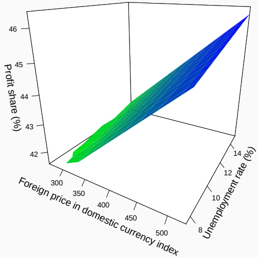

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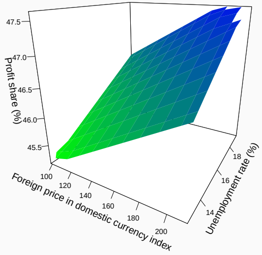

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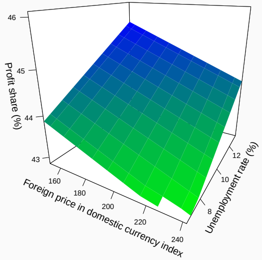

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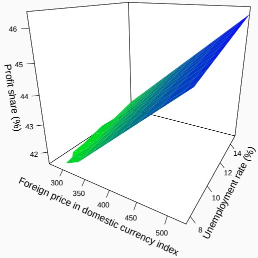

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Link between foreign sector and income distribution

Foreign prices and the nominal exchange rate are important determinants of income distribution

A theoretical explanation

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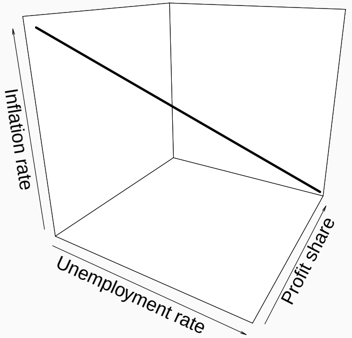
Yet, the multidimensional determination of these variables suggests a time-varying inequality-augmented Phillips curve.

Inequality-augmented Phillips curve

Wage inflation



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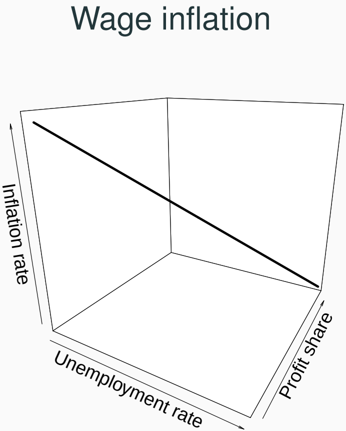

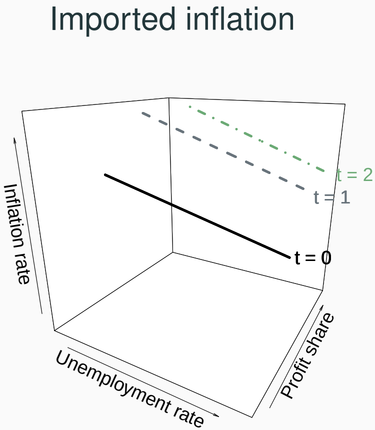

Source: Own elaboration based on Rolim et al. (2023) and Rolim (2023).

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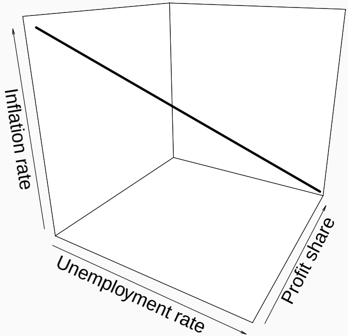
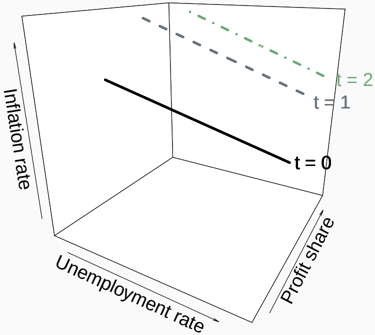


Imported inflation



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Explaining the Brazilian inequality-inflation nexus

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- 2007 to 2014: low unemployment rates and, during some time, stable foreign prices in domestic currency, leading to a negative association between inflation and the profit share. The increase in foreign prices in domestic currency after 2011 was still associated with a decreasing profit share

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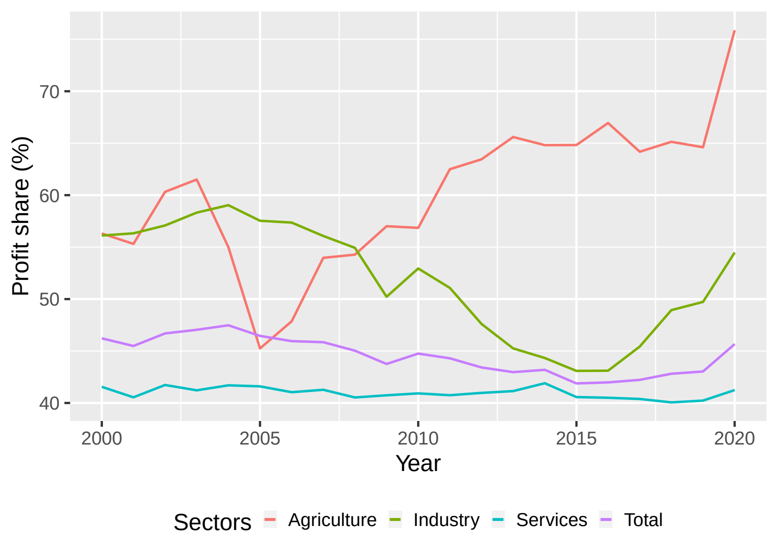
Income distribution within sectors



Source: IBGE (Author's own elaboration). Note: the aggregate wage share is also affected by composition effects, which tend to be the most important factor for its dynamics (Martins, 2017).

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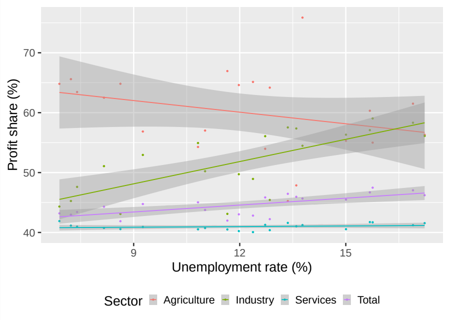

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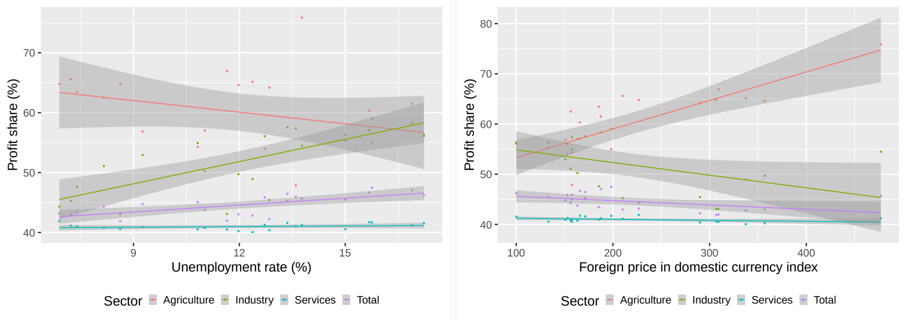

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Thus, higher foreign prices in domestic currency meant higher costs, in a context of growing wages. Firms' could not pass on to prices those cost increases due to their reduced international competitiveness. This has intensified the distributive conflict.

Measuring the distributive conflict

Decomposing the wage share following Saramago et al. (2018), the real wage depends on:

$$w_r = \omega b_r \tau \tag{1}$$

where w_r is the real wage, ω is the wage share, b_r is the real labor productivity, and $\tau = p_y/p_w$ is the relative price (Saramago et al., 2018).

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Stagnant or adverse movements in τ and b_r intensify the distributive conflict.

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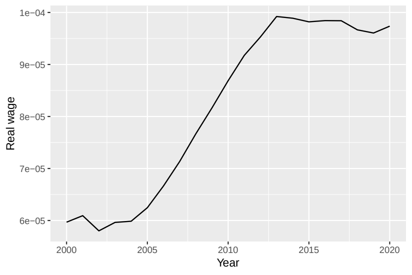

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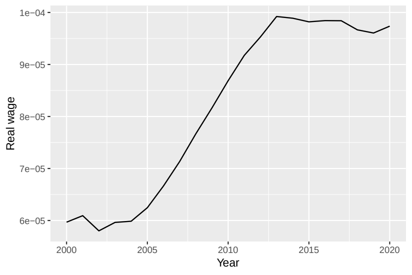

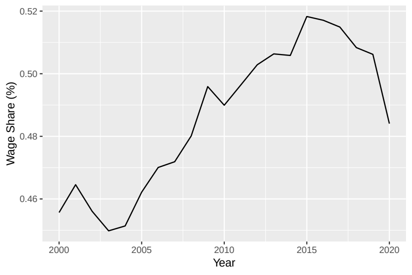

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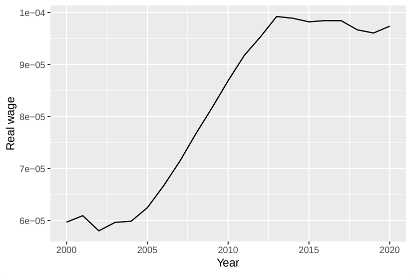

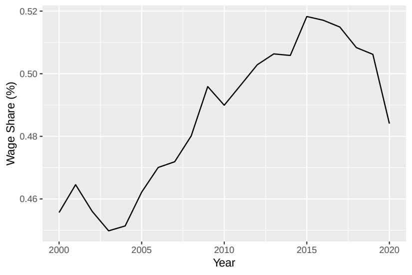

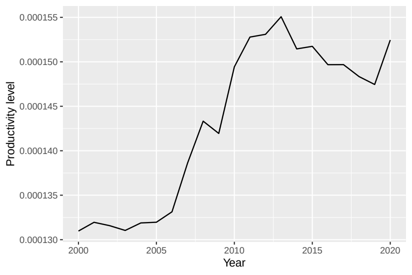

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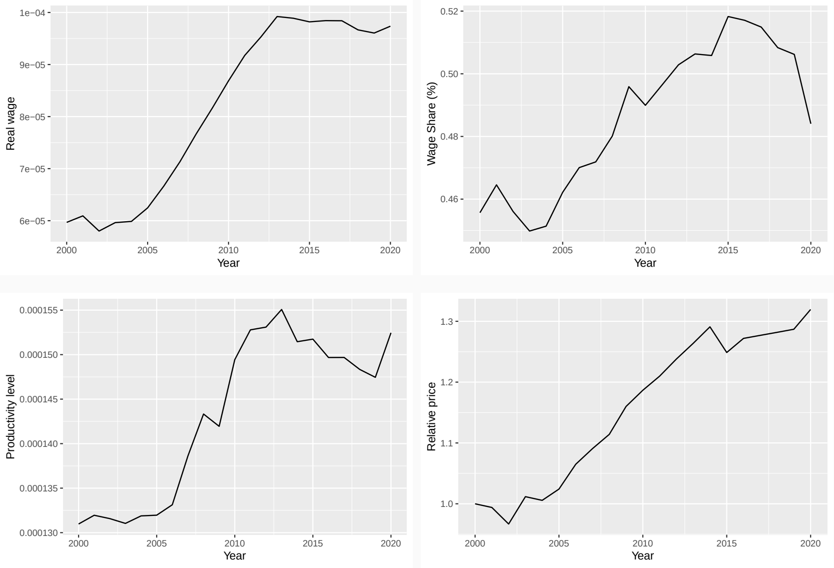

Source: IBGE (Author's own elaboration).

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A more explicit distributive conflict, in a Kaleckian view, translates into higher inflation rates (Rowthorn, 1977).

Intensified distributive conflict

The stability/decrease of τ and b_r around 2014/15 lead to a direct opposition between real wages and profit margins.

A more explicit distributive conflict, in a Kaleckian view, translates into higher inflation rates (Rowthorn, 1977).

Yet, it also translates into important political changes (Kalecki, 1943).

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Link between foreign sector and real interest rates

Through the IT regime, higher real interest rates are needed to react to foreign shocks and to compensate domestic shocks.

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  - Income flow to financial asset holders
  - Exchange rate appreciation may induce higher wage shares and higher real wages

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As a result, inflation was controlled. More importantly, however, nominal wage growth decelerated and the profit share increased significantly.

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More recently, the pricing rule for Petrobras has been altered: reduction of the pass-through effect from foreign to domestic prices.

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  - as a tool to manage the distributive conflict and control the inflation rate
  - as a tool that allows the adoption of redistributive policies

Thank you!

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