

BRAZIL UNEMPLOYMENT INSURANCE

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Brazilian unemployment insurance was instituted in 1986 and expanded through the 1990s and 2000s. In 2008, 6.7 million workers received benefits amounting to an average of R\$ 595 (US\$ 275), or 1.3 times the current minimum wage (R\$ 465). Although programme coverage is relatively extensive when compared with other programmes in Latin America, only 35% of the country's economically active population are registered wage-earners (known as *carteira de trabalho assinada*), of whom only fulfil the minimum eligibility requirements (contributions for at least six months in the last three years). Benefits are paid for three to five months, depending on the worker's time in service. In March 2009 the Government announced an extension of the benefit for two additional months for workers in sectors heavily affected by the crisis (mining, steelmaking) who lost their jobs as of November 2008. Approximately 216,500 workers will benefit from this measure, equal to 0.013% of GDP.

1. Introduction

Brazilian unemployment insurance provides temporary financial aid for registered wage-earners who involuntarily lost their job. Although contemplated under the Constitution of 1946, the unemployment insurance system was not introduced in Brazil until 1986, under Decree-Law 2,284. However, it was not until 1990 that the Government set up a specific source of funds and more accessible criteria for granting benefits, based on the establishment of the Worker Protection Fund (*Fundo de Amparo al Trabalhador – FAT*). The FAT funded an Unemployment Insurance Programme designed to link financial aid and the pursuit of employment by means of labour market intermediation services, professional training programmes, and investments to create jobs.

The FAT Fund is managed by a tripartite council (CODEFAT or Deliberative FAT Council) composed of representatives of Government, workers, and employers, whose aim is to define, finance, approve, and monitor the fund's work plans. The FAT fund finances not only the unemployment insurance benefit but also several labour intermediation and professional training programmes, together with a programme to support family farming (PRONAF), payment of a wage subsidy for low-income workers (PIS-PASEP), and several loan programmes. In addition, 40% of FAT funds are contributed by the National Social and Economic Development Bank (*Banco Nacional de Desenvolvimento Econômico y Social – BNDES*) to support the financing of new investment projects, thereby reducing the need to resort to the unemployment benefit.

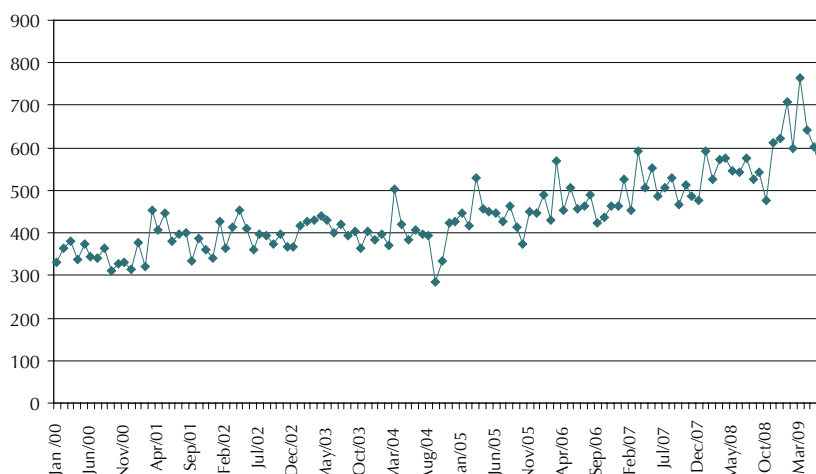
2. Insurance description

In 2008, 6.7 million workers received unemployment insurance benefits, of whom two-thirds were men and one-third were women. Although programme coverage is fairly extensive by comparison with other Latin American countries, only 35% of the economically active population of Brazil are registered wage-earners (workers with a *carteira de trabalho assinada* or signed labour card). Of this number only two thirds fulfil minimum eligibility

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requirements – contributions for at least six months over the last three years. Such eligibility requirements, plus the large number of unemployed who are first-time workers or informal workers, mean that only 7% of the unemployed population receive unemployment insurance benefits. Benefits are paid for three to five months, depending on the worker's time in service. In 2007, 12 billion Reales were paid out in benefits, approximately equal to 0.4% of GDP.

Graph 1
Brazil: Number of beneficiaries, 2000-2009
 (in thousands)



Source: Ministry of Labour and Employment

Benefits

The unemployment insurance benefit is paid for a minimum of three months and a maximum of five months, continuously or alternately, for each period of 36 months, as follows:

- Three payments if worker was employed between six and eleven months in the last 36 months
- Four payments if worker was employed between 12 and 23 months in the last 36 months
- Five payments if worker was employed for at least 24 months in the last 36 months.

In March 2009 the Government announced an extension of benefit payments for two additional months, for workers discharged as from November 2008 in sectors heavily affected by the crisis (mining, steelmaking). An estimated 216,500 workers will benefit from this measure at a cost equal to 0.013% of GDP.

The amount of benefit is calculated on the basis of the following wage brackets:

Wage bracket	Benefit
Up to R\$ 767.60	Mean wage multiplied by 0.8 (80%)
From R\$ 767.61 to R\$ 1,279.46	Amount over R\$ 767.60 is multiplied by 0.5 (50%) and added to R\$ 614.08
Over R\$ 1,279.46	Amount is R\$ 870.01

The current mean amount of the benefit is R\$ 595 (US 275), or 1.3 times the current amount of the minimum wage (R\$ 465).

Requirements

Workers discharged for no reason, including workers losing their jobs owing to difficulties related to economic circumstances, are entitled to the unemployment benefit if they worked for at least six months in the last 36 months and can show the wage-earning relationship. Unemployment insurance is also paid to workers in artisanal

fisheries (370,000 beneficiaries in 2007) and workers rescued from forced labour (5,568 beneficiaries in 2007). Since 2000, domestic workers are also covered by the unemployment benefit, though only if the employer contributes to the Time-In-Service Guarantee Fund (*Fondo de Garantía por Tiempo de Servicio –FGTS*). The payment is optional and as such, only 11,793 domestic workers received this benefit in 2007, even though it is the third largest occupation in Brazil, with 6.7 million domestic workers, one-third of whom were formally employed. Literature on unemployment insurance in developing countries often states that workers who receive unemployment benefit are the wealthiest, for unemployment is a luxury that the poor cannot afford. However, empirical evidence shows that unemployed persons in Brazil have a low level of schooling and belong to families with incomplete primary education; 15% have complete primary education; 45% have incomplete secondary education, and only 8% have full secondary education.

The counter-cyclical effect of unemployment insurance

In addition to providing an income to workers in a vulnerable position originated by unemployment, unemployment insurance has major counter-cyclical macroeconomic effects. For example, in the United States it is estimated that the unemployment insurance programme mitigated by about 15% the drop in real GDP during the five recession periods that took place from 1969 to the early 1990s. Over those three decades, the programme had a remarkable counter-cyclical effect on the variation of real GDP and managed to avoid destruction of 131,000 jobs on average (Chimerine, Black and Coffey, 1999). An analysis of the impact of unemployment on US household consumption showed that becoming unemployed was associated with a 22% reduction in consumption; yet where unemployed workers covered by insurance were concerned, the drop was only 6.8% (Gruber, 1997). And if the rate of income substitution provided by the insurance rose higher than 84% –the current rate being approximately 50%– consumption would barely be affected throughout the period of worker unemployment. In comparison with other benefits such as income tax exemption, Orszag (2001) calculated that unemployment insurance in the US was at least eight times more effective than tax reductions as a means to offset the adverse effects of recession.

3. Conclusions

The Brazilian unemployment insurance system is part of the Public Employment, Work, and Income System (SPETR), whose object is to promote integration of active and passive labour market policies, by providing discharged workers with financial aid, labour market intermediation, and training services, in addition to micro-credit. Moreover, unemployment insurance has significant macro-economic effects on account of its counter-cyclical nature. A rise or extension of the benefit is utilized by persons in financial straits, hence it is reasonable to expect that the benefit will be fully spent, thereby stimulating consumption and the local economy, as evidenced in the US experience.

For these reasons, the Brazilian Government decided to extend the benefit for two additional months for workers in sectors heavily affected by the crisis, considering as well that reinsertion in the labour market would be more difficult in the present economic context. Although to date the financial crisis has had a more serious impact on specific sectors of the economy, the additional two-month extension should be made available to all the unemployed. The above is justified both by the critical role of unemployment insurance in stimulating the economy, and by the fact that when unemployment rises significantly as a result of crisis, the duration of unemployment also tends to extend beyond what is usual in normal periods for all the unemployed.

Special attention is also recommended for other groups liable to be particularly affected by unemployment in terms of volume as well as duration, namely women and Afro-descendants. In Brazil, considering the importance of domestic work in female employment (17% of the total) extending unemployment insurance coverage to domestic workers is worth considering. Today, in practice, they are excluded. Extension of unemployment insurance coverage to domestic workers would help to reduce the bias that the programme currently shows, as only one-third of beneficiaries are women, though they compose 44% of the labour force.

References

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