

WORKSHOP ON INTERNATIONAL MINIMUM WAGE EXPERIENCES

The Brazilian Experience

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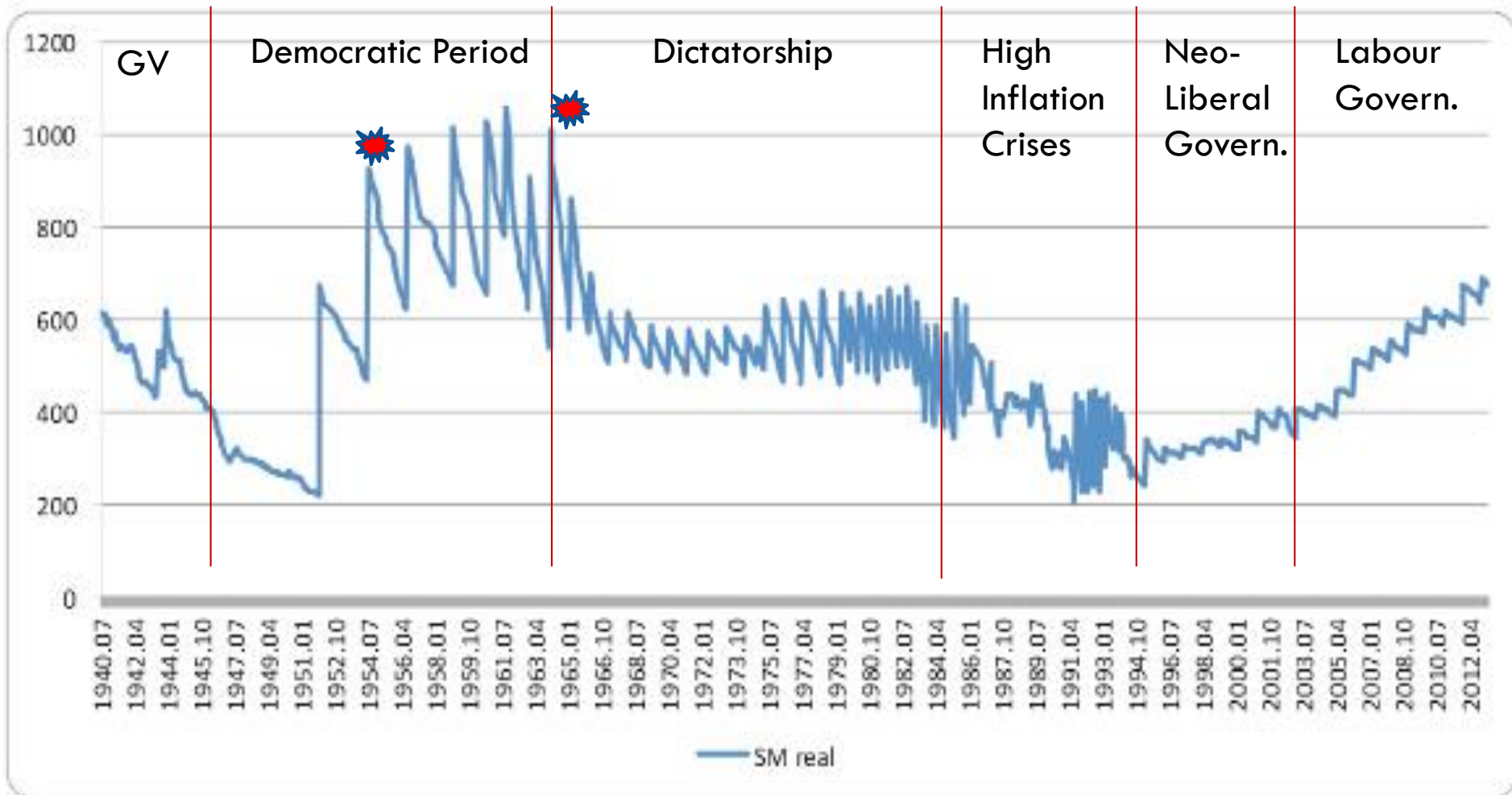
June, 2015

Historical

- The minimum wage was established in Brazil in 1940 by President Getúlio Vargas (only for urban workers).
- Approximate value in 1940: U\$ 300
- In 1988 the MW became universal (for rural workers to)

Evolution of the minimum wage (1940-2012)

(\$ = 2012)



The political process

- The Lula administration proposed a quadripartite commission (employers, employees, government and retirees) aiming to create a consensus rule to increase the minimum wage.

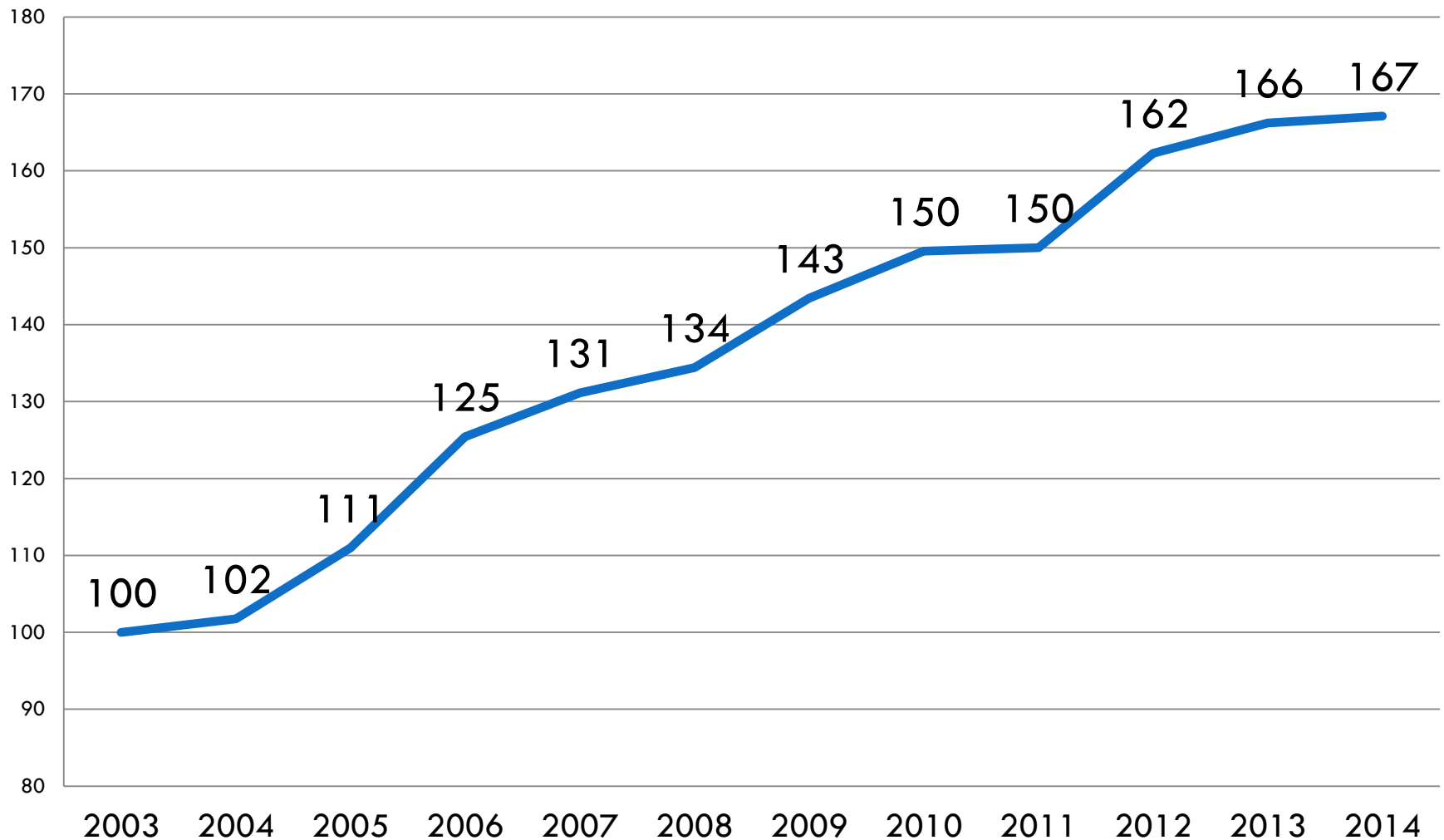
Political Note

Lula became a political leader after a long trajectory in defense of wages

The Transition

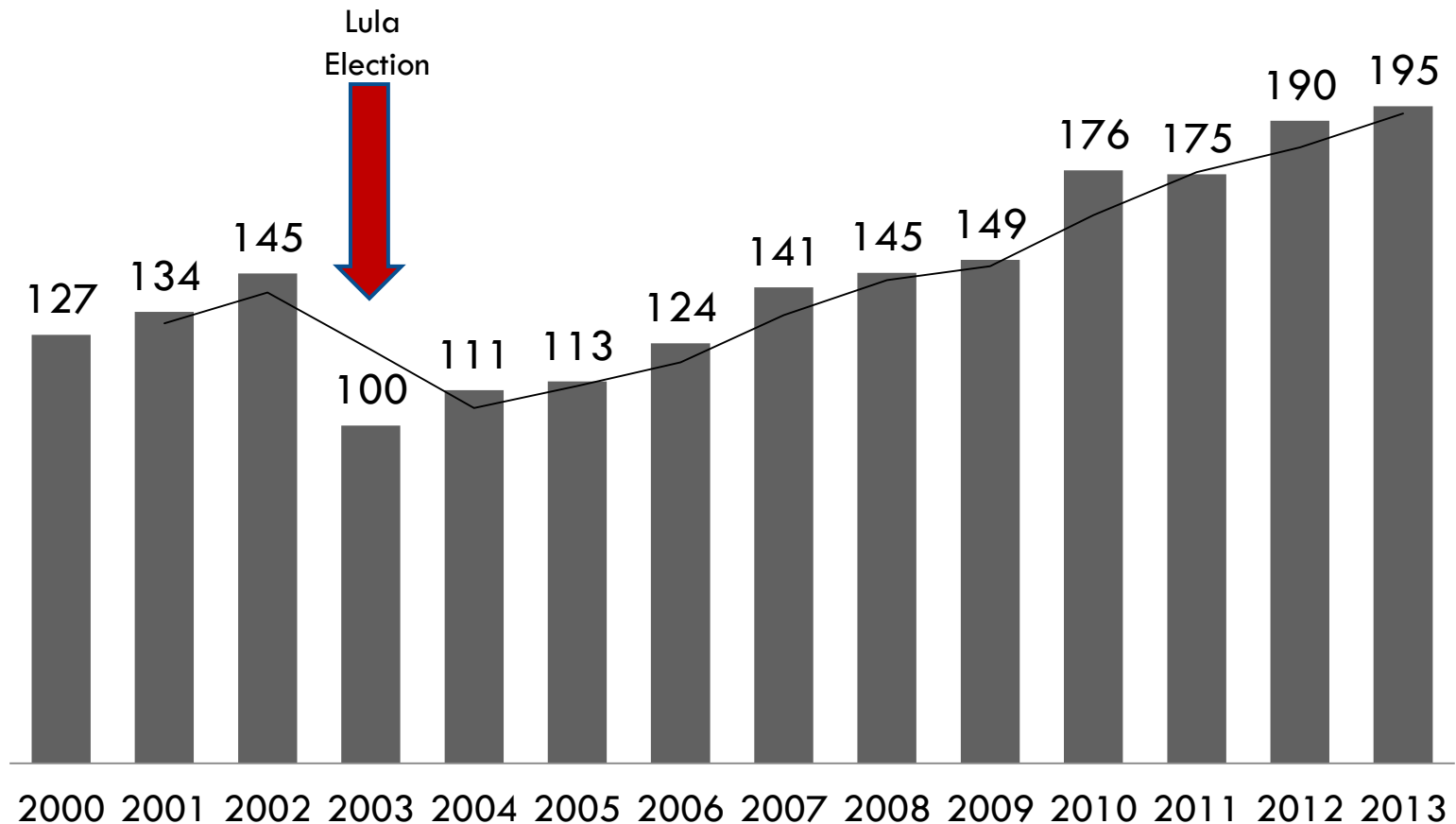
- While the commission was working on a final rule, the minimum wage increases were set by presidential decrees:
- REAL INCREASES
 - ▣ 2004 = 2,9%
 - ▣ 2005 = 7,5%
 - ▣ 2006 = 14,1%
 - ▣ 2007 = 5,5%

Recent evolution (1): 2003 = 100



Recent evolution (2):

In US\$ PPP



The conversion was made at the rate of purchasing power parity (PPP), at 2005 rates and then deflated by the U.S. (CPI-BLS) and in Brazil by the INPC / IBGE.

The new rule

- Since 2008 there is a formula that defines the guidelines of the increase of the minimum wage.

Inflation rate of the previous year
+
GDP growth rate of two years ago

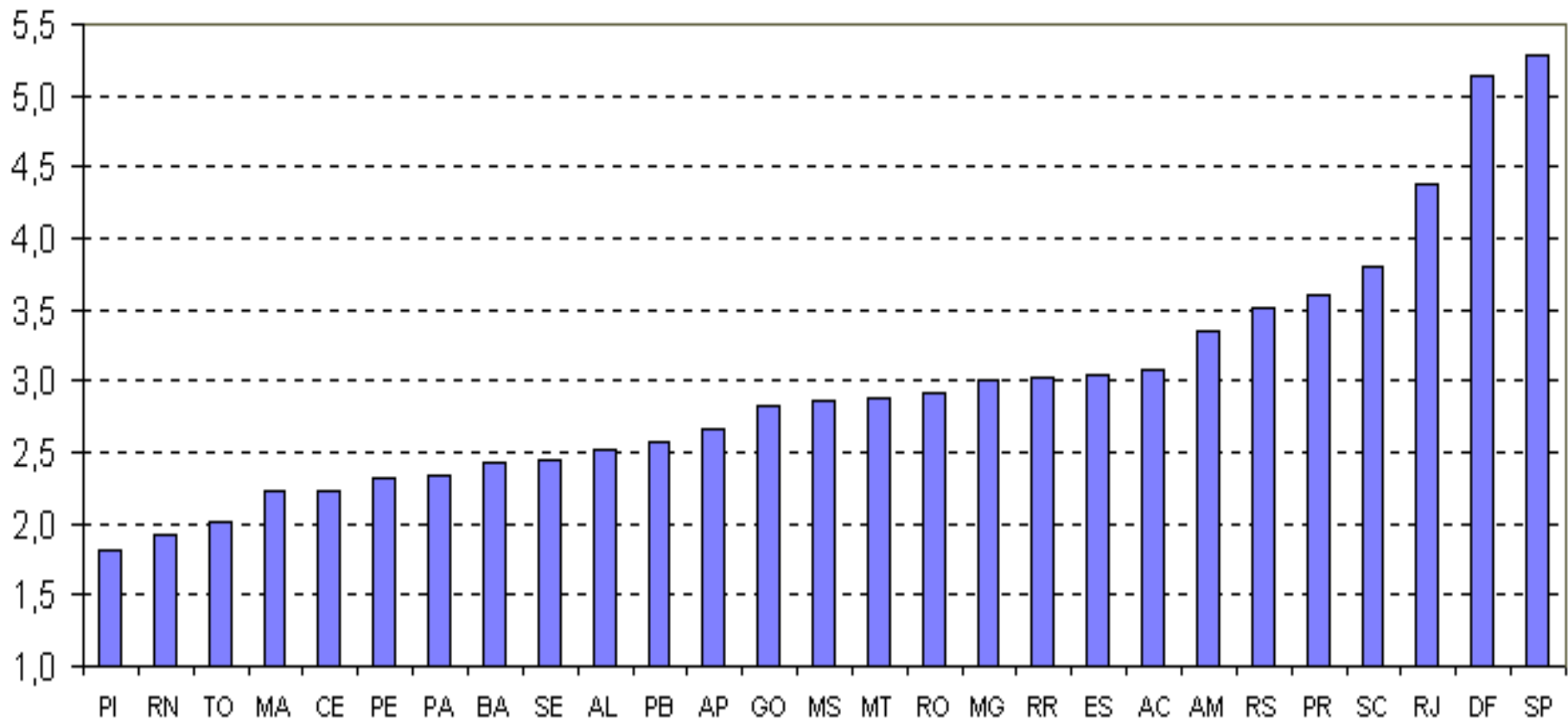
- Every four years the government revises the law

How is the MW today?

- National and universal
- No exceptions
- It is the minimum amount paid to pensioners and retirees
- Approximately 40% of employees receive one minimum wage
- Most who receive MW is in non-tradable sectors (e.g. domestic services) or in the highly competitive agribusiness sector.

Average Wages/Min. Wage

Private Sector



How is the unions today?

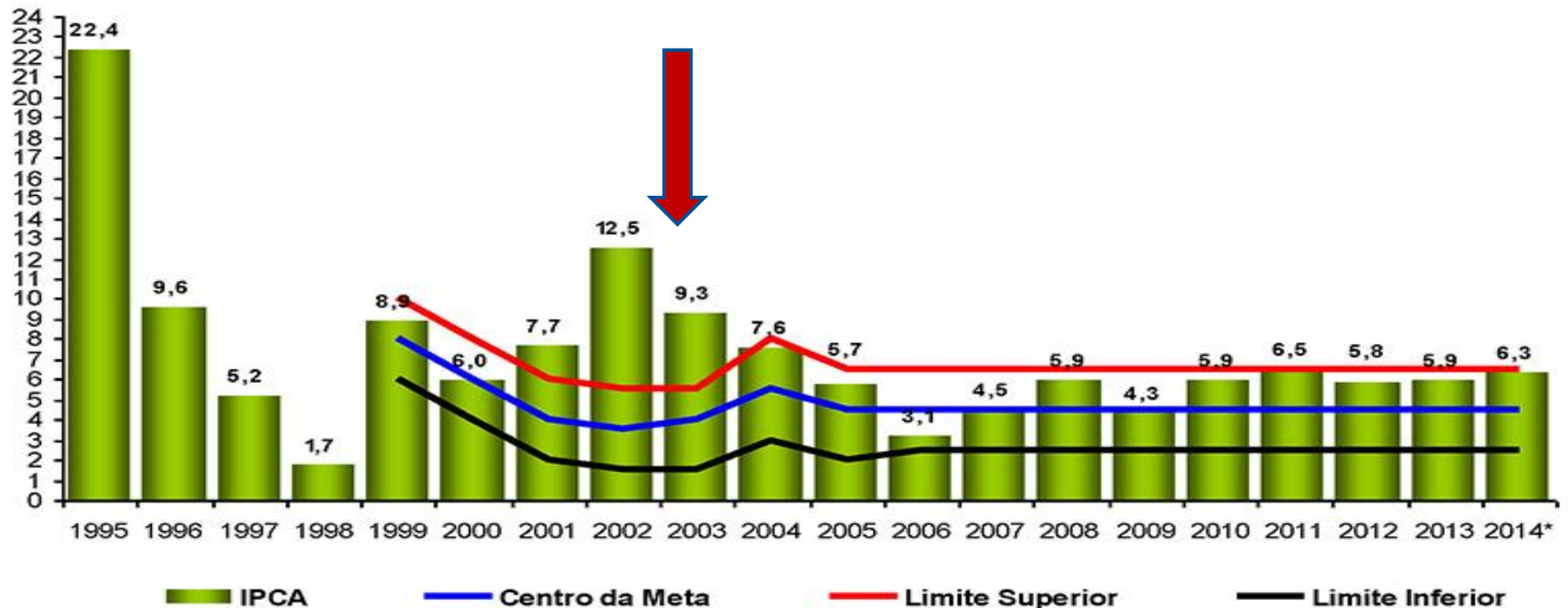
- There are approximately 28 000 trade unions in the country
- Only strong unions can conduct collective agreements
- To gain strength, the unions are organized into national 'confederations'.
 - Some are strong: CUT (34%); Força Sindical (13%); UGT (12%); CTB (9%); Nova Central (8%)

Problems expected by the critics

- Increase in inflation rates
- Rise in unemployment
- Increase in the fiscal deficit (on account the social security system)
- Increase of labor informality
- Decline in unionization

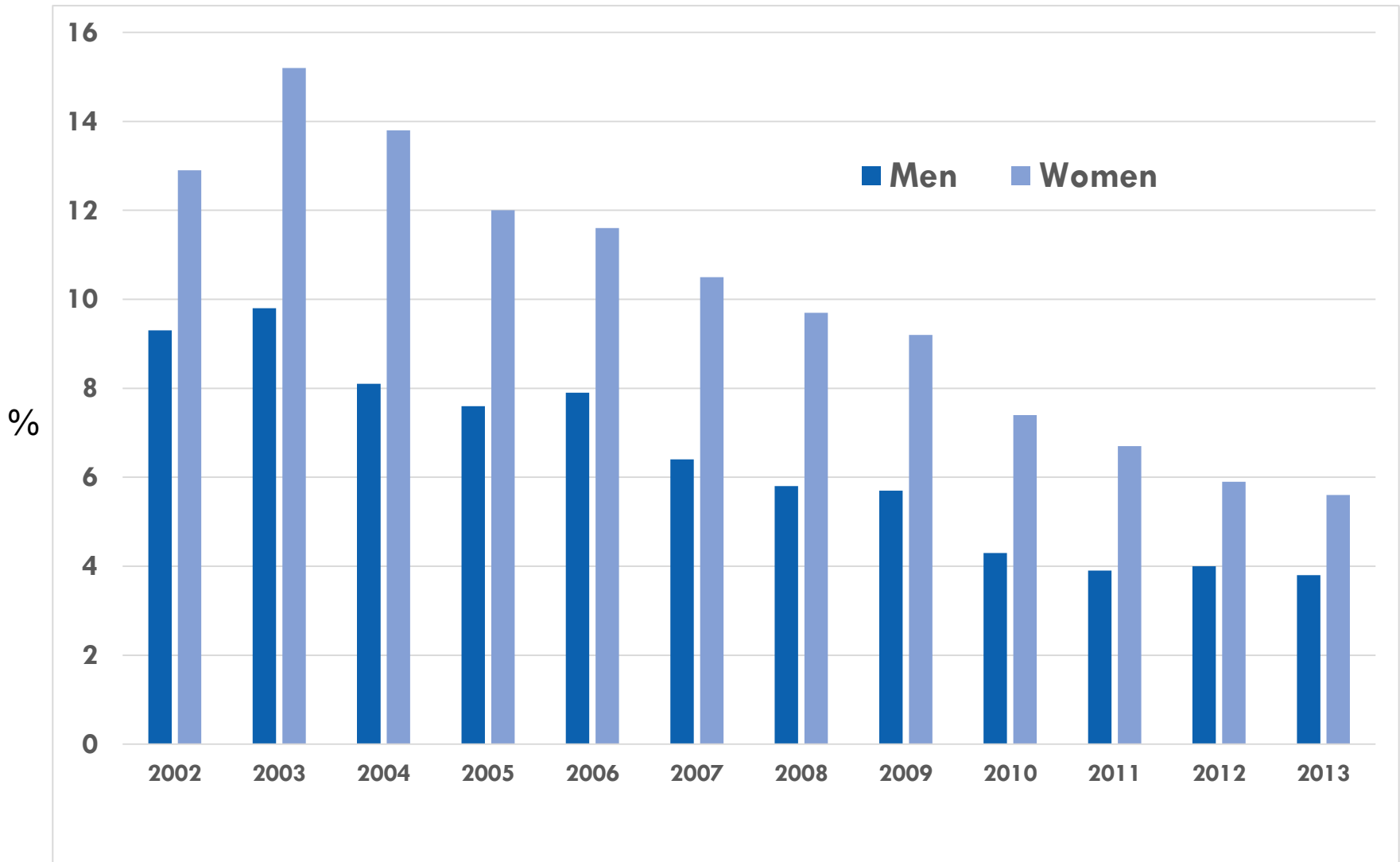
The results (1)

- The inflation rate still high, but under control



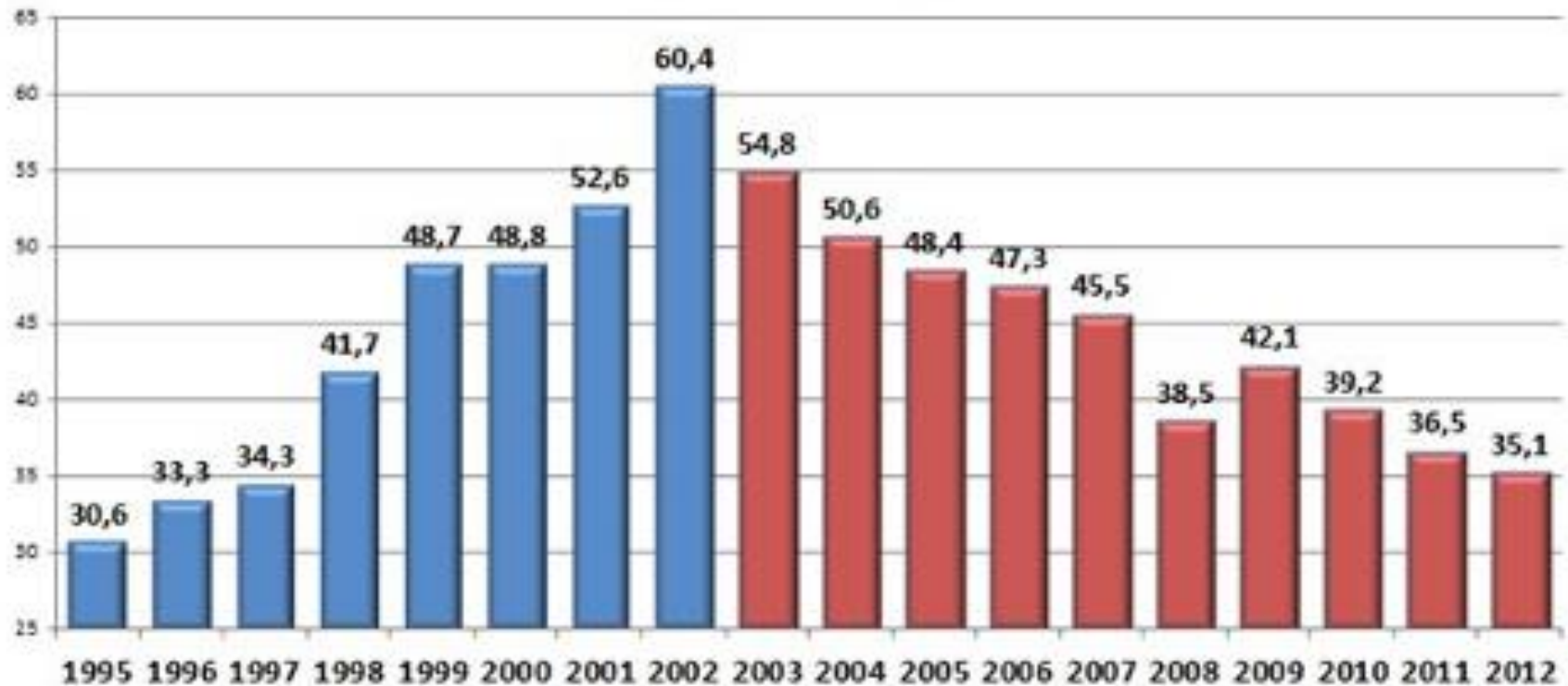
* Dados acumulados em 12 meses até junho
Fonte: BCB

The results (2): The unemployment fell



The results (3): The fiscal deficit didn't come

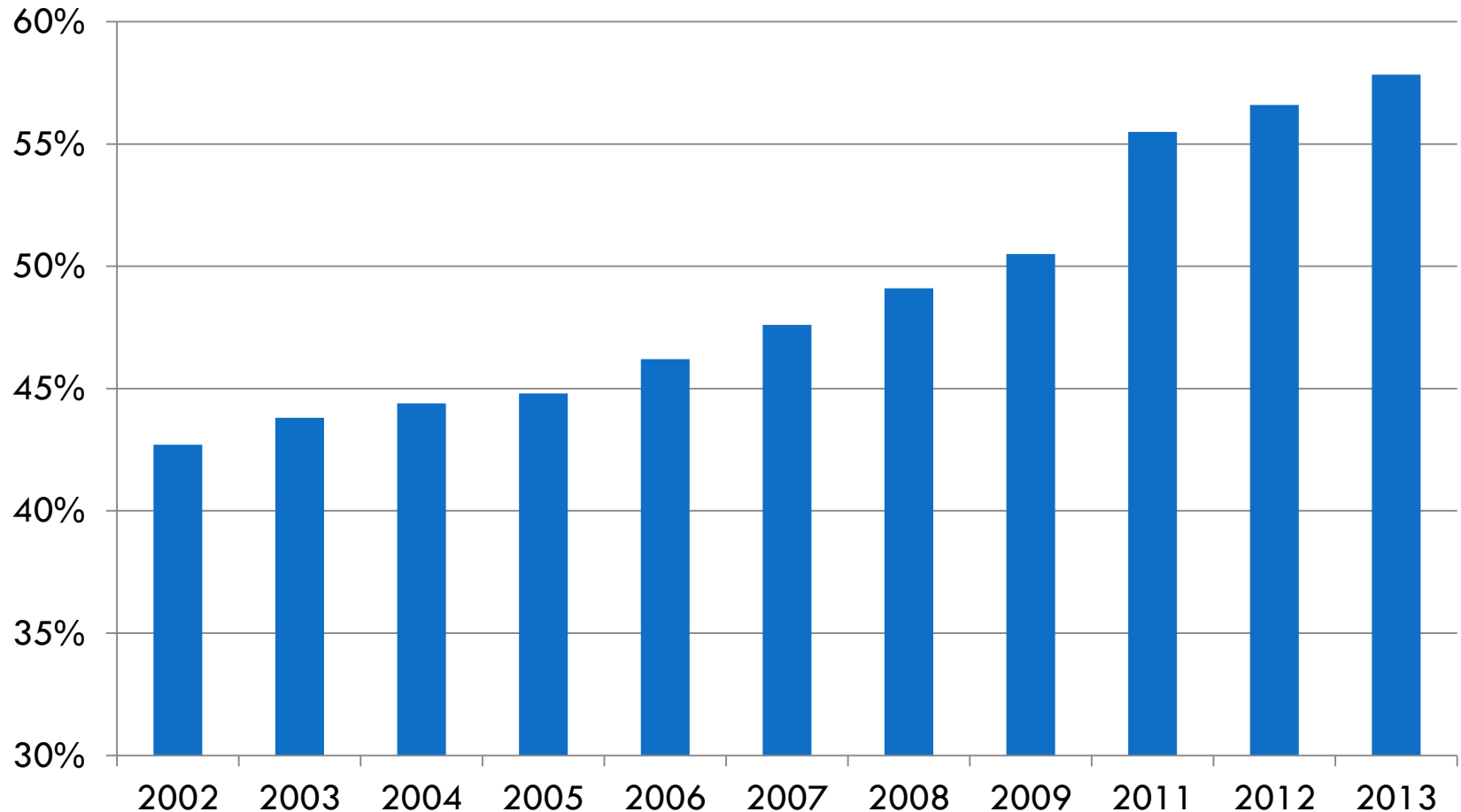
Net public sector debt (GDP %)



Fonte: Banco Central do Brasil

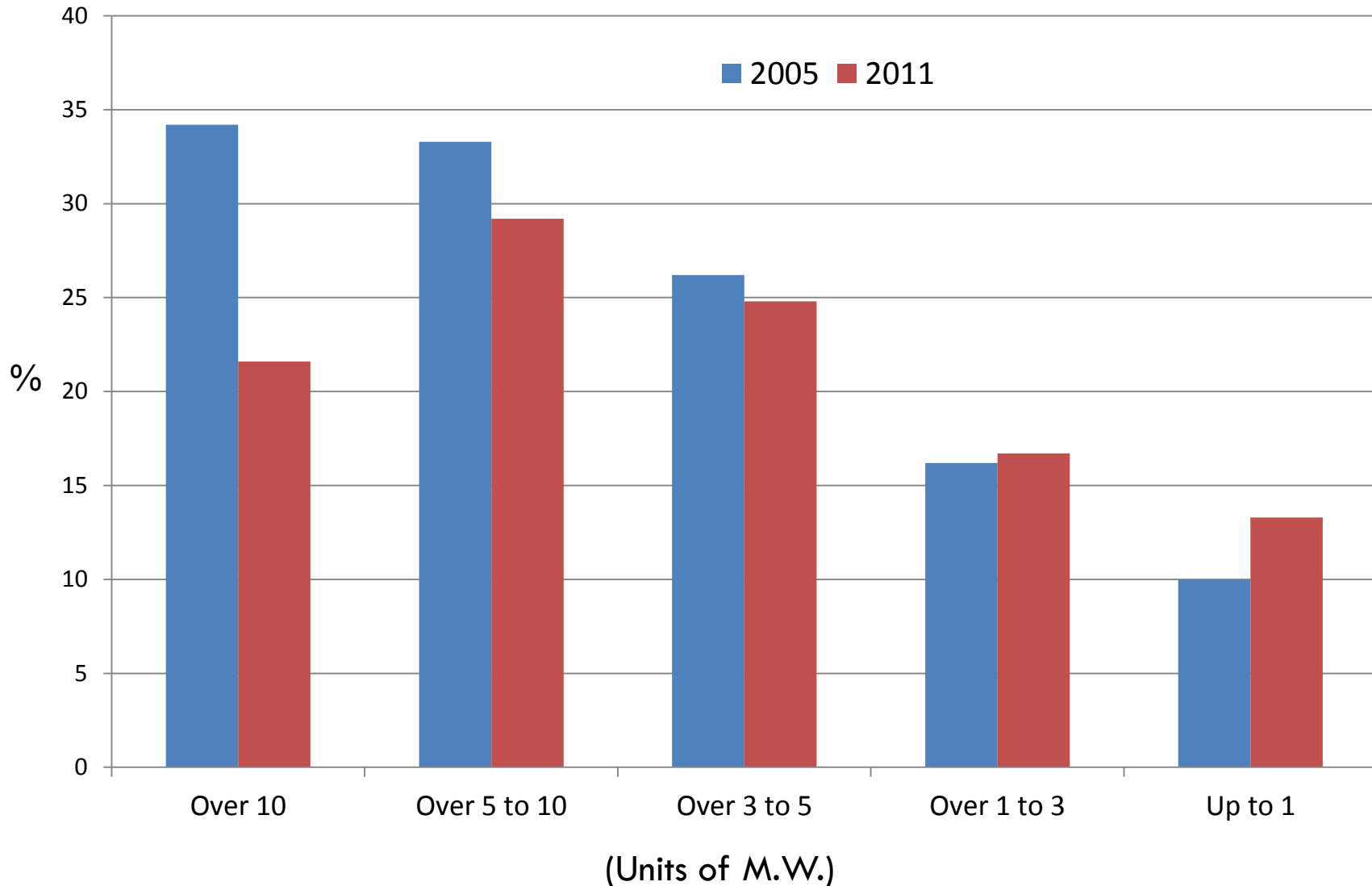
The results (4)

- The formality in the labor market has increased



The results (5):

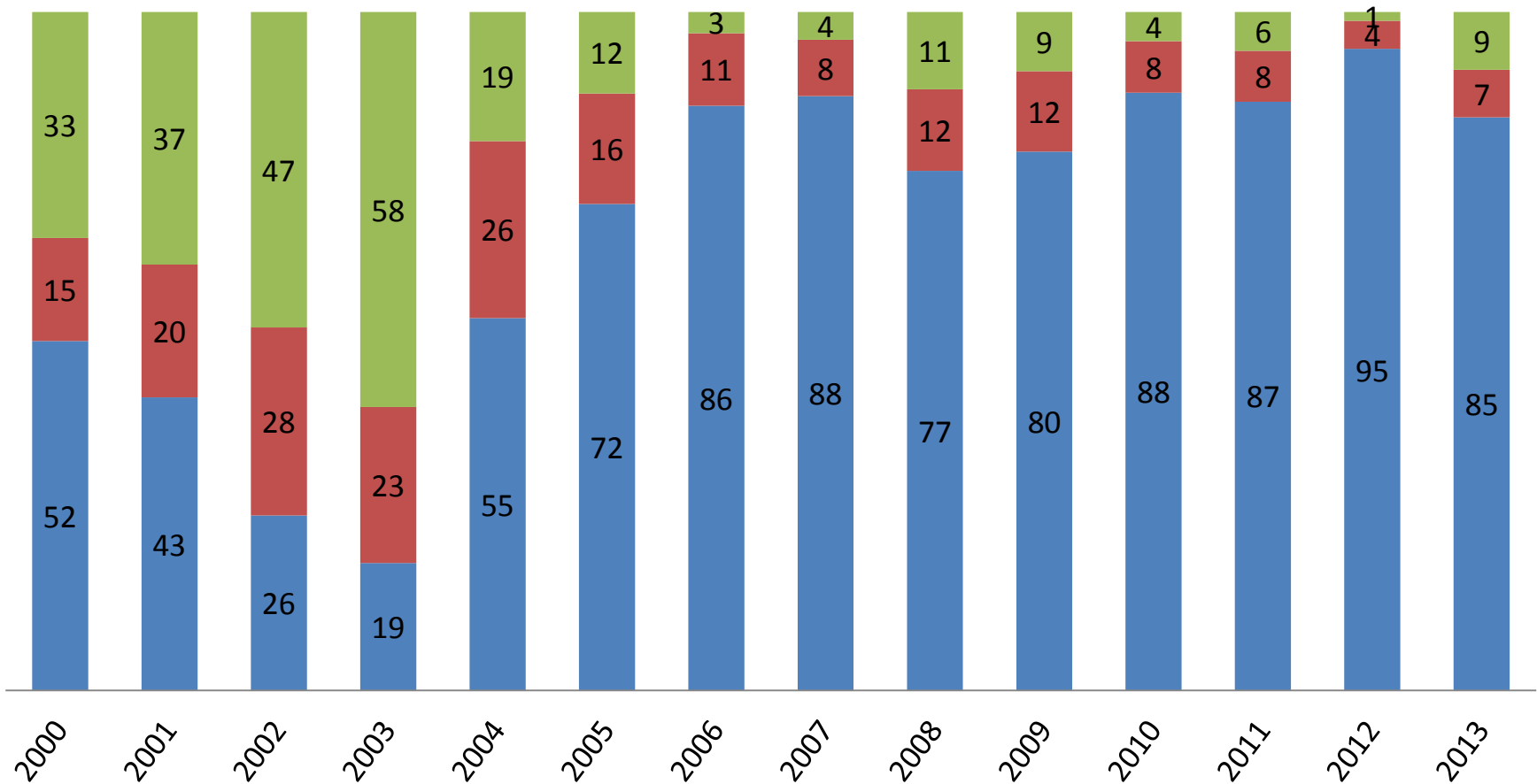
The unionization increased for the low wages workers



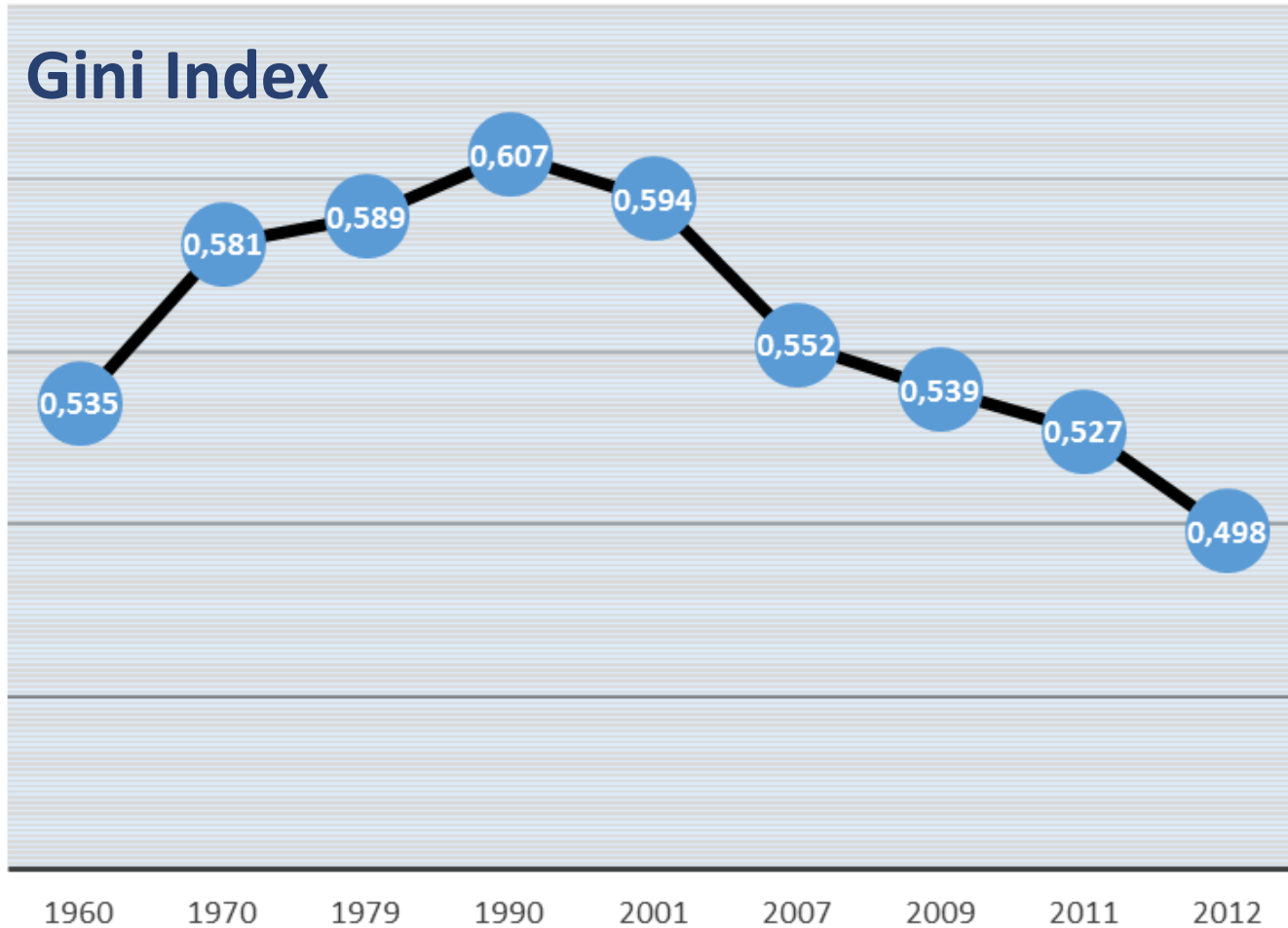
The results (6):

Favorable annual salary bargains compared to inflation

■ Above ■ Equal ■ Below



The results (7): Reducing inequality



how to explain this success?

- Studies of the IMF, the World Bank and other Brazilian researchers centers point that about 60% of the reduction in inequality was due to the minimum wage rise policy.
- But that does not mean that such policy can achieve these results in isolation.
- A set of other factors were crucial too.

Concurrent factors: *Institutionals*

- The Brazilian Labour Justice and the system of punishments and sentences for non-compliance;
- The link between the minimum wage and the social security system.
- Tax relief for micro and small entrepreneurs who formalize their employees - the same for domestic employers.

Concurrent factors: *Economical*

- The monetary stabilization;
- The commodities boom (current account surpluses);
- The fall in the price of manufactured goods;
- The recovery of the investment levels;
 - ▣ Rise of credit
 - ▣ Rise of public investments
- Employment growth (moving closer to the full employment);
- Average rates of GDP growth of 3.5% for several years

Concurrent factors: *Political*

- The discomfort produced by neoliberal policies of the 90s;
- The national government under the direction of a strong Labour Party;
- The support of the social movements and the trade unions;
- The historical legitimacy of Lula as a workers leader and a recognized negotiator;

Final consideration

- The minimum wage rise policy by itself is not enough to boost the development of a country;
- But the economic development cycles are much more powerful and capable to promote social justice and well-being when they are accompanied by a responsible, gradual and persistent expansion of the value of the minimum wage.
- And it will be better achieved if it is built through an agreement among the various social actors in the country