

# Work in the Economic Crisis in Brazil: First Signs

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**I**N THIS ARTICLE I intend to identify and analyze the most immediate principal effects for the world of work that resulted from the occurred with the contamination of the Brazilian economy by the international crisis after October, 2008. In order to do this, the study is divided in two parts, the first regarding the variation in the national socioeconomic flow imposed by the international crisis and its principal impact on the work market in the country; the second part analyzes the recent state of poverty, especially after the months in which the country entered into the economic recession. Final considerations will summarize the principal results of the study.

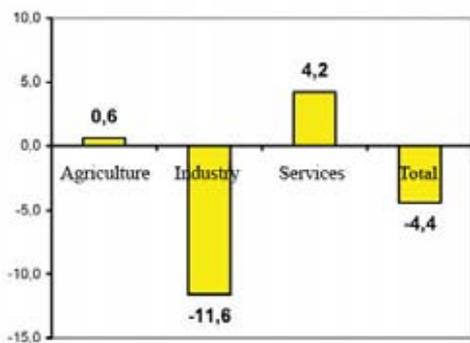


*Unemployed in the Worker Support Center of City Hall, in the center of São Paulo.*

## Variation in the Recent Economic Cycle and Worker Impact in Brazil

The contamination of Brazil by the international crisis beginning in October 2008, caused the cumulative Gross Domestic Product (PIB) to fall more than 4% between the last quarter of the 2008 and the first half of 2009. The industrial sector, with a reduction of 11.6% in this same period of time, was primarily responsible for the variation in the development of the GDP once the agricultural sector had registered a slight expansion of 0.6% and the third sector grew 4.2%.

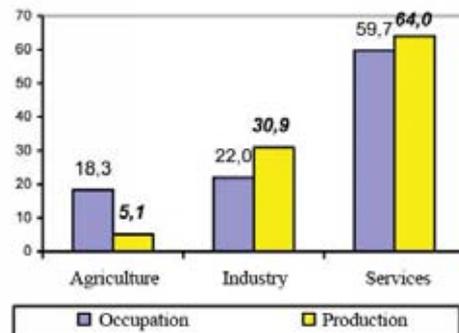
In spite of the important signs of the industrial recession that had begun in the Brazilian economy, there were distinct differences among the sectors of activity, with differentiated dimensions in total production and from the national employment. While the fall in production ultimately reached the industrial sector, which represents almost 31% of production and 22% of the country's employment, the services sector, with more than two thirds of the production and almost 60% of national employment, represents important expansion.



Source: IBGE – National Accounts and PNAD (elaboration by author).

Graphic 1

Agriculture – Industry – Services – Total  
Brazil – GDP behavior between October 2008 and March 2009 (in %).



Source: IBGE – National Accounts and PNAD (elaboration by author).

Graphic 2

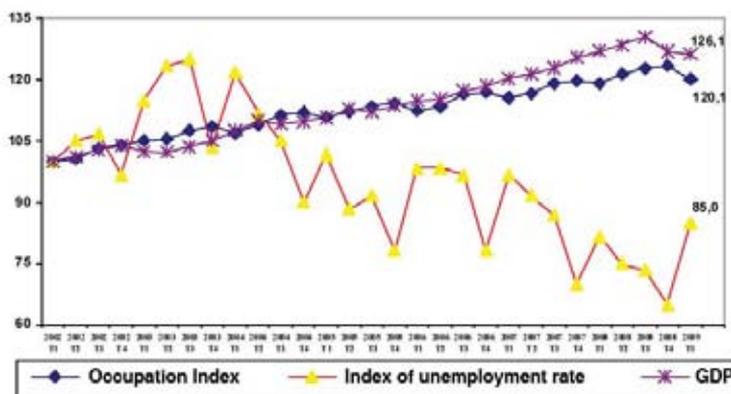
Brazil – GDP sector composition and occupation (total = 100%).

In all ways, the longstanding productivity expansion cycle in investments since the economic miracle in Brazil in the decade of 1970 ended by suffering an important variation from the international economic crisis. By virtue of this, the work market came to have three important consequences: unemployment, temporary employment and turnovers as the following will consider.

## *Open Unemployment and the Profile of the Unemployed*

In the face of the break in expansion of production, layoffs grew more than hirings, causing workers to lose jobs and leaving new entrants into the work market without possibilities of work. The consequence has been a rising unemployment rate, interrupting the trajectory of the decline in unemployment in Brazil.

In addition to the rise in the unemployment rate in Brazil, there is also verification that the profile of the unemployed is undergoing modification, especially in large metropolitan regions. In March, 2009, for example, less than 54% of the total of those unemployed were considered poor, since poor includes monthly *per capita* income less than half of the minimum salary. If as at present, for every two unemployed, one is in a state of poverty, in March 2002 there were more than 66% in this same situation. In other words, for every three unemployed, two were poor, representing a decline of 18.8% in the poverty rate among the unemployed in a comparison of March 2009 with March 2002.



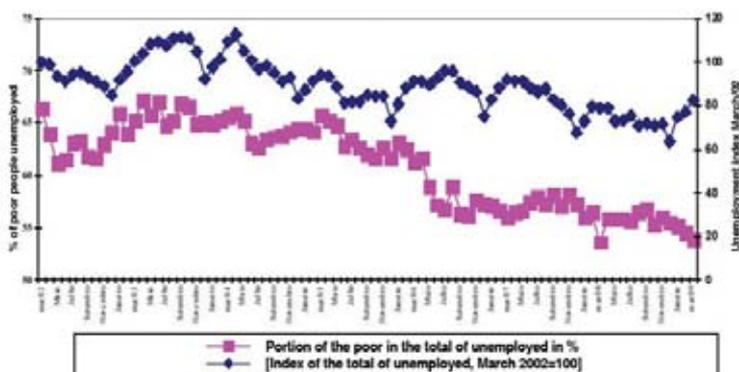
Source: IBGE – PME and National Accounts (elaboration by author)

Graphic 3

Brazil - index of GDP evolution, total occupation and unemployment rate (six metropolitan regions) since 2002.

The reason for this can be related to two principal factors. The first derives from the advance in social protection policies, such as family subsidy, increase in the minimum salary and other measures with attention to the base of the societal pyramid. Between January 2005 and March 2009, for example, the poverty rate among the unemployed fell 16.3%, while the contingent of unemployed was reduced only 5.5%. Even with the contamination of Brazil by the international crisis, there was no clear adjustment in the poverty rate among the unemployed. From October 2008 to March 2009, the poverty rate among the unemployed fell 2.5% while the number of unemployed increased 16.5%.

The second factor refers to the economic sectors that are causing employees to be dismissed and at the same time presenting significant difficulties in contracting new workers. As in a recession concentrated in the industrial sector, which offers in general, high remuneration jobs, unemployment tends more to affect families that are not poor.



Source: IBGE – PME (elaboration by author)

Graphic 4

Metropolitan Brazil– evolution of the unemployment index (March 2002=100) and the poor workers in the total of unemployed (in %) since 2002.

From October 2008 to March 2009, for example, the unemployment rate among the poor population increased 18.5%, while for the non-poor population the unemployment rate grew 24.8%. Even with differences in the recent evolution of unemployment, there remain deepening differences in relation to the unemployment rates by income level. In the principal metropolitan regions the unemployment rate for the poor population reaches 24.8%, while among the non-poor population the unemployment rate reaches only 5.2% of the total.

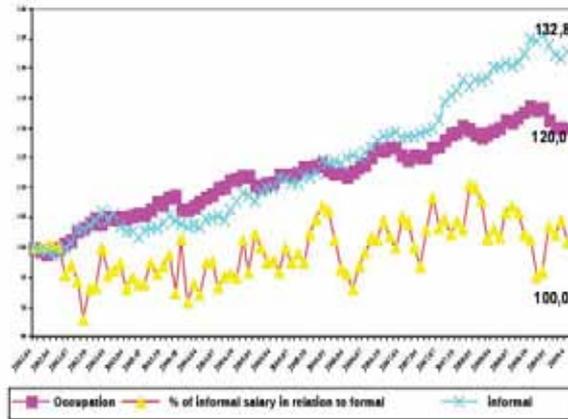
### *Temporary and Informal work*

Variation in the rhythm of the expansion of the Brazilian economy involves a larger unemployment (rate), accompanied by degradation on the part of existing work positions, most of all in the private sector. Informality within occupations tends to increase due to the absence of a guaranteed universal income system for all of the unemployed.

Because of this, the portion of unemployed workers tends to develop activities with the aim of gaining some income for survival, generally by means of informal occupations. By accepting job in the informally contracted work, the worker places himself on a level below the minimum established by social and labor legislation.

Besides the expansion of informal work, a decline in the remuneration of the employed may be seen. This tends to occur more intensely in the salaries of the informally employed workers.

With the increase in non-formal work, there is a lowering of general conditions for workers. But it may also be observed that the collection of resources for public funds resulting from non-contractual jobs is reduced, in a general way penalizing the financial source of social welfare policies.



Source: IBGE – PME (elaboration by author)

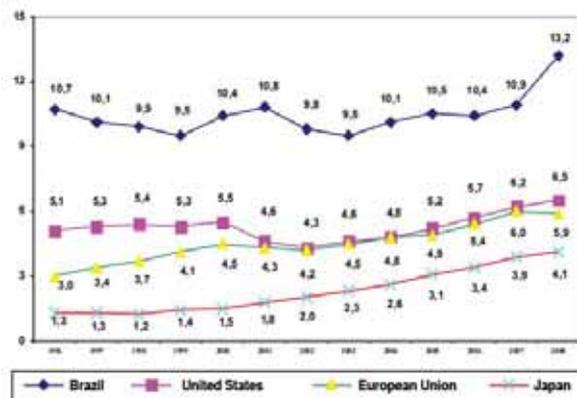
Graphic 5

Metropolitan Brazil– index of evolution of total occupations, from informal (workers without formal contracts) and participation in the real median average salary of the informal, in relation to formal work since 2002 (January 2002 = 100).

### *Worker Turnover*

In the same sense of the present unfavorable functioning in the work market, worker turnover increases pressure to lower salaries and work conditions for employees, generally those with signed contracts. In general terms, dismissal of the worker with greater remuneration may be observed, in favor of new workers contracted at inferior salary levels.

Source: OCDE, OIT, Eurostat, MTE.



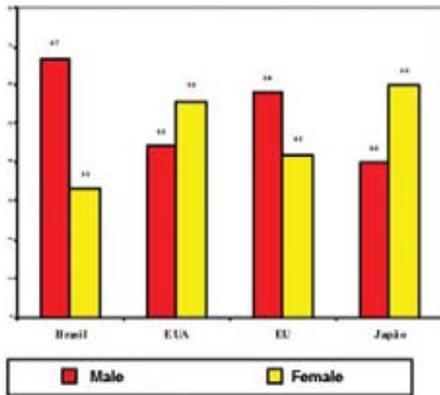
Graphic 6

Measure of quantitative variation in countries selected between 1996 and 2008 (employees fired with up to three months of contract in relation to the total of the occupation).

In Brazil, turnover is excessively represented, considerably above what is documented in other countries. Generally the turnover rate among workers with up to three months of work comes to be two to five times greater than that in other economies.

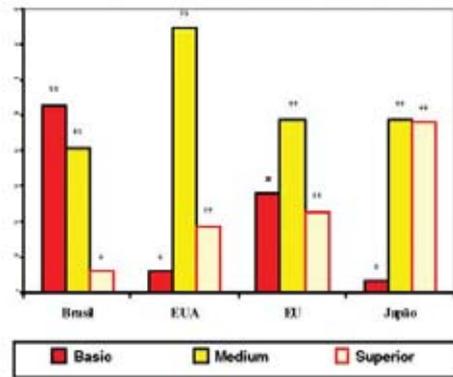
Even noting a slight rise in the rhythm of turnover in the selected countries, attention is called to the increase in turnover in Brazil beginning with the past year, when the economic crisis contaminated the national economy. With this, there may be seen important differences in relation to the profile of the worker exposed to turnover in Brazil and in the selected countries.

Turnover in nations such as Japan and the United States are more concentrated on female employment, differently from Brazil and the European Union. In Brazil, the turnover more extensively reaches work positions involving jobs with lesser remuneration, by contrast to the many countries where it involves jobs with greater education.



Source: OCDE, Eurostat, OIT, MTE.

Graphic 7  
Measure of variation in selected countries  
(composition according to sex) in 2008  
(in %).



Source: OCDE, Eurostat, OIT, MTE.

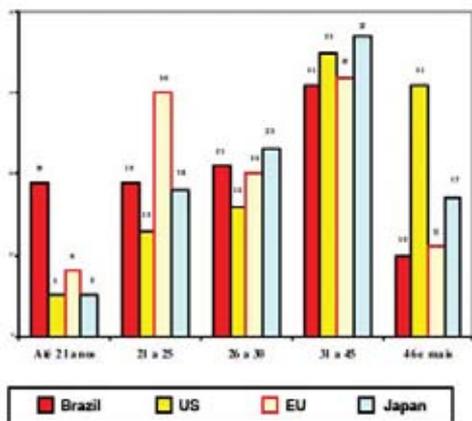
Graphic 8  
Measure of variation in selected countries  
(composition according to schooling)  
in 2008 (in %)

If the turnover is considered by economic sector, by age group and by length of time employed at the same company, important differences may be seen among the countries. In Brazil turnover tends to predominate among the youngest and in the first month of being hired, while in the other selected countries concentration is among the adult age group and within two or three months of being hired.

Finally, in relation to turnover by economic sector, the weight of the third sector in the selected economies may be highlighted. In this context, Brazil tends to a closer approach to the work market of the United States.

In the six months that followed the first manifestation of the international crisis in Brazil (from October 2008 to March 2009), the average national rate

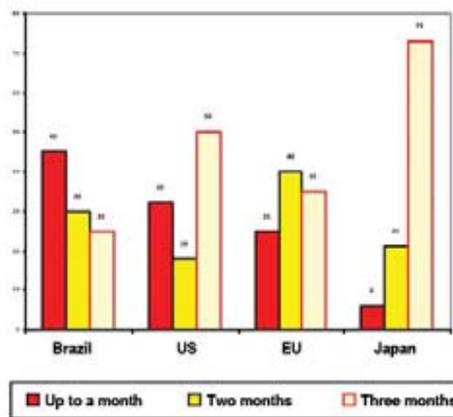
of turnover of formal jobs was from 3.88%. In the same prior period of time (October 2007 to March 2008) the average national turnover was 3.74%. In this sense it is possible to notice that from the crisis on, the turnover increased 3.7%, indicating that one of the work market adjustment mechanisms, besides the closing down of positions, has been the replacement in the same position of a high remuneration employee for another with a lower salary.



Source: OCDE, Eurostat, OIT, MTE

Graphic 9

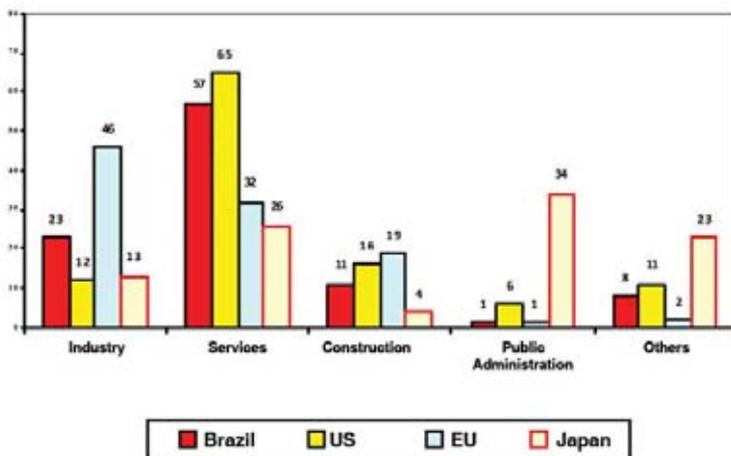
Measure of variation in selected countries (composition according to age group) in 2008 (in%).



Source: OCDE, Eurostat, OIT, MTE.

Graphic 10

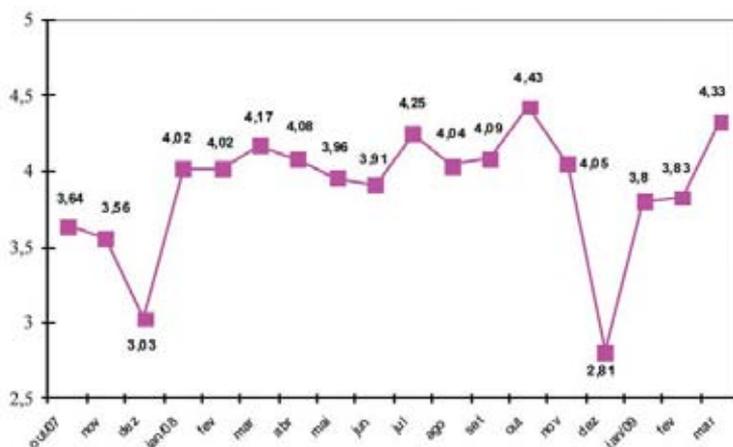
Measure of variation in selected countries (composition according to time employed) in 2008 (in%).



Source: OCDE, Eurostat, OIT, MTE

Graphic 11

Measure of variation in selected countries (composition according to economic sector) in 2008 (in %)



Source: MTE – Caged (elaboration by author)

Graphic 12

Brazil – Evolution of monthly rate of turnover in the total of formal employment from October 2007 to March 2009 (in %).

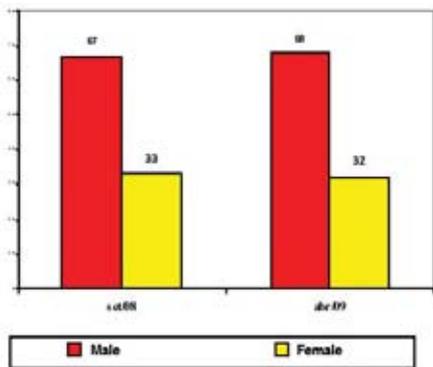
Since October 2008, the sectors that increased their turnover rate were not those with the most dismissals of formal employees. The third sector, for example, which includes commerce and services in general, maintained a positive balance between hirings and firings in the recent period, however with an increase in the turnover rate in relation to the previous period.

Table 1 – Brazil: average national turnover rate (in %)

Sectors	Oct./07 to Mar./08	Oct./08 to Mar./09	Difference
Total	3.74	3.88	3.74
Agriculture	5.29	5.30	0.2
Vegetable Extraction	1.90	1.87	-1.6
Ind. transformation	3.26	3.02	-7.4
Civil Construction	7.01	7.07	0.9
Commerce	4.02	4.08	1.5
Public utility Industry Service	1.45	1.53	5.5
Other services	3.32	3.48	4.8

Source: MTE – Caged (elaboration by author).

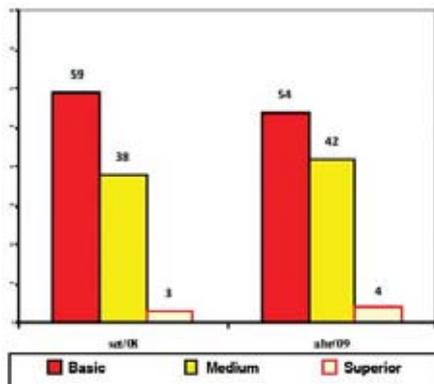
The industrial sector, with greater declines in the occupational level, finished with a decline in the turnover rate for contracted workers. To summarize, the adjustment process within the formal work marketplace in the face of the international crisis has been dismissals accompanied by turnovers, which means contracting at salaries inferior to the previous.



Source: MTE – Caged

Graphic 13

Measure of the variation before and during the crisis (composition according to sex in %).

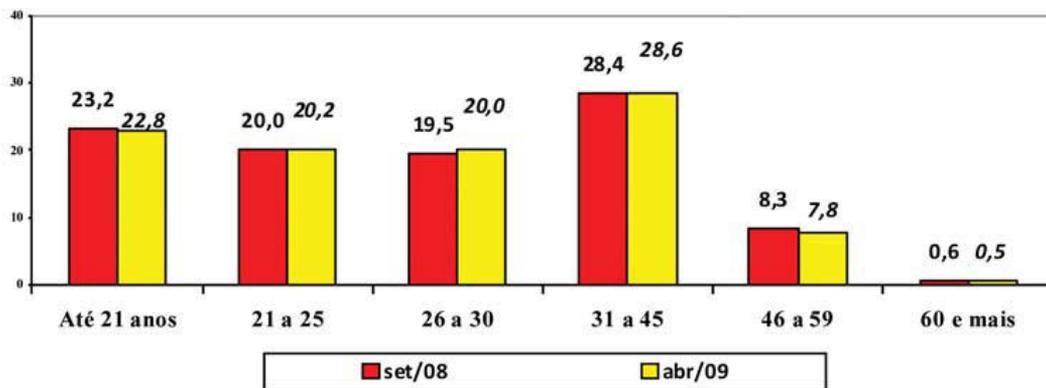


Source: MTE - Caged

Graphic 14

Measure of the variation before and during the crisis (composition according to Schooling in %).

Since October 2008 a turnover rate in formal positions increased more for workers of middle and upper level schooling. In addition, it may be noted that the turnover rate, according to sex, did not undergo a significant change, by contrast to the profile by age group, with slight reduction for workers under 21 years and greater than 46 years, as well as a major expansion for workers between 22 and 45 years of age.



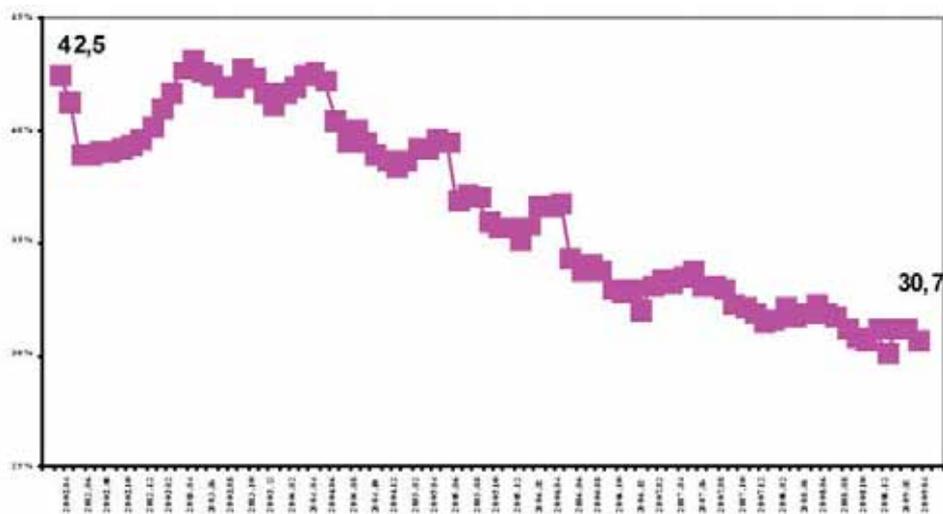
Source: MTE – Caged (elaboration by author)

Graphic 15

Measure of the variation before and during the crisis (composition according to age group) (in %).

## Recent Poverty in Metropolitan Brazil

The entirety of the six major metropolitan regions in Brazil recorded a declining trend in the fall of the poverty rate since April 2004. Between March 2002 and April 2004, the number of metropolitan poor increased 2.1 million people, while in the period from April 2004 to March 2009 the number of poor was reduced by almost 4.8 million people.<sup>1</sup>



Source: IBGE – PME (elaboration by IPEA).

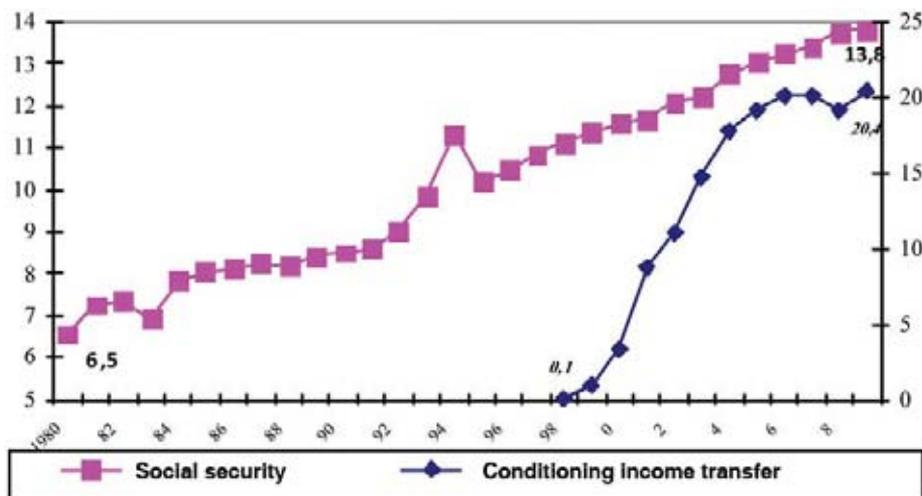
Graphic 16  
Metropolitan Brazil – evolution of poverty within the population  
as a whole since March 2002 (in %).

Due to this, the poverty rate, which was 42.5% of the total population of the six metropolitan regions in March 2002, went to 42.7% in April 2004, an increase of 0.5%. For the month of March 2009, the poverty rate in metropolitan Brazil was 30.7%, which meant a decline of 28.1% in relation to April 2004.

With signs of Brazil internalizing the international crisis from October 2008, it can be seen that until March 2009 there was no interruption in the decline of the poverty rate in the six principal metropolitan regions in the country. Between October 2008 and March 2009 there was a reduction of nearly 316 thousand people in poverty situations in metropolitan Brazil.

The poverty rate of 30.7% in March 2009 was 1.7% less than in March 2008, also representing a reduction of 670 thousand people in poverty conditions (a decline of 4.5% in the number of poor). In our recessive periods, poverty increased, as between 1982 and 1983, with an addition to the number of poor of almost 7.7 million people in the six metropolitan regions, while in 1989/1990, the number of poor increased by more than 3.8 million Brazilians.

This distinctive behavior in the poverty rate in metropolitan Brazil in relation to other periods can be directly correlated to the real value of the minimum salary in relation to the base of the social pyramid, especially to employed workers and to those who were inactive sustained by guaranteed income policies. During the four periods of economic deceleration considered, it may be noted that only in the present period has the real value of the minimum salary managed to retain its greater real value (8%). Between the years 1998/1999, the minimum salary lost 3.1% of its acquisitive power. In the recession of 1989/1990, the real value of the minimum salary fell 33.6%, while between 1982 and 1983 the loss in purchasing power of the minimum salary was 8.2%.



Source: IBGE, MPS and MDS (elaboration by IPEA).

Graphic 17

Brazil – percentage of the total population that receives monetary benefits based on social security and social assistance.

Besides the importance of the value of the minimum salary for active workers within the work market, it is worth highlighting the relation between social security benefits and social assistance. As the values are indexed to the value of the national minimum salary, an important portion of the inactive population also finds itself benefiting from guaranteed acquisitive power in periods of strong economic deceleration.

To summarize, the base of the Brazilian social pyramid presently counts on a guaranteed purchasing safety net originating from transfer programs based on income. The Family Assistance Program stands out in the world of beneficiaries in the country as a whole. In sum, in the portions with security benefits and assistance, Brazil presently counts 34.1% of the population, above all the low income protected by some income guarantee mechanism, which

comprises something unusual in relation to other periods of strong economic deceleration in the country.

### **Final Considerations**

For two consecutive quarters since October 2008, Brazil has shown a decline in the GDP expansion rate, decisively influenced by the behavior of the industrial sector.

The functioning of the work market has therefore come to be less favorable to those who depend on their own work to survive. Besides the increase in unemployment, growth in informal work positions and turnover rate among formal salaried jobs may also be noted.

Notwithstanding the weakening of the work market, it may be seen that poverty in the six metropolitan regions has not been increasing, thus representing a decline up to March 2009. To a great extent, the unusual behavior of poverty since Brazil's external debt crisis (1981-1983) is related to the rise in the real value of the minimum salary and to the existence of guaranteed income for the poor.

The crisis decisively affected the workers' group to a large extent than other sectors of society. Even so, the base of the social pyramid has not yet registered the same regressive economic and social signs demonstrated in other crises that have occurred in Brazil.

### **Note**

- 1 The poverty rate refers to the number of people with family per capita monthly income of up to half the minimum salary in relation to the total population.

*ABSTRACT* – This paper provides a synthesis evaluation about the labor market and poverty at this time when Brazil is contaminated by international crises.

*KEYWORDS*: Work, Poverty, Unemployment, Turnover, Production.

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