

## **Abstract**

Brazil is an upper middle income economy, with a GDP per capita of close to 12,000 (constant) dollars in 2014. Nonetheless, Brazil has a significant amount of people living under poverty. 7.6% of the population was poor in 2014 (Poverty headcount ratio at \$3.10 a day, 2011 PPP), making Brazil one of the most unequal countries in the world. Concomitantly, Brazil's different regions and states are highly heterogeneous with respect to income levels, inequality, and prevalence of poverty. Moreover, in the last past decades, the dispersion of inequality between states has increased. This paper shows that Brazilian states are also heterogenous in terms of economic complexity; and analyzes how economic complexity affects income inequality. To test the relationship between economic complexity and income inequality we employ panel data analysis for the 27 Brazilian states over the period 2002-2014. Our main proposition is that economic complexity affects regional wage differentials in a nonlinear way. Our findings confirm this proposition and point to an inverted U-shaped relationship, whereby higher economic complexity is initially associated with higher, and subsequently lower, inequality levels.