

Economic Growth, Employment and Labour Market Regulation in Brazil*

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O Brasil teve a capacidade de evitar que a atual crise mundial provocasse uma expressiva e prolongada queda na atividade econômica e as perspectivas de retomada do crescimento econômico são relativamente boas. É importante para os trabalhadores organizados examinar as possibilidades de que esse crescimento ocorra sob uma regulação mais adequada do mercado de trabalho, para que o crescimento possa melhorar, de agora em diante, de forma mais acentuada a absorção das pessoas ativas nas ocupações geradas pela atividade econômica, mais do que a experiência verificada no Brasil entre 2004 e 2008. Este *paper* analisa o desempenho do mercado de trabalho entre 2004 e 2008 destacando a importância do crescimento da economia vir a ocorrer sob uma adequada regulação do trabalho.

Abstract

Brazil has been able to keep its economic activity during the recent world crisis. The economic growth perspectives now are relatively good for this country. In this scenario, it is important that organized workers evaluate the possibilities that this greater economic activity happens together with more regulation in the labour market. In this sense, higher GDP growth rate will be followed by greater active population absorption; even more than what was noticed between 2004 and 2008. This paper analyses the labour market performance in the period between 2004 and 2008, emphasising the importance of higher economic growth to be followed by a more adequate labour regulation.

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Introduction

The strong growth of the global economy and its impact on demand for energy, raw materials and food has allowed the Brazilian economy to maintain its growth in GDP since 2004. The most vigorous and sustained performance of the economy has affected the labour market, generating strong growth in formal employment, which contrasts with what happened in the country between 1993 and 1997, when the GDP growth of slightly lower intensity (4% per annum, compared to the current 5%) had no analogous effect to formal employment, which remained virtually unchanged.

The current momentum of expansion of formal employment, in response to the GDP growth, reflects the continuation of structural changes in the operating conditions of the Brazilian economy since 1999. This reformulation of the general framework that conditions the functioning of the economy is related to the devaluation of the real and its repercussions on Brazil's public debt at that moment (1999) had a very large portion indexed to the exchange rate. Devaluation of the real in early 1999 was caused by capital flight, which had already been happening since the Asian crisis in 1997 and was postponed until after the 1998 election, with the "aid" of IMF loans. The devaluation of the real increased inflation and, under agreements with the IMF, a macroeconomic policy was adopted, combining monetary tightening, primary surplus of the treasury and resignation of the government to use the exchange rate policy in a manner that is favourable to growth.

The macroeconomic policy adopted was aimed at controlling inflation, regardless of greater public interference in the financial market, which was certainly the sector of activity that has gained momentum in the 1990s, with liberalization of finance and capital inflow

and outflow in Brazil. The feasibility of this policy, however, depended on the government's ability to achieve huge primary surplus through substantial increases in taxes and reduced public investment. The strategic option of controlling inflation while maintaining free operation of the financial market meant to restrict the growth of the economy and the need to expand the collection of taxes and social contributions in the context of limited GDP growth. This required the State to care, in a more strict way than usual, about supervision in compliance with laws on taxes, contributions to social security and public funding such as FGTS and PIS-PASEP. This new positioning of the State had a strong impact on the formalization of enterprises in various activities in the economy, with fundamental implications for the formalization of labour relations involved.

The pace of formal employment growth has been remarkable since 1999, with almost 5% a year, having been sustained with the average GDP growth, becoming more intense and continued after 2003. That is, the trends of formalization of enterprises and employment relations have allowed formal employment to grow at a rate slightly less than 5% per annum, with the GDP increasing at the average rate of only 3% per annum over the 1999-2004 period, and since then, growing at just under 5% per annum, supporting the expansion of formal employment at the rate of 5% per annum.

This article examines the behaviour of the Brazilian economy since 1999 and highlights the performance of the labour market between 2004 and 2008. The execution of simple ten-year projections of the trends observed in this short period helps emphasize the seriousness of the current labour market, a result of the stagnation of the GDP in an underdeveloped economy for over a quarter century, along with economic liberalization in the 1990s and the abandonment of the claim of a policy of economic development. Simultaneously, the projections also allow us to highlight the importance of maintaining

economic growth and increase the government's commitment to better regulate economic activity and salaried labour, aiming to reverse recent trends of absorption of the EAP in occupations resulting from economic activity.

The article is divided into four parts. In the first part, we examine the performance of the Brazilian economy since 1999 highlighting GDP and foreign trade growth. The second part analyses the evolution of the labour market between 2004 and 2008. The third part highlights the continued increase of women's participation in economic activity, which has maintained the strong growth of the EAP, dampening the implications of the growth of formal employment over the relations that characterize the status of the labour market. The fourth section highlights the importance of repositioning the State in relation to the supervision of laws governing economic activity and employment. This repositioning has strained simple noncompliance with law, with major implications in terms of formalization of labour agreements.

1. Brazilian economy in the 1999-2008 period

The evolution of the average annual price of dollar in real greater than the differences in the rate of inflation between Brazil and the US in the years 1999, 2001 and 2002 caused the devaluation of the real (Table 1). This devaluation was accompanied by rising inflation in Brazil, which reached 13.7% in 2003, as measured by the GDP implicit price deflator. In the latter year, the appreciation of real started, as the increase in the average annual price of the dollar was much smaller than the difference in inflation between the two countries. In subsequent years, with the decrease of the dollar price, inflation declined in Brazil and, consequently, differences in inflation between the two

countries decreased. Thus, if the exchange rate had been adjusted by differences in inflation between the two countries, the dollar would be worth 2.94 reais in 2008 instead of the 1.83 observed, indicating that, in comparison with 1999, the real was valued at 38 % in 2008. As for the exchange rate observed in 2002, when the real was quite devalued, the accumulated value from 2003 to 2008 was 54%.

Table 1 – Inflation and exchange rate in Brazil, 1999-2008

Year	Average dollar price		Implicit deflator		Difference
	(in reais)	Variation %	Brazil %	US %	
1999	1.81	56.0	8.5	1.4	7.0
2000	1.83	1.1	6.2	2.2	3.9
2001	2.35	28.4	9.0	2.3	6.5
2002	2.92	24.3	10.6	1.6	8.9
2003	3.08	5.5	13.7	2.2	11.3
2004	2.92	-5.2	8.0	2.8	5.1
2005	2.43	-16.8	7.2	3.3	3.8
2006	2.18	-10.3	6.1	3.3	2.7
2007	1.95	-10.6	5.9	2.9	2.9
2008	1.83	-6.2	7.4	2.1	5.2

Source: Bacen.

The purpose of the calculations above is only to signal the direction of changes in the value of the exchange rate, not measure them accurately, as these changes in the value of the national currency are key to understanding what happened to the Brazilian economy in the period examined.

To understand the meaning of appreciation or depreciation of the currency, it is necessary to examine the subject from various viewpoints. From the point of view of foreign trade and from a static perspective that considers production systems in all

countries and the degree of utilization of the production system in the country examined and its trade with other countries, it is clear that depreciation of domestic currency increases the competitiveness of its production system, which might tend to export more and import less. More exports and fewer imports tend to fasten the pace of economic activity, determined from changes in consumption and investment in the country. Thus, currency depreciation tends to be accompanied by higher inflation in the country, as it increases production costs and, by increasing the activity of the economy, it creates conditions that favour the transfer of costs to prices and nominal wage increases in an attempt to defend the purchasing power of workers, which nevertheless tends to decrease, in the hypothesis of maintaining the lowest value of the currency.

Widening the perspective with which the matter is examined and considering the possibility for greater economic activity to induce new investment changes the production system, it is possible that the country might move towards reducing inflation and placing its increased competitiveness in trade with other countries with increased productivity of its production system. In this case, the more exports and fewer imports, compared to the pace of economic activity, would not occur to the detriment of the purchasing power of workers and it would be easier to expand both employment and purchasing power of wages.

Since 1999, however, Brazil has witnessed a huge swing in the value of the exchange rate, with the real losing much of its value between 1999 and 2002, managing to recover much of this loss between 2002 and 2008. The global economy maintained strong activity in 1999 and 2000, but the value of shares of US high-technology companies decreased in the last year. The repercussions of the NASDAQ Stock Market's collapse were aggravated by the consequences for the global economy of the September 2001 terrorist attacks in the US. Nevertheless, the US and the global economy soon recovered

and, from 2003 to the global crisis of 2008, energy, raw material and food demand and prices increased, for the benefit of the exporters of these products.

In Brazil, the depreciation of the real in early 1999 immediately increased inflation and had delayed effects on the country's economic activity and foreign trade (CARNEIRO, 2006). In 1999, the Brazilian GDP was virtually unchanged and the depreciation of the real did significantly reduce imports, but exports also declined this year (Table 2). In the following year, the GDP grew by 4.3% and was accompanied by a dramatic increase in exports and imports. The country's foreign trade deficit, which had been significant throughout the second half of the 1990s, virtually disappeared in the 1999-2000 period, yet the current account deficit of the balance of payments, albeit declining, remained significant, at about 25 billion dollars per annum from 1999 to 2001.

Table 2 – Economic activity, foreign trade and balance of payments in Brazil, 1999-2008

Years	GDP %	Growth rate		Balance in US\$ (billion)	
		Exports %	Imports %	Trade	Current Account
1999	0.3	-6.1	-14.7	-1.199	-25.335
2000	4.3	14.7	13.4	-0.698	-24.225
2001	1.3	5.7	-0.4	2.650	-23.215
2002	2.7	3.7	-15.0	13.121	-7.637
2003	1.1	21.1	2.2	24.794	4.177
2004	5.7	32.0	30.1	33.641	11.679
2005	3.2	22.6	17.1	44.929	13.985
2006	4.0	16.3	24.1	46.457	13.643
2007	6.1	16.6	32.0	40.032	1.551
2008	5.1	23.2	43.4	24.958	-28.192

Source: Bacen.

Considering the increase in inflation, the Central Bank of Brazil maintained a high level of interest rates which, together with the shortage of electric power observed over the year 2001, caused a slowdown in GDP growth in 2001 and 2002. The poor performance of economic activity and strong real devaluation caused a further reduction in imports in 2002, allowing the country to obtain a considerable surplus of foreign trade, accompanied by strong reduction in current account deficit of the balance of payments.

The resumption of economic activity worldwide since 2003 has made Brazilian exports grow strongly this year and, since 2004, the GDP has grown more vigorously. The trade surplus has become very impressive leading the country to present current account surplus, which was very high in 2005 and 2006. Exports continued to grow strongly but the pace of import growth has outstripped that of exports, slowly reducing the trade surplus. Increases in the deficits in services and financial income associated with the appreciation of the real strongly reduced current account surplus in 2006, virtually eliminated in 2007. Since 2003, the appreciation of the real has increased Brazilians' expenses travelling abroad and remittances of profits and dividends.

The comparison of growth rates of the GDP, exports and imports between the periods 2003-2005 and 2005-2008 suggests that foreign trade was responsible for the renewed growth of the Brazilian economy, but the increases in employment and income, along with the extension of meeting the demand for credit, began to shift the axis of export growth to increased sales in the domestic market, together with a dramatic increase in imports. Thus, for an export growth rate of 27.2% per annum between 2003 and 2005, the GDP grew at 4.4%, growing between 2005 and 2008 at 5.1% to an increase in exports of 18.7%. The resumption of economic growth in Brazil since 2003 occurred with the reduction of the inflation. The GDP implicit price deflator, increased by 13.7% in 2003,

decreased thereafter, reaching 5.9% in 2007 (see again Table 1). The dollar price reduction played a role in reducing inflation and played a key role in this exchange rate evolution, the surplus of foreign trade and the inflow of capital to the country, driven by high interest rates and, subsequently, the growth of economy.

Capital inflow was insufficient to cover the current account deficit in 1999 and 2000 but, since 2001, the country has been reaching the level of international reserves that had been significantly reduced after the Asian crisis in 1997 (Table 3). The trade balance was crucial in the restoration of the reserves, but the last two years have shown capital inflow as the main highlight both in direct investment and loan and financing portfolio investments, which helped maintain the decline in the price of the dollar, despite the reduction of the current account surplus. The fall in the dollar price helped keep the rising international prices of energy, raw materials and food from causing a more pronounced increase in country's inflation, in a context of significant growth in the GDP and employment. Inflation only increased in 2008 as part of the GDP growth, which reached 6.5% before the global crisis hit the country in September.

Table 3 – Balance of payments in Brazil, 1999-2008

Years	Balance in US\$ (billion)					
	Current account	Capital account	Direct Foreign Investment	Portfolio	Loans and Financing	Balance result
1999	-25.335	17.319	26.888	3.802	-13.620	-7.822
2000	-24.225	19.326	30.498	6.955	-18.202	-2.262
2001	-23.215	27.052	24.715	0.077	2.767	3.307
2002	-7.637	8.004	14.108	-5.119	-1.062	0.302
2003	4.177	5.111	9.894	5.308	-10.438	8.496
2004	11.679	-7.523	8.339	-4.750	-10.806	2.244
2005	13.985	-9.464	12.550	4.885	-27.521	4.319
2006	13.643	16.299	-9.380	9.081	15.688	30.569
2007	1.551	89.086	27.518	48.390	13.131	87.484
2008	-28.192	29.352	24.601	1.133	2.875	2.969

Source: BACEN.

The capital and financial account balance of payments had negative balances in 2004 and 2005 as a result of amortization and non-negotiation of new loans and financing, as well as the small magnitude of direct investment in the two years considered and the outflow of portfolio investment in 2004. In both years, the current account surplus more than offset the financial capital account deficit. In 2006 and, especially, 2007, the surplus of the capital and financial account was much larger than the current account, combining expressive surpluses of direct investment, portfolio investment, and loans and financing.

In 2008, the current account showed deficit and strongly decreased portfolio investment and loans and financing, but the capital and financial account covered the current account deficit, maintaining international reserves and low dollar price, which only increased with the world crisis. Nevertheless, inflation was rising and the Central Bank, prior to the global crisis, raised the interest rate, yet the growth rates of the GDP and employment were affected only when the global crisis hit the country.

In a nutshell, Brazil has enjoyed five years of significant growth at a time of a particularly favourable world economy, which facilitated the expansion of the national GDP at the rate of 4.8% per annum, with falling inflation, significant employment growth and intense formalization of labour relations. These effects of economic performance on the labour market may be examined by comparing the data from the National Household Sample Survey of 2004 and 2008.

2. Labour market in Brazil: 2004 to 2008

2.1. Activity status of the population

Analysis of the recent recovery of the labour market in Brazil allows us to emphasize how serious the situation was prior to 2004, which underscored, on the one hand, the narrowness of the labour market compared to the size of the existing active population, as indicated by the high rate of unemployment and, on the other hand, the extreme disruption, evidenced in high proportions, total occupation of people, self-employed workers, and unregistered employment that is explicit or disguised as self-employed workforce (LEONE and BALTAR, 2008). Moreover, the recovery of the labour market occurs amidst the strong growth of the working population, coupled with the continued growth of women's participation in economic activity.

Reversing the trend of the previous decade, the number of people employed has grown more strongly than the pace of economic activity (BALTAR, MORETTO and KREIN, 2006). Employment elasticity in relation to GDP growth, which had been very low in the 1990s, is currently on a far more promising level of 0.53, similar to that observed at

the time of developmentalism, when the number of employed people grew approximately by 3.5% for a GDP growing at a pace of 7% per annum, . For an average GDP growth of 4.6% per annum, the number of employed people increased to 2.4% in 2004-2008. At the time of developmentalism, the GDP per worker increased at an annual rate of 3.4%, while in 2004-2008, this indicator of productivity growth was 2.1% per year.

In this study we considered the population over 15 years old as being of age for economic activity (AAP). The AAP is estimated to have increased to 1.9% per annum in 2004-2008, while the population that actually participates in economic activity (EAP) increased at the same annual rate of 1.9%. Thus, the participation rate remained virtually stable at 68.5% (Table 4).

Table 4 – Population activity status indicators. Brazil, 2004 and 2008

Indicators	2004	2008
Participation rate	68.5	68.6
Unemployment rate	8.9	7.1
Unemployment rate (labour market)	13.3	10.3
Occupancy rate	62.5	57.2

Source: IBGE – PNAD, 2004 and 2008

The different growth rates of the EAP and employed population decreased the unemployment rate from 8.9% to 7.1% between 2004 and 2008. A projection repeating, for over six years, the growth rates of the EAP and employed population, recorded between 2004 and 2008, continued to reduce the number of unemployed people (from 8.0 million to 6.9 million between 2004 and 2008), reaching 4.7 million in 2014. In this case, the unemployment rate would reach 4.3% in 2014. This was the level of unemployment in Brazil prior to the changes caused by opening of the economy since the early 1990s.

Previous estimates did not aim to create a scenario for the labour market in Brazil, but to ensure that, with the growth of the EAP at 1.9% and the GDP at 4.6%, an employment elasticity of the GDP growth in a level similar to that prevailing at the time of developmentalism would be a recovery in the labour market, compared with that observed in the 1990s, making the unemployment rate go back to the level prior to the opening of the economy and its placing in globalization.

In fact, the global crisis interrupted the growth of the Brazilian economy, but the decrease of the GDP in 2009 was small (-0.2%) and recovery in 2010 is very intense, with the GDP growing at over 6% per annum. Although it depends on what will happen with the global economy, it does not seem difficult to for the GDP to grow by 4.6% in 2008-2014. Given the economy's performance in 2009-2010, a GDP growth of just over 5% in 2010-2014 would be required. Maintaining employment elasticity at about 0.50 in 2010-2014 will depend on what will happen to the structure of the economy. The worst case scenario for the labour market would be a return to the reduction in employment elasticity, similar to what occurred in the 1990s, now as a result of maintaining the growth rate at 4.6% with the strong expansion of exports of natural, unprocessed products, causing intense growth of imports of manufactures with higher technological content and added value. In this case, the GDP growth of 4.6% per annum would cause growth lower than 2.4% in the number of people employed, and the reduction of unemployment would not be so pronounced, as occurred between 2004 and 2008. The growth of the EAP of 1.9% would mean an increase of 1.9 million people. The total population is growing at 1.3% today, so probably the AAP will grow by less than 1.9%. This means that continued growth of the EAP by 1.9% until 2014 will resume the increase in participation (which was interrupted between 2004 and

2008). This resumption of participation rate increase results in an increased participation of adult women in economic activity.

In short, the redefinition of the operating conditions of the Brazilian economy since appreciation of the real in 1999 and, particularly, with the reacceleration of the world economy in 2003-2007, initiated a recovery in the labour market which occurred amidst a still very intense growth of the active population¹. Regarding the effects of this recovery in the labour market on the active status of the population, an increase in participation is expected along with a decline in the unemployment rate, increasing, for two reasons, the occupancy rate for the active-age population. Achieving this perspective mainly depends on the effort by the government to seize growth opportunities open to the Brazilian economy, so that it is more favourable to the labour market, in addition to special care for the regulation of economic activity and salaried labour. Before referring to the issue of regulation of employment, it is important to examine newer forms of absorption of the population seeking an economic activity.

2.2. Occupation Structure

Labour status of the EAP can be divided into own-account and third-party employment, and the latter covers both employees and unemployed people (not only the employees of the establishment, but also those performing paid domestic services). This composition of the labour force is changing, with third-party employment growing by 3.5% per annum and own-account employment growing by 0.4% (Table 5). In two years, the

¹ For a systematic exposition of this labour market recovery, see (BALTAR et al, 2010).

composition of the EAP in these two types of employment did not change. However, by projecting these growth rates for over six years, we would increase the fraction of the EAP that works for third parties, from the initial level of 63.6% in 2004 to 70.8% in 2014, while 98% of the expansion of the EAP in those 10 years would correspond to the increased self-employment. The number of self-employed workers (self-consumption and self-construction, employers, and self-employed and unpaid workers) of 2014 would be roughly the same as in 2008.

Table 5 – Own-account and third-party employment. Brazil, 2004 and 2008

Labour status	2004	2008
Third-party	63.6	66.4
Formal employment	62.3	66.3
Unregistered employment	37.7	33.7
Own-account	36.4	33.6
Self-consumption and self-construction	11.0	13.0
Employer	11.5	13.5
Self-employed	61.2	60.8
Non-paid	16.3	12.7

Source: IBGE – PNAD, 2004 and 2008

That is to say, changes in operating conditions of the Brazilian economy favoured the growth of the salaried labour market vis-à-vis the pace of economic activity, so that, by maintaining the growth rate of these two types of labour for a decade, the weight of own-account employment would decrease from 36.4% to 29.2% in the total stock of the EAP.

The only category of own-account employment that had an absolute reduction in the number of people involved comprised family members of self-employed workers who work

in the production without receiving remuneration. This decrease occurred in agriculture, which accounts for almost three quarters of the people involved in this kind of work situation, taking place at the same time of a reduction in the number of people who claim to be self-employed workers and an increase in the number of those who claim to work for self-consumption. As for activities outside agriculture, the number of people working without remuneration continued to increase significantly. Self-employment, which often disguises paid employment relations, had a slowdown compared to the 1990s, but the growing number of employers is still very intense. In fact, there has been a drop in self-employment in agriculture while self-employment in other activities continued absorbing many people, highlighting the expansion of these job opportunities in manufacturing, trade, lodging and food, personal services, and support services to businesses. Self-employed workers continue to represent nearly 60% of all own-account workers who, as mentioned, still covers one third of the entire active population in Brazil.

The comparison of the number of unemployed people and those working for third parties indicates that the unemployment rate of the labour market decreased from 13.3% in 2004 to 10.3% in 2008 and, in a projection of more 6 years, this rate would reach 6.0% of the total number of people working for third parties, with a 41% reduction in the number of unemployed people and a 41% increase in the total number of employees. Formal employment grew much more than unregistered employment (5.2% and 0.7% per annum, respectively), allowing the degree of formalization of salaried employment to move from 62.3% to 66.3%. In the 6-year projection, the degree of formalization would reach 73% of salaried jobs and 96% of those jobs would have a formalized relationship. Nevertheless, at the end of these 6 years, unregistered employment would represent 27% of salaried job

opportunities and the number of unregistered employees would be virtually the same as the 10% observed in 2008.

Formal employment was considered as the one in which the country's labour laws are respected, as explained in the CLT or the Statute of Public Servants. The formalization of labour relations in accordance with the law does not mean that worker turnover is high and remuneration is low, for many of these jobs. That is shown by data from the Annual Report of Social Information (RAIS) if we exclude public servants who have guaranteed job security in Brazil, from the considerations.

The data from the RAIS show that, to maintain the same level of employment, contracting equivalent to 4.5% of the total number of employees is required to occur each month. In addition, 31% of the employees existing at the beginning of the year are no longer in the same job by the end of the year. And many who are hired throughout the year will be very little time in the position, as 63% of those laid off during the year did not accumulate one year in service and only 14% of them remained in the job for more than three years.

The high labour turnover permanently causes a high fraction of formalized employees to have less than two years in service. Therefore, considering all employees of the RAIS, including public servants, 32% have less than one year in service and only 53% remain with the same employer for more than two years. As formal employment at the time of measurement (late 2006) covers 37% of the EAP, only 20% of this EAP is estimated to be formalized, with more than two years in service, i.e. one of five members of the active population.

In the composition of formal jobs with more than two years in service, the public sector (education, healthcare, and safety) stands out with 34; service provision (transport,

banking, education, healthcare, restaurants, hotels, economic activity support, from information technology, legal services, accounting and auditing, advisory and consultancy services to leasing of manpower, cleaning, security, and safety), with 29%; throughout the manufacturing industry, with 17; trade and repair, with 13%; agriculture, with 3%; and 4% comprising construction, public utility, and mining.

Changes in operating conditions and the growth of the Brazilian economy were responsible for accelerating the pace of creation of salaried jobs, and there has been a greater formalization of establishments and employment relations. Formal employment continues with a high incidence of high turnover and low payment and its fastest growth has occurred in a context with intense EAP growth, causing unemployment to decrease very slowly, while own-account and unregistered employment continue to grow, although at much a slower pace than in the 1990s.

Thus, from the entire EAP of 2006, formal employment with a more than two years in service did not exceed 19.6%. From the rest of the EAP, 8.4% were unemployed, 33.3% were own-account workers in the broad sense (self-employed, non-paid employees, and self-construction and self-consumption in agriculture), 21.3% unregistered employees, and 17.4% formalized employees with less than two years in service.

3. Women and the labour market

The continued expansion of women's participation in economic activity has sustained the growth rate of the active population in Brazil. Considering only the male population, the annual growth of the EAP between 2004 and 2008 was 1.8%, and we observe a decrease in the participation rate of men in economic activity. Thus, women, who

accounted for only 43.3% of total EAP in 2004, participated with 49.0% of the expansion of the EAP in the period. The fall in the participation rate of men has not prevented the lowest unemployment rate in 2008 to cause a higher occupancy rate for men (occupied fraction of the population considered old enough to participate in economic activity) (Table 6). Among women, the occupancy rate increased most dramatically, yet the relative frequency of female presence was increased both among employed (42.0% to 42.6%) and unemployed people (56.8% to 59.7%).

Table 6 – Labour market indicators for men and women. Brazil, 2004 and 2008

Labour market indicators	Men		Women	
	2004	2008	2004	2008
Participation rate	81.2	80.5	57.0	57.6
Unemployment rate	6.8	5.2	11.7	9.6
Unemployment rate (labour market)	10.5	7.7	16.7	13.4
Occupancy rate	75.7	76.3	50.3	52.1

Source: IBGE - PNAD, 2004 and 2008

The increased presence of women occurred in both third-party (43.6% to 43.9%) and, especially, own-account employment (39.2% to 40.0%), where the relative frequency of women is still quite low. In the absorption of female EAP, third-party employment is relatively higher (Table 7). The absorption of men has a slight prevalence of own-account employment. For both genders, however, the relative expansion of third-party employment has been more intense than that of own-account employment. The growth of third-party employment was 3.4% for men and 3.7% for women. The growth of the EAP working in own-account jobs was 0.1% for men and 0.9% for women. From the entire increase in own-

account employment, recorded between 2004 and 2008, 84% was occupied by women, who accounted for 39.2% of own-account workers in 2004.

Table 7 – Own-account and third-party employment among men and women. Brazil, 2004 and 2008

Labour status	Men		Women	
	2004	2008	2004	2008
Third-party	61,9	64,9	66,0	68,4
Formal employment	64,5	68,9	59,4	62,9
Unregistered employment	35,5	31,1	40,6	37,1
Own-account	38,1	35,1	34,0	31,6
Self-consumption and self-construction	5,6	8,2	19,2	20,1
Employer	14,1	16,3	7,6	9,3
Self-employed	69,5	67,6	48,5	50,6
Non-paid	10,8	7,9	24,7	20,0

Source: IBGE - PNAD, 2004 and 2008

By increasing their participation in economic activity, women have supported the growth of the EAP in third-account employment and helped keep the growth of the EAP in own-account employment. Even among men, the number of people in own-account employment was not reduced. This occurs only in agriculture, for both men and women. In other economic activities, number of people in own-account employment grew. For men this has not occurred only in trade and repair, but the number of men and women in own-account employment strongly grew in manufacturing, personal services and company support services. Own-account employment was also increased in construction, among men, and education, healthcare and social services, among women. Part of the self-employed people in these activities receives wages, but there is no employment relation.

However, the growth in the number of employers in all non-agricultural activities was also significant.

The expansion of the salaried labour market was stronger, yet it did not reduce the population in own-account employment, which grew in non-agricultural activities. The increase in women's participation in economic activity has strengthened both the growth of the population in the salaried labour market and the population in own-account employment, but the growth of the latter also occurred for the male population out of agriculture, except in trade and repairs, where the number of men in own-account employment was reduced.

With regard to the salaried labour market, the unemployment rate declined, although it continues to affect more women than men. The degree of formalization of labour relations is still higher among men than among women (see again Tables 6 and 7). The growth of formal employment among men and women was equally intense (5.1% and 5.2% respectively). Unregistered employment, in turn, has grown tremendously among women (9.1% vs. 1.4% for men). The deceleration of unregistered employment is clearer than that of own-account employment, yet unregistered employment did not decline, even among men. The increase in unregistered employment was significant in company support services, education, healthcare and social services, public administration, accommodation and food, and even in construction. The reduction in the number of unregistered employees occurred only in agriculture and much less in manufacturing.

4. The role of public institutions in the formalization of agreements

Public institutions involved in the area of labour had an important role in the growth of formal employment. The performance of these institutions has been combined with an economic and institutional environment that favours the formalization of agreements, which included the resumption of economic activity, clamour for social security, possibility of access to credit, extension of the Simples², improvement of State's tax collection system, and pressure for the State to repress child and/or degrading labour.

Despite trends towards economy liberation and labour flexibility, the current evidence shows that there is space for effective performance by the State and trade unions towards the protection of workers. Despite high levels of unemployment and a highly flexible labour market, formal employment has been able to grow in the current decade.

This formalization does not basically alter the overall picture of a heterogeneous labour market, with a structural surplus of labour, high income inequality, very flexible employment³, high turnover of the workforce, and widespread violation of the law. Employers are reluctant to be strongly framed either by law or by the unions. There is, nevertheless, room for progress in public regulation and protection of workers.

In addition to the Labour Courts and the unions, the public system of inspection and monitoring of labour rights includes the Ministry of Labour and Employment, in exercise of its supervisory power, as well as the Ministry of Labour, in the management of public civil actions for the defence of collective interests. Within those public institutions, there have been movements of resistance against the trend of easing the labour market, positively reflected on the formalization of agreements.

² Super-Simples is a public policy that grants tax incentives to micro and small businesses. Formal employment grew strongly in companies that were not enrolled in the RAIS over the last years.

³ Flexible employment expresses the increased discretion of employers to impose conditions of use, hiring and remuneration. In the current context, it means the search for the reduction of labour costs by increasing insecurity (KREIN, 2007).

In the Labour Courts, we observe an increase in the number of labour claims, in which recognition of the employment relation is one of the main claims. Among others, we may highlight two consolidated positions in the labour magistracy that are contributing to the formalization of labour agreements: (1) recognition of the employment relations, when a disguised employment relation is observed, such as syndication⁴, outsourcing, traineeship, etc., and (2) accountability (at least subsidiary) of companies contracting outsourced companies (or sub-contractors), when these do not pay labour duties. This positioning has contributed to encourage economy agents to be more careful when hiring employees, as a way to avoid possible future labour liabilities.

Under Brazilian law, a disguised employment relation occurs when the characteristics of salaried employment are observed, but the hiring of the service is done without regard to the labour and social security rights linked to it. That is to say, there is a relation of subordinate labour, but the form of hiring is not given by an agreement for regular labour, i.e. it is a simulation⁵. That is, the work, subject to the labour law, is provided to others on a personal, regular basis, in a relation of subordination and remuneration. The positioning of the Labour Court, as well as the institutions responsible for inspection, seeks to inhibit fraudulent actions that have become very present in the labour market, especially since the 1990s when there was further easing.

Another aspect is outsourcing, which is a paradigmatic example for the analysis of the changing face of the Labour Court between 1980 and 1990. Until 1993, the view

⁴ In 1994 a law was approved, allowing for the detraction of cooperativism, making room for the replacement of employees by syndicated workers, without the protection of the social and labour law. The law strengthened the interpretation of labour relations when principles of cooperativism are not practiced. In these situations, it acknowledges labour relations and ensures rights connected to wages.

⁵ In general, labour relations has the following features: 1) the person provides the service, performing the tasks; 2) he/she performs a regular activity; 3) receives payment for performing this activity; and 4) performs the activity under the orders of another (boss or agent thereof), being subjected to timetables and other rules that define the performance of the service.

expressed in the former Statement 256/1986 of the Superior Labour Court (TST) prevailed, virtually prohibiting outsourcing. In 1993, the TST published Summary 331, which legally enabled the practice of sourcing, placing, however, the issue of subsidiary liability in return for ensuring that workers can have access to social and labour rights. In short, the Summary extended the possibility of a minimal protection, but also legitimized the practice of outsourcing.

Thus, despite contradictions and disputes, the labour judiciary has contributed in the development of resistance actions in view of ensuring the protection of workers, seeking to preserve the face of labour law, inducing economy agents to comply with the legislation, which indirectly helps increase the formalization of employment relations.

The second institution is the Brazilian system of labour inspection, under the responsibility of the executive (Ministry of Labour and Employment). Although the system is in accordance with international standards, it has historically been less structured and, in the 1990s, underwent changes that discouraged its supervisory role in the inspection of execution of rights⁶. The level of noncompliance with the labour legislation has always been and remains very high, constituting a practice that increases the employer's power to determine the conditions of use and remuneration of work, given the great chance for employers to not be caught in the labour crime and the possibility, in case of conviction, to achieve agreements that reduce the amount due the employee. The regulatory system of work in a particular country may be very detailed and strict in formal terms, but very

⁶The initiatives that weakened the system of supervision in the 1990s were: 1) An Order that discouraged the enforcement of collective agreements: instead of fines to the employer, it determines that the provisions conflicting with the law be announced to the Ministry of Labour, under the justification of collective negotiation; 2) Disruption of the supervisory system especially with the substantial reduction in the number of tax auditors; 3), Scraping of the structure of supervision, which can also be observed in the fall, in percentage terms, of the value carried in the budget for supervision until 1999.

flexible in practice, simply because employers may choose not to fulfil what the law prescribes. (CARDOSO and LAGE, 2007).

But, since 1999, within the context of the requirement to seek to improve the State's tax collection system to enable tax adjustment as a means of addressing the growing public debt, some initiatives have been taken to increase a little more supervision, including labour. They include: 1) prioritization of inspection for the formalization of agreements and collection of FGTS over healthcare and work environment; 2) the creation of mobile groups to combat child labour and slave-like labour; 3) the small increase in the number of tax auditors⁷; and 4) the possibility of a 'Bureau of Understanding' which, under the direction of the auditor, opens the possibility to extend the deadline for completion of items that were found in the supervision, by agreement of the Union of the category.⁸

Prioritization of formalization is also related to change of career and how to remunerate tax auditors. Since 1999, an auditor career has been established, along with social security and income, introducing a bonus system⁹ linked to results, which focuses the bulk of FGTS collection, the number of formalizations through supervisory action and the amount of employees supervised, in a trend that has been exacerbated after 2003. That is, incentives aim to increase the State's revenues, through deposits from the Severance Indemnity Fund or elevation of formalization, which increases social security contributions,

⁷ These initiatives, albethey shy, have occur especially after 1996 to retrieve the supervisory system, in an effort to improve tax collection system, aiming to facilitate the increase of public finances, in a context of extreme rising of the State's indebtedness. In this sense, new bids took place, after years of reduction in the number of labour tax auditors (inspectors) – still, the number remains very low as yet. The number of auditors was 2000 in 1995. In 2006, it was close to 3000, less than the 5000 existing in the 1970s.

⁸ The bureaus may also have a preventive role for future issues. Furthermore, there are programmes developed in the states, which seek to prevent diseases and accidents in a collective way, so as to optimize supervisory actions, establishing negotiations between the unions for preventive measures and deadlines for implementation.

⁹ Thus, there are two bonuses on the wage: the Tax Activity Bonus – GAT, corresponding to 30% of the salary (or 25% of the highest base salary) and the bonus for Increased Supervision and Collection – GIFFA, corresponding to 45% the highest base salary for each position (CARDOSO and LAGE, 2007).

especially to social security. According to data available from the Ministry of Labour and Employment, the number of workers formalized through union activity nearly tripled between 1996 and 2007 (from 268,558 to 746,245). In the last two years, there was a slight decrease in the number of workers formalized by supervisory action, falling to 588,680 in 2009. It coincides with the decrease of factors: 1) the crisis causes a small narrowing of the labour market; and 2) the bonus on wages is incorporated, eliminating the stimulus in the search for results.

Considering the size of the labour market and, particularly, the number of laid off and hired workers, according to the CAGED/Ministry of Labour and Employment, the amount is not so great, but there is an increase far above the growth afforded by the dynamics of the labour market. The measurement of the contribution of supervisory action for formalization, however, is problematic. On the one hand, we have the demonstration effect, i.e. the visit of tax auditors in a municipality or economic sector may lead many entrepreneurs to register their employees to escape the fine. On the other hand, nothing guarantees the continuance in the formal employment as a result of the tax auditor's action.

Moreover, there is a second dimension arising from external pressures, especially the ILO. The main initiatives are: the reaffirmation of the ILO supervisory precepts, including increasing the autonomy of tax auditors in the exercise of the public function and the Programme on the Elimination of Child Labour and Forced Labour, in cooperation with the Ministry of Labour and Employment. The fight against child labour, analogous to slave labour, is part of the project of the ILO for *decent work*. These are programs aimed at eliminating these two embarrassments of the scenario of Brazilian labour.

Therefore, external pressure and the need for tax adjustment, there has been, after 1999, a small advance in the structuring of the monitoring system, which brings about

results to indicators related to formalization and the fight against child labour and forced labour, as well as an increase in the value of the FGTS deposit per tax case. Several structural problems remain, however, such as the insufficient number of auditors and the precarious structure for the purposes of review, making it difficult to carry out better-planned work. Unlike other supervisory areas, labour tax auditors work handle very complicated social situations in which a worker may find him/herself in a desperate situation requiring immediate care.

Other surveillance and labour rights protection institutions are the Ministry of Labour (MPT), whose role was redefined in the 1988 Constitution, approved with the Statute and the National Organic Law of the Public Prosecutor's Office, on a permanent, autonomous and independent basis. It aims to defend the legal order, the democratic regime, and social and individual interests unavailable. It is not subordinate to any other power or institution of the Republic and is considered an "extra power", which has the function of monitoring compliance with the law and other powers. The changes also expanded its jurisdiction, to be at the same time an intervening agency and agent, imbued with the role of defender of society in protecting diffuse, collective and homogeneous individual interests. Moreover, it can also act as an arbitrator or mediator in the resolution of collective labour conflicts.

The performance of the MPT focuses on issues involving a group of workers. Its members (prosecutors) are free to take initiatives for research – to investigate complaints – and judicial referral of any matter that is involved in the violation of the law, affecting a group of workers or the society.

Autonomy and independence allow each attorney to be a public agency with authority to initiate a number of actions. On the one hand, we observe that some issues,

considered prioritized and placed as institutional goals, offer some national perspective to the institution, such as: the elimination of child labour; the fight against forced labour, any forms of discrimination, fraudulent cooperatives, and outsourcing; ensuring fundamental labour rights, especially formalization; integration of people with disabilities in the labour market; and compliance with safety standards and occupational medicine. These are trends that seek to give some identity, but concrete actions depend on the individual commitment of prosecutors.

Despite the heterogeneous composition and being incipient in material terms (budget and staff), the work of many prosecutors, often performed with the local judiciary and social actors (unions, NGOs, etc.), has shown positive results in the inhibition of fraudulent practices. For example, the Prosecutor's Office of the 15th Region played a major role, along with the unions of rural workers, researchers and members of the labour judiciary, in the fight against false cooperatives and progress resulting from the formalization of employment in the segment of sugar cane and orange, in the interior of São Paulo.

Analysing the public institutions responsible for supervision and protection of rights, we observe that, despite being part of the backbone of the State and with relative autonomy of action (some more than others), they are subject to influence from politics and social forces, which reflect the interests and views present in Brazilian society. However, the very preservation thereof means a resistance to the practice of fraud – even though, in many instances, their efforts that have legitimized this political perspective – as it carries the contradictions and social tensions experienced by society in each historical moment.

It is necessary to make an exception: despite the presence and preservation of these institutions, the level of noncompliance with the social legislation remains very high in

Brazil. This is evident in the figures regarding informal labour, presented in the second part of this text, as the existence of complaints relating to slave-like labour is quite frequent, among other examples. Impunity for most labour crimes shows that keeping withholding rights still pays for most companies.

However, both the legal framework and public institutions are mechanisms considered as references in addressing the most destructive forms of exploitation of the workforce and, in a context somewhat more favourable for work, there are signs of a contribution, not yet quantifiable, for promoting formalization.¹⁰

Final thoughts

Reactivation of the Brazilian economy as of 2004, in the context of maintaining a high primary surplus, caused the growth of employment opportunities and increasing formalization of labour relations. However, there is a huge fraction of the PEA in own-account employment and the salaried labour market shows a significant combination of open unemployment and unregistered employment. Even in formal employment, there still exists a high level of turnover and low wages. The impact of the recovery of the economy in terms of changing the labour market is limited, requiring many years of strong economic growth, as the intensity of the expansion of the active population should remain significant. The continued growth of the economy will slowly improve labour market situation especially if the public regulation of labour relations is improved (improving collective

¹⁰ The performance of the abovementioned public institutions does not generate jobs. However, it evidences that the State may have an important role in supervision and effective enforcement of the legislation, improving the quality of jobs created in the economy [...] This leads us to conclude that, if supervisory mechanisms are improved and there is a more active presence of the State, within a context of sustained economic growth, it is possible to raise the profile of the Brazilian labour market (BALTAR, MORETTO, and KREIN, 2006:34).

hiring improving and raising the minimum standards for working conditions and remuneration, taxation by the State vis-à-vis the increased productivity of the production system), including supervision (by the Ministry of Labour, Public Labour Prosecutor's Office, Labour Justice, and unions) of compliance with labour laws.

Finally, if the level of employment continues to grow, conditions for the implementation of rights and expansion of social and public labour regulation may flourish more easily, as it creates conditions that strengthen unions, collective negotiations, and the very performance of state institutions.

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