

AN ECONOMIC ANALYSIS OF UNEMPLOYMENT IN BRAZIL

**Marcelo Weishaupt Proni
(Unicamp-Brasil)**

Objective

- The international financial crisis had negative impacts on the labor market. But the unemployment appears in different intensity in every country.
- In Brazil, there was no significant increase in the unemployment rate during the period in which the Brazilian economy was in recession.
- It's necessary to analyze the evolution of unemployment in Brazil after the outspreading of the crisis, trying to open the discussion about the factors that explain why the crisis did not provoke a considerable increase of unemployment.
- How the federal government's policies prevented a worse impact on the Brazilian labor market?

Comparative analysis

- The impact of the economic crisis: more than 30 million people into unemployment (a worldwide problem).
- Some national economies merely slowed down their pace of growth, while others entered in a period of profound recession.
- The result in terms of unemployment was also different, making it possible to check that groups of countries exist, where the social consequences of the crisis were worse.
- What countries have economic growth and unemployment rates like Brazil?

**Differing impact of the crisis on real GDP (in per cent) and unemployment rate in percentage points (pp).
Selected countries, 2009.**

Conditions	Decrease in unemployment rate	Slight to moderate increase in unemployment rate (from 0 to 1.5 pp)	Strong increase in unemployment rate (from 1.51 to 3.0 pp)	Very strong increase in unemployment rate (more than 3.0 pp)
Slower but positive GDP growth	Algeria, Indonesia, Morocco, Uruguay	Argentina, Australia, China, Israel, Korea, Poland, Saudi Arabia	Colombia, Viet Nam	
Moderate GDP shock (from -2.5% to 0%)	Republic of Macedonia	Brazil, France, Norway, South Africa, Switzerland, Thailand	Chile, Costa Rica, Greece, New Zealand	United States
Strong GDP shock (-2.5% to -4.99%)		Austria, Belgium, Netherlands, Venezuela	Canada, Portugal, Sweden, Turkey, United Kingdom	Spain
Very strong GDP shock (-5.0% and less)	Montenegro	Bulgaria, Germany, Italy, Japan, México	Denmark, Finland, Hungary, Russian Federation, Slovenia	Estonia, Iceland, Ireland, Lithuania, Romania, Ukraine

Source: ILO, Department of Statistics, based on LABORSTA, IMF and UNDESA, 2010.

Unemployment rates (% of labor force).

Selected countries: 2007, 2008, 2009.

Country	2007	2008	2009
Australia	4.4	4.2	5.6
Brazil	9.3	7.9	8.1
Canada	6.0	6.1	8.3
Chile	7.1	7.8	10.8
Colombia	10.9	11.4	12.0
France	8.0	7.4	9.1
Germany	8.7	7.5	7.7
Hong Kong, China	4.0	3.6	5.2
Ireland	4.6	6.1	11.8
Israel	7.3	6.1	7.6
Italy	5.9	6.7	7.8
Japan	3.9	4.0	5.1
Korea	3.3	3.2	3.7
Mexico	3.7	4.0	5.5
Netherlands	4.5	3.9	4.9
Portugal	8.0	7.6	9.5
Russian Federation	6.1	6.4	8.4
Spain	8.3	11.3	18.0
South Africa	23.0	22.9	23.9
Sweden	6.0	6.2	8.3
Turkey	10.3	11.0	14.1
United Kingdom	5.3	5.7	7.6
United States	4.6	5.8	9.3

Differing impact of the crisis on unemployment rate in percentage points (pp).

Selected developed countries, from jan/2007 to jun/2010.

Country / Year	Months											
	1	2	3	4	5	6	7	8	9	10	11	12
Canada												
2007	6.7	6.5	6.5	6.3	6.1	5.6	6.2	6.4	5.5	5.3	5.6	5.6
2008	6.3	6.1	6.4	6.3	6.2	5.6	6.3	6.5	5.7	5.6	6.2	6.3
2009	7.8	8.3	8.8	8.5	8.7	8.1	8.9	9.0	7.6	7.6	8.0	7.8
2010	8.7	8.5	8.8	8.4	8.3	7.4						
Japan												
2007	4.0	4.1	4.2	4.0	3.8	3.6	3.5	3.7	4.0	4.0	3.7	3.5
2008	3.9	4.1	4.1	4.1	4.0	3.9	3.8	4.1	4.1	3.8	3.9	4.0
2009	4.1	4.6	5.1	5.0	5.2	5.2	5.4	5.4	5.5	5.2	5.0	4.8
2010	4.9	5.0	5.3	5.4	5.2	-						
Spain												
2007	8.5	8.5	8.4	8.1	7.9	7.9	7.8	8.1	8.2	8.4	8.6	8.8
2008	9.4	9.7	9.8	10.2	10.4	10.7	10.8	11.3	11.9	12.9	13.9	14.9
2009	16.4	17.5	18.2	18.2	18.0	17.7	17.6	17.9	18.3	18.6	18.8	19.1
2010	19.7	20.1	20.3	20.2	19.9	19.5						
USA												
2007	5.0	4.9	4.5	4.3	4.3	4.7	4.9	4.6	4.5	4.4	4.5	4.8
2008	5.4	5.2	5.2	4.8	5.2	5.7	6.0	6.1	6.0	6.1	6.5	7.1
2009	8.5	8.9	9.0	8.6	9.1	9.7	9.7	9.6	9.5	9.5	9.4	9.7
2010	10.6	10.4	10.2	9.5	9.3	9.6						

Differing impact of the crisis on unemployment rate in percentage points (pp).

(cont.)

Country / Year	Months											
	1	2	3	4	5	6	7	8	9	10	11	12
France												
2007	9.3	9.2	8.8	8.4	8.1	7.8	8.0	8.4	8.2	8.2	8.1	7.9
2008	8.0	7.8	7.6	7.5	7.4	7.2	7.3	7.8	7.8	8.1	8.4	8.5
2009	9.1	9.3	9.4	9.3	9.3	8.9	9.0	9.6	9.6	10.0	10.2	10.1
2010	10.4	10.2	9.9	9.6	9.5	9.3						
Germany												
2007	9.2	9.3	9.0	8.5	8.3	8.1	8.3	8.3	8.0	7.6	7.9	8.1
2008	8.0	8.0	7.9	7.8	7.1	7.6	7.3	7.1	6.5	6.3	6.7	7.3
2009	7.5	8.1	7.8	7.7	7.4	7.5	7.6	7.7	7.3	7.0	7.1	7.2
2010	7.9	8.0	7.5	7.1	6.8	6.6						
Sweden												
2007	7.0	6.4	7.0	6.5	6.1	7.9	5.5	5.3	5.6	5.7	5.2	5.6
2008	6.4	6.1	6.3	6.1	6.0	8.3	5.8	5.2	5.9	5.8	6.3	6.4
2009	7.3	8.0	8.3	8.3	9.0	9.8	7.9	8.0	8.3	8.1	8.0	8.6
2010	9.4	9.3	9.1	9.8	8.8	-						
UK												
2007	5.5	5.6	5.4	5.2	5.2	5.3	5.5	5.5	5.4	5.2	4.9	4.9
2008	5.0	5.2	5.2	5.0	5.2	5.5	5.9	6.1	6.1	6.2	6.1	6.3
2009	6.7	7.2	7.3	7.4	7.6	7.9	8.0	8.0	8.0	7.8	7.5	7.4
2010	7.9	8.1	7.9	7.7	-	-						

Differing impact of the crisis on unemployment rate in percentage points (pp).

Selected developing countries, from feb/2007 to feb/2010.

Country	Months					Country	Months				
Year	Feb	May	Aug	Nov		Year	Feb	May	Aug	Nov	
Brazil						Hong Kong, China					
2007	9.9	10.1	9.5	8.2		2007	4.2	4.3	4.3	3.2	
2008	8.7	7.9	7.6	7.6		2008	3.3	3.3	3.6	3.8	
2009	8.5	8.8	8.1	7.4		2009	5.1	5.5	5.6	4.7	
2010	7.4					2010	4.4				
Colombia						South Africa					
2007	12.9	11.2	10.9	9.8		2007	-	-	-	-	
2008	12.1	11.1	11.4	10.5		2008	23.5	23.1	23.2	21.9	
2009	12.9	11.7	12.2	11.3		2009	23.3	23.6	24.5	24.3	
2010	13.0					2010	25.2				
Mexico											
2007	4.0	3.4	3.9	3.5							
2008	3.9	3.5	4.2	4.3							
2009	5.1	5.2	6.2	5.3							
2010	7.8										

Measures to confront the problem

- In 2009, the Group of Twenty (G-20) agreed on the importance of building an employment-oriented framework for future economic growth.
- They assured to implement recovery plans that support decent work, help preserve employment, prioritize job growth, and to continue to provide income, social protection, and training for the unemployed.
- Priorities: 1) accelerate job creation to ensure a sustained recovery and future growth; 2) strengthen social protection systems and promote inclusive active labor market policies; 3) place employment and poverty alleviation at the center of national and global economic strategies; and 4) prepare our workforces for future challenges and opportunities.

Recommendations by OECD

- In a number of countries, the labour market reforms should be an integral part of a comprehensive strategy to promote the creation of more, but also more productive, jobs.
- The partial reforms over the past two decades did not necessarily promote a more efficient allocation of workers towards more productive and rewarding jobs.
- It is essential to create the right incentives for firms to hire more workers. Beyond temporary hiring subsidies and efforts to foster the employability of jobseekers, this could involve a rebalancing of employment protection between temporary and permanent contracts.
- The re-balancing of employment protection should be introduced as part of a comprehensive package that also provides adequate unemployment benefits, with strictly enforced work-availability conditions and a well-designed activation package.

Recommendations by IMF

- A major concern is the potential for temporary joblessness to turn into long-term unemployment and to lower potential output growth.
- It's necessary discuss some labor market policy measures that go beyond generally encouraging wage flexibility and improving labor market institutions.
- In recessions, short-time work programs, such as those implemented in Germany, can be beneficial in stabilizing employment and thus help employers avoid unnecessary firing, hiring, and retraining costs.
- The depth and duration of the Great Recession in several advanced economies has created a need for some structural adjustments to their labor markets.
- The task for policymakers is to ensure that this adjustment occurs as smoothly as possible and to minimize the long-term economic and social consequences of persistent high unemployment.

Recommendations by ILO

- After promoting “a global jobs pact” based on its general principles, the ILO has analyzed measures that were adopted by the G-20 countries.
- The G-20 countries expect to maintain or even expand spending on labour market policy measures in 2010. However, the policy emphasis is changing somewhat as labour market conditions evolve and many such countries face several constraints in their public finances.
- Indeed the extraordinary fiscal stimulus in many G-20 countries has contributed to a significant deterioration in public finances as evidenced by ballooning public sector deficits and public debt/GDP ratios.
- This is creating pressures for such countries to put in place credible medium-term fiscal consolidation processes, while balancing this against the need not to withdraw the stimulus too soon before the recovery takes firm roots.

Recommendations by ILO (cont.)

- It is not possible to define a role model. The possibilities for action are different from country to country, especially because of the different economic situations, but also due to political and social circumstances.
- Accelerating a job-rich recovery remains today a compelling objective in G20 countries (and indeed worldwide) that can be met.
- It requires a combination of well-coordinated macro-economic policies together with employment, labour market, skills and social protection policies.
- The economic crisis can lead to a redefinition of governmental policies and labor strategies.
- In Brazil, the change is closer of the ILO recommendations.

The Brazilian labor market before the economic crisis

- In the preceding 5 years period before the economic recession, the labor market showed a progressive improvement.
- After 2003, a strong economic recovery started, initiated by the growth of raw material exportation. In the following years, expansion of consumption consolidated a phase of significant growth of the economy (2004-2008).
- Main trends: the reduction in the number of unemployment (from 9.4 to 7.7 millions) and a significant increase of remunerated employees (70 to 81 millions).
- The informal work and precarious jobs were reduced slowly and the labor market was showing great dynamism in the creation of legally protected jobs.

Brazilian labor market, 2003 and 2008.

Occupational Framework	2003		2008		2008-2003	
	N	(%)	N	(%)	N	(%)
Labor force (16 years and over)	86,968	100.0	96,749	100.0	9,781	11.2
Unemployed persons	9,351	10.8	7,718	8.0	-1,633	-17.5
Occupied persons	77,617	89.2	89,031	92.0	11,414	14.7
Workers producing for own use and unpaid workers	7,579	8.7	7,237	7.5	-342	-4.5
Persons working - with earnings	70,039	100.0	81,794	100.0	11,756	16.8
Public employee	5,294	7.6	6,363	7.8	1,069	20.2
Formal employee	23,896	34.1	31,727	38.8	7,831	32.8
Informal employee	13,787	19.7	15,08	18.4	1,294	9.4
Domestic worker	5,97	8.6	6,428	7.9	458	7.7
Self-employed or own account	17,736	25.3	18,099	22.1	363	2.0
Employer	3,356	4.8	4,098	5.0	742	22.1

Recent evolution of unemployment

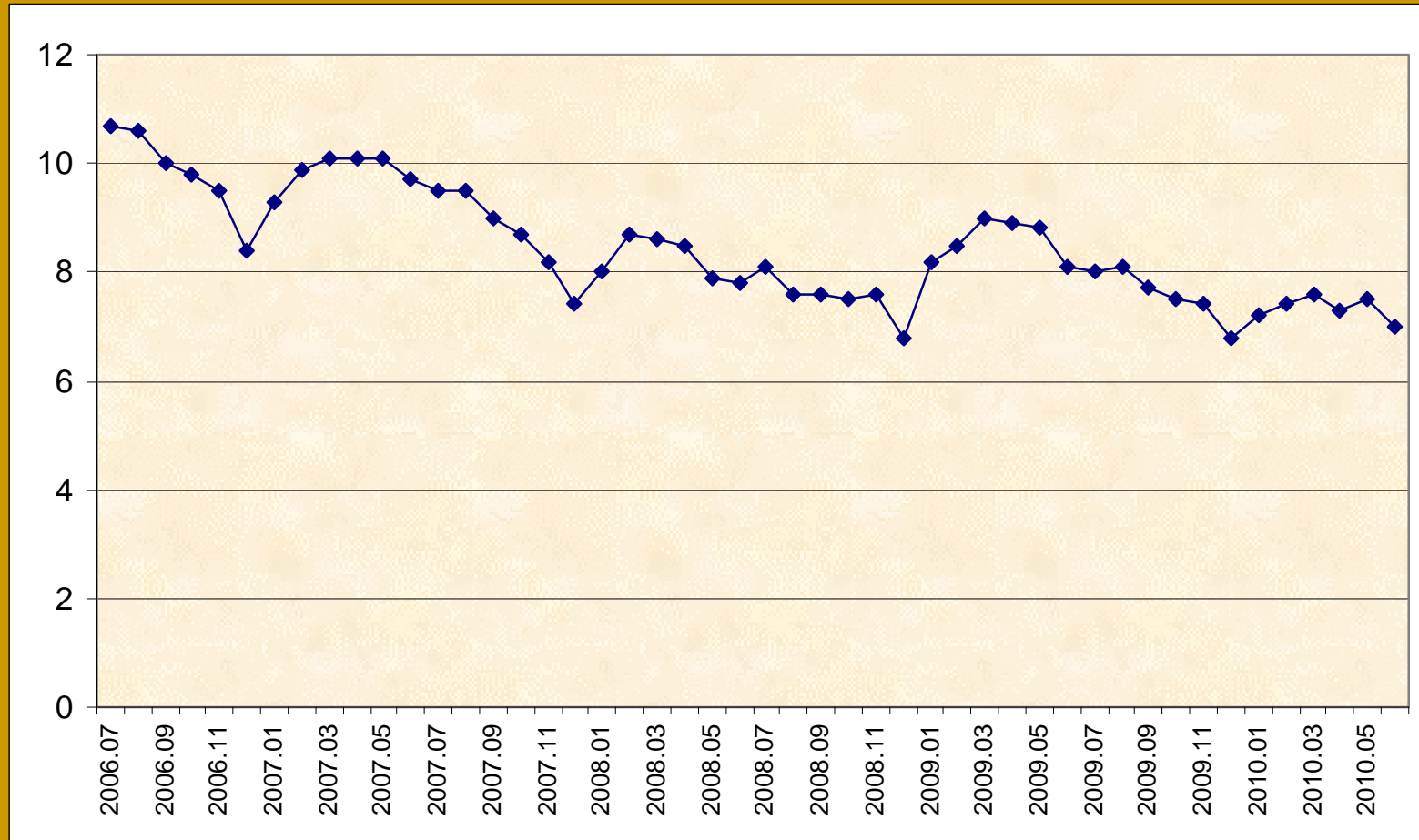
- At the beginning of the Lula government, unemployment was a serious problem, but since then a significant reduction in the unemployment rate has taken place.
- The international economic crisis interrupted the expansive trajectory of the Brazilian economy: a strong deceleration in the last trimester of 2008 and a recession in the first semester of 2009 took place.
- Nevertheless, the impact of the economic crisis on the national labor market was much smaller than expected and provoked a moderate increase of unemployment only during the first trimester of 2009.
- As the crisis never deepened and was rapidly overcome, a clear diminishing tendency of the unemployment rate in a context of optimistic expectations concerning the growth perspectives of the Brazilian economy prevails.

Unemployment rate in percentage points (pp).

Brazil: metropolitan areas, 2003-2009.

Year	Recife	Salvador	Belo Horizonte	Rio de Janeiro	São Paulo	Porto Alegre	Curitiba	Total
2003	13.8	16.7	10.8	9.2	14.1	9.5	8.9	12.3
2004	12.7	16.0	10.6	9.0	12.6	8.6	8.1	11.5
2005	13.2	15.5	8.8	7.7	10.2	7.4	7.4	9.8
2006	14.6	13.7	8.5	7.9	10.5	8.0	6.9	10.0
2007	12.0	13.7	7.6	7.2	10.1	7.3	6.2	9.3
2008	9.3	11.5	6.5	6.8	8.4	5.9	5.4	7.9
2009	9.9	11.3	6.4	6.1	9.2	5.6	5.4	8.1

**Unemployment rate in percentage points (pp).
Brazil: metropolitan areas, from July 2007 to June 2010.**



The recent reduction of the unemployment rate in percentage points (pp).

Brazil: metropolitan areas, from Mart 2009 to Mart 2010.

Year / Month	Recife	Salvador	Belo Horizonte	Rio de Janeiro	São Paulo	Porto Alegre	Curitiba	Total
2009 Mar	10.4	11.9	6.6	6.9	10.5	6.4	6.3	9.0
Apr	10.6	12.4	6.8	6.8	10.2	6.2	6.1	8.9
May	10.5	12.1	6.7	6.6	10.2	6.1	5.5	8.8
Jun	10.2	11.2	6.9	6.3	9.0	5.6	5.2	8.1
Jul	10.2	11.4	6.1	6.3	8.9	5.8	5.6	8.0
Aug	10.9	11.4	7.5	5.6	9.1	5.4	5,7	8.1
Sep	10.5	10.9	6.4	5.5	8.7	5.4	5.0	7.7
Oct	9.5	10.4	6.1	5.6	8.6	5.1	4.9	7.5
Nov	9.5	11.1	5.9	5.5	8.1	5.3	4.5	7.4
Dec	8.4	10.7	5.1	5.4	7.5	4.3	3.8	6.8
2010 Jan	8.6	11.9	6.1	5.4	8.0	4.3	5.4	7.2
Feb	8.8	11.0	6.5	5.6	8.1	5.1	5.6	7.4
Mar	8.1	11.3	6.3	6.4	8.2	5.9	5.5	7.6
Apr	9.1	11.2	5.8	5.9	7.7	5.4	5.0	7.3
May	9.7	12.0	5.8	6.3	7.8	5.0	5.2	7.5
Jun	8.6	12.0	5.1	5.8	7.4	4.7	4.8	7.0

Hidden unemployment

- Because: 1) they participated in precarious and sporadic work, despite having searched for a regular job; or 2) they cannot search for a job in the last twelve months and were considered inactive.
- 2003-2008: the hidden unemployment rates were reduced in all analyzed metropolis, indicating a general improvement in the possibilities of insertion into the labor market.
- In 2009 the hidden unemployment rates remained stable or continued to reduce, depending on the metropolitan area, confirming that the crisis was overcome without major traumas for the Brazilian labor market.
- The problem of metropolitan unemployment in Brazil is worse than indicated in the official statistic, affecting a larger number of workers.

The hidden unemployment rate in percentage points (pp).

Brazil: metropolitan areas, 2003-2009.

Year	Recife	Salvador	Belo Horizonte	São Paulo	Porto Alegre	Brasília
2003	9.3	11.0	7.5	7.2	5.6	8.2
2006	7.9	8.8	4.2	5.6	4.1	7.4
2008	7.6	8.2	2.4	4.2	2.0	5.8
2009	7.7	7.5	2.3	3.8	1.7	5.3

Brazilian measures to confront the crisis

- How the crisis was overcome rapidly in Brazil? Why the crisis did not lead to a pronounced elevation of the unemployment rate?
- The Brazilian economy was less vulnerable against a collapse of the US financial system.
- The Central Bank reduced the interest rate and took measures to defend the banking system from a liquidity crisis. And the Ministry of Finance reduced taxing in some economic branches.
- An economic recovery program was announced with the focus on infrastructure works and a housing program.
- The policy of real minimum wage increase was maintained and programs providing income transfer to the poorest were maintained.

Brazilian measures to confront the crisis

- BNDES launched the “Program of Sustaining Investment” and broadened its credit lines for exporting companies.
- BNDES expanded its actions, opening new lines of finance for small and medium companies. It also stimulated the merger of large Brazilian business groups.
- The resources injected by the BNDES into the Brazilian economy reached nearly US\$ 70 billion in 2009.
- Programs designed to protect workers (the expanded unemployment insurance) were certainly important during the short period of economic recession.
- But more important were the measures oriented towards the sustained supply of credit and to recover the growth trajectory of the Brazilian economy.

Conclusion

- The Brazilian labor market displays serious chronic problems and the reduction in unemployment is only one of the Brazilian government's preoccupations.
- It is fundamental to continue promoting conditions for a sustained trajectory of economic growth, and to be more prone in the adoption of policies that help to improve the income distribution.
- It does not suffice to propose reforms in the labor laws to prevent that the labor market becomes a producer of high concentration of income or wide social inequalities.
- And it is necessary not to miss the opportunities the recent crisis opened for a change in the nations' economic and social development model.