Share of formal employment continues to grow

One of Brazil’s great successes since 2003 has been the creation of 15.3 million formal jobs,1 which has led to growing formalization of the country’s labour force. Indeed, during the 2000s, formal job creation outpaced informal job growth by a three-to-one ratio.2 And despite a sharp, albeit short-lived, drop in GDP growth in the end of 2008 and early 2009 due to the international economic crisis, the trend towards formal employment continued. Data from the Monthly Employment Survey (PME) of six major metropolitan areas in Brazil show that between the start of the economic crisis in October 2008 and October 2010, the share of salaried workers without a registered labour contract in the employed population had fallen from 19.7 per cent to 18 per cent, and the share of self-employment had dropped from 18.5 per cent to 18.3 per cent (figure 1).

The increasing formalization of Brazil’s labour force is attributable to a more inclusive pattern of economic growth that has fuelled domestic demand as well as specific policy interventions that have simplified business registration and lowered taxes for medium, small and micro-enterprises. In addition, the Government has strengthened labour inspection, improved the efficiency of its tax collection and taken steps to increase workers’ awareness of their rights. The country has also benefited from a demographic transition that has decreased the number of youths entering the labour force and helped to reduce growth in precarious work. Between 2005 and 2008 there was an absolute decline of 1.45 million young people aged 15–24 years, reducing the share of youth in the total population from 18.6 per cent to 17.7 per cent.3 Meanwhile, an expansion in secondary school enrolment has also postponed entry into the labour market for many young Brazilians.

More inclusive growth, increase in domestic demand

Since 2003, economic growth has averaged 4.4 per cent, a period of general expansion marked by substantial reductions in poverty and inequality. From 2003 to 2009, poverty fell from 35.8 per cent of the population to 21.4 per cent, indigence was cut in half from 15.2 per cent to 7.3 per cent, and the
Gini coefficient measure of inequality was reduced from 0.58 to 0.54. Two-thirds of the fall in inequality is attributed to increases in wages, of which one-third stems from earnings equivalent to the minimum wage (between 2003 and 2010, the real value of the minimum wage increased by 81 per cent). The remaining distributional gains stem from the social safety net, in particular the rural pension (previdência rural), which provides benefits equal to the minimum wage to 8.4 million rural workers; the Benefício de Prestação Continuada (Continued Benefit Provision), which provides social assistance pensions equal to the minimum wage to 3.5 million elderly poor and disabled; and the flagship Bolsa Familia conditional cash transfer programme, which provides modest benefits to a quarter of the population, at the low cost of 0.4 per cent of GDP.4

Fifty-two per cent of Brazilian households are now considered to be in the “middle class”, a rise of 22 per cent over 2004. The increase in incomes of the poor and middle classes has fuelled domestic demand. Because Brazil retains an important manufacturing base, the growth in consumer demand has benefited the economy and spurred job creation, particularly in manufacturing and distribution as well as among large retailers such as supermarket chains and hypermarkets, where jobs are predominantly formal.

Perhaps surprisingly, the recent economic crisis did not halt the trend towards a greater share of formal employment in Brazil’s labour force. When the international economic crisis hit the country in the last quarter of 2008, GDP contracted by 4.4 percentage points compared with the preceding quarter (seasonally adjusted), and GDP declined by 0.6 per cent in 2009. Yet in 2009, the country was able to generate 1.7 million formal jobs, an increase of 4.5 per cent over 2008.5

The strong labour market performance was due in large part to the Government’s effective response to the economic crisis. This included a large injection of liquidity in BNDES, the national development bank, a rise in infrastructure spending associated with the Growth Acceleration Programme (PAC), tax exemptions for automobiles and other consumer durables, increased unemployment insurance instalments for workers in sectors most affected by the crisis, implementation of the training programme, vocational training and microcredit concessions for people receiving the Bolsa Familia benefit (Programa Próximo Passo) and an expansion and increase in the benefit levels of the Bolsa Familia. In addition, beginning in December 2008, the Central Bank lowered the base interest rate, known as the SELIC, from 13.75 per cent to 8.75 per cent in September 2009. The Government also maintained the scheduled increase in the minimum wage, which contributed to raising the incomes and purchasing power of the 15 per cent of the employed population that earns the minimum wage, as well as people whose pensions and social assistance benefits are tied to the minimum.6

The country was able to effectively leverage a number of policy initiatives at little cost, which contributed significantly to stimulating industrial activity and employment creation. The manufacturing sector, which contracted sharply in the fourth quarter of 2008, began adding jobs in April 2009 and posted strong gains in the second half of that year. The investments in infrastructure boosted job growth in the construction sector, which as a result was largely unaffected by the crisis. Moreover, the increase in the minimum wage and the expansion of the social safety net helped to bolster domestic demand, driving service-sector employment gains.

It is important to point out, however, that while economic growth was critical for the growth in formal, salaried employment, specific policy interventions aimed at formalizing workers also played a significant role.

Reduced, simplified taxation and formalities

In 1996, the government instituted a new system of tax exemption and simplification for small and micro-enterprises, known as Simples Nacional. The original ceiling set for qualification in the programme was gross annual sales of 720,000 Brazilian reais (BRL), but the ceiling was raised in 1998 to BRL 1.2 million and in 2005 it was doubled to BRL 2.4 million (approximately US$1.5 million). Simples Nacional has a progressive structure, which taxes companies at differentiated but reduced rates, according to their gross sales. The overall tax burden of firms under the programme is reduced by up to 8 per cent of annual revenue, but the firms must still make the necessary social security contributions on behalf of each employee. It is estimated that in 2000–05, the law contributed to the formalization of close to 500,000 small and micro-enterprises, accounting for 2 million jobs.7

In an attempt to formalize micro-firms, in 2009 the Government launched the Individual Entrepreneur Law (EI), which facilitates the registration of micro-businesses with no more than one employee and reduces the cost of social security contributions. Under the new law, micro-entrepreneurs with annual revenues below BRL36,000 per year can legally register their business and obtain a tax identification number. The businesses are exempt from federal taxes; the only payment necessary is social security contributions equivalent to 5 per cent of the minimum wage (or BRL27.25 per month in 2011), entitling the micro-entrepreneur to social security coverage. By early 2011, over 1 million micro-firms had registered through the EI, helping to increase social security coverage of self-employed, which in 2009 stood at 17.2 per cent.8

Since its inception, participation in Simples Nacional has been steadily increasing. Because the threshold for enrolment is fairly high, about 70 per cent of all firms pay tax under this regime. Tax collection through the simplified tax system displayed a similar upward trend, except during the global financial crisis (figure 2). A fall in tax collection was also observed at the end of 2010.
In assessing the effectiveness of these measures, findings show that reducing the tax burden on firms fosters economic growth by spurring investment and raising the opportunity cost of informality. From the point of view of maximizing the efficiency of the whole tax system, the existence of a preferential tax treatment for small firms can, however, be questioned. Another important issue is whether such a system might pose an obstacle to firms’ development, given that the advantages of the special regime are lost if firms grow beyond the revenue threshold. Finally, in the special case of Simples Nacional, switching the tax base from turnover to value-added would eliminate distortions to the organization of the production chain.

**Improved labour inspection**

Changes to labour inspection methods in Brazil have improved labour law compliance while contributing to increased formality. Better labour inspection in Brazil is not the result of an increase in the number of inspectors, which has fluctuated around 3,000 since 1990, but is due to changes in the incentive structure and new methods for meeting inspection targets. In particular, the labour inspectorate introduced a bonus system that tied a substantial percentage of inspectors’ salaries to individual performance targets as well as the total performance of the labour inspectorate. The new system made explicit the goal of formalizing workers, i.e. collecting employer contributions to the Fundo de Garantia por Tempo de Serviço (Employment Severance Fund) and specifying the number of workers covered in inspection. More recently, the inspectorate has created teams dedicated to tackling specific problems, usually tied to a particular sector. The inspectors in the team are not evaluated by individual performance targets, but rather through team progress reports that demonstrate their ability to address sector-wide problems. The objective is not merely to inspect and sanction, but rather to find ways to work with firms so that they can address the problem at hand.

**More efficient government services**

There have been a number of improvements in government services that have increased social security coverage and tax collection. In 2003, firms became legally obliged to collect social security contributions on behalf of self-employed people selling services to them. The percentage of the contribution was set in such a way as to make it neutral for firms to outsource. This regulation has increased the number of self-employed people contributing to social security by 4 million since 2003. In 2008, the Government reformed the Rural Pension Law, removing obstacles to the formalization of rural workers by introducing portability rules between urban and rural schemes. Also, in 2007, the agencies collecting taxes and social security contributions merged into the Brazilian Federal Revenue Office, which reduced institutional barriers for exchanging inspection data and improved effectiveness in fighting under-declaration and evasion. As a result of these measures, the social security revenue stemming from payroll contributions has systematically increased twice as fast as GDP growth.

**Greater legal awareness**

For more than ten years, the social security education programme, Programa de Educação Previdenciária (PES), of the Ministry for Social Welfare has been educating the public on the importance of social security coverage and the rights and benefits that
it entails. Since 2000, 63,000 disseminators have been trained and over 43,000 educational events have taken place, reaching 6.9 million Brazilians. Another source of legal awareness has been the labour courts, which have seen an upsurge in labour cases, some of which have received media attention. The media, for example, have reported on cases of domestic workers who have sued formal employers for not having had a signed labour card, with the court ruling in favour of the domestic worker and demanding back pay from the employer for lost benefits.¹¹

Workers gain from economic growth

While it is not possible to disentangle the effects of specific policies from buoyant economic performance, the experience of Brazil in the 2000s demonstrates the essential role of government policy in ensuring that workers reap the gains from economic growth. Between 2001 and 2009, the proportion of workers with social security coverage increased significantly, from 62.3 per cent to 66.9 per cent (figure 3).

Formal workers in Brazil enjoy important benefits and protections – pension, sickness, disability and death benefits, paid annual leave, parental leave, restrictions on working hours and a guaranteed minimum wage – that are not guaranteed to informal workers, who must continuously negotiate with their employers about whether and when they are granted. Even then, informal workers are excluded from social security benefits, which in the case of sickness, disability or death can easily result in financial ruin for families. It is thus laudable that the country continued to create jobs during the economic crisis of 2008–09, and that the majority of these have been formal.

REFERENCES:


Figures:

Workers gain from economic growth

While it is not possible to disentangle the effects of specific policies from buoyant economic performance,

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Note: Based on workers aged 16-59. Source: IBGE.

1 Based on data from the RAIS (Relação Anual de Informações Sociais), a registry of formal establishments and jobs administered by the Brazilian Ministry of Labour that includes both private and public sector job creation. Data from 2003–10 period.
2 Based on data from IBGE, National Household Sample Survey (PNAD).
3 ibid.
4 IPEA (2009).
5 Based on data from the RAIS.
6 For a detailed analysis of the Brazilian Government’s response to the crisis, see IILS (2011).
7 Delgado et al. (2007).
8 Based on data from IBGE, National Household Sample Survey (PNAD).
9 Arnold et al. (2011).
10 For a more detailed analysis of the changes, see Pires (2009).
11 See, for example, “Diariista em um dia na semana obtém reconhecimento de vínculo empregatício,” available at http://ext02.tst.gov.br