



The Brazil Jobs Report

Presentation by

Andreas Blom and Indermit Gill

Based on joint work by IPEA and the World Bank



Outline of Today's Talk

- ◆ Process
- ◆ Report Structure
- ◆ Report Substance
- ◆ Policy Recommendations



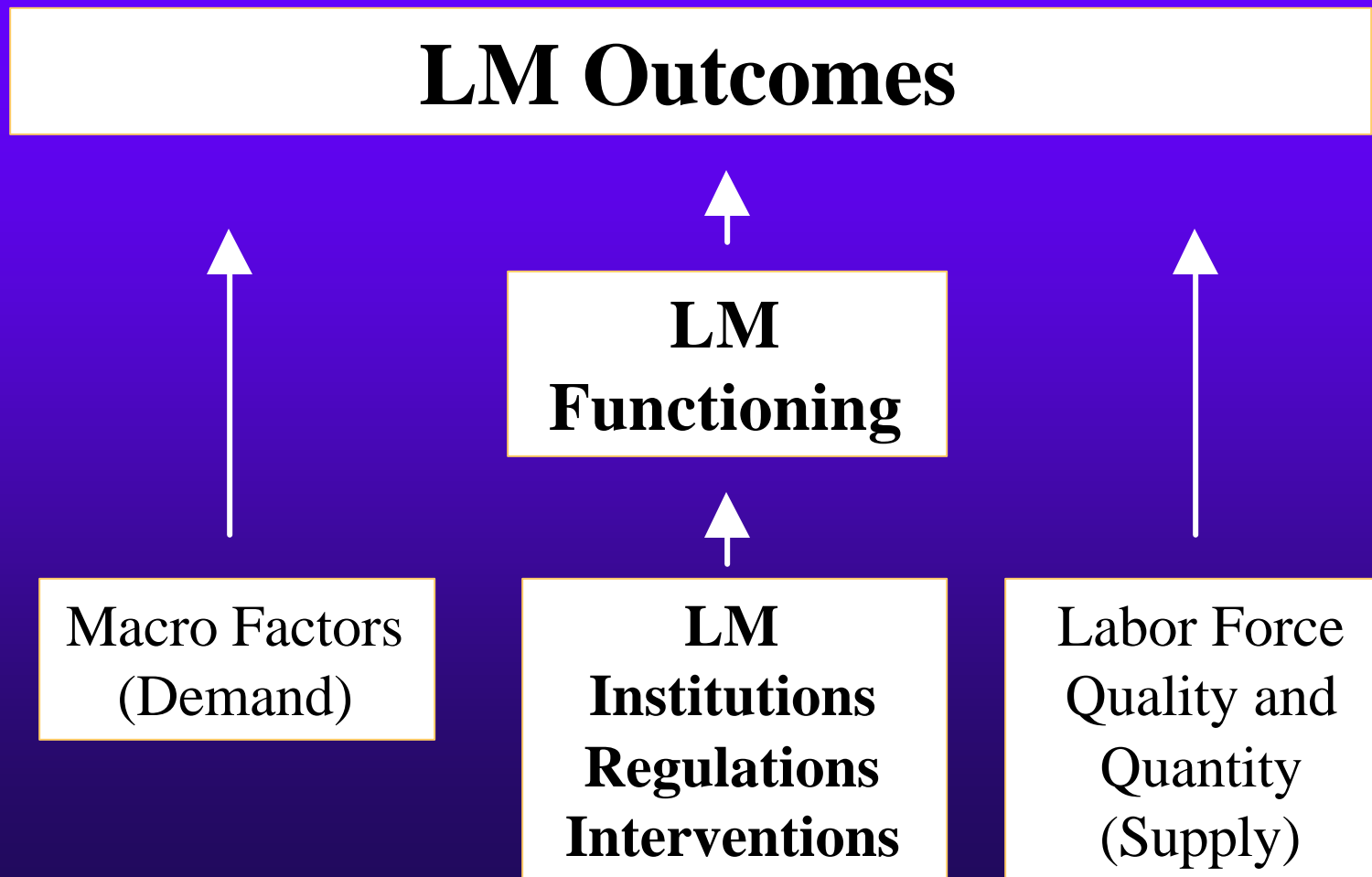
Process

- ◆ Joint work with Institute for Applied Economic Research (IPEA)
 - R. Paes de Barros, M. Silva and C. Corseuil.
 - Other Brazilian specialists, e.g., Jose-Marcio Camargo
- ◆ Commissioned 12 Background papers
 - Brazil diagnostics done by IPEA and Bank
 - International experience done by Bank
- ◆ Timing
 - Seminar in Congress (April 2002)
 - Election year (October 2002)



Report Structure I

How we think about labor markets

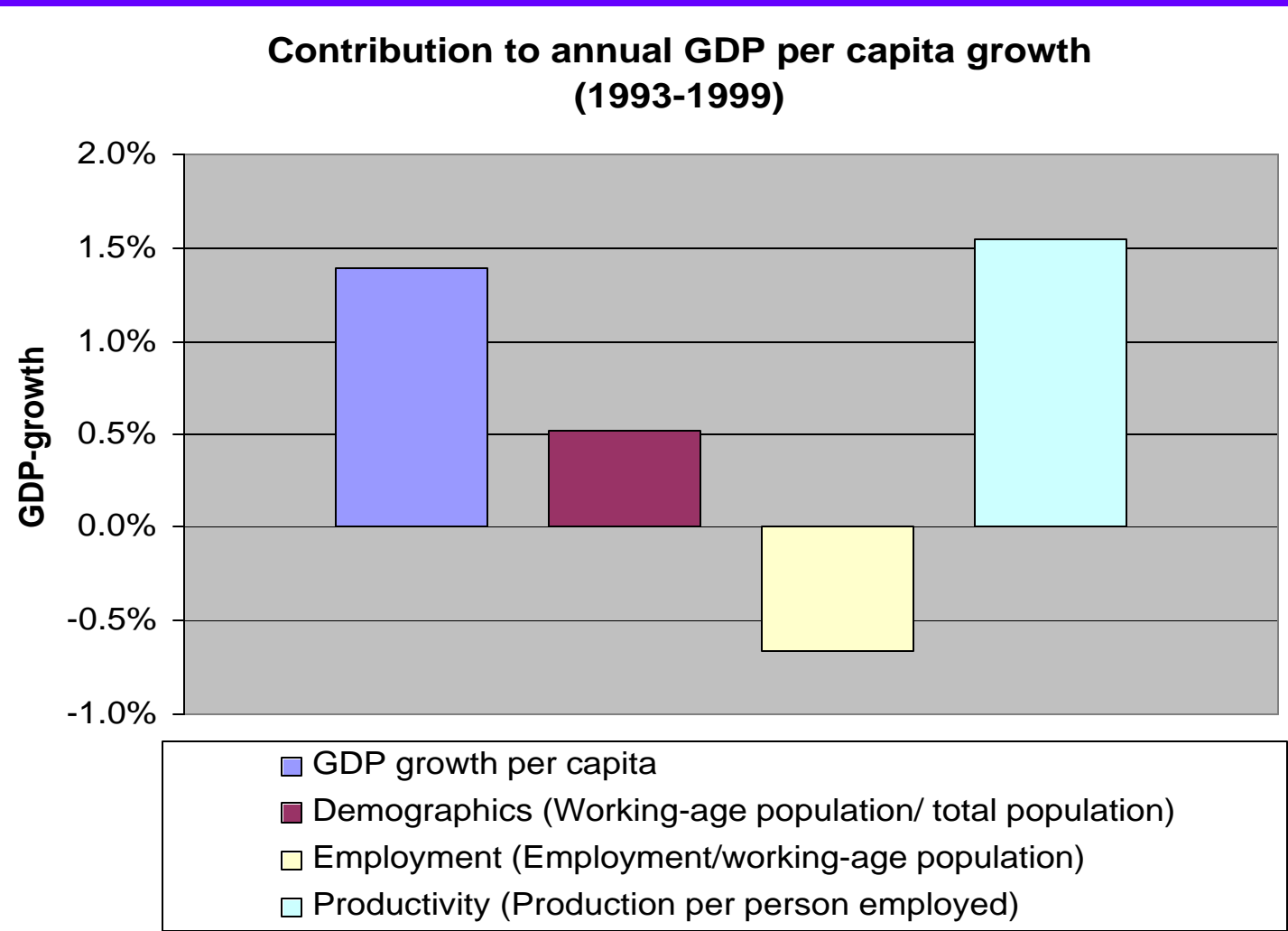




Report Structure II

- ◆ **LM Outcomes (in Brazil)**
 - Employment, Productivity, and Income Security
- ◆ **Exogenous Factors (“non-LM” influences)**
 - Macroeconomics, Education, and Demography
- ◆ **LM Functioning (underlying the outcomes)**
 - Litigation, Turnover, and Informality
- ◆ **LM Policies (to improve functioning)**
 - Institutions, Regulations, and Interventions

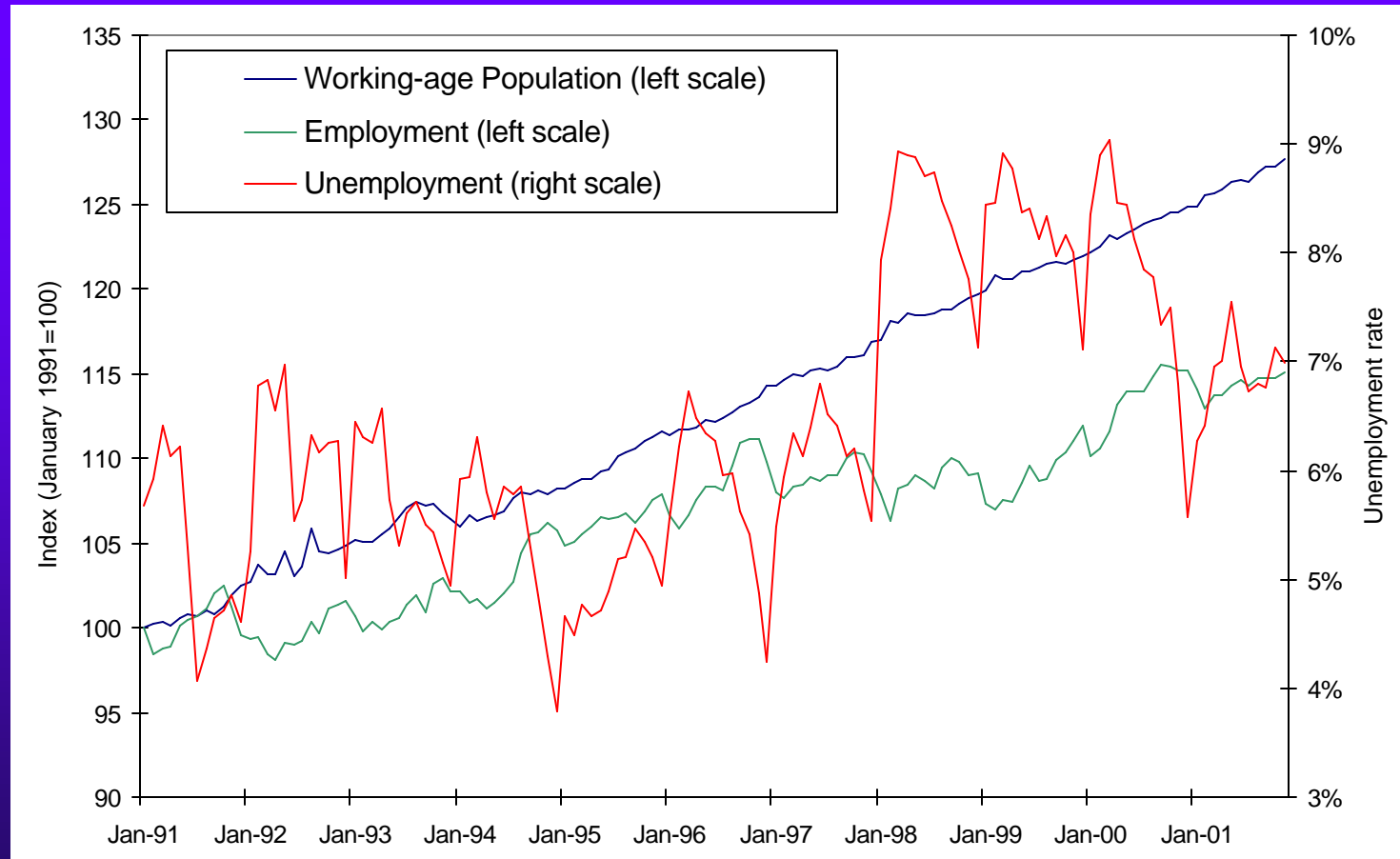
LM Outcomes: Why Productivity is Important





Insufficient Job Creation I

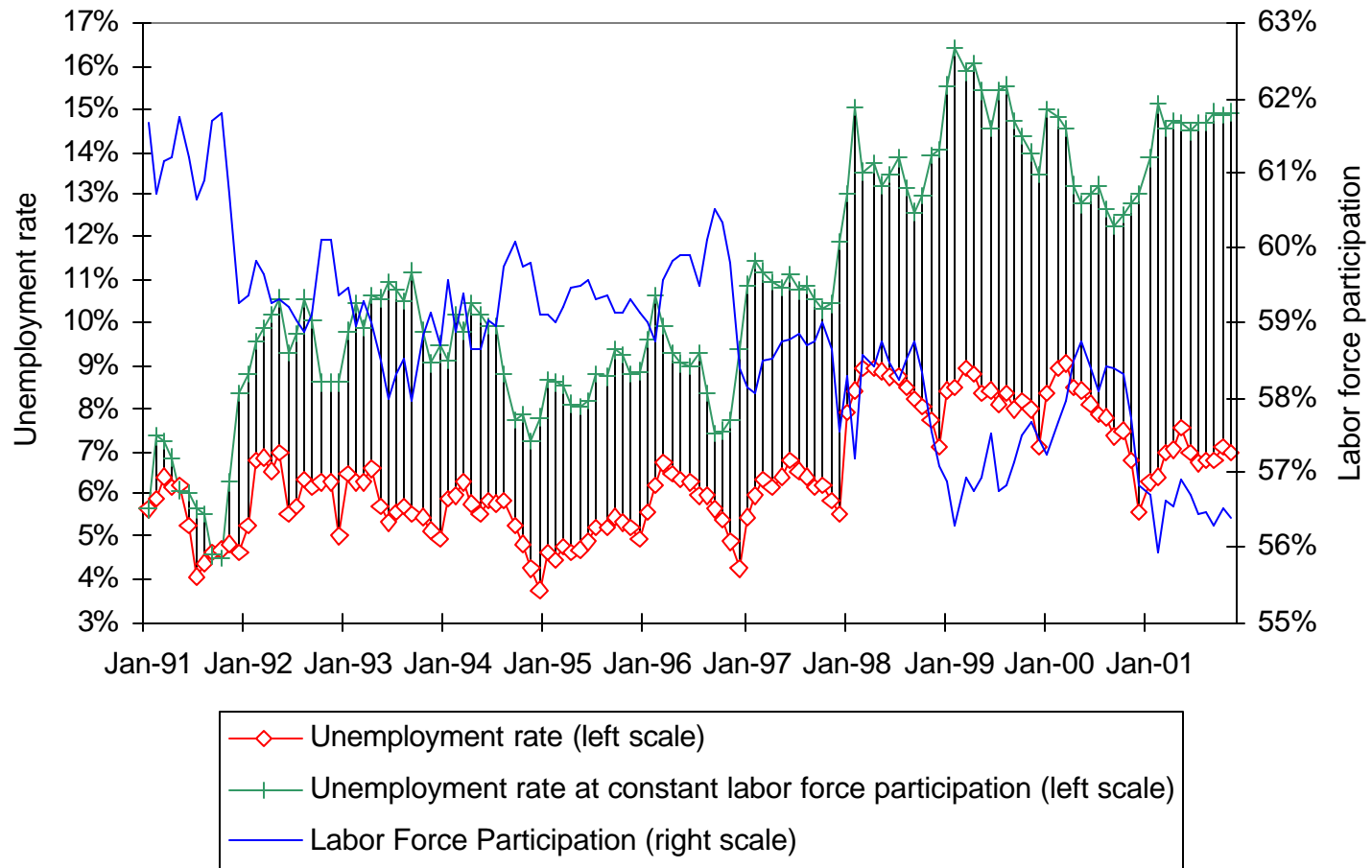
Divergence between WAP and Employment Trends..





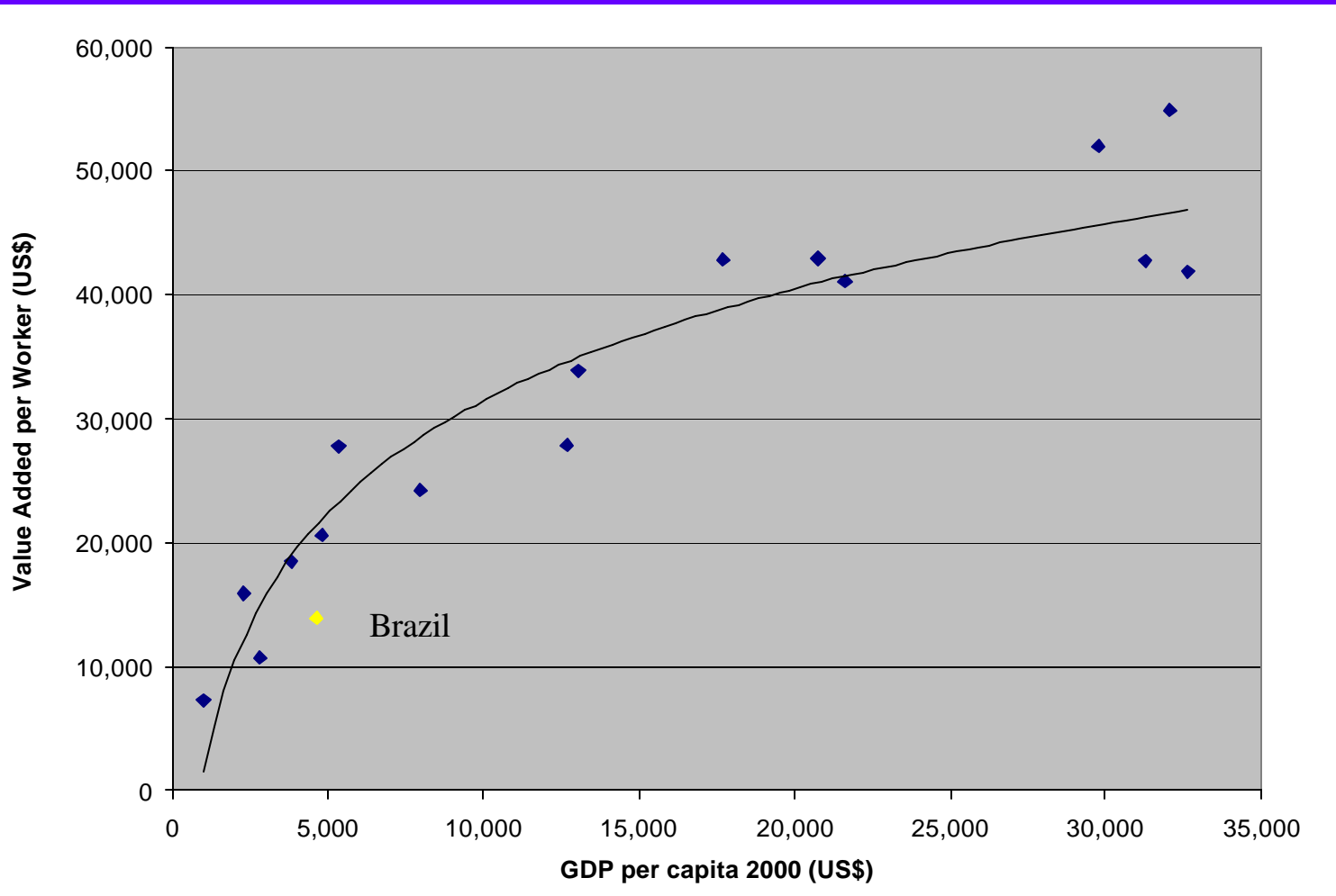
Insufficient Job Creation II

...especially accounting for Falling LFP





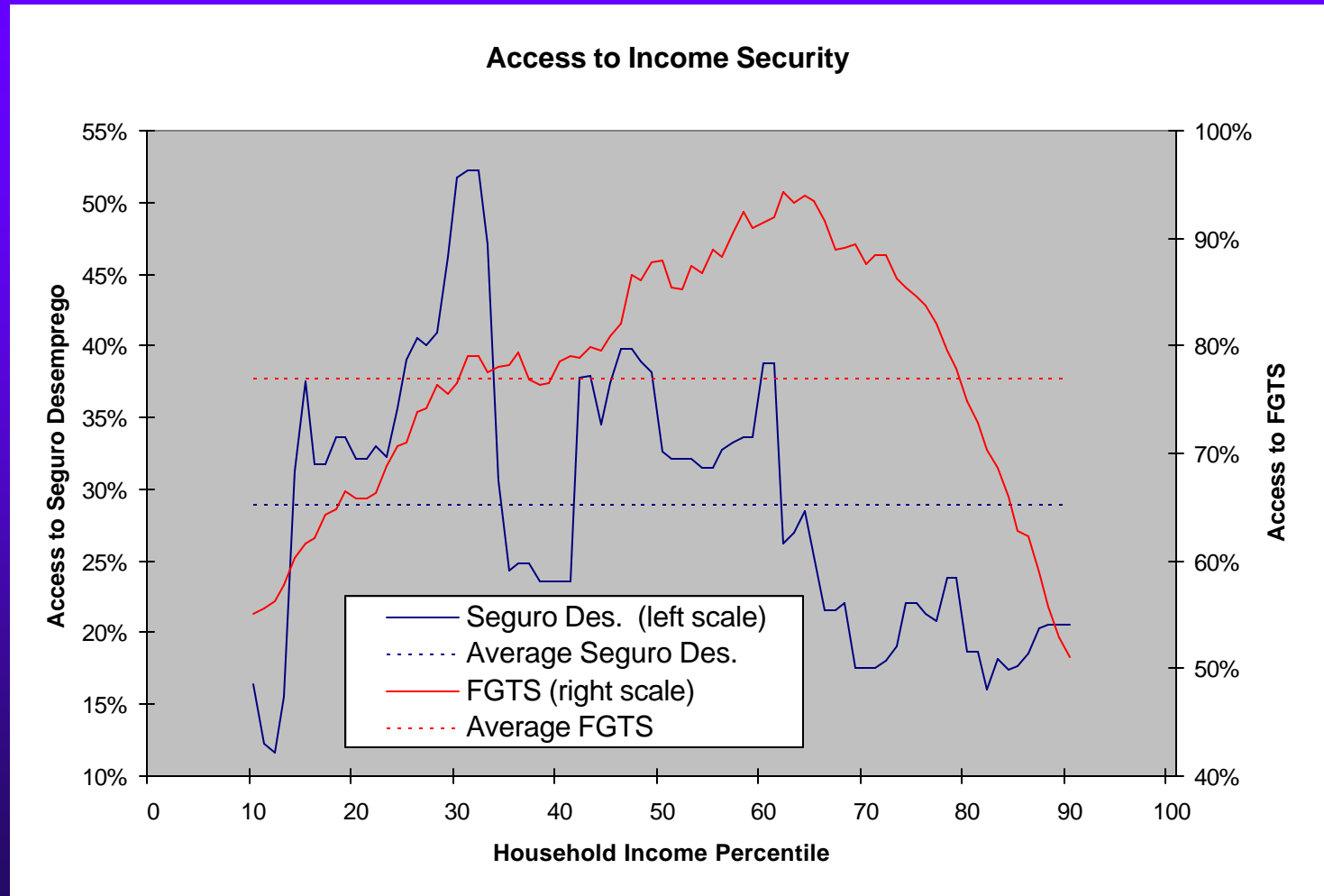
Productivity: Low, and Lower than Expected





Income Security:

Through social programs, mainly for middle class





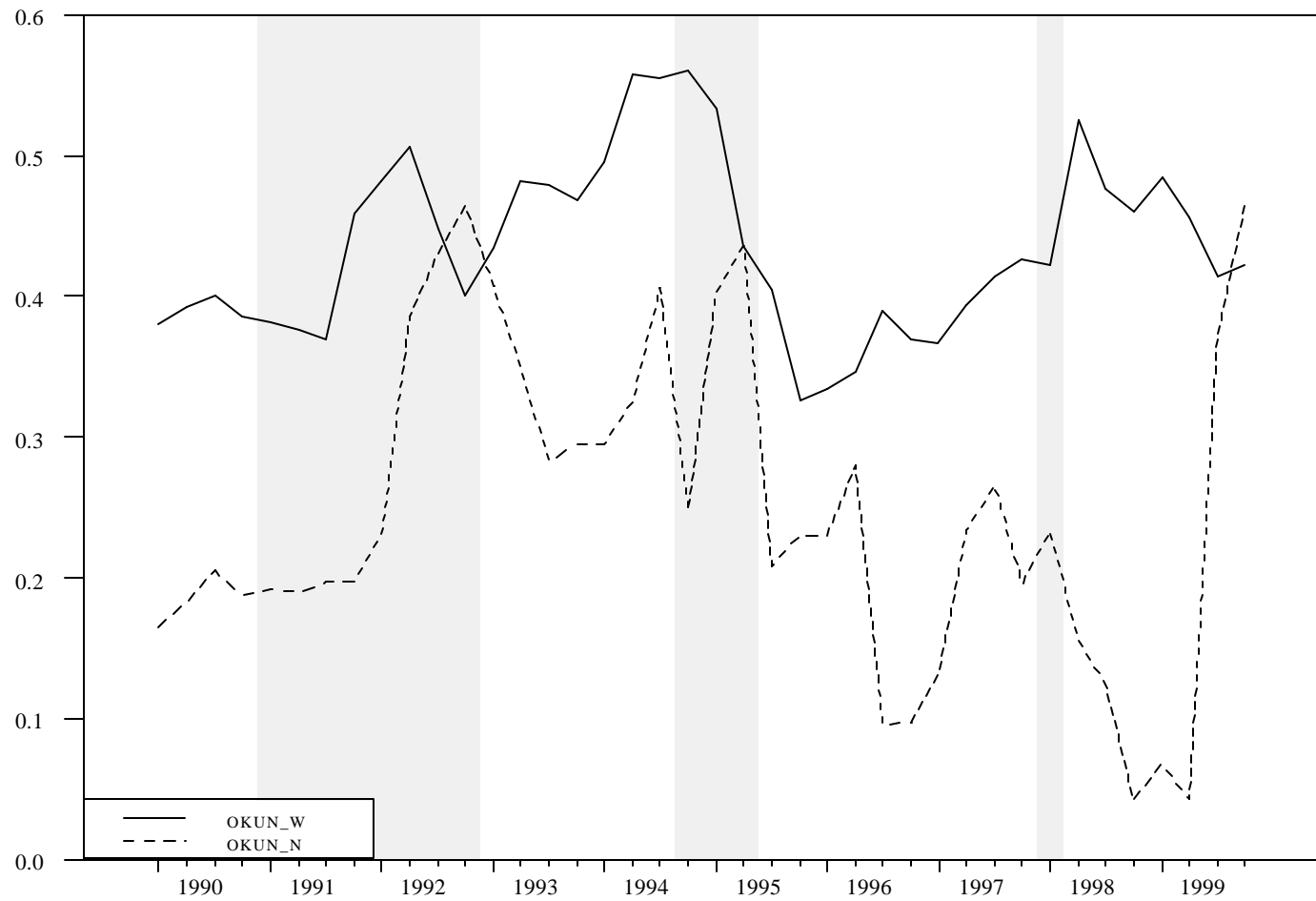
Exogenous Factors:

- ◆ Macroeconomics
- ◆ Quality of labor
- ◆ Demography



Macro affects how LM adjusts:

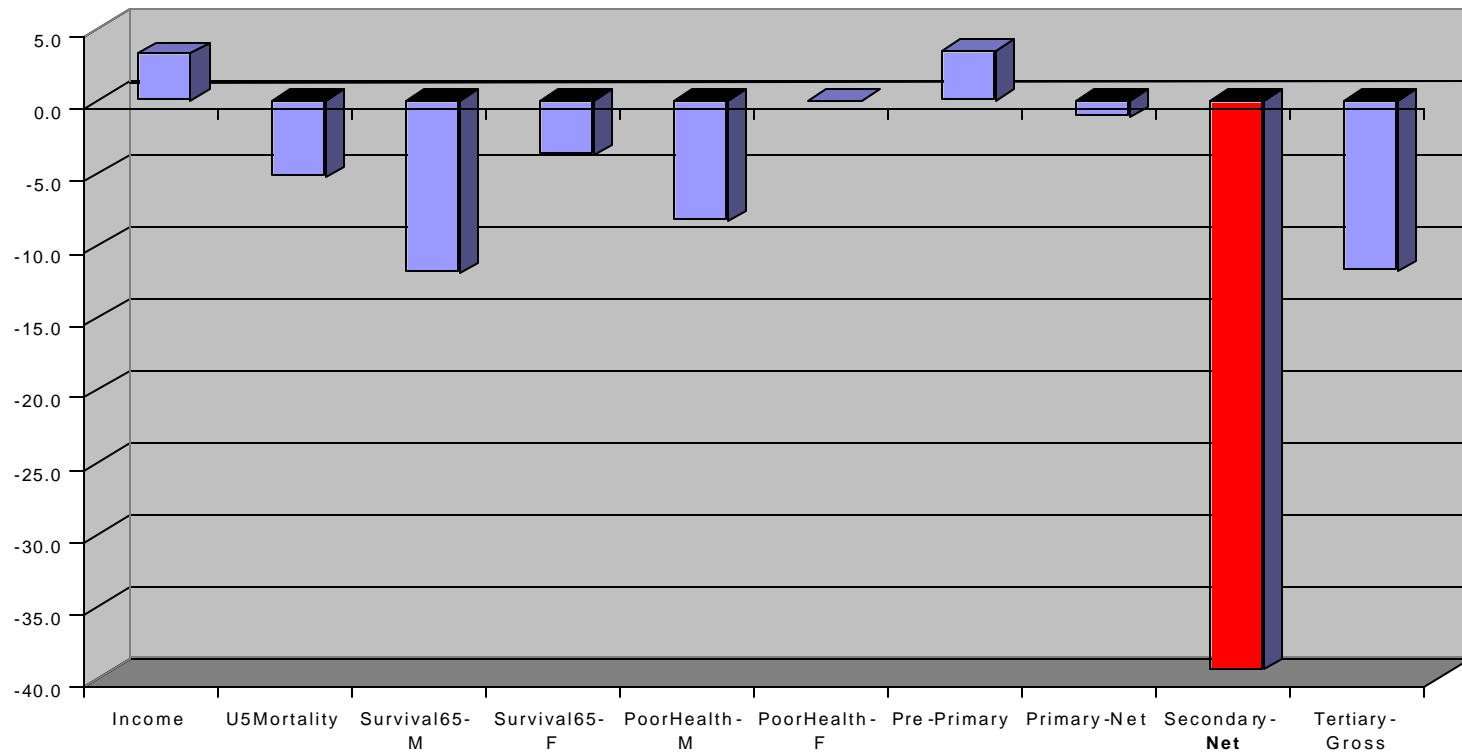
Wage versus employment adjustment in the 1990s





Schooling Levels: Constitute an upper limit on productivity

Brazil Lags Behind Latin American Countries Most in Secondary and Tertiary Education and in Male Health





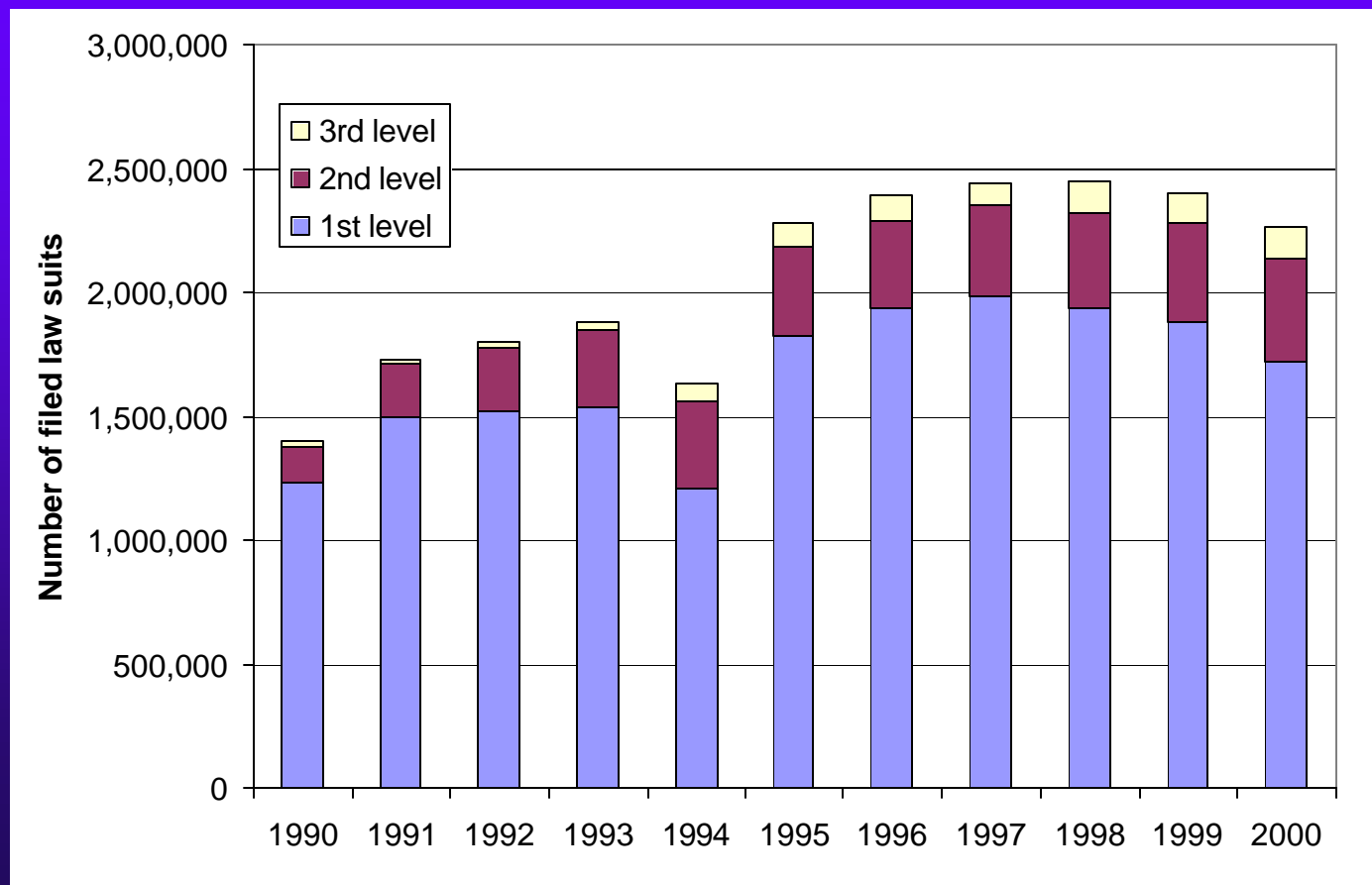
LM Functioning:

- ◆ High Litigation
 - Outcome: lower **employment**
- ◆ High Turnover
 - Outcome: lower **productivity**
- ◆ High Informality
 - Outcome: lower **income security**



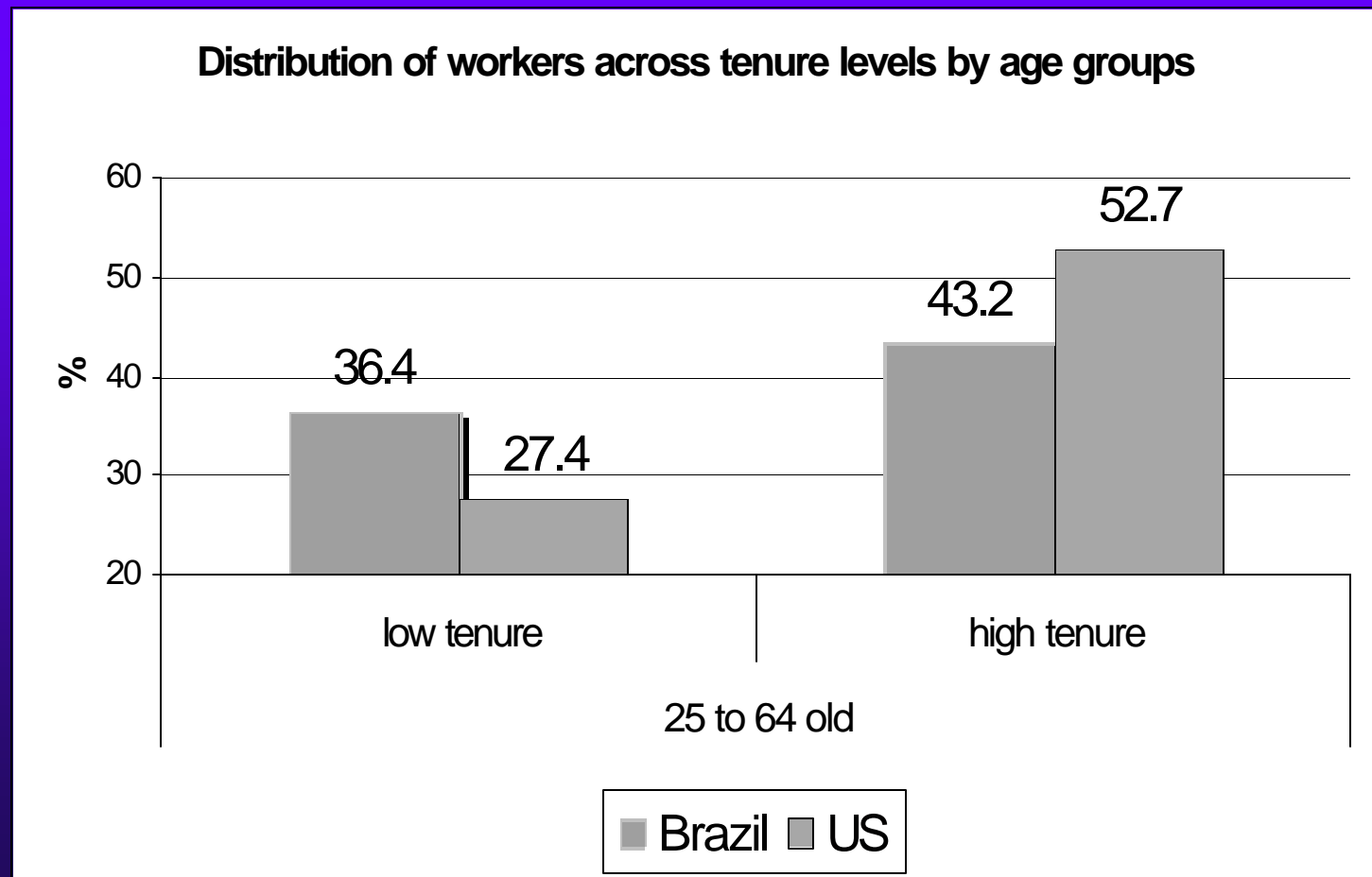
Functioning I: Widespread Litigation

High costs and uncertainty => Lower employment



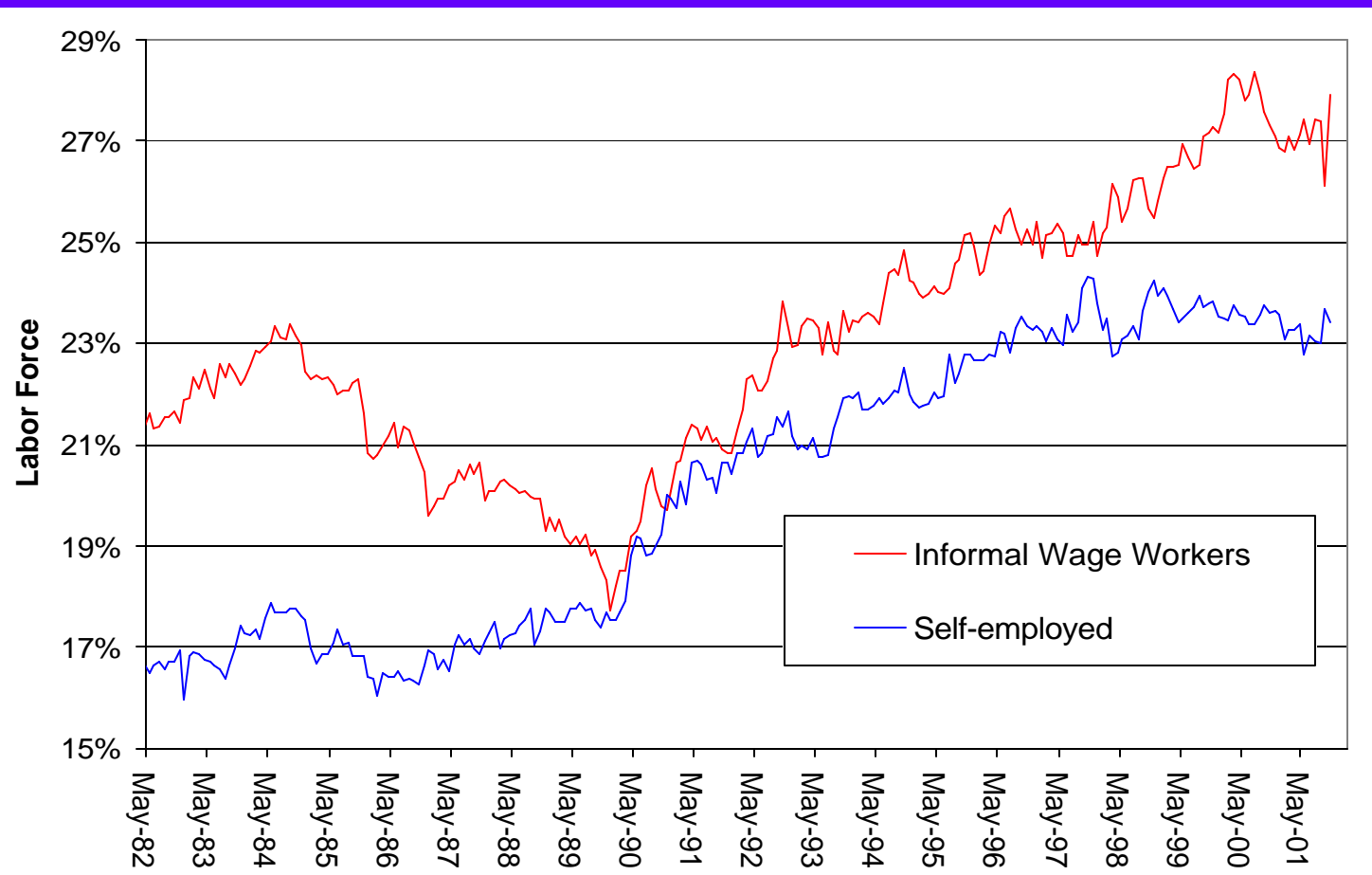
Functioning II: High Turnover

Low on-the-job training => Sub-optimal productivity



Functioning III: High Informality

Low coverage of safety nets => Low income security





LM Policies: Institutions

- ◆ Labor court functioning raises uncertainty and costs of labor
 - Serves as a venue for (ex-post) negotiation of wages and benefits
- ◆ Collective bargaining laws keep unions from better representing worker interests
 - Monopoly powers for unions weaken incentive to be representative
 - Individual labor code mandates form the floor to any collective bargaining agreement



LM Policies: Regulations

- ◆ Severance Fund (FGTS) regulations inadvertently subsidize turnover
 - Lower than market rate of return implies perverse incentive to precipitate firing to access FGTS balance
 - Penalty for “unjust dismissal” goes to worker (40% of accumulated balance)
- ◆ Mandated benefits price low productivity workers out of formality
 - Uniform national minimum wage setting has different effects in poorer Northeast
 - Mandated non-wage benefits add 85% to wage costs



LM Policies: Interventions

- ◆ Interventions are needed even in well-functioning labor markets
 - Unemployment insurance may not be provided by markets due to asymmetric information
 - Job search assistance due to imperfections in the market for information
- ◆ And compensatory interventions may be needed because of “exogenous factors”
 - Training programs to compensate for low education
 - Micro-credit schemes to counter poorly functioning capital markets



Policy Priorities

- ◆ Eliminate subsidization of labor turnover
 - Modify design of FGTS
- ◆ Bring the minimum mandate down
 - Regionalize minimum wage-setting
 - Lower mandated non-wage benefits
- ◆ Move negotiations from courts to workplace
 - Legalize (re)negotiations on the job
 - Make unions more representative
- ◆ Eliminate overlaps in income support programs
 - Redirect unemployment insurance to informal/poor



Final Thoughts

- ◆ Brazil is often believed to have a “flexible labor market”
 - Low recorded unemployment rates in spite of macroeconomic shocks, high rates of job destruction, and high informality levels all cited as indicators of well-functioning labor market
- ◆ ... but it is important to distinguish between “macro flexibility” and “micro flexibility”
 - Artificially high rates of termination of contracts due to regulations result in low productivity levels and growth
- ◆ ... and high rates of informality also result in lower income security.
 - Poor social safety nets for those rationed out of formality, e.g., wage and salaried informal workers.



Thanks for the Attention...

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