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## **A POVERTY PROFILE AND FUNCTIONAL ASPECTS OF BRAZILIAN LABOUR MARKETS**

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## 1. INTRODUCTION

A well-functioning labour market is a critical aspect in the pro-poor agenda at both the macro and microeconomic levels. In many developing economies, labour markets do not function well due to barriers or other inefficiencies that arise from specific characteristics of the economy in question, or because of government interventions. The existence of distortions usually discriminate against the interests of poor households while also impair economic development. The challenge for policy makers is to ensure that labour markets function properly and operate as a link with other markets and in a pro-poor fashion. In Brazil, the functioning of labour markets has been the subject of intense debate among analysts and policymakers for decades. The main issue of divergence regards its degree of flexibility, as there are two clear and distinct views about how labour demand and supply behave in Brazil. In the first view, Brazilian labour markets are characterized both as flexible and efficient. In the second, as segmented and inequitable, and almost everything in between. Evidence in favour of the first view is usually attributed to a relatively low rate of unemployment, the general pragmatic labour unions, a low minimum wage and a high rate of job turnover. Supporters of the second view claim that the jobs markets do not work well and point to the high rate of informality, the frequency of litigation in labour courts, high inequality of earnings, and the limited reach of labour laws and government interventions to assist workers who need help [Carneiro et al. (2002)].

There is also a huge debate on how poverty and inequality can be reduced in Brazil by means of changes in labour legislation, the creation of a more flexible labour market, an increase in labour productivity, and introduction of a more stable economic environment for business creation. Understanding how the Brazilian labour market works is of fundamental importance to think of alternative strategies for poverty reduction. This report addresses the debate on how the Brazilian labour market functions and its relations with poverty levels in the country. But in order to examine its main features, it is necessary to keep some simple statistics and definitions in mind. In 2000, the Brazilian labour force was of about 80 million, what (considering that two-thirds of its population of 170 million is of working age) implies a labour force participation rate of about 70 percent. As the unemployment rate averages 8 percent, this means that employment is about 73 million. Out of this total, some 3 million are employers, and self-employed workers number roughly 73 million. The remaining 53 million is split evenly between formal and informal wage and salaried workers.

In terms of labour market institutions that affect labour market functioning in Brazil, none is more influential than its system of labour courts, known as the *justiça trabalhista*, a special section of the judicial branch of government that employs judges, lawyers and others charged with resolving labour disputes between employers and workers. As argued by Camargo (2002), by all measures, these people are extraordinarily busy. In 2000, for example, Brazil's labour courts entertained about 2 million complaints, an order of magnitude larger than in the US (17,000) and Japan (1,500), which have larger labour forces. Higher labour turnover such as those observed in Brazil signal to lower labour productivity and consequently lower labour remuneration, with unstable and weak labour

relations. Weak labour relations are conducive to informality, which is highly associated with poverty and deteriorating working and living conditions.

The report is structured in 13 sections. The analysis starts with a brief description of the profile of the poor in Brazil (Section 2). In Section 3, the report presents an overview of the ILO's work on employment creation in Brazil and Latin America, in line with the international debate on core labour standards and freedom of association. In section 4, we discuss how labour is organized in Brazil, the main features of the current set of labour laws in both the urban and the rural sector. Sections 5 and 6 assess how labour courts affect labour relations and the functioning of labour markets. Section 7 reviews evidence on the structure and evolution of informal employment, while Section 8 investigates labour market adjustment under different economic contexts. The social safety net available in Brazil is assessed in Sections 9 and 10 that also present an analysis of key labour market indicators and an evaluation of active labour market policy targeting. Section 11 addresses the importance of gender and race in affecting labour relations and Section 12 discusses the impact of globalization on poverty and inequality in Brazil. Section 13 concludes.

## 2. A PROFILE OF POVERTY IN BRAZIL

In a recent study, the World Bank has presented a comprehensive profile of the urban and rural poor in Brazil based on household data and a methodology of analysis developed by a research group at IPEA led by Ricardo Paes de Barros [see World Bank (2000)]. Thus, in this section, we present the most important characteristics of poverty in Brazil, drawing on the evidence collected by the World Bank.

A poor person is defined as living in a household with per capita income less than the equivalent of R\$65 per month at São Paulo Metropolitan Area prices. The poverty line of R\$65 is determined by the cost of a basic food basket (extreme poverty line). At the chosen extreme poverty line, Brazil has a poverty headcount ratio (poverty rate) of 22.6%. This means 34.9 million Brazilians live in households with a per-capita income below the poverty line. A little more than half of the poor (52.5%) live in urban areas. Of the urban poor, 39% live in urban areas with a population less than 20,000; 23% live in urban areas with a population between 20,000 and 100,000; 16% live in urban areas with more than 100,000 inhabitants; and finally 21% live in the metropolitan areas. In terms of geographical distribution, 63% of the poor live in the Northeast, 18% in the Southeast, 8% in the South, 6% in the North and 5% in the Centerwest. Table 1 shows the distribution of Brazil's poor between regions and areas.

Table 1: Distribution of Poor by Region and Area

Share of total poverty	Northeast	Centerwest	North	Southeast	South	Total
Metropolitan Core	3.6%	0.2%	0.4%	1.3%	0.3%	5.8%
Metropolitan Periphery	2.4%	0.0%	0.1%	2.4%	0.5%	5.4%
Large Urban	4.8%	0.7%	1.1%	1.3%	0.6%	8.5%
Medium Urban	6.6%	0.7%	1.7%	1.9%	1.3%	12.2%
Small Urban	12.5%	1.2%	2.4%	3.1%	1.2%	20.5%
Rural	32.7%	2.1%	0.7%	7.7%	4.3%	47.5%
Total	62.7%	5.0%	6.4%	17.7%	8.1%	100.0%

"Poor Areas" (per capita earnings less than R\$160 per month) shaded in gray.

Overall, there is a strong concentration of the poor in the Northeast and in the rural and the small and medium sized urban areas, both in terms of absolute numbers and in terms of poverty rates. Both in absolute terms (number of poor) as well as in relative terms (poverty rate), poverty is the worst in rural areas; within urban areas, poverty is more severe in small and medium sized urban areas; and poverty is least severe in the metropolitan core areas. From 1993 to 1998, poverty declined less in the Northeast, in the rural areas, and in the small and medium sized urban areas. Consequently, poverty became more concentrated in these areas. This profile presents a stark contrast to the common perception of poverty in the *favelas* of the mega-cities of São Paulo and Rio de Janeiro, where poverty is most visible. In fact, the poor of the metropolitan areas (core and periphery) of São Paulo, Rio de Janeiro, and Belo Horizonte together constitute only 3.7% of Brazil's poor or 7% of Brazil's urban poor. This finding suggests a stronger policy focus on the poor in small and medium sized cities.

While not as severe in income terms, large-city poverty may be significantly worse due to other forms of deprivation linked to crowding. There are indications that welfare outcomes (determined, for example, by infant mortality) in the bigger cities might be worse than income measures of poverty indicate. Controlling for poverty rates, education, and access to safe water, infant mortality rises significantly with city size, most likely related to crowding and pollution at the local level. Also, crime and violence are more severe in the larger cities. In larger cities, crime and violence are sometimes identified as the most significant barrier obstructing the escape from poverty. These observations suggest that an increased focus on income poverty in smaller and medium-sized cities should not divert attention away from the persisting poverty problems of the larger cities, where a focus in particular on the non-income dimensions of poverty would be justified.

Income poverty is closely associated with other forms of deprivation. The poor have less access to public services, such as water, sanitation, and garbage collection. Even though country-wide electrification rates are high, a quarter of the poor still live without access to electricity. 52% of the poor have no canalised water, 68% have no garbage collection, and 78% have neither sewage connection nor septic tanks. Interestingly, residence in a *favela* is not significantly related to income poverty. Health indicators, such as infant mortality, are significantly higher for the poor. Finally, crime and violence in urban areas typically affect the poorest most severely.

Most poor do not work in the formal labour market. A large share of the poor work in the informal sector (22% are informal employees and 37% are self-employed) or are inactive (15%). Only 15% of the poor are working in the formal sector (private or public); only 5% are unemployed. This means that social policies tied to formal employment or unemployment have only very limited reach among the poor.

The three factors most closely associated with poverty as likely underlying causes are location in a poor area, low schooling, and large household size. Location (region and area) is the strongest explanatory variable (in a statistical sense) for poverty. Even households with the same characteristics are more likely to be poor in poorer than in

richer areas. A poverty rate of nearly 50% in the Northeast suggests a more explicit approach toward regional equality and regional targeting in social policies and funding allocations.

Poverty is closely associated with low levels of education: 73% of poor households are headed by individuals with four or less years of schooling. Educational inequality, rather than labour market segmentation or discrimination, explains most labour income inequality in Brazil. Low education levels lead to low incomes, which in turn, lead to low school attendance of children, perpetuating poverty.

Household size is strongly correlated with poverty. Poverty rates increase with the dependency ratio (share of income earners over non-income earners in the household). As observed all over the world, increased income and improved health indicators would typically reduce dependency ratios and thus further increase perspectives for poverty reduction.

Child labour is also usually associated with poverty in Brazil, as families in which children go to work tend to have household income close to the poverty line. Data from the 1999 national household survey (PNAD) collected by Kassouf (2001) show that 1% of the children between the ages of 5 and 9 and 9% between the ages of 10 and 14 work more than the legal ceiling of 44 hours a week in Brazil. Similarly, some 18% of the children between the ages of 5 and 9 and 41% of those aged between 10 and 14 work more than 20 hours a week. Boys usually work longer hours than girls in the rural sector, with the opposite taking place in the urban sector. Kassouf (2001) also shows that urban children tend to work more than children in the rural sector.

The contribution of the income obtained by the children for the household income is significant especially because per capita income in such families is very low. For example, in 35% of the urban families and in 46% of the rural families, the contribution of child income to the household income is greater than 20%, while for more than 10% of the urban families and 17% of the rural families, this contribution is larger than 40%. These data suggest that abolishing child labour in Brazil may not be a viable strategy, as it might even worsen poverty in the country. Instead, a policy option could be based in programs such as the so-called *bolsa-escola*, in which children aged between 6 and 15 years regularly enrolled in school enabled their families to receive a bonus from the government to increase their household income. To qualify for this program, families should have per capita income lower than a minimum wage. This program has been shown to be effective in reducing child labour while at the same time contributing to improve school attendance for the poorest children.

The ILO has acted in Latin America with the aim of promoting employment creation and improving labour relations among employers and employees. This line of action is in accordance with the international debate on labour standards which has focused on a set of internationally agreed upon "core labour standards" including: (1) the freedom of association (consisting of the right to unionize and the right to collective bargaining); (2)

the elimination of all forms of forced labour; (3) the effective abolition of child labour; and (4) the elimination of discrimination in employment and occupation.

These core labour standards have been defined in a number of ILO conventions dating from 1930 on. However, not all countries have ratified them and even where ratification has taken place, sometimes implementation and enforcement have been problematic. In June 1998, the ILO adopted the *Declaration on Fundamental Principles and Rights at Work* in order to revive interest in adopting and ratifying these conventions and to signal a strategic shift towards more flexible implementation and a greater emphasis on technical assistance. The Declaration includes an obligation on the part of ILO members to promote and realize the four core labour standards identified above. It recognizes the obligation of the ILO to assist its member countries to attain the objectives of the Declaration. It also encourages other international organizations to support these efforts by offering technical assistance and by helping member countries to create a climate for economic and social development. The intent of the Declaration is to ensure that the trend towards globalization is accompanied by social justice. However, it acknowledges that the comparative advantage of low-wage countries should not be called into question.

Debate on core labour standards has also become more prominent in the international arena and remains controversial. For example, some (largely developed) countries have expressed the view that if these standards were linked to trade regulations through the WTO, this would represent a powerful incentive for members to improve labour conditions. By contrast, many developing and some developed member states have maintained that the introduction of labour standards in trade negotiations would amount to protectionism and would undermine the comparative advantage of lower-wage trading partners.

In Brazil, the ILO regional office has supported four strategic projects which aim at:

1. Promoting the fundamental principles and rights at the workplace;
2. Creating better work opportunities for men and women;
3. Increasing the effectiveness of social protection programs;
4. Strengthening tripartite negotiations and social dialogue.

A summary with all actions and projects being carried out by the ILO office in Brazil appears in the annex. The measures regarding fundamental principles and rights at the workplace involve seminars, technical assistance to the labour ministry, training to labour unions and discussions with labour courts on issues related to labour legislation, child labour, freedom of association, sexual exploitation of youngsters, and slave work.

In the project of employment promotion, the ILO has interacted with the World Bank and the United Nations to publish and disseminate information about its project for support of juvenile employment; offered vocational training and certification for tourism workers; extended technical support for national institutions to develop training programs for disabled workers, and advice on the international norms on discrimination; and undertaken studies to subsidize microcredit programs.

As for the project to expand the effectiveness of social protection programs, the measures taken involve seminars and conferences on work conditions and health care in the work environment; training for health inspectors; a joint program with the labour ministry to reduce accidents in the workplace, and prevent HIV contamination in Brazilian harbors; and a joint program with the education ministry to evaluate the performance of the “renda mínima – minimum income” project.

In the set of measures included in the project to strengthen tripartite dialogues the ILO has promoted joint conferences with UNICEF, ETHOS and UNIFEM on the benefits of tripartite negotiations; provided financial and technical support for studies about collective bargaining in the public sector; commissioned studies on the freedom of association in the metallurgic sector; and offered continuous support to actions and programs of Brazilian trade unions in the MERCOSUR.

In the next section, we discuss how labour is organized in Brazil, describing the main features of collective bargaining and labour legislation governing labour relations. The role of trade unions, the impact of labour laws on the functioning of the labour market, and the operation of labour courts are examined. The section draws on published information and interviews with employer and employee representatives. Labour Organization in Brazil

Effective and efficient labour adjustment requires a degree of labour market flexibility that in turn facilitates labour reallocation across regions, skills and types of employment. In this respect, labour contract legislation is critical because it largely determines the degree of market flexibility. In this section, we focus on the functions and on the characteristics of labour legislation in Brazilian labour markets. In particular, we investigate whether labour legislation has been responsible for increasing labour market rigidity, that is believed to be conducive to poverty while also favouring interest groups that tend to impede good economic performance and feed income inequality.

The basic legislation governing rural and urban labour was unified under the 1988 Constitution. Before that, urban labour was regulated by the *Consolidação das Leis do Trabalho* (CLT) of 1943, while rural labour was governed by the *Estatuto do Trabalhador Rural* (ETR). The labour code has a very paternalistic character and was created under the general view that the State held sole responsibility for the protection of workers' individual rights. Furthermore, the collective bargaining framework prevailing in Brazil is believed to be conducive to bad macroeconomic performance in terms of employment generation and inflation control [Carneiro (1999)]. Thus, it is important to understand how labour institutions operate in Brazil in order to understand the changes that have taken place in rural labour markets.

Labour contracts in Brazil are of two types: individual contracts and collective wage bargaining by rural workers' unions. Individual contracts, which are either fixed-term or open-ended and must be registered in the labour card, guarantee all workers' rights as established by the prevailing labour laws. Each worker is free to join a trade union. Trade unions for rural workers are organized on a territorial basis, centered around each municipality. Once a year, unions conduct collective wage negotiations on behalf of their

members in the so-called base-dates (*datas-bases*). Non-unionized workers are afforded the same rights and benefits than union labour. It is estimated that in the Northeast alone, rural labour unions have more than 1,400 local-level affiliates representing more than five and a half million members in the nine states of the Northeast [Amadeo and Camargo (1993)].

Local trade unions are organized into state-level federations with departments responsible for legal rights, agricultural policy, land reform, education, and women's organization. These federations in turn have a coordinating body at the national level, the *Confederação Nacional dos Trabalhadores na Agricultura (CONTAG)*. This structure resembles that of urban workers and their central labour unions, such as the *Central Única dos Trabalhadores (CUT)* and the *Central Geral dos Trabalhadores (CGT)*. Overall, the normal unit of collective bargaining in Brazil is that of federations which represent the demands of an entire professional category in a given state. The effects of this sort of intermediate level of collective bargaining have been found to be negative in terms of economic performance [c.f., Calmfors and Driffill (1988)] whereas a more decentralized framework seems to yield better results [see World Bank (2000)].

Furthermore, the existence of a single piece of legislation concerning wages and terms of employment, as the one prevailing in Brazil in the form of the **CLT**, have been found to distort productivity [Heckman (1997)]. Economywide bargaining regulations in labour negotiations suppress the creation and use of situation-specific knowledge because the parties involved are not free to act on what they know is good in any specific context, as do government regulations of the employment contract. Rent seeking and not wealth creation is what emerges out of sectoral and national bargaining policies that favor some groups over others and draw government into wage and employment determination. On the other hand, there seems to be convincing evidence that decentralized bargaining with flexible labour markets are conducive to wealth creation and declining unemployment, which is believed to have a positive effect on poverty [World Bank (2000)].

The conditions of employment for farm workers are, in principle, the same as those for urban workers. The normal workweek is forty-four hours and the normal workday is eight hours. In addition, workers employed full time under individual or collective labour contracts are entitled thirty days of paid vacation a year (plus a special wage increase of 30% of the wage in the vacation month). All other benefits allowed to urban workers are extended to rural workers, such as maternity and paternity leaves, family wage, education salary, Christmas bonus, annual bonus, etc. However, only a minority of the labour force actually enjoys the various benefits to which workers are entitled. This excludes casual labour and all other workers without formal contracts (those without signed labour cards). For instance, sharecroppers and workers who are paid by the day lack basic wage protection or access to the most basic social benefits. Furthermore, there are still significant disparities in conditions of employment between rural and urban areas.

### Box 1: The Current Composition of the Cost of Labour in the Formal Sector

<b>Taxes and Wage Deductions (%)</b>	
<b>A – Social Contributions</b>	
Social Security	20.0
Severance Payment (FGTS)	8.0
Education Salary	2.5
Accident Insurance (Average)	2.0
Sesi	1.5
Senai	1.0
Sebrae	0.6
Incra	0.2
<b>Sub-Total A</b>	<b>35.8</b>
<b>B – Time Not Worked – 1</b>	
Weekly Rest	18.9
Vacations	9.5
Vacation Bonus	3.6
Short Notice	1.3
Injury Benefit	0.6
<b>Sub-Total B</b>	<b>38.2</b>
<b>C – Time Not Worked – 2</b>	
13 <sup>th</sup> Salary	10.9
Dismissal Costs	2.6
<b>Sub-Total C</b>	<b>13.5</b>
<b>D – Cumulative Effects</b>	
Groups A and B	13.7
FGTS over 13 <sup>th</sup> Salary	0.9
<b>Sub-Total D</b>	<b>14.6</b>
<b>Total</b>	<b>102.1</b>

Source: Pastore (1994), based on the Constitution and CLT.

The total cost of hiring a formal employee in Brazil is of 102% of the basic salary, as illustrated in Box 1. Taxes and wage deductions to workers' benefits comprise social contributions and the cost of time not worked. There is a social security tax composed of an employer contribution of 20% of the worker's total wage, and an 8% to 10% employee contribution (depending on the wage level). Unemployment insurance is funded out of a contribution paid by the employee (**PIS/PASEP**). Brazil's severance pay scheme (**FGTS**) is funded with an earmarked monthly wage deduction of 8%. Upon dismissal without just cause, the employer must make an additional contribution equivalent to 40% of the total balance of the **FGTS** account that accumulates the deposits (of 8% of the worker's salary) made during the time of employment. This provision is believed to be a reverse incentive for workers to seek dismissal and the government is currently examining how to modify unemployment insurance and severance rules in Brazil.

Therefore, one can safely claim that labour legislation in Brazil is rather stringent. The government recognizes the need for further flexibilisation in the labour market and has

made efforts towards changes in labour legislation for that purpose. There is a *Project of Constitutional Amendment* (PEC No 623 of 1998) being discussed in Congress that proposes several changes in the legislation regarding union organization and in the rules for collective contracts. Some of them are worth mentioning:

- extinction of the general concept of professional category which in practice means that trade unions will only represent their affiliated members;
- possibility of plant level unions;
- end of the “unicidade sindical” or monopoly union representation;
- end of legal power of the Labour Courts while retaining their standing to engage in voluntary arbitration in collective economic conflicts, at the request of the parties;
- possibility of dismissal by economic cause (without configuring dismissal without just cause);
- end of the union tax (“contribuição sindical”).

There are also proposals to ease the rules on temporary and part-time work. Some of these include: (i) a 50% discount on social contributions (SESI, SENAI, SENAC, SEBRAE, INCRA, education salary, accident insurance); and (ii) a reduction in FGTS deposits from 8% to 2% and the exemption of the 40% fine upon termination of the contract. The same proposal establishes that the workweek can have more than 44 hours and that the overtime worked can be compensated throughout the year. This, however, has to be ratified by means of a permanent change in the labour code.

If approved in Congress, the labour code reform will contribute to reduce uncertainty about labour costs for employers, create conditions for more durable employee-employers relationships by allowing contracts to be more flexible in response to changing work and market conditions, create the environment for more representative collective bargaining, ensure better enforcement of contracts, and reduce the incentives for jobs and people to migrate to the informal economy. Informal employment is by nature unprotected, offers worst working conditions, and concentrates most of the poor in the urban areas.

The role of the labour justice in Brazil has been the subject of intense debate among those who study the Brazilian labour market performance. Opinions differ on the impact of this institution on the performance of the labour market, but in general it is usually argued that the labour justice has an important role in protecting the less organised workers. However, few analysts have verified the effect of the institution’s role on the labour market as a whole and how it affects workers in general, especially the less skilled and organized workers in the long run. We turn to this issue in the following section.

## 5. THE FUNCTIONING OF LABOUR COURTS

In what follows we draw on the findings of Camargo (2002) to understand how the functioning of the labour justice can interfere on the worker's well being. The basic idea is that the way in which the labour justice operates creates important distortions in the labour market by sending the wrong incentives to workers and employers. These points are illustrated with findings based on a sample of labour justice cases in Minas Gerais.

The labour justice has three important functions in the Brazilian labour relations system: enforcement, conflict resolution in individual and collective contracts, and arbitration. At the individual level, all settlements between employees and employers regarding disputes on individual and/or law contracts fulfilment are only valid if achieved through the Labour Courts. This implies that a dismissal must be made in the presence of a judicial authority, if the employer wants to ensure that the employee will not claim rights that were not received during employment.

Since 1988, an employee has a period of five years to place a claim in the Labour Justice. If a case is filed against the employer, he/she is the one who has to bear the onus of the proof of innocence. If that cannot be done, the labour court promotes a "conciliation" between the parties and in case of no consensus, the judge is free to decide if the claim is legitimate. If the judge rules in favor of the employee, the employer will have to pay the employee's demands.

On collective bargaining the main role of the Courts is to promote conciliation and give judgement in disputes within its jurisdiction and, moreover, to verify that signed collective contracts are complied with. In collective bargaining, when there is an impasse, either parties can unilaterally call for a "*Dissídio*" or arbitration. The dispute is then sent to the Labour Justice for the area where the negotiation is taking place and this becomes the new locus of the negotiation. In case there is an impasse here, it is up to the judge to decide the terms to the contract. In collective contract disputes, not only the Labour Courts are involved but also the labour union and the employer. In this case it is also the employer's duty to prove that the law and the collective contracts established have been followed.

Arbitration doesn't follow pre-defined rules or principles. When the dispute is about the non-fulfilment of the law, arbitration is based on the law. However legislation on collective contracts is not as detailed as legislation on individual contracts. Because of this, many times the Brazilian Labour Justice adopts norms that are the equivalent of laws. In this case it can be said that previous decisions may be used as a guide but many times the trial is based on political factors. This means that the labour justice may interfere in private contracts between employers and employees, having them modified through its rulings.

It is worth emphasizing one implicit but extremely relevant point above. There are always negotiations! Therefore, clauses in an individual contract protected by law are included.

In reality, most of the demands and, therefore, of the rights negotiated, refer to individual rights enrolled in the CLT and/or the Constitution. Table 2 below demonstrates this, based on a sample of processes from Minas Gerais' labour courts.

**Table 2 - Rights Contested in Labour Courts 1995**

<b>Rights</b>	<b>Percentage</b>
FGTS payment	30
Payment of 40% fine to FGTS for dismissal	35
Over time payment	65
Commission	5
Payment of 13 <sup>th</sup> salary	65
Vacation	60
Unpaid or late salaries	25
Non fulfilment of clauses in collective contracts	20
Payment for notification before dismissal	62
Night shift additional payment	12
Family pension payment	10
Employees demanding a written contract	10
Gratuities	22
Other rights	10

Source: Camargo (2002) based on the author's study of 200 cases in the labour justice system of Minas Gerais state. Note: In the same process the employee can demand for more than one right and usually does it.

The most important aspect of the argument above is that only 20 percent of the processes demand the fulfilment of any clause of a collective contract; the other 80 percent are related to the non-fulfilment of an individual employee right foreseen in the law. The most frequently contested rights were payment of overtime wages, thirteenth salary payment and paid vacations, followed by claims of non-payment of FGTS and the 40 percent fine of FGTS balances in case of dismissal without just cause.<sup>1</sup>

What the data show is that there is a large fraction (80 percent or so) of disputes that is taken to labour courts for clauses already foreseen in the law. As mentioned before, the regular procedure is to come up with an agreement between the parties. In other words, this procedure means that the possibility of negotiation of individual clauses foreseen by the law is made available to employees and employers.

In the case of collective contracts, the negotiation occurs between the labour unions and the companies, or between the labour unions and the employer federations. The clauses in the collective contracts must be more favorable to the workers than the individual rights accorded in the legislation. However, no individual contract can stipulate less rights than those stipulated in collective contracts signed by the union where the work is performed. At any given time along the negotiation of a collective contract between a group of

<sup>1</sup> It is worth mentioning that In the same process the employee can demand for more than one claim and usually does so.

workers and a company or a group of companies, any of the parties may unilaterally summon a “*dissídio*” or agreement, having the negotiation transferred to the court room, giving it the power to arbitrate the dispute.

Other relevant information about the functioning of justice is the non-existence of a *viés pró* one of the parties involved. Table 3 presents the distribution of judgments according to the “winning” party. The data shows that more than 60 percent of the disputes that are not decided at the conciliation stage, are decided in part in favour of the workers and in part in favour of the company. A lower and apparently declining percentage is resolved entirely in favour of the worker (between 10 and 20 percent of the cases), while the percentage of cases entirely resolved in favour of the employers is between 14 and 32 percent.

Since there is no formal rule to be followed by the judge to pronounce the sentences, the results above can have at least two interpretations: first, they might suggest that the judge tends to make a division considered “fair” by him of the demands, in a way that both agents, employers and employees, receive a share of the result; a second interpretation would be that workers tend to demand more than they deserve and that the judge is simply applying the law. With the available data it is impossible to decide which interpretation is correct.

Table 3 - Acceptance of Claims by the Labour Justice  
(local level in Minas Gerais)

Year/Region	Claims completely accepted (%)	Claims partially accepted (%)	Claims Not accepted (%)
1991 Capital – Belo Horizonte	16.7	69.0	14.4
1991 Province	19.7	63.8	16.5
1991 Total	20.3	64.2	15.5
1992 Capital – Belo Horizonte	15.2	67.2	12.4
1992 Province	16.6	64.2	19.3
1992 Total	15.8	65.2	18.6
1993 Capital – Belo Horizonte	12.0	67.7	20.3
1993 Province	15.1	63.4	21.5
1993 Total	13.8	64.7	21.6
1994 Capital – Belo Horizonte	10.6	68.1	21.3
1994 Province	12.1	55.8	32.0
1994 Total	14.5	65.3	20.2

Source: Labour Justice annual report, Third Region, Minas Gerais

## 6. HOW LABOUR RELATIONS ARE AFFECTED BY THE FUNCTIONING OF THE COURTS

From the previous discussion it is obvious that the functioning of labour courts affect the relations between employers and workers. On the one hand, employers have no incentive

to comply with the law and pay workers' rights. If they do not do it, they can negotiate the amount of the benefits at the Labour Justice and—in the worst case—they will have to pay the same amount they would have paid along the working relation. This strategy tends to be more effective when work contracts are informal since that with a formal contract it is easier to solve the dispute in favour of the worker. This way, one of the main problems of the functioning of the Brazilian labour justice is to induce informal work contracts. As it is well known, informality is closely related to bad working conditions and the informal sector is where most of the poor can be found.

On the other hand, in the game of evading the legal workers' rights, the worker knows that a liability exists and that it has been accumulated by the employer and that some of this liability will be taken by him/her when demanded in court. This means that as the working relation grows, the incentive for the worker to go to court increases too. If it is done while he/she is working, he/she is dismissed with difficulty. This way, instead of going to court while working, the worker starts to force a dismissal, becoming increasingly uncooperative in the working relation. Therefore, many times, the demand occurs when the working relation has already been disrupted.

Since the employer knows that as the working relation grows, the incentive for the employee to have a free-rider attitude, shirking and become less cooperative increases, the employer has no incentive to invest in training since there is a growing possibility of losing the investment when it is time to dismiss him/her, what results in low levels of productivity and therefore low real wages.

For workers with low bargaining power there is a tendency to use the labour justice as a tool for compensation. Given the reduced probability of having a demand accepted by the employer, which in many instances is aggravated by an absence of trade unions, it is left for these workers to take their demands to court. Table 4 reveals that, in fact, the profile of workers who mostly go to court is in accordance with the profile of the worker with low bargaining power.

Table 4 - Workers Going to Labour Courts by Wage Level

Wage interval (minimum wage)	Workers at Labour Justice (%)	All workers in Southeast Region (%) 1993
1 to 2	70	47.0
2 to 5	26	26.9
5 to 10	2.5	9.7
More than 10	1.5	6.4
Average	2.1 minimum wage	3.7 minimum wage

Source: Camargo (2002) based on the author's research on 200 processes at Labour Courts in Minas Gerais and in the PNAD survey, 1993

A similar behaviour is observed in the case of collective contracts. That is, there is an incentive for the weaker party to summon an agreement and to have the negotiation transferred to the labour justice, transforming the result of any collective dispute between employers and the union in a matter of justice and not the result of a dispute settled by the bargaining power between the parties. The main consequence is the deterioration of the collective bargaining process, an incentive to informality with an important effect on poverty that can be translated into a rigidity in poverty rates even in periods of prosperous economic performance, as it seems to be the case in many occasions in Brazil.

In the next section we assess the issue of informal employment in Brazil. The idea is to review the main findings in the literature on the characteristics of the informal labour market and draw some conclusions as regards the existence of segmentation or whether different types of workers rationally choose to be in the informal sector and the connection of informality with poverty.

## **7. INFORMAL LABOUR RELATIONS**

Informal employment, which is outside the protection of any state employment and social protection system, is endemic in many developing and newly industrialising economies. An established view in the literature is that the informal sector acts as a buffer between formal employment and open unemployment and, consequently, as formal sector jobs are destroyed during restructuring or recession, informal employment rises (Tokman 1992, Portes and Shaunffler 1993). Another traditional way of looking into the issue of why informal labour markets exist is through considering the hypothesis of labour market segmentation. In the presence of segmentation rewards in the different sectors of the economy differ for workers of equal potential productivity and, in this context, the existence of a dual labour market would be consistent with dualism in earnings as long as workers with similar characteristics are paid different wages according to the sector in which they work (Dickens and Lang, 1985). In both cases, the informal sector represents the disadvantaged sector in a dualistic labour market, where most of the poor can be found.

However these traditional views fail to offer much insight into the structural growth in the size of the informal sector. Recent work for a number of developing countries suggests that informal employment may in fact be a desirable choice for workers, because formal sector protection is often inefficient and therefore ineffective, and refutes a traditional segmented, non-competing groups understanding of the relationship between the two sectors (Maloney 1999, Funkhouser 1996, Marcoullier et al. 1997, and Saavedra and Chong 1999). Assuming a standard neoclassical labour market, earnings and occupational choice would only reflect different amounts of inherited characteristics and of investment in human capital. Thus, if workers in the informal sector are paid lower wages, this is because they are less educated or less experienced and/or their human capital endowment might have had an influence in their occupational choice, and not because the two sectors present different wage determination processes. In this case, the labour market for relatively unskilled workers may be seen as integrated with the formal sector, offering desirable jobs with distinct characteristics from which workers may choose with little queuing (Maloney 1999).

Large informal sectors, in which workers are employed without social security and other employment protection, play an increasingly important economic role in many developing economics. Estimates point to variation in the size of the informal sector, but generally reveal that its size is significant. So for example, comparing Central American economies for the early 1990s, Funkhauser (1996) reports that the informal sector varies from a third of total employment (Costa Rica) to nearly two-thirds (Nicaragua). Marcouillier et al. (1997) report that the informal sector in Peru was as high as 62% of

total employment in 1985/86, and 63% in El Salvador in 1990. Informality is generally more widespread amongst female workers. Estimates, however, vary because there is no firm agreement on how to define informal status. Some commentators argue that all self-employed workers should be regarded as in the informal sector, others focus on the numbers who are working but not paying social security contributions and therefore fall outside any systems of employment and social protection.

A useful indicator of informal employment status is the lack of social insurance or social protection. In Brazil this is indicated by the absence of a signed labour card (“carteira de trabalho assinada”), as required by the Labour Code. This is the empirical definition used by most authors in Brazil. The growth in employment of this form has been rapid in the country, whilst numbers in formal employment have remained fairly static. From an economically active population of 18 million in 2000, 4.5 million were employed in the informal sector. The relative growth in the informal sector has been rapid from 17% of the economically active population in 1990 to 27% in 2000, and this growth appears to be structural rather than cyclical (Carneiro 1997).

Do workers choose informal employment or are they “pushed” into the informal sector because of the relative abundance of such jobs or as an alternative to open unemployment? Recent work for a number of developing countries suggests that informal employment may in fact be a desirable choice (Maloney 1999). A number of studies find evidence that accounting for sample selectivity between informal and formal status has a significant influence on earnings in the informal sector (Pradhan and van Soest, 1995 (Bolivia); Cohen and House, 1996 (Sudan); Marcoullier et al., 1997 (El Salvador and Mexico); Saavedra and Chong, 1999 (Peru)). This suggests that informal workers faced an improved wage offer in the informal sector and therefore that employment in the informal sector may be a rational choice, rather than the result of displacement. Indeed this is reinforced by Pradhan and van Soest (1997), also researching in a Latin American context, who find evidence of substantial household labour supply substitution between the two sectors. Low formal sector wages do in fact encourage participation in the informal sector.

The issue of why workers enter informal employment has been addressed by examining transition or migration behaviour. Banerjee (1983) investigates migration decisions by Indian workers from formal rural employment to informal urban employment. His evidence suggests that a significant proportion of migrants move because of a firm (informal sector) job offer or because of established urban contacts that are expected to lead to an (informal sector) employment offer. Migration does not appear to take place in order to facilitate job search in the urban economy. Maloney (1999) also questions dualistic theories of the informal sector, by examining sectoral transitions in the Mexican labour market in the early 1990s. In particular workers who move from the formal sector to self-employed informal activity appear to enjoy substantial improvements in earnings, and workers who make the reverse transition appear to suffer significant loss of earnings. Maloney argues that these findings point to the desirability of the informal sector as a destination.

Turning to the case of Brazil, some previous research has addressed the question of what determines whether a worker is likely to be in the informal sector. Fernandes (1996), using data for 1989, finds that both age and education are important. Informal status decreases with age up to 42 years and rises thereafter. Increased educational attainment reduces the probability of informal status. These conclusions are consistent with those found for other Latin American countries (Funkhouser, 1996; Saavedra and Chong, 1999). Sedlacek et al. (1990) investigate transitions into the informal sector using a survey conducted in São Paulo. They reported that unpaid workers move disproportionately into the informal sector, which suggests that while in school and just after completing school, many individuals help out at the family business and eventually get paid. They spend on average only two years doing this before moving onto other paid work.

Even if this pattern of graduation from school to unpaid work and on to informal salaried work and then other contracted work represents the queuing that the dualistic literature might predict, the time spent in informal salaried work is not very long. It is not dissimilar to patterns observed in industrialized countries. Maloney (1999), for example, reports that median tenure of workers in the United States aged 16 to 24 years old is only 1.4 years and for workers aged 25 to 34 years 3.4 years. As for the conditional formal-informal earnings differential in Brazil, Fernandes (1996) finds that this is for men relative to women and that the differential tends to rise with schooling at a rate of 2.7% per additional year of schooling. Other earlier evidence confirms that earnings differentials are significant between the formal and informal sectors, ranging from 30% in the early 1980s to 45% in the early 1990s in favor of formal employment (Pero 1992, and Cacciamali and Fernandes 1993). However these results must be treated with considerable caution because of the absence of any correction for selection by sector.

More recently, Carneiro and Henley (2002) and Tannuri-Pianto and Pianto (2002) investigated the determinants of the selection of workers into formal or informal employment, and the relative impacts of different labour market factors on earnings in the two states. The aims of these papers were (i) to assess whether the size of the earnings differential between the informal and formal sectors can explain the choice between informal and formal employment, and (ii) to analyse the determinants of that wage differential. Their results indicate that employment in the informal sector appears to be the outcome of a rational choice. This conclusion is reinforced by results where the earnings differential between informal and formal workers has a strong, statistically significant effect on the probability of working in the informal sector. According to Carneiro and Henley (2002), a 1 per cent narrowing in the wage gap between formal and informal workers raises the probability of informal status by 0.22 percentage points. So an increased rate of social security contribution in the formal sector, with no associated perceived improvement in the quality and efficiency of social protection, thus narrowing the wage gap is likely to lead to an increase in the relative size of the informal sector. Tannuri-Pianto and Pianto (2002) complement these findings by showing that the sector selection occurs at the top of the wage distribution while segmentation prevails at the bottom, in line with the traditional dualistic view of the informal sector in Latin America.

Carneiro and Henley (2002) also find that almost two-thirds of the unconditional mean wage differential between formal and informal workers is explained by differences in human capital and other modelled endowments, with the remaining third due to the lower rates of return that informal sector workers receive for particular characteristics. However it is clear from their data that informality extends across all levels of educational attainment and experience, although highly qualified and experienced informal workers are relatively less common than those in the formal sector.

Nevertheless the authors conclude that these results support the recent conclusions of Marcoullier et al. (1997), Saavedra and Chong (1999) and Maloney (1999) that informal employment may be a desirable form of labour market status for workers in developing economies, rather than informal employment arising from structural segmentation of the labour market into two non-competing groups. As to explanations for the growth in the size of the informal sector in developing economies, their results suggest that some of the strongest influences might arise from industrial restructuring away from manufacturing towards services, from changes in unionisation, and from changes in methods of payment from traditional waged employment towards pay related to worker performance or productivity. Attempts to reduce the burden of social security deductions on formal sector workers, as recently introduced in Brazil, should have a quantitative impact on reducing the size of the informal sector by reducing its relative attractiveness in terms of expected earnings. It has been shown that labour market segmentation may diminish the return to human capital for some groups relative to others and become an important determinant of who is poor (as shown by Tannuri-Pianto and Pianto (2002), those will most likely be the ones in the bottom of the wage distribution). Further, the under-utilisation of human capital may have a negative impact on economic performance and a poorly functioning labour market may hamper the ability of the economy to respond to economic reforms or adjust to economic shocks.

The next section reviews results of an innovative analysis of the labour market that differentiates between periods of segmentation and integration. The findings are due to Fiess et al. (2002), who argue that the informal sector may very well be a dynamic and entrepreneurial sector, but one which also contains unfortunate workers holding poor jobs. The relative shares of voluntary and involuntary workers will reflect the degree of segmentation in the labour market which can vary depending on the shocks to the economy. And depending upon the general health of the economy, one of these phenomena may dominate the other.

## **8. LABOUR MARKET ADJUSTMENT AND ECONOMIC PERFORMANCE**

As argued in the previous sections, there are different definitions of informality in the development economics literature. Some of these criteria overlap in practice. Just as there are more than one criteria for an empirical delineation of the formal from the informal sector, there are different interpretations of why informality arises in the first place. These can be classified into two categories. The traditional “dualistic” view sees the informal sector as the residual of a highly distorted labour market in the formal sector. Unions and/or government regulation push wages above their equilibrium level, rationing workers into the informal sector where they are not protected by labour legislation. Thus,

distorting labour market regulations are the cause for a formal-informal segmentation of the labour market. As part of this segmentation, relative wages and relative employment shares of the formal and informal sector move in opposite directions.

As pointed out by Carneiro and Henley (2002), a more recent line of thought presents the view that, as a first approximation, the informal sector could be treated as an unregulated/unprotected entrepreneurial sector that offers work and working conditions that are desirable to many workers. This rationality could be related to elements like the desire of independence and/or the misalignment of implicit and explicit labour taxes with perceived benefits. This “integrated labour markets” view stands in sharp contrast with the dualistic view.

Using modern econometric time series techniques<sup>2</sup> on quarterly data for the cases of Mexico, Brazil and Colombia, Fiess et al. (2002) explored the nature of the long run relationship among relative earnings, relative sector size and the real exchange rate with the aim of establishing the degree of dualism in their labour markets. This exercise can provide a preliminary answer to the question of whether and to what degree are the labour markets in these three countries “flexible” in the broadest terms, viz., whether key earnings and employment indicators respond to macroeconomic shocks in a manner that is consistent with efficient functioning of markets.

Figure 1 displays the time series of the three variables under consideration for the three countries respectively. In what follows, we limit ourselves to a qualitative presentation of the results and refer the reader to Fiess et al. (2002) for technical details. The period under consideration runs from 1985:Q1 to 1999:Q2 for Colombia, from 1987:Q1 to 1999:Q1 for Mexico and from 1992:Q1 to 2000:Q4 for Brazil. By looking first at the whole sample, we find that for Mexico the test of integrated markets can be strongly rejected while the test of segmentation cannot be rejected. For Brazil, the hypothesis of integration cannot be rejected and the hypothesis of segmentation is rejected at the 1% level. For Colombia, the hypothesis of segmentation cannot be rejected while the hypothesis of integration can be.

In all three cases, however, tests of the existence of an equilibrium relationship among the three variables suggest the possibility of different relationships in different sub-periods. This finding is consistent with the previous argument that rigidities in the formal sector may be binding in some periods and not in others, depending on the macroeconomic environment.

For Mexico, the segmentation hypothesis is only accepted from 1995 onwards and the hypothesis of integration cannot be rejected prior to 1995. This suggests that the Mexican labour market behaves pretty much like a flexible market in the recovery period leading up to 1995.

For Colombia, statistical tests support the hypothesis of a segmented labour market post 1995 onwards and never support the view of integration for any sub-sample. These

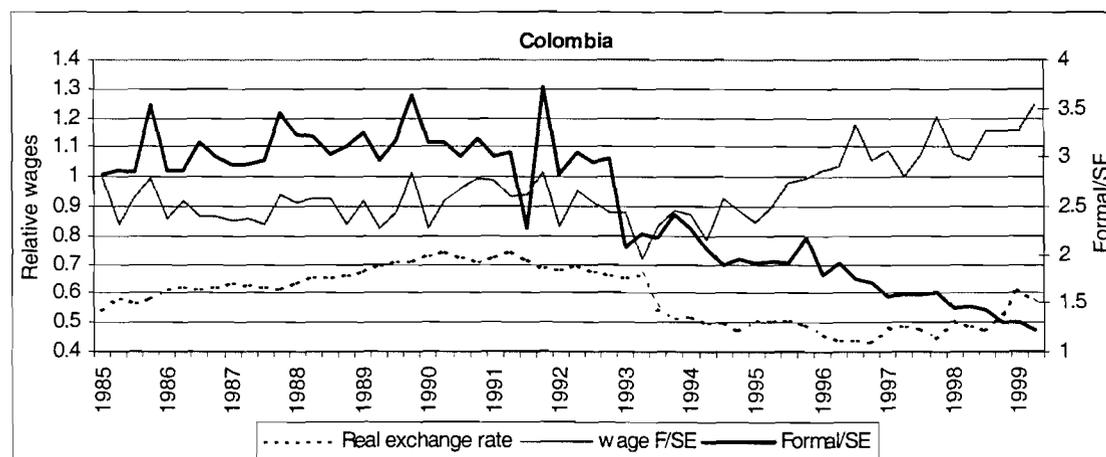
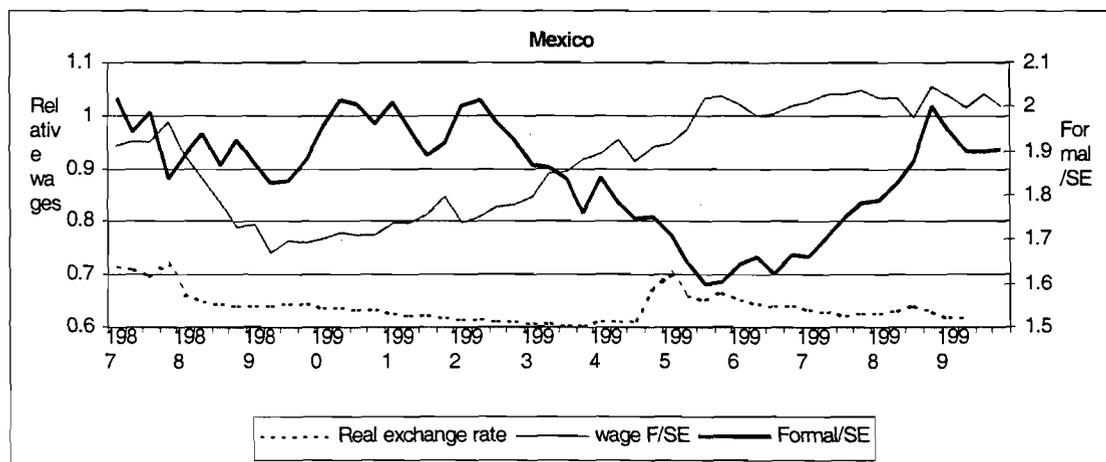
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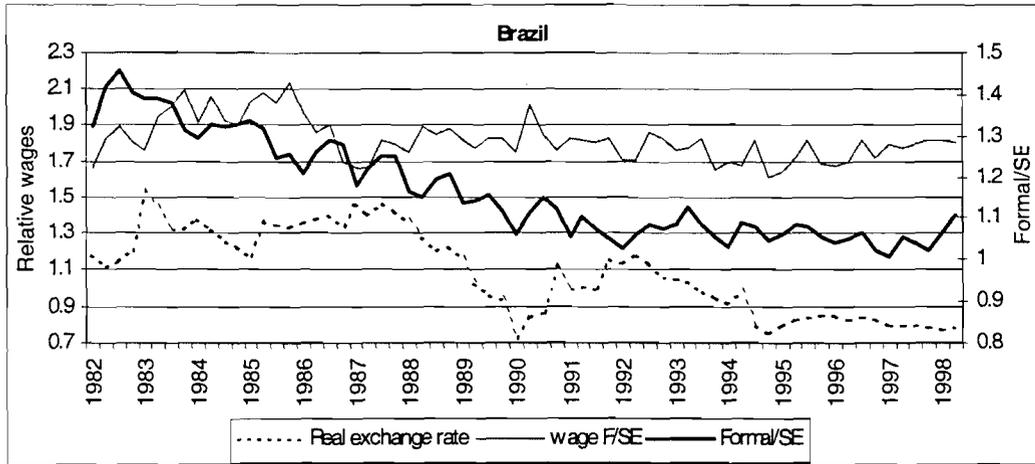
<sup>2</sup> The methodology involves the estimation of long run cointegration vectors using the multivariate approach proposed by Johansen (1988).

findings are in accordance with the view that regulations in the Colombian labour market are binding strongly and that the dualistic view reflects relatively well its functioning.

In Brazil, despite full sample evidence of integration, there is evidence of segmentation during the pre-Real plan period and in the post Asian crisis period (see Figure 2). These findings indicate that the labour market nature in Brazil is likely to have changed over the decade.

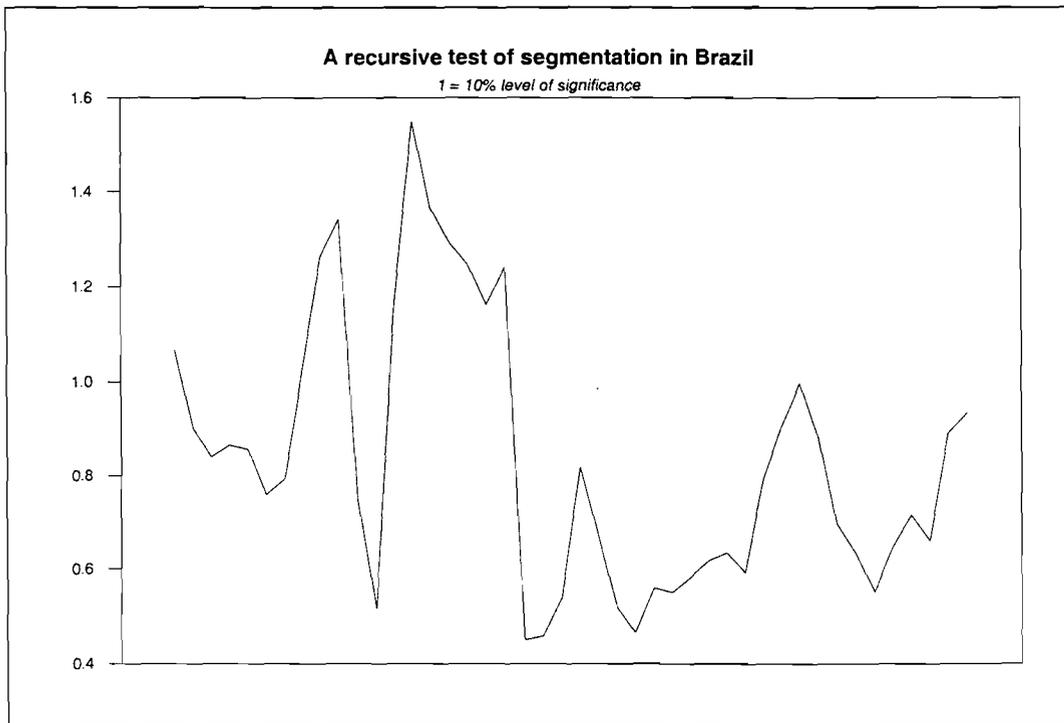
**Figure 1: Real Effective Exchange Rate, Relative Wage and Share of Informal Workers**





Source: Fiess, Fugazza and Maloney (2002)

**Figure 2: Some Evidence for Segmentation in Brazil**



Note: Figure 2 shows a recursive test of the hypothesis of segmentation in the Brazilian labour market. The hypothesis of segmentation cannot be rejected for test statistics below 1 and the shaded areas are thus indicative for segmentation. Starting with an original sample from 1982:01 to 1989:04, the estimation period is increased by one observation at a time and the corresponding test statistic is calculated. It is important to realize that the periods where the hypothesis is rejected do not indicate exact break points. Much rather, they reveal what a researcher would find if she had only access to data stretching from 1982:01 to the specific point in time where the test statistic is calculated.

Fiess et al. (2002) argue that there is a wide spectrum of causes of real exchange rate movements which correspond to a specific macroeconomic environment and labour market behavior. These are:

- a real depreciation (non-traded goods become less expensive relative to traded goods) with evidence of segmentation could be the outcome of either a negative shock to the traded-goods sector, or a shift in preferences towards traded-goods, or a rise in the real interest rate
- a real appreciation with evidence of segmentation could only be the outcome of a negative shock to the non-traded goods sector
- a real depreciation with evidence of integration could be the outcome either of a positive shock to the non-traded goods sector, or of a negative shock to the traded goods sector, or a shift in preferences towards traded-goods, or of a rise in the real interest rate
- a real appreciation with evidence of integration could be the outcome of either a positive shock to the traded-goods sector, or a negative shock to the non-traded goods sector, or a shift in preferences towards non-traded goods or a fall in the real interest rate

By examining the data for Brazil, the period between 1990-93, also known as the Collor period, is characterized by evidence of a segmented labour market. We also have that the price of non-traded relative to traded goods is falling dramatically. The real interest rate remains at very high levels. All these elements seem to indicate that through this period the formal sector was undergoing a negative shock or at least was behaving as if. The fact that the economy was opening progressively and in a credible manner makes this explanation quite plausible. The end of the Collor period brought back some positive growth prospects and the labour market appeared to be less segmented. At the same time the real exchange rate path was reverted. As real interests rates remained very high, essentially because of the return of hyper-inflation, a possible explanation of the phenomenon could be a shift in preferences towards the non-traded goods sector.

The Real Plan implemented in 1994 has been a path-breaking economic event. After a relatively short period of adjustment, characterized by segmentation in the labour market due to a substantial rise in labour costs brought about by a fall in inflation which led to depreciation, we observe a sharp increase in the relative price of non-traded goods essentially driven by a surge in consumption. The latter was due to the fall in the cost of holding money, the relaxation of liquidity constraints and increased access to credit brought about by financial liberalization. There is no clear evidence of any positive shock to the traded goods sector. On the contrary, productivity improvements appear to have been the consequence of lower worker participation in that sector. The expansion of the informal sector together perhaps with a possible positive shock could have explained the fall, even though not a dramatic one, of the relative price of non-traded goods in the period leading up to the Asian crisis, the Russian crisis and the subsequent recession period that includes the devaluation of January 1999. Again labour regulations appear to

have been binding beginning in late 1997. Even though the economy as a whole has been hit by these external shocks, the formal sector which was more exposed to foreign investments may have suffered the most.

The year of 1998 is characterized by negative growth rates, a falling relative price of non-traded goods in terms of traded goods, falling self-employed earnings relative to formal wages and an increasing participation in the informal sector. These elements corroborate evidence of a predominant negative shock to the formal sector which has led to a higher degree of segmentation in the labour market. The first signs of overall economic recovery are perceived in late 1998 and are strengthened by the devaluation that occurred at the beginning of 1999. There is some evidence of an industry-led recovery which explains the reverted tendency in the real exchange rate. We may also interpret the real appreciation as the outcome of a negative shock to the non-traded goods sector as there is still some evidence of a segmented labour market to date. The contribution to gross domestic product of the industrial sector has risen from 34.6 % in 1998 to 35.5 % in 1999 while that of the services sector has fallen from 62.3 % in 1998 to 61.1 in 1999. These tendencies were maintained in 2000. GDP growth has jumped to more than 4% and the relative size of the formal sector has increased in terms of the size of the informal sector. The degree of segmentation has fallen since 1999 and there is some evidence of the return of job creating growth after a mitigated decade.

The 1990s have been characterized by a growing informal sector. This trend has not exclusively been the result of an increasing degree of segmentation in the labour market. Rather it has been the result of the conjunction of a series of economic events that hit negatively and predominantly the formal sector and of always threateningly binding labour legislation. In addition, a general shift of preferences in favor of non-traded goods also has contributed to this pattern in the composition of the economic activity.

## **9. THE SOCIAL SAFETY NET**

In this section we focus on the system of benefits that form the social safety net in Brazil. These include the unemployment insurance and the severance fund, which are the most significant benefits targeted to help unemployed workers. The Brazilian unemployment insurance (UI) system is the largest in Latin America, serving an average of 300,000 to 400,000 beneficiaries each month. According to Law No. 7998 from 1990 the objective of the Brazilian unemployment system is to: (1) provide temporary financial assistance to a worker dismissed without just cause and (2) assist workers in their search for a new job. Concerning the provision of financial assistance to the worker, the law is silent on whether UI benefits are aimed at smoothing consumption or are primarily intended to prevent unemployed workers from falling into poverty.

The main difference between consumption smoothing and safety-net oriented unemployment insurance systems lies in replacement ratio and depth of coverage. Unemployment insurance systems which primarily focus on consumption smoothing generally aim at a high replacement ratio of the previous income. Such systems are often restricted to unemployed workers, who have been employed during a substantial period of time before becoming unemployed. UI programs that emphasize a social net objective

generally provide low levels of benefits, but cover a large fraction of the population. The Brazilian UI system is characterized by a low replacement ratio, short benefit duration and the fact that it is restricted to formal sector workers. The latter implies that UI is not accessible to over 50 percent of the workforce. A further inconsistency with the social net objective arrives from the fact that receiving UI is conditional on having access to the severance fund - *Fundo de Garantia do Tempo de Serviço* (FGTS).

The FGTS was created in 1966 (Law No. 5107) by the military regime to serve as an alternative to the job security law prevailing at that time. It is combined with a fine that employers have to pay if they dismiss a worker without just cause. For a long time the FGTS was the only labour market institution that provided income to the workers at the moment they were laid off without just cause. And even nowadays, this aspect of the FGTS is important. UI benefits in Brazil are low and do not exceed two minimum wages. As a consequence, the amount worker receives from their fund at the moment they become unemployed is likely to exceed unemployment benefits by far.

While formal sector workers are less likely to become unemployed than informal wage earners *ceteris paribus*, they are more likely to remain unemployed once they have lost their job. Unemployment duration among formal sector workers is higher for those who received FGTS before becoming unemployed. This may hint at the fact that only the “rich” can afford a longer unemployment duration. However, this kind of statement should be treated with care. Formal sector workers may just face a longer unemployment duration as they are more selective when accepting a new job.

Domeland and Fiess (2001) provide evidence on this fact by estimating a competing risk model, which allows to consider not only unemployment duration, but also exit states. Independent of the exit state, formal sector workers are less likely to leave unemployment than informal wage earners. Among formal sector workers, FGTS (and hence UI) recipients are less likely to exit unemployment. This proves to be independent of the exit state. Thus, at least in terms of the employment sector, the unemployment insurance system seems to fail in its objective to assist workers in their search for new employment.

### The Brazilian Unemployment Insurance System

The unemployment insurance program was already in the Constitution of 1946 but it was not before 1990 that this benefit became universally accessible. The current Brazilian unemployment system was created in 1986, within the context of the Cruzado Plan. Its success was rather limited due to strict eligibility criteria and severe fiscal limitations. In 1988, the source of funding was changed from general Treasury revenues to the *Fundo de Amparo ao Trabalhador* (FAT).<sup>3</sup> Eligibility criteria were relaxed in 1990 (Law No. 7.998), expanding the base of workers with access to UI benefits. The benefit level was also increased. As a consequence, the number of checks distributed to the unemployed doubled. By 1990, unemployment insurance covered 43 percent of all dismissals from

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<sup>3</sup> The FAT is financed by a 0.65 percent tax on revenues of private firms, 1 percent tax on revenues of public firms and a 1 percent of costs in non-profit firms. It then pays UI, the 13th wage (abono salarial), a fiscal stabilization fund, training initiatives from SENAI/SENAC and the National Development Bank (BNDES), which receives 40 percent of the FAT.

formal employment. In 1994, collection constraints and eligibility criteria were relaxed and potential payments were increased, extending the coverage of the program even further (Cunningham, 2000).

In order to become eligible for benefits, workers must meet the following criteria:

- **Dismissal without just cause** by the employer or **indirect dismissal**. Indirect dismissal refers to the fact that the employee requests dismissal from his job by court decision, claiming that his employer did not comply with the work contract.
- Employment under a **formal labour contract** for at least six months during the last three years or **legal self-employment** for at least 15 months.
- A **period of unemployment** for at least seven and at most 120 days.<sup>4</sup>
- **Lack of other sources of income** to guarantee own subsistence and that of the family.

In order to make a claim for unemployment insurance benefits, a worker requires a form from his former employer specifying the time of service as well as earnings received in the three months prior to the dismissal. This form is reviewed by a national clearinghouse, which proves eligibility. Once accepted, the worker receives a proof of eligibility stating the value of benefits and the maximum benefit duration. In order to collect the monthly payment the worker must present this proof together with his signed work-card at a federal bank or employment office. After a successful claim, a worker will not be eligible again for 16 months.

#### The Severance Fund (FGTS)

In addition to unemployment insurance, dismissed workers receive the Fundo de Garantia por Tempo de Serviço (FGTS). The FGTS is an individualized interest-bearing fund. Each month the employer contributes the equivalent of 8 percent of his employee's current wage to the fund. This implies that the amount accumulated per year in a worker's fund corresponds approximately to one monthly wage. A worker has access to FGTS if dismissed without just cause, upon retirement or death, or as a means of co-financing a private home purchase or high health expenses. The FGTS is transferable between jobs and bears interest if not accessed during a spell of unemployment.

In the case of dismissal without just cause ("sem justa causa"), the worker has not only the right to access his entire fund, including all funds accumulated during previous employment, but also receives a penalty in proportion to the accumulated FGTS in the job he is being dismissed from. This additional compensation amounted to 10 percent of

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<sup>4</sup> For those workers that go to court in order to claim dismissal with just cause or indirect dismissal, this term starts at the end of the court decision or legal ratification of the agreement.

the worker's FGTS balance at the time of dismissal and has been increased to 40 percent of the FGTS balance in 1988 and to 50 percent in 2001.<sup>5</sup>

For Brazil, the beginning of the 1990s seems to mark a pivot point for unemployment. While unemployment was on the decrease through the 1980s, the 1990s showed an increasing trend in unemployment. This change in the trend may have been due to a variety of factors such as the introduction of the Real Plan or the change in the Constitution in 1988. However, rather than investigating the causes of unemployment, we attempt to profile the unemployed in order to evaluate the Brazilian unemployment insurance system.

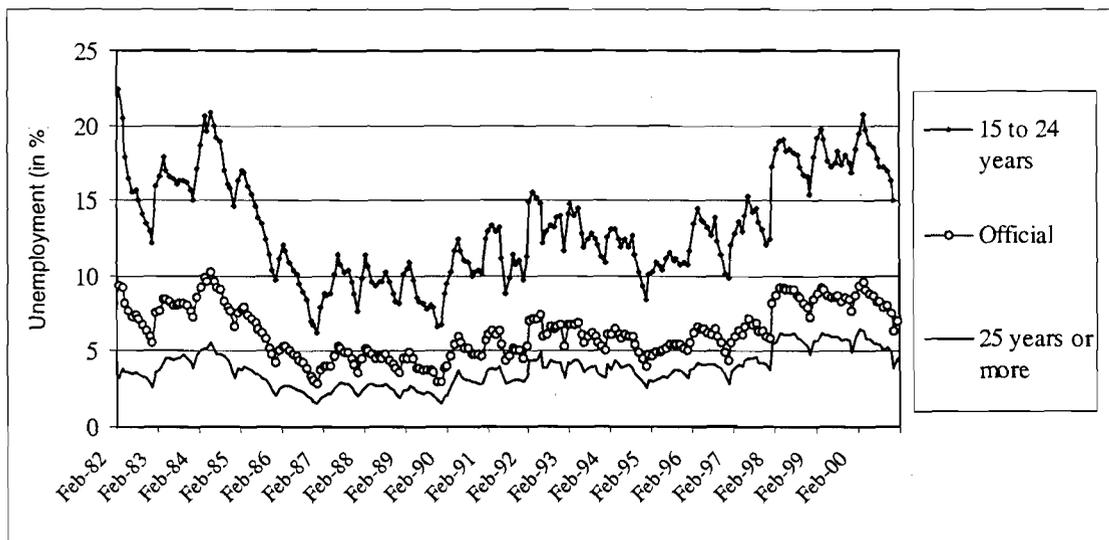
Figure 3 reveals the evolution of different unemployment rates for Brazil. The **official unemployment rate** is measured for workers aged 15 to 65 who are unemployed in the reference period and who have been searching for employment during the last four weeks. This unemployment rate increased from 4 percent in February 1990 to 7 percent in May 1992. The Real Plan brought a short reduction in unemployment, leading to a decline in the official rate to 4 percent in December 1994. After the Asian crisis (October 1997) unemployment rates started to climb again reaching 10 percent in March 2000.

**Unemployment of younger workers** is measured as the official unemployment rate of workers who are between 15 to 24 years old. At the beginning of the 1990s, this unemployment rate was about three times higher than the rate amongst workers older than 25. But this gap increased, such that at the beginning of the new millennium the unemployment rate of younger workers was about five times higher compared to that of older workers. It is important to keep in mind that the unemployment rate of younger workers reflects well the dynamics of the unemployment rate of labour market (re)-entrants, who do not have any access to unemployment insurance.

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<sup>5</sup> The FGTS fund is administrated by the government. According to Paes de Barros et al. (1999), inefficiencies in the administration of the FTGS translate in investment returns well below market rates and provide an incentive for workers to seek access to their funds by provoking their dismissal.

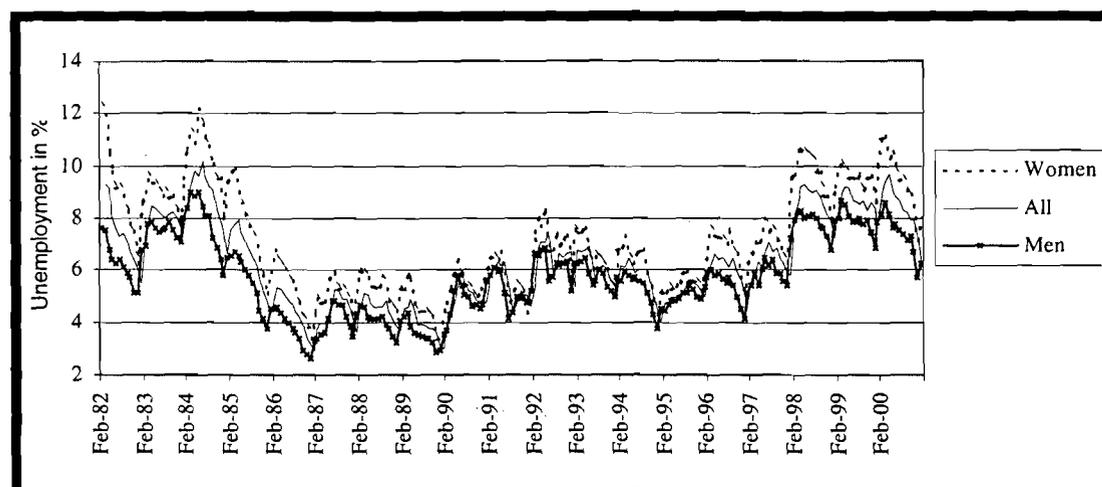
Figure 3 - Different Definitions of Unemployment Rates



Source: PME/IBGE. Elaboration: CPS/IBRE/FGV

**Unemployment by gender** shows that female unemployment is almost 30 percent higher than male unemployment (Figure 4). In May 1998, the female unemployment rate reached its highest peak of the 1990s. From 1991 to May 1998 female unemployment rates faced on average an annual growth rate of 0.33, while the corresponding value for men was 0.002. The sharp increase in female unemployment may be partially explained by an increase in female labour force participation. From 1982 to 2000 the female labour force participation rate rose from 36 percent to 42 percent. Furthermore, the gender gap widened during periods of high unemployment. This may hint at a so-called added worker effect due to women entering the labour force during recessions as other family members especially their spouses become unemployed or face reduction in income, pushing unemployment rates even further up during recessions. On the other hand, it may indicate that women are more likely to be dismissed during recessions as tenure is usually shorter among women and hence the costs of dismissal in terms of the FGTS fine are lower for formal employers.

Figure 4 - Unemployment Rates by Gender



Source: PME/IBGE. Elaboration: CPS/IBRE/FGV

**Unemployment rates by household status** show that children of the household head face the highest unemployment rate. This is consistent with the above finding that unemployment rates for young workers are relatively high. However, this group faced the lowest increase in the unemployment rate due to the fact that unemployment of sons and daughter had been already at a high level of 9.38 in 1991. The unemployment rate of spouses more than doubled between 1991 and 1998, surpassing the unemployment rate of household heads in 1998.

Table 5 provides **unemployment rates by different educational level** and household status. Workers with 9 to 11 years of education (completed secondary education) had the highest unemployment rate in May 1998. This group also faced the highest increase in the unemployment rate from 1991 to May 1998, followed by the lowest education group (primary I education). Hence from Table 4, we cannot deduce any clear relation between level of unemployment/change in unemployment and education.

Table 5 - Unemployment Rates by Education and Household Status

Characteristic	1991	1994	May, 1997	May, 1998	Change* 91-98
<b>By Education</b>					
0- 4 years	3.88	4.03	4.41	6.66	71.65
5-8 years	7.03	7.03	8.41	10.10	43.67
9-11 years	5.37	6.00	7.39	10.28	91.43
12 or more years	2.59	2.41	2.66	4.10	58.30
<b>By Household Status</b>					
Head	3.08	3.22	3.68	5.42	75.97
Spouse	2.59	3.11	4.42	6.43	148.26
Son/Daughter	9.38	9.72	11.36	14.21	51.49
Other	6.16	6.68	6.93	9.55	55.03

\*Change in percent. Source: IPEA/Ministerio do Trabalho (1998), PME (selected years)

## 10. ACTIVE LABOUR MARKET POLICY TARGETING

Barros et al. (2002) have investigated the ability of active labour market policies in Brazil to target the right population. The authors defined compensatory policies as those based on transfers to ensure a minimum level of income for unemployed or low paid workers. The most important examples of such policies are unemployment insurance, FGTS and the wage bonus. The analysis of Brazilian policies in this group revealed two problems. First, the policies are badly targeted, generally catering employed workers or those with per-capita family incomes above the poverty line. Second, the authors show that the incentives generated by the presence of these programs may be seriously undermining labour market performance. In particular, Barros et al. (2002) argue that these programs could be major factors behind the high turnover rate and resulting low investment in human capital, low productivity and very low wage levels characteristic of the Brazilian labour force. Whether due to bad targeting or the perverse incentives they generate, these programs end up having much less of an impact on poverty than it would be possible if they were better designed.

The authors also defined distributive policies as those intended to raise the wages of less skilled workers and thereby reduce poverty, by regulating prices. This group includes all wage policies, especially the minimum wage. The analysis of the minimum wage showed firstly that its current level in Brazil is well below the international norm. More specifically, international comparisons suggest that the minimum wage in Brazil needs to be doubled to come into line with international standards. Additional evidence presented by Carneiro (2002) shows that minimum wage changes have a very limited impact in terms of poverty reduction, despite the fact that increases in the minimum wage impact those with the lowest wages and who are among the minorities in the labour market (female, young and black workers).

Barros et al. (2002) have also investigated the role of structural policies, which were defined as those aimed at reducing unemployment and enhancing labour productivity. Such policies may have one of the following four immediate objectives: (a) creation of a new job; (b) improvements in the quality of pre-existing jobs; (c) improvement of workers' skills; or (d) better matching between workers and jobs. The analysis of these objectives showed that they depend both on macroeconomic policy – particularly in setting interest rates – and specific policies to ensure access for poor people to three services that are essential to income generation: (a) credit; (b) professional skill training; and (c) labour intermediation. Two of the most important programs along these lines in Brazil are the so-called PROGER (Programa de Geração de Emprego e Renda – Program for Generation of Employment and Income), and PLANFOR (Programa Nacional de Qualificação do Trabalhador – National Program for Enhancing Workers' Skills), both introduced in 1996 by the Labour Ministry.

The results of their investigation of the effectiveness of worker skill-training policies and labour intermediation revealed that the impact of these policies is very limited due to the way they are implemented. In the case of training, there have been numerous evaluations of PLANFOR and PROGER, including a series that track the subsequent development of course graduates. Some of these, apart from tracking course graduates, also include

information on performance of a comparison group (e.g., Cardoso et al., 2002). The results of all the analyses with a comparison group, except one program in Pernambuco, suggest the impact on unemployment and income is quite small. An evaluation in Rio de Janeiro and Fortaleza showed that training programs had a positive and statistically significant impact on unemployment, but not on incomes of those already employed: those with access to training were 3-4 percent more likely to be employed six to 12 months afterwards, but there was no impact on wages of those employed already. As the program costs about R\$170 per person, the new jobs for participants need to last more than 17 months for the program to have a net positive benefit.

Evaluations of labour intermediation services are less common. A recent assessment by IPEA and FIPE based on PME longitudinal data tracked the labor market performance of two groups of previously unemployed workers for two months: unemployed workers who sought labor intermediation in the week of the interview and those who did not. Those who sought these performed better than those who did not in just two of the six Metropolitan regions investigated (Belo Horizonte and Salvador). Even in these regions, the impact was such that those who sought work ended with a employment rate 2-3 percentage points higher, and a rate of formality 3-6 percentage points higher than those that did not use intermediation services. These results suggest that labor intermediation is important in terms of greater access to the formal sector, but not in reducing unemployment.

## **11. THE IMPORTANCE OF GENDER AND RACE IN BRAZIL**

The existence and persistence of an earnings gap between men and women has been a subject of great interest to labour economists. Since the seminal papers by Oaxaca (1973) and Blinder (1973), hundreds of papers have been written about wage differentials in general, and male-female wage differentials in particular, using the Oaxaca-Blinder decomposition technique. The objective is to further understanding of the raw gender wage differential, which universally shows that men are paid more than women, and try to account for the possibility that men, on average, may be endowed to a greater extent with characteristics that are rewarded in the labour market. The remaining unexplained component is then usually interpreted as the upper bound of discrimination against women. Whilst most of this type of analysis is traditionally performed on data from the US and to a lesser extent Europe, in the last ten years or so a growing literature has emerged using data from developing countries. This has become possible by the growing availability of socio-economic surveys.

Brazil is unique among the developing countries in the sense that they have a long tradition of collecting labour market data through surveys. The Instituto Brasileiro de Geografia e Estatística (The Brazilian Institute of Geography and Statistics) has been collecting the Pesquisa Nacional por Amostra de Domicílios, PNAD, since 1976. The data is available for each year except the census years of 1980 and 1990 and for 1994, when for budgetary reasons the survey was not conducted. The PNAD is a nationally representative household survey using a consistent sampling methodology.

The first studies on gender and the pay gap in Brazil date back to the mid-1980s [Camargo and Serrano (1983), Birdsall and Fox (1984), and Birdsall and Behrman (1985)]. In Camargo and Serrano (1983), the authors used data from the Labour Ministry's survey of the formal labour market (Relação Anual de Informações Sociais – RAIS) for 1976 to estimate gender wage gaps for 22 sectors of Brazilian manufacturing. Their results suggested that education was the most important variable in the determination of wages for female workers as compared to males, while industry sector affiliation was the most important variable in the determination of wages for male workers.

In the other pioneer study, Birdsall and Fox (1984) look at male-female earnings among school- teachers. Using the 1% sample of the 1970 census they show that the mean income of female teachers is less than one half of that of male teachers. Using the male earnings regression as a base 81%, of the differential can be attributed to individual characteristics and 10% to discrimination. Nearly 8% of the differential is due to location since males tend to be concentrated more in higher paying geographical areas.

Birdsall and Behrman (1985) also used the above data set and estimated wage equations for male and females in urban Brazil. On average men earn about twice what women earn. The decomposition results indicate that elimination of discrimination might raise the (ln) earnings of females by 22% in the formal sector, 72% in the informal sector, 44% in the domestic sector and 31% overall.

A World Bank sponsored research programme on women's employment and pay in Latin America provides two additional case studies on gender earnings differentials in Brazil. In the first study Stelcner et al (1992) use a 3% sample of the 1980 Brazilian census containing 3.5 million individuals. They extract a sub-sample of 200000 individuals and using the Oaxaca decomposition their research offers the following insights. The national wage gap measured by comparing husband and wives is 29%. The decomposition reveals that the endowment component favors wives by 70% whilst husbands have a coefficient advantage of 170%. A similar pattern emerges when self-employed workers are considered. In the case of single workers the national wage gap is only 18% but the decomposition reveals that 21% of the differential is not explained by endowment differences. However, there seems to be a regional difference, namely that in the Northeast, women not only have an earnings advantage but also a coefficient advantage in the decomposition.

In the second case study, Tiefenthaler (1992) uses PNAD 1989 and estimates male and female earnings functions in three sectors: formal employment, informal employment and self-employment. The ratios of married female to male earnings in each sector are 0.7, 0.85 and 0.7 respectively. The ratios for single women are almost identical. The decomposition analysis reveals that, depending on specification of the model, between 81-89% of the earnings differential of men versus women in the formal sector, 72-75% in the informal sector and 83-84% in the self-employment sector is attributed to the structure of rewards. Thus, Tiefenthaler concludes that discrimination plays a more important role in explaining male-female wage differentials in Brazil in 1989 than differences in characteristics.

More recently, Loureiro and Carneiro (2001) investigated the existence of discrimination in the urban and rural labour markets in Brazil. The authors used the Blinder-Oaxaca (1973) decomposition analysis on data from the 1998 PNAD and concluded that there are substantial wage differentials between men and women by gender and race, besides the fact that wage differentials are not negligible between urban and rural workers.<sup>6</sup>

Leme and Wajzman (2000) present a comprehensive review of the main results as regards gender wage gap studies for the case of Brazil and point to the narrowing of wage differentials between men and women over the most recent period. A result that the authors claim is in line with a worldwide trend in terms of gender wage gaps. In their paper, the authors have used information on cohorts borne in 1952 and 1962 to identify the determinants of the narrower gender wage differentials over the period 1977 to 1997 in Brazil. Their results, based on the standard Oaxaca decomposition, suggest that some 17% of the male-female wage differential were eliminated over this period basically because of lower discrimination against women.

Evaluating and comparing the existing studies is difficult because they use different data sets and different specifications for the earnings function. However, it is clear that when we look at a single occupation, particularly an occupation such as teaching where public sector employment is very significant, then the finding that over 80% of the wage differential is attributed to endowment differences is not surprising. On the other hand when nationally representative samples for all the labour force are used, at least for the 1980s, a large part of gender wage differentials remains unexplained. This might be taken as an upper bound for the extent of discrimination against females in Brazil.

Finally, the analysis presented in Arabsheibani et al. (2002) indicates that females have been very successful in narrowing the gender gap in recent years. Reductions in residual inequality, improvements in observable endowments and returns to those endowments have contributed positively to the reduction of the gap. However, according to the authors, it is the possible improvement in the unobservable endowment, for example quality of education, and/or reduction in discrimination per se which is the major cause of the falling gender wage gap. Most of this change has occurred between 1988 and 1992, partially cancelling out the adverse effect of deteriorating endowments for women relative to men in that period. The major contributor to the narrowing of the gap between 1992 and 1998 is the improvement in the returns to those endowments. If the narrowing of the gap is the result of policy-driven reductions in discrimination, the Brazilian authorities have achieved much in elevating the position of females in the labour force.

## **12. THE IMPACTS OF GLOBALISATION ON POVERTY AND INEQUALITY**

The impacts of globalisation, broadly defined as a comprehensive trade openness, have been investigated for the case of Brazil by Carneiro and Arbache (2002). These authors argue that after a decade marked by debt crisis, fiscal imbalances and rapidly accelerating inflation, the 1990s inaugurated a new policy agenda aimed at strengthening the trade

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<sup>6</sup> Similar conclusions using a different data set have also been found by Kassouf (1997).

relationships among all capitalist economies. In their view, the links of a given economy with the rest of the world were supposedly to be strengthened by means of the adoption of the measures prescribed by the so called Washington Consensus. These involved in broad terms solving the fiscal crisis, stopping inflation and opening up the economy to foreign competition. In Brazil, these targets lead the government to introduce trade liberalization, deregulation of markets, privatisation of state enterprises and financial and capital market liberalization. It seems fair to state that the turn of the 1980s to the 1990s was a critical point of the recent Brazilian economic history.

As a result of the liberalizing measures adopted in the early 1990s, both imports and exports increased very rapidly, although the economy is still relatively closed to the rest of the world. Despite the growing exposure to foreign trade, output growth during most of the 1990s was mainly driven by domestic absorption. The output growth decomposition analysis carried out by Carneiro and Arbache (2002) using different methodologies confirmed that while export growth contributed only marginally to economic growth, domestic absorption was the main factor leading both recessive and expanding periods.

It could be said, however, that on the one hand, higher trade enabled the economy to import more capital goods and technology, changing the production function upwards. And that, on the other hand, higher competition disciplined price formation and lead firms to produce at a better quality and a lower price. One of the consequences of the higher level of technology was the increasing demand for skilled workers at the expense of the less skilled. The search for a higher efficiency and quality level may have contributed to lead firms to rationalize and modernize production, which also tend to shift demand in favour of more skilled workers. In this way, we have also observed increases in informality and average unemployment levels, with most of the unemployed and informal workers represented by the less skilled and less educated.

Furthermore, increasing exposure to foreign trade has not promoted neither larger improvements nor deterioration in inequality indicators. Carneiro and Arbache (2002) carried out counterfactual simulations to assess the impact of greater openness on poverty and inequality. Despite the fact that greater openness appeared as a scenario associated with lower poverty and inequality, the absolute magnitude of the improvement in these indicators was very modest. In their simulations, a situation in which import tariff rates were lowered to zero, as in the case of a broader WTO agreement, would be associated with a drop in the poverty ratio from 33.41% to 32.95% while inequality would remain virtually unchanged.

Therefore, the authors conclude that trade liberalization alone will not be sufficient to reduce poverty and inequality in Brazil. The situation of extreme inequality in educational terms, that in a sense is responsible for an important segmentation in Brazilian labour markets, appears to be the issue to be tackled. Policy reforms aimed at improving poverty and inequality indicators should, therefore, aim at the reduction of the disparity in the skill composition of the labour force so that the positive impacts of greater efficiency and the benefits of greater economic integration that might be

generated with further trade liberalization can be appropriated in a more equitable form by Brazilian workers.

### 13. CONCLUSIONS

The main message of this report is that Brazilian labour markets are rather flexible in macroeconomic terms while also displaying microeconomic rigidity. Macroeconomic flexibility is characterized by the significant growth in employment in both good and bad times. Microeconomic rigidity is translated into high turnover rates, frequent litigation, and rising informality. This dichotomous relationship is mediated by the third side of the labour market that can be best represented by labour market institutions. These have contributed to the current state of affairs by means of a rather stringent labour code, rent-seeking labour unions, a system of labour courts that encourages litigation, mistargeted social security benefits that send wrong signals to workers and employers, feeding informality and weak labour relations. The joint effect of this state of affairs is conducive to economic inefficiency, income inequality and stable poverty levels, as the economy becomes unable to absorb in an equitable way those entering in the labour market and barriers to overcome the poverty line become more and more strong.

As a consequence, labour market indicators have deteriorated over the 1990s, hurting the young, female and least educated workers. Over the 1990s, for example, female unemployment was 30% higher than male's. Gender and race discrimination is still an important issue in the country, although several studies point to a significant increase in the returns to education of female workers over the last 15 years or so. At the same time, informal employment has displayed a structural growth embracing currently 50 percent of the workforce. There is also evidence that a significant share of this contingent of informal workers is in the informal sector voluntarily not only to escape the grasp of labour legislation but also due to low formal sector wages. Slave work has not been covered in this report, as there are no published references available in the main academic sources and think-tanks specialised on the study of labour issues.

Finally, globalisation has hurt more the unskilled share of the labour force and had a limited capacity to improve poverty and inequality indicators. Liberalising measures adopted in the early 1990s increased both imports and exports feeding the demand for skilled labour at the expense of the unskilled. The result of this phenomenon was a net loss of jobs in the labour market. Poverty rates and inequality indices, therefore, continue to be the one of the highest in the world. Although there are no reported evidence on the existence or not of social dumping in Brazilian exports, indirect results obtained by Arbache and De Negri (2002) suggest that this is not a problem in Brazil. These authors show that the main Brazilian export firms use highly skilled labour, due to the capital intensive technology bias they have historically adopted, making it difficult to believe that social dumping in Brazil is an issue *de facto*.

In terms of labour market flexibility, the picture in Brazil, as portrayed in this report, hints to the need of a substantial labour reform. A reform that should focus on changing signals and incentives to workers and firms so that more lasting and quality labour

relations can arise, with implications such as lower job turnover rates, less litigation, higher labour productivity, and less informality, with consequent positive effects in terms of poverty and income inequality reduction. Although not an easy task, if accomplished, this reform should align incentives and price labour correctly, paving the way for a healthy and effective labour market flexibility. Perhaps then the expected positive impacts of greater efficiency and economic integration might be transmitted to the workforce in a more equitable fashion in Brazil.

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**Matrix of Issues, Interests, and Groups Involved with Labour Market Analysis in Brazil**

Issues	Interests	Institutions	Key People
<b>Labour Supply</b>			
Child Labour	Determinants of child labour, characteristics of child workers, and forms to avoid this type of work	ILO, IPEA, Unicef, Unifem, USP	Armand Pereira - ILO Representative, Ana Lúcia Kassouf (USP)
Domestic Work	Profile of domestic workers, forms of contract, conditions of work, and social protection	ILO, IPEA	Hildete Pereira de Melo (IPEA)
Human Capital	Impact of human capital variables on earnings and productivity	IPEA, USP, PUC-RJ, UCB, UnB	Ricardo Paes de Barros (Director of Social Policies - IPEA), Naércio Menezes de Aquino (USP), Gustavo Gonzaga (PUC-RJ), Francisco Galvão Carneiro (UCB), Adolfo Sachsida (UCB), Jorge Saba Arbache (UnB)
Discrimination	Determinants of discrimination, importance of gender and race, disabled work	IPEA, USP, UCB, UnB, UFRGS	Ricardo Paes de Barros (Director of Social Policies - IPEA), Naércio Menezes de Aquino (USP), Maria Carolina Leme (USP), Paulo Roberto Loureiro (UCB), Francisco Galvão Carneiro (UCB), Adolfo Sachsida (UCB), Jorge Saba Arbache (UnB), Eduardo Pontual Ribeiro (UFRGS)
<b>Labour Demand</b>			
Globalisation	Impacts of trade liberalization on employment and earnings	IPEA, ONU, ILO, IBRD, IDB, UCB, UnB, USP	Ricardo Paes de Barros (Director of Social Policies - IPEA), Francisco Galvão Carneiro (UCB), Jorge Saba Arbache (UnB), Enrique Ganuza (ONU), Andreas Blom (IBRD), Eduardo Haddad (USP)
unemployment	Determinants and duration of unemployment, profile of the unemployed (gender, race, social condition)	IPEA, UNICAMP, IBRD, UCB, UnB, DIEESE, PUC-RJ, UFRGS, USP, FIESP, CNI	Ricardo Paes de Barros (Director of Social Policies - IPEA), Francisco Galvão Carneiro (UCB), Jorge Saba Arbache (UnB), Andreas Blom (IBRD), Dorte Domeland (IBRD), Marcio Pochman (UNICAMP), Marcelo Portugal (UFRGS), Naércio Menezes de Aquino (USP), Reynaldo Fernandes (USP), Gustavo Gonzaga (PUC-RJ)

<b>Institutions</b>			
Trade Unions	The impacts of trade unions on earnings inequality; scope of union activities; profile of unionized workers; labour legislation regarding union activities.	UnB; USP; UCB; IBRD, DIEESE	Jorge Saba Arbache (UnB); Naércio Menezes de Aquino (USP); Francisco Galvão Carneiro (UCB); Paulo Roberto Loureiro (UCB); Amit Dar (IBRD)
Minimum Wages	The impact of minimum wages on employment, wages, and the public deficit; minimum wages and poverty.	UCB, IPEA, IBRD, USP, DIEESE	Francisco Galvão Carneiro (UCB), Ricardo Paes de Barros (IPEA), Carlos Henrique Corseuil (IPEA), Sergei Soares (IPEA), Luciana Servo (IPEA), Wendy Cunningham (IBRD), Reynaldo Gonçalves (USP)
Collective Bargaining	Freedom of association, structure of collective bargaining and economic performance, labour legislation and the right to organize	ILO, UNICAMP, IBRD, UCB, DIEESE	Francisco Galvão Carneiro (UCB), Armand Pereira (ILO), Márcio Pochman (UNICAMP), Amit Dar (IBRD), Zafiriz Tzannatos (IBRD)
Wage Determination	Main determinants of wages, wage bargaining models, the trade-off between wages and unemployment, minimum wage policies	UCB, IPEA, USP, UnB, UFRGS, DIEESE	Francisco Galvão Carneiro (UCB), Miguel Nathan Foguel (IPEA), Reynaldo Gonçalves, Carlos Alberto Ramos (UnB), Marcelo Portugal (UFRGS), Gustavo Gonzaga (PUC-RJ)
Social Safety Net	The structure and effectiveness of social protection instruments, such as severance funds, unemployment insurance, and consumption smoothing benefits; the targeting of these benefits; their impact on labour market performance and unemployment duration	IPEA, UCB, UnB, USP, IBRD, DIEESE	Francisco Galvão Carneiro (UCB), Ricardo Paes de Barros (IPEA), Reynaldo Gonçalves (USP), Carlos Alberto Ramos (UnB), Dorte Domeland (IBRD)
Labour Legislation	The impact of externalities of labour laws over employment and rights in both rural and urban sectors; the functioning of labour courts	UCB, PUC-RJ, USP, IBRD, DIEESE, CNI, FIESP	Francisco Galvão Carneiro (UCB), José Márcio Camargo (PUC-RJ), José Pastore (USP), José Luiz Guasch (IBRD)

Informal Sector	The importance of the informal labour market; determinants and incentives to informality; profile of informal workers; choice of participation in the informal sector	UCB, PUC-RJ, USP, IBRD, PIMES, UNICAMP, UnB, DIEESE	Francisco Galvão Carneiro (UCB), José Márcio Camargo (PUC-RJ), Maria Cristina Cacciamali (USP), William Maloney (IBRD), Jorge Jatobá (PIMES), Marcio Pochman (UNICAMP), Maria Eduarda Tanuri-Pianto (UnB)
<b>Poverty and Inequality</b>			
Urban Poverty	Profile of urban poor; determinants and incidence of urban poverty; poverty reduction strategies	IPEA, FGV-RJ, PUC-RJ, IBRD, UNICAMP, USP, UCB	Ricardo Paes de Barros (IPEA), Sônia Rocha (IPEA), Ana Peliano (IPEA), Sergei Soares (IPEA), Marcelo Neri (FGV-RJ), José Márcio Camargo (PUC-RJ), Peter Lanjouw (IBRD), Francisco Ferreira (IBRD), Reynaldo Gonçalves (USP), Francisco Galvão Carneiro (UCB)
Rural Poverty	Profile of rural poor; social security for the rural poor; migration and poverty in rural areas; poverty reduction strategies	IPEA, UNICAMP, IBRD, UCB	Guilherme Delgado (IPEA), José Graziano (Director of Project RURBANO – UNICAMP), Peter Lanjouw (IBRD), Francisco Galvão Carneiro (UCB)
Income Inequality	Determinants of income inequality; strategies to reduce inequality; measuring income inequality; inequality and poverty	IPEA, ESALQ, IBRD	Ricardo Paes de Barros (IPEA), Sergei Soares (IPEA), Rodolfo Hoffman (ESALQ), Francisco Ferreira (IBRD)
Earnings Inequality	Determinants of inter-industry wage differentials; union wage premium; earnings inequality and discrimination	UnB, UCB, IPEA, USP	Jorge Saba Arbache (UnB), Francisco Galvão Carneiro (UCB), Paulo Roberto Loureiro (UCB), Carlos Henrique Corseuil (IPEA), João de Negri (IPEA), Naércio Menezes de Aquino (USP)

