Solange Monteiro

THE MINIMUM WAGE has been the focus of heated debates around the world. In developed countries where economies are growing slowly, the question is whether raising the minimum wage would stimulate domestic demand and boost growth. In the United States, for example, raising the federal minimum wage has become a priority for President Barack Obama, who believes doing so would have a beneficial impact on the welfare of at least 28 million Americans. In Germany, where wages are set by collective bargaining agreements, the Social Democrats want to set a minimum wage but Chancellor Angela Merkel is opposed because she fears that higher labor costs would reduce the competitiveness of German exports.

In Brazil, after more than a decade of a policy of raising the minimum wage that has reduced inequality of labor income and fueled consumption-led growth, the debate is now back. The minimum wage law that has been in effect since 2007 is due for revision in 2015, which coincidentally is the beginning of a new presidential term. The question is whether the current rule of adjusting the minimum wage based on inflation...
in the previous year plus GDP growth two years before will be retained.

A central question for specialists is whether raising the minimum wage is sustainable when the economy is not growing much. According to the Unions Department of Statistics and Socioeconomic Studies (Dieese), counting the 6.78% increase in 2014 the minimum wage adjusted for inflation has risen 72% since 2002. Especially in recent years, this has raised labor costs far above productivity; public spending has also shot up because pensions and other welfare benefits are indexed to the minimum wage. Thus in Brazil the minimum wage now constitutes the base income for about 48 million people, according to Dieese: 26.5 million workers and 21.5 million beneficiaries of social spending.

Economist Nelson Barbosa, researcher at the Brazilian Institute of Economics (IBRE), says the minimum wage policy was right at first but adjustments are now needed: “I believe the policy was appropriate because it raised the minimum wage in terms of average salary in a manageable way. Ten years ago, the minimum wage accounted for about 30% of the average wage, and today it is 40%.” He notes that the fiscal situation then was solid enough to support the rise in the minimum wage. “The minimum wage should continue to increase above inflation,” he says, “but more moderately, so as not to create an imbalance in the labor market and not to put excessive pressure on the public budget.”

Samuel Pessôa, another IBRE researcher, believes it may not be wise to assess the minimum wage policy purely on technical considerations. It was a political decision that took into account the tradeoff between growth and equity. But, he says, in recent years the rule for adjusting the minimum wage to some extent has undermined GDP growth. “It is clear that the policy of raising the minimum wage has a direct impact on the welfare of many families,” he says, “but at the same time it reduces domestic savings and consequently compromises the country’s growth.”

**Brazil’s minimum wage, 1940-2014**

(February 2014 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Minimum Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>R$624</td>
</tr>
<tr>
<td>1951</td>
<td>R$230</td>
</tr>
<tr>
<td>1960</td>
<td>R$530</td>
</tr>
<tr>
<td>1991</td>
<td>R$724</td>
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</tbody>
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“The minimum wage should continue to increase above inflation, but more moderately, so as not to create an imbalance in the labor market and not to put excessive pressure on the public budget.”

**DIFFERENT CURRENTS**

Early in May, Barbosa and Pessôa organized a seminar on minimum wage policy at the Getulio Vargas Foundation in Rio de Janeiro. Experts with different views on the issue were invited; the hope is that the proceedings will contribute to the policy debate for the government elected in October and help to inform society on the issues.

Seminar participant Carlos Medeiros, researcher at the Institute of Economics of the Federal University of Rio de Janeiro (UFRJ), has argued that the policy of raising the minimum wage has had a beneficial effect in modernizing labor relations and boosting more productive activities: “We saw in the Brazilian economy the minimum wage rising and informal labor declining at the same time,” he says. “The reduction of young and elderly people participation in the labor market was related to the Family Grant [which requires that children attend school] and better pensions [which are indexed to the minimum wage]. These reduced participation in the informal labor market,” he says. “At the same time, conditions for integrating people into the formal labor market improved. Formalization enabled access to credit for consumer goods. This also increased regulated employment and reduced informal activity.”

Pessôa, however, questions whether by itself stimulating consumption by the poor guarantees the sustainability of economic growth. “The fastest-growing country is China, which saves 50% of GDP,” he says. According to the International Monetary Fund, Brazil saves only 14%, compared to 26% in Russia, 24% in Peru, and 20% in Mexico. “The data from Brazil seem less unfavorable when compared to rich countries (the United States saves 17% of GDP). However, Pessôa explains, developed economies need to save less because they do not need to invest as much in infrastructure.

For Laura Carvalho, lecturer, São Paulo School of Economics of Getulio Vargas Foundation (EESP), the question is how to identify the unit labor cost that has negative effects on productive investment and the external trade balance: “It is not straightforward. In any case, Brazil has not yet reached that point; we still have the potential to increase consumption.” She warns, “We should not attribute the current slowdown of the economy to exhaustion of consumer-led growth. I think it has more to do with the recession in the world economy and some other factors related to fiscal policy.”

José Márcio Camargo, professor at Catholic University of Rio de Janeiro, believes the policy
of raising the minimum wage is already showing signs of exhaustion and is even undermining the labor market. He notes that “In the Northeast, the unemployment rate is 9% of the workforce, compared to 3% or 4% in Rio de Janeiro. One of the reasons for high unemployment and informal labor in the region may be that the minimum wage is high compared to productivity in the region.”

**CONSENSUS ON PRODUCTIVITY**

Despite widely differing views, a consensus is emerging among experts on the need to slow adjustments in the minimum wage and start pegging it to productivity rather than GDP growth. IBRE’s Barbosa suggests that for the next four years the minimum wage should be adjusted in line with the average wage increase or GDP per capita. “This would moderate the rise in the minimum wage, reduce the pressure on public budgets, and keep the minimum wage stable from a distributive standpoint in terms of average salary.” He also argues that the ideal would be to calculate the wage as an average, for example for the last three years, in order to give more predictability to public spending.

Barbosa believes it is possible to continue raising the minimum wage and indexing pensions and welfare benefits to it if rules for granting three benefits are tightened: salary bonuses, unemployment insurance, and pensions for disability or death. Today, even if the minimum wage, pensions, and welfare benefits were adjusted only according to inflation, the three benefits would increase as a share of GDP,” he says.

Pessôa argues that with the end of the demographic dividend and the elderly population growing relative to the working population, financing of the social security pension system will worsen and the cost of social programs will increase. “My opinion is [pensions and welfare benefits] should not be pegged to the minimum wage. People who earn one minimum wage pension from Social Security had paid social security tax based on a much lower salary,” he says. “To finance these pensions without bringing back inflation, we will need to increase taxes on the entire society, which will discourage productive activity, investment and savings,” he says. “If the people choose to improve income distribution at the expense of economic growth, it is all right to increase taxes. What is not possible is to make this choice and at same time demand that the government improves public transportation in the cities.”