



## **BRAZIL**

### **THE MINIMUM WAGE AS A RESPONSE TO THE CRISIS**

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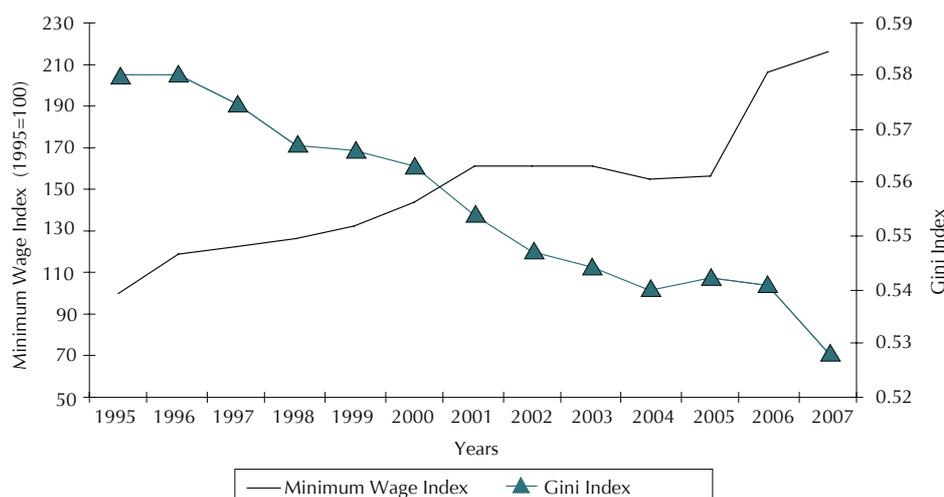
The Brazilian minimum wage sets the floor for wages and serves as an important benchmark for the evolution of national earnings and also for pensions and various social benefits. The minimum wage is an effective policy for stimulating domestic consumption and, in times of crisis, can help mitigate the effects of recession. In response to the economic crisis, the Brazilian government decided put into effect a minimum wage increase of 12% (6% in real terms) in February 2009 that had originally been scheduled for April 2009. The new minimum wage boosts the Brazilian economy by R\$ 21 billion, equivalent to 0.7% of GDP. In Brazil, an increase of the minimum wage implies a rise in income not only for wage earners, but also for pensioners and the unemployed, whose benefits are linked to the minimum wage. In recent years, the minimum wage has contributed to reducing income inequality between men and women, and between white and black workers.

## **1. Introduction**

Since the early 2000s, and particularly during the last four years, Brazil succeeded in lowering poverty and inequality levels. The Gini index dropped from 0.56 in 2000 to 0.53 in 2007, and the number of workers whose incomes were below the poverty line fell from 23% in 1999 to 14% in 2006. During the same period, the Brazilian minimum wage rose significantly in real terms, after having fallen and stagnated for about 15 years. In February 2009, the Brazilian minimum wage was R\$ 465 (approximately US\$ 230), almost twice what it was in February 2002, when it stood at R\$ 264 (measured at constant prices for February 2009). During the same period, there was a significant expansion of employment and formal jobs.

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**Graph 1**  
**Real minimum wage and income distribution curve, 1995-2007**



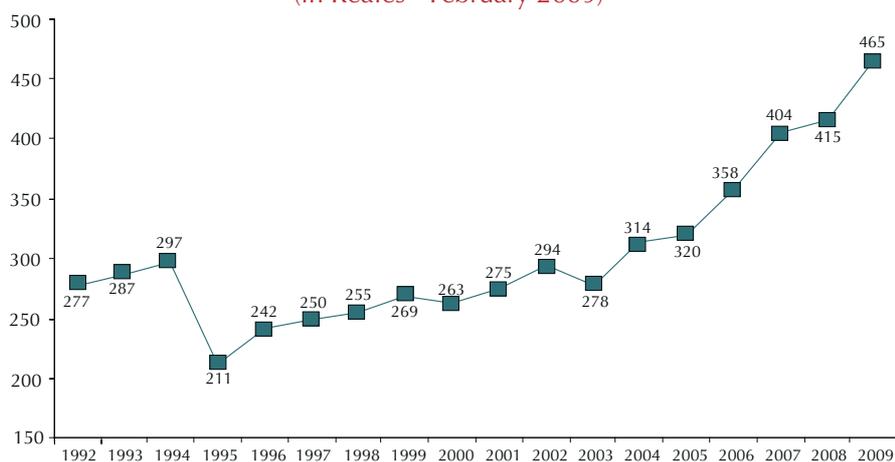
**Source:** Prepared by ILO based on DIEESE (*Departamento Intersindical de Estadísticas y Estudios Socioeconómicos*) and IBGE (*Instituto Brasileiro de Geografia e Estatística*) (PNAD)

a/ Minimum wage data for the Municipality of Sao Paulo

## 2. Policy description

The Brazilian minimum wage was adopted in 1940. It defines the floor for formal wage-earning work, in both the private as well as the public sectors. It also serves as a benchmark for social security benefits. Although the minimum wage has been in effect for almost 70 years in this country, its real value over time has depended on the economic context and on the political will of the different governments. During economic crises and in periods of high inflation in the 80s and 90s, the amount of the minimum wage dropped significantly, contributing to the rise in poverty and inequality throughout the country. In 2006, the government coordinated negotiations with representatives of unions, employer organizations, and organizations of retirees and pensioners. The outcome was an annual adjustment policy based on the rate of inflation and growth of GDP per capita, in effect until 2011. Under the policy, the nominal 12% adjustment (6% in real terms) scheduled for April 2009 was brought forward to February 2009, as a response to the crisis.

**Graph 2**  
**Real minimum wage, 1992-2009**  
 (in Reales - February 2009)



**Source:** *Departamento Intersindical de Estadísticas y Estudios Socioeconómicos* (DIEESE), 2009

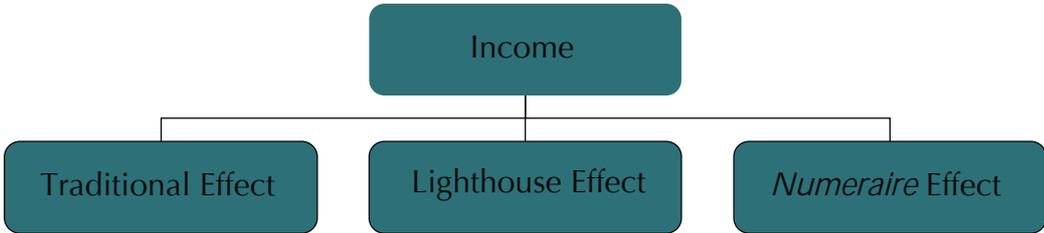
**Note:** Measured in February 2009 prices for the Municipality of Sao Paulo

One of the main factors contributing to economic growth in Brazil in the period 2005-2008 was the growing domestic market. Here, the minimum-wage valuation process played a key role. Indeed, there is evidence that both this process and the ensuing domestic market economic boom contributed to formalizing the labour market (Cardoso, 2007). Between 2001 and 2007, formal wage-earning employment rose at an annual rate of 6.7% vs. annual growth of 3.3% of unregistered wage-earning jobs, and a 2% annual growth of self-employment

### 3. Benefits

The minimum wage in Brazil is an important benchmark for evolution of income. It fixes the income for formal workers earning the minimum wage, but also for formal workers whose income is stated in multiples of the minimum wage (the *numeraire effect*), as well as for informal workers whose wages are equal to the minimum (the so-called *lighthouse effect*) (Neri and Moura, 2006). Although it may seem odd that informal worker earnings are affected by changes in the minimum wage, there is considerable that it does. For example, in 2005, 20% of informal wage-earners (unregistered, without a signed labour card) were paid wages equal to the minimum. Employees and employers often negotiate wages using the minimum wage as a benchmark.

**Figure 1**  
**Effect of minimum wage on income calculation**



Source: Neri & Moura (2006)

The minimum wage is also a benchmark for such social security benefits as pensions, welfare, and unemployment insurance. Therefore, any raise in the minimum wage results in raises of the above benefits. The foregoing has a major effect on the wellbeing of pensioners, the unemployed and other groups. According to a study conducted by the Ministry of Social Security, benefits paid in 2007 led to a reduction by 22.2 million in the number of persons living in poverty conditions. However, because social security benefits are linked to the minimum wage, any rise in minimum wage has a significant budgetary impact. As a result, several Brazilian administrations have been reluctant to raise the minimum wage in real terms.

### 4. Redistributive effects

Another important aspect of the Brazilian minimum wage is its effect on redistribution, in general terms, but also the most disadvantaged groups in society as well as in the labour market: women, blacks, young people, the undereducated, and senior citizens. Their wellbeing is most affected by changes in the minimum wage. For example, almost 30% of domestic workers earn the minimum wage (the sector accounts for 8% of total employment and 17% of female employment in Brazil).

The rise in the minimum wage in the 2000s, especially since 2003, succeeded in improving working conditions for low-income and less-skilled male and female workers. For example, the proportion of women’s wages as compared to men’s wages rose from 62% to 71% between 1995 and 2007, while the proportion of black to white workers rose from 49% to 56% in the same period. These workers usually have weak bargaining power or work in job categories that are seldom unionized. Many women and blacks hold jobs of this nature; therefore, by its positive impact at the base of the wage pyramid, the minimum wage helps to reduce existing gender and racial inequality in Brazil.

Based on PNAD data (Brazilian household surveys), Saboia (2007) examines the effect of the minimum wage on the evolution of the Gini Index from 1995 to 2005. According to his calculations, the rise in the minimum wage was responsible for 73% of the improvement in income distribution among workers with an income, during that period. In terms of family income, the calculations show that the minimum wage was responsible for 64% of income distribution improvements, as measured by the Gini Index. Another conclusion was that the effect of the higher minimum wage on the reduction of the Gini (44%) was considerably higher than the effect of pensions

(21%) on the reduction of the Gini. This comes as no surprise because income from work was, in 2005, almost four times higher than income from pensions. Furthermore, in 2006, 13.4% of workforce earnings equalled the minimum wage. Given the importance of the minimum wage in determining the income of a significant part of the workforce in Brazil, it is not surprising that its impact on income distribution nationwide was so significant.

## 5. Conclusions

The recovery of the minimum wage in Brazil has contributed to the reduction of poverty and inequality in the country, improving the living conditions of low-income workers, in addition to pensioners, welfare beneficiaries, and the unemployed with access to unemployment insurance. The minimum wage has also contributed to reducing gender and racial disparities in income. The governmental decision to maintain and bring forward the minimum wage increase planned for April 2009, in accordance with the criteria agreed in 2006 through a major process of social dialogue, gave a significant boost to the economy by injecting R\$ 21 billion, or 0.7% of GDP. Higher wages and benefits for people at the base of the pyramid have strengthened the domestic market, thereby aiding economic recovery in Brazil.

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