The Brazilian Economy

COVER STORY

LABOR MARKET

Minimum wage at the crossroads

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When the current policy of adjusting the minimum wage was launched in 2007, many believed the job market would become distorted, generating an increase in unemployment and informal jobs. Another concern was that labor costs would increase for employers. If that had been correct, the labor market would have fared much worse than it actually did, since between 2007 and 2014 the minimum wage increased 30% above inflation, according to the Unions Department of Statistics and Socioeconomic Studies (Dieese). Someone who earned R$380 in 2007 earns R$724 today.

However, the predictions turned out to be wrong. Since 2007, the labor market has remained buoyant and unemployment low. The February employment survey by the Brazilian Institute of Geography and Statistics (IBGE) recorded 5.1% unemployment. No one can explain why the labor market is so resilient.

Two views

According to the 2012 National Household Survey (PNAD), the increase in the minimum wage has benefited about 26.3 million people, about 30% of the work force. Carlos Corseuil, deputy director of the Institute for Applied Economic Research (IPEA), believes that the minimum wage policy has helped to reduce inequality in the labor market and has favored low-earning groups, such as youth and low-skilled workers.

Corseuil identifies two views on unemployment and informal jobs that have emerged since 2007. The first is that minimum wage increases have boosted the economy, generating more consumption. The second is that employers may have reacted to the increase in the minimum wage by changing the composition of their workforce. On this view, since employers have to pay higher salaries, they opt to hire skilled workers who can contribute more to produce and improve a product or service. If that is correct, there is reason for concern, Corseuil notes: “It would mean fewer job vacancies for unskilled workers, making them more dependent on welfare policies.”

So far the labor market does not seem to have suffered any major shocks. However, the problems may intensify if the modest growth in the labor force is confirmed in coming years. Raising labor productivity is the major challenge. If Brazil is to reach the 4% growth a year it needs to double per capita income in 20 years, it is essential to raise labor productivity. Fernando de Holanda Barbosa Filho, researcher at the Brazilian Institute of Economics (IBRE), estimates that growth in labor productivity has fallen from 2.8% in 2006–10 to 1.8% in 2010–13. “If the labor market becomes tighter, the chance of employers firing less productive workers becomes much greater,” he says.

Tension point

Claudio Dedecca, professor of economics, University of Campinas (Unicamp) and one of the authors of the minimum wage policy, says that the initial idea was to both benefit low-paid workers and at the same time build up the labor market and productive activity. But, he says,
“Although the minimum wage increased on average 6% to 6.5% a year, there was no strategy to expand productive capacity, raise technological standards, and improve work force training to increase productivity.” That he sees as the main point of tension for the minimum wage policy: “Either we confront this problem of productivity by modernizing the productive structure and retain the current minimum wage adjustment rule, or we change the minimum wage policy if we cannot raise productivity.”

Another problem is high worker turnover, which can increase government spending on unemployment insurance. Corseuil notes that “The number of workers in the formal labor market has increased in recent years, which has increased the number of people who benefit from unemployment insurance. Worker turnover is astonishingly high in Brazil, and the higher the minimum wage, the higher the benefit paid to those unemployed.”

**Changes to the policy?**

Another question is whether the current rule for adjusting the minimum wage is the best option for the labor market. Rules for adjusting the minimum wage are set out in Law No. 12,382, of February 25, 2011, which is valid until 2015. The annual increase in the minimum wage corresponds to real growth in gross domestic product (GDP) growth two years before plus inflation in the previous year as measured by the National Consumer Price Index (INPC).

Dieese Director Clemente Ganz is emphatic that the valuation of the minimum wage is one of Brazil’s major policies, perhaps the most important of the last decade in terms of income distribution. The minimum wage policy, he says, “is a strategic policy of economic growth. And this is why we believe that it should not only be retained, but also expanded.” He adds that in the short term, there is no need to worry about the policy-related costs in terms of unemployment insurance and salary bonuses because the forecast for GDP growth in the next two years is relatively low, between 1% and 3%.

Unicamp’s Dedecca says that in any case changes to the minimum wage policy in 2015 are unlikely because of politics: “Next year a new administration will take office, and any change in the current minimum wage policy would require the administration to assume the burden of proposing new legislation to Congress. Will the new administration consider changing the minimum wage policy to be so strategic as to risk suffering a defeat at the start of the mandate? I think not.”

Barbosa Filho is more dubious about the current minimum wage policy because in terms of fiscal costs it is not a good deal. He considers the model of increasing the minimum wage according to previous real GDP growth and inflation is bad because it may coincide with an economic crisis and lead to higher costs for companies when they are not well off financially. That would trigger layoffs or bankruptcies. “I don’t know if there has to be a fixed rule for the minimum wage, either by GDP per capita or otherwise. The government chose the current minimum wage adjustment rule,” he concludes. “What I can say is that at some point the policy will have a cost in terms of fewer jobs. It is not possible to say when, but it will.”

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