

More pay and more jobs: how Brazil got both

by Paulo Eduardo de Andrade Baltar

So far, the 21st century has been good to many Brazilians. Formal employment and the minimum wage have risen, the purchasing power of those earning average pay has recovered, open unemployment has fallen, and undocumented subcontracting has been curbed. Average household incomes have risen and poverty has declined. Positive macroeconomic developments, a range of progressive government policies and improved collective bargaining outcomes have all played a part in this.¹

Purchasing power regained

Under the two successive presidencies of Luiz Inácio Lula da Silva ("Lula"), income inequality in Brazil has shown just a small decrease, from a Gini index of 0.58 in 2002 to 0.55 in 2008. Much more significant is the marked change in the labour market configuration, which has had a very positive impact on poverty levels. From 61.4 million people in 2003, the number living in poverty dropped to 41.5 million in 2008 (a cut from 34.3% to 21.9% of the total population). Those in absolute poverty fell from 26.1 million in 2003 to 13.9 million in 2008 (from 14.6% to 7.3%).

The recovery in the purchasing power of the minimum wage has been crucial here. It really gained momentum from 2005 on, when the federal government made an explicit commitment to promoting it. Between 2003 and 2008, the minimum wage rose faster than inflation, providing workers at the base of the income pyramid with significant real gains (38.3%). The government established a policy of annual adjustment that takes account of past inflation and adds up the average GDP growth of the two previous years. There has also been an important, though smaller, increase in the real median wage. Its purchasing power rose by 23.5%.

Formalising jobs

The increase in the average growth rate of GDP over the period 2004-2008 had significant positive impacts. The labour market absorption of working age people increased and unemployment went down. At the same time, the relative weight of informal employment, self-employment and unpaid work declined. The proportion of formal employment in the whole economically active population (including the unemployed) aged 15 and above increased from 36.1% in 2004 to 40.9% in 2008. There was an especially significant increase in the formalisation of youth jobs. This is important, as formalisation brings workers within the effective scope of labour law and social security provisions. More than 95% of the formal jobs

created are on open-ended contracts. However, this does not imply job security. Brazilian employers have great flexibility in hiring and firing. For example, in 2009, in the midst of the crisis, just under a million formal jobs were created within a total of 33 million employees registered in Brazil. But that was the net job creation figure. There were 15.2 million dismissals as well as 16.2 million new hires.

Recent Brazilian experience contradicts the frequent assumption that a minimum wage will lead to net job losses and inflationary pressures. Rather, it points to the importance of public regulation of the national labour market. In Brazil, employees who are formally hired cannot be paid less than the established legal minimum. But the minimum wage is also a reference point for most informal workers and many of the self-employed. And its revaluation has had a positive influence on wage negotiations, especially on setting wage floors for some occupational categories.

Income transfers

Social security provisions have been a further important means of income distribution. A non-contributory scheme brought in for rural workers has helped to put them on an equal footing with urban workers, and a Continuous Money Benefit has ensured an income for some particularly disadvantaged groups. In both cases, the benefit cannot be below the value of the minimum wage (in line with the general social security guidelines for retirement or survival benefits). But the explicit policy of revaluing the minimum wage has not worsened social security deficits, as the good performance of the economy and the expansion of formal jobs have boosted the system's revenues. On the other hand, the increased purchasing power of the rural pensioners and other poor beneficiaries has resulted in increased disposable income within the country's smaller communities, especially those in the long-impooverished North-East. More effective social security coverage has also indirectly helped to improve the labour market, as a guaranteed income for senior citizens enables them to stop seeking work. And it allows some dependent minors to avoid premature entry into the labour market, thus reducing the incidence of child labour.

The various conditional income transfer schemes have been grouped into one single Family Grant programme which now covers more than 11 million families. It transfers a monetary supplement to families with an insufficient income per capita to avoid situations of extreme deprivation. In return, they agree to maintain their children's and teenagers' school attendance, seek medical care for expectant mothers and newborn babies and withdraw their children from child labour. This programme is intended as temporary support, allowing family members some time to seek better labour market insertion. However, even during the period of economic growth and employment expansion in 2004-2008, the vast majority of the families were unable to meet the conditions for leaving the programme.

Unemployment insurance is another important safety net. Despite the employment expansion in 2004-2008, the number of people drawing unemployment benefits actually rose. This was because the greater formalisation of jobs, which increased the number of those covered by unemployment insurance, was not accompanied by a reduction in employee turnover. The increased expenditure on unemployment pay-outs also stemmed from the real increase in the minimum wage, as the minimum benefit is equal to the statutory minimum wage.

Unemployment benefits helped to maintain households' spending power during the worst period of the economic crisis, between the end of 2008 and the beginning of 2009. The benefits have also been contributing to the promotion of decent work in Brazil, as they are payable to workers who are rescued from slave-like employment relationships, during the time it takes to reinsert them into the labour market.

The role of trade unions

Although it has seven recognised trade union centres and more than 1,600 unions, the Brazilian labour movement has been demonstrating greater unity in action in recent years. Even during the crisis of 2008-2009, a large proportion of the occupational categories managed to bargain up the purchasing power of their wages. The negotiating climate has changed significantly since 2003. Rights are no longer being bargained away in exchange for the maintenance of employment. The relaunch of Brazil's development agenda has increasingly shifted the union focus to winning back lost rights and making broader demands – notably for a 40-hour week.

The unions' relationship with government has also moved forward, facilitated by President Lula's social origins and the 1988 constitutional provisions for greater policy participation by the social actors.

A real development agenda

The Brazilian labour market still faces considerable structural problems, but opportunities do exist for sustained development in the coming years. It should be characterised by a policy of economic growth, an active industrial policy, coordination of efforts to solve the infrastructural problems, respect for the environment, expansion of the public services, the linking up of production chains, investment in science and technology, and restructuring of the State. Provided employment can be generated, there is also the possibility of extending public labour regulation and social protection. Public institutions should be strengthened as a way of fighting labour market fraud. ILO Convention 158 on termination of employment should be applied in order to counter unjustified exemption mechanisms. Although Brazil ratified this Convention in 1995, it pulled out of it again in 1996. A trade union reform should be brought in, so as to increase the representativeness of the unions and secure their organising rights in the workplace. Also crucial is continuity in the policy of revaluing wages, particularly the legal minimum wage.

Brazil can and should create a development model that distributes income and dignifies citizens.

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¹ Baltar et al, Moving towards Decent Work. Labour in the Lula government: reflections on recent Brazilian experience, Berlin 2010.