IN 2014 BRAZIL RECORDED its lowest unemployment rate since 2002, 4.8% monthly, according to the government statistics agency survey in six metropolitan areas. But this deservedly celebrated achievement is now part of the past: no one believes that Brazil is likely to repeat the feat this year, or even next. Instead, the general bet is that unemployment will go up and worker incomes go down. In January, unemployment jumped to 5.3%.

In 2015 the slowing economy and rising inflation will cause further deterioration of the labor market. According to the Ministry of Labor, there was an increase of only 396,900 jobs in 2014—64% fewer than in 2013. In January 2015, the labor market actually lost 81,774 jobs.

The 2014 results were mainly influenced by industry, which cut its work force for the first time since 2002, eliminating 163,800 jobs, and construction, which cut 106,500 jobs. Commerce and services, which account for most Brazilian hiring, did create jobs, but far fewer than in 2013.

After having added 5 million jobs during President Rousseff’s first term, the labor market is going through a dramatic downturn. “The outlook for the labor market is bad and is likely to be aggravated by the fiscal adjustment and rising inflation, which creates uncertainty for businesses,” says Naércio Menezes Filho, professor at the Institute of Education and Research. He adds that “Wages will stagnate, largely because of a smaller increase in the minimum wage.”

To change this situation, Menezes recommends more investment in research and development (R&D) so that companies can take advantage of the devalued exchange rate to export more. But for that to happen, he says, a change of mentality is needed. Menezes argues that the government should no longer protect various industries and instead encourage innovation because only in this way can companies reinvent themselves and become competitive. For example, industry, he says, cannot pass wage increases through to prices; and in most cases, wage increases are not accompanied by more worker productivity, so many industries become less competitive.

**Gradual deterioration**

With a projected fall of 1% in GDP this year, there is no way to keep the labor market buoyant, says IBRE researcher Rodrigo Leandro de Moura, who explains, “The outlook is one of gradual deterioration in the labor market. Consumer and business confidence is worsening. There are high interest rates, credit restrictions, water crisis, and energy prices hikes.**
All this is likely to deepen industry’s downturn, which eventually will hit the service sector.”

De Moura fears a rush of layoffs, negotiated between employers and employees, so that they can draw unemployment insurance before the government’s new rules start in March. The government is raising the requirement from 6 months of formal contract work to 18 months for workers to apply for unemployment insurance. De Moura expects that unemployment will rise to 5.6% in 2015 and 6.5% in 2016, up from 4.8% in 2014. He believes income-discounted inflation will stagnate in 2015, after rising 2.7% in 2014.

What needs to be done to turn around this situation? De Moura believes it would be necessary to have more favorable regulation and improve education to heighten the productivity of workers and capital. He also supports more flexible labor laws to reduce turnover. The cost of layoffs is high in Brazil, he explains, making hiring more expensive. In Europe, where laying off employees is very costly, the market adjusts by hiring fewer workers. As a result, youth unemployment is much higher. In Spain, for example, it has exceeded 50%.

In a scenario of high inflation, meager economic growth, and loss of jobs, there is no doubt that workers lose. The question is for how long.

“The labor market is resilient, it takes time to slow down, but we are already seeing less employment in construction and services,” says IBRE researcher Silvia Matos. Services and construction together account for over 70% of workers. With income growing less, the prospect is that households will cut their spending, principally on services, which would cause layoffs in the service sector, she predicts. She also notes that controlled prices (e.g., on energy) are rising, further reducing household incomes and forcing cuts in other spending.

Guilherme Mercês, economics and statistics manager of the Federation of Industries of Rio de Janeiro, also sees an unfavorable employment scenario: “Before 2010, industry’s productivity was growing more than wages, which raised competitiveness and exports. That changed. Since 2010, wages have kept growing and productivity has stagnated, raising costs and lowering competitiveness. No wonder the trade balance deteriorated.” However, recent government measures increase payroll taxes, making hiring more costly.
“The outlook for the labor market is bad and is likely to be aggravated by the fiscal adjustment and rising inflation, which creates uncertainty for businesses.”

Naércio Menezes Filho

Mercês says Brazilian unit labor costs in real terms increased 11.6% more than inflation from 2010 to 2014. Meanwhile, other countries have reduced their labor cost. Mexico and Colombia, he says, deregulated the labor market and unit labor costs declined by 6.3% for Mexico and 12% for Colombia.

More flexible rules
Mercês foresees rising unemployment in 2015, particularly in industry. The forecast is for industrial production to drop 1.1–1.2% this year. To reduce layoffs, he believes, it would be necessary to relax labor market rules, opening the possibility of direct negotiations between employee and employer, with the supervision of unions.

The technical director of the Inter-Union Department of Statistics and Socioeconomic Studies (Dieese), Clemente Ganz Lúcio, has a different diagnosis of the economic crisis, however: “There are inflationary pressures, in part derived from exchange rate devaluation, which is necessary for the development of industry. There are pressures derived from water scarcity, there is an adjustment in relative prices, and a correction of controlled prices. If all this is needed to rebalance the economy, we have to accept it.”

Lúcio believes Brazil needs a transition, given the adverse international context with commodity prices falling, and Brazilian industry in fragile condition. He explains that “We had 25 years of destructive exchange rate overvaluation. Industrial policy measures were not enough to support industry. We have to reorganize the government to recover confidence.” He fears that hitting the brakes too hard could cause a prolonged recession. In that case, business expectations would be even more critical to shaping the future.

“If companies feel that the outlook is positive,
they may retain workers, and the country could resume growth in 2016. In that case, companies would try to preserve their production capacity,” Lúcio says. He believes the level of economic activity will depend on several factors, not just the government’s actions, and that the international context will be decisive.

Dieese data, however, show that the slack labor market is not yet reflected in collective bargaining. In 2014, more than 90% of professional categories had their salaries and wages adjusted by the rate of inflation or more, but it is difficult to predict whether that will continue this year. The unions are not willing to watch passively as the labor market deteriorates; they are already mobilizing. “We must acknowledge that the economic situation is difficult, but we want to influence society and government policies,” said Vagner Freitas, president of the Workers’ Central Union (CUT).

Union proposals

“There is a debate on policies to strengthen the domestic market,” Freitas says: “Some believe that this policy is no longer feasible. They want a change in policy that reduces investment and leads to economic paralysis. The CUT wants to discuss economic policies. So we are looking for partnerships with development economists, thinkers who share our vision. ... We want to discuss proposals and take them to the Government, to Congress, to society. The policy agenda is the one that elected the president. ... We need to discuss ideas that generate employment and income, and improve the competitiveness of domestic industry.”

Freitas advocates cheaper credit from state-owned banks to revive the economy. “Another world is possible, rather than economic restrictions. The important thing is that this government was elected with the support of the working class and it needs to be encouraged to get out of the crisis.” He fears that the discourse about the crisis may harm workers’ collective agreements: “Brazilian businessmen may hide behind these arguments in order not to give wage increases and hire more.”

Miguel Torres, president of Union Force, is also in favor of measures to promote development. “We want to try to convince the government to adopt economic development and not profiteering. Meanwhile, the government has tightened credit and increased the tax on financial transactions. The Force will seek out government and Congress to encourage them to face this situation.” He explains that “We are coordinating with Congress; we met with Renan Calheiros [Senate president] and Eduardo Cunha [president of the House]. Calheiros made it clear that he is against reducing workers’ rights. We have also a fiscal adjustment proposal: reduce the number of ministries and departments. In addition, we propose taxing large fortunes and profit remittances as well as levying property taxes on helicopters, boats, and yachts. The adjustment cannot fall only on workers.”

Torres says that to unlock investment businesspeople need to regain confidence. “The big challenge is to put more money into the economy, raise wages, and distribute income. We will have to face it,” he urges. In a scenario of high inflation, meager economic growth, and loss of jobs, there is no doubt that workers lose. The question is for how long.