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**PAUL SIMON HECKER**

**RELATIONS BETWEEN BRAZILIAN ECONOMIC AND  
SOCIAL POLICIES AND THE INFORMAL ECONOMY  
(RELAÇÕES ENTRE A ECONOMIA INFORMAL E AS  
POLÍTICAS ECONÔMICAS E SOCIAIS NO BRASIL)**

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AO INSTITUTO DE ECONOMIA DA UNICAMP  
PARA OBTENÇÃO DO TÍTULO DE MESTRE EM  
DESENVOLVIMENTO ECONÔMICO, NA ÁREA DE  
ECONOMIA SOCIAL E DO TRABALHO.**

**PROF. DR. MARCELO WEISHAUP T PRONI – ORIENTADOR**

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**COMISSÃO JULGADORA**



**Prof. Dr. MARCELO WEISHAUP T PRONI**  
Orientador - IE / UNICAMP



**Prof. Dr. AMILTON JOSÉ MORETTO**  
IE / UNICAMP



**Prof. Dr. FERNANDO AUGUSTO MANSOR DE MATTOS**  
UFF



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## Resumo

Economia informal é um conceito proposto pela Organização Internacional do Trabalho para estudar situações ocupacionais que combinam condições de trabalho precárias e remuneração baixa, o que geralmente contribui para a reprodução de desigualdades sociais e da pobreza. No Brasil, a informalidade é um problema crônico que abrange quase 50% da força de trabalho. As causas primárias dessa informalidade se encontram nas características do mercado de trabalho brasileiro, marcado por uma oferta estruturalmente excedente de mão-de-obra, que resulta em uma enorme parcela da força de trabalho submetida a uma inserção ocupacional muito vulnerável e sem acesso a um trabalho digno e proteção social.

Partindo das formulações teóricas de Claus Offe e Gosta Esping-Andersen, pode-se afirmar que a informalidade do trabalho no Brasil decorre da insuficiência de políticas públicas capazes de superar a herança deixada pelo modelo de desenvolvimento excludente e de corrigir as distorções produzidas pelo funcionamento do mercado de trabalho. Três grandes linhas de ação política podem ser destacadas como requisitos para fornecer mais e melhores empregos e promover a inclusão social: (i) as políticas macroeconômicas, a política industrial e a política de desenvolvimento regional, que balizam a trajetória de crescimento econômico; (ii) a definição do arranjo institucional que regulamenta e fiscaliza o funcionamento do mercado de trabalho e as relações de emprego; e (iii) as políticas sociais que delimitam o acesso à proteção social e aos serviços sociais, reduzindo a dependência dos trabalhadores pobres em relação ao mercado de trabalho. A maioria daqueles que trabalham informalmente hoje em dia estão excluídos desses esquemas de proteção.

A presente dissertação tem como objetivo examinar os efeitos mais visíveis das políticas econômicas, das políticas laborais e das políticas sociais do Governo Lula sobre a economia informal. O primeiro capítulo apresenta o referencial teórico que dá suporte ao estudo. O segundo capítulo esclarece como a informalidade se tornou um problema crônico no Brasil e procura dimensionar suas principais facetas no mercado de trabalho. O terceiro capítulo apresenta indicadores da evolução recente da economia brasileira e menciona as diretrizes das políticas macroeconômicas adotadas. O quarto capítulo focaliza as políticas de mercado de trabalho e as políticas sociais para a constituição da economia informal. Ao final, fica demonstrado que o crescimento econômico substantivo, a regulação mais eficiente do mercado de trabalho e o compromisso com políticas sociais dirigidas para os segmentos mais pobres da população reduziram a informalidade no mercado de trabalho brasileiro ao longo da década passada. Será concluído que crescimento econômico é uma condição necessária para a melhora do problema social da informalidade, mas sem mudanças na direção das políticas sociais e laborais, não é uma condição suficiente.





## Abstract

Informal economy is a concept proposed by the International Labour Organisation to study occupational situations that combine conditions of precarious work and low remuneration, what generally contributes to the reproduction of social inequalities and poverty. In Brazil, informality is a chronic problem that affects nearly 50% of the workforce. The primary causes of this informality are found in the characteristics of the Brazilian labour market, marked by a structural supply surplus of labour, which results in an enormous part of the workforce being submitted to a very vulnerable occupational insertion without access to decent work and social protection

Departing from theoretical perspectives of Claus Offe and Gosta Esping-Andersen, it is affirmed that the informality of work in Brazil results from the insufficiency of public policies that are not able to overcome the heritage of the excluding development model and to correct the distortions produced by the labour market. Three great lines of political action can be emphasized as requirements for the provision of better employment and to improve social inclusion: (i) macroeconomic policies, industrial policies and the regional development policies that mark the trajectory of economic growth; (ii) the definition of the institutional arrangements that regulate and control the functioning of the labour market and the labour relations; and (iii) social policies that restrict the access to social protection and services, reducing the dependency of poor workers from the labour market. The majority of those who work informally today are excluded from these protections schemes.

The present work will examine the most visible effects on the informal economy of economic policies and of the social and labour policies during the Lula-Government (2002-2010). The first chapter introduces the theoretical references that are used in the study. The second chapter shows how informality turned into a chronic problem in Brazil and tries to outline its principal labour market facets. The third chapter presents indicators of the recent evolution of the Brazilian economy and mentions the guidelines of the adopted macroeconomic policies. The fourth chapter focuses on the labour market and social policies and their role for the constitution of the informal economy. Finally it will be shown, how substantial economic growth, more effective regulation of the labour market and a commitment with social policies directed towards the poorest segments of the population reduced informality in the Brazilian labour market over the last decade. This will lead to the conclusion, that economic growth is a necessary condition for the improvement of the social problem informality, but without changes in the direction of social and labour policies, it is not a sufficient condition.



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## List of Abbreviations

BNDES	National Bank of Economic and Social Development
CLT	Consolidated Labour Laws
CUT	Unitary Workers' Central
EAP	Economically Active Population
FAT	Workers' Support Fund
FGTS	Workers' Guarantee Fund for the time in Service
GDP	Gross Domestic Product
PBC	Continuously Provided Benefit
IBGE	Brazilian Institute of Geography and Statistics
ILO	International Labour Organization
IPCA	National Consumer Price Index
IPEA	Research Institute of Applied Economics
IPI	Tax on Consumption Goods
MPT	Public Ministry of Labour
PAC	Growth Acceleration Programme
PT	Workers' Party
PBF	"Bolsa Família" Programme
PIS-PASEP	National Social Integration Programme
PNAD	National Household Survey Programme
PREALC	Regional Employment Programme for Latin America and the Caribbean
SINE	National Employment System
SUS	National Health Service



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# Introdução

“Informalidade é, principalmente, um assunto de governança.”  
(OIT, 2002)

“O quadro macroeconômico e o grau de expansionismo ou restrição das políticas fiscais e monetárias precisam ser sensíveis ao panorama do emprego. Um desenvolvimento equilibrado dos mercados de trabalho, do emprego e da proteção social é um pilar indispensável para o crescimento global harmonioso.” (SOMAVIA, 2011)

A informalidade é um dos maiores problemas que os países em desenvolvimento, especialmente na América Latina, estão enfrentando. Em geral, está associada com a falta de mercados de trabalho bem estruturados, acarreta uma arrecadação reduzida de impostos pelo Estado e indica a existência de grupos sem proteção social, levando muitas vezes à pobreza e à miséria. O problema da informalidade não é novo e persiste na América Latina desde o início da industrialização, mostrando a persistência de estruturas sociais heterogêneas. Ainda hoje, nesses países, os governos enfrentam dificuldades quando tentam executar políticas que buscam eliminar o problema de maneira planejada. Não é coincidência o fato de as altas taxas de informalidade se manifestarem junto com a desigualdade extrema, especialmente no Brasil.

É importante esclarecer que nem todo emprego na economia informal pode ser caracterizado como precário, assim como nem todas as pessoas inseridas nela são pobres, uma vez que alguns segmentos informais têm rendimentos relativamente altos. A heterogeneidade dos segmentos que constituem a economia informal é uma das características mais importantes da informalidade no mercado de trabalho (ver capítulo 2). Neste estudo, a informalidade é considerada não só uma expressão da complexidade encontrada na dinâmica social, no Brasil e na América Latina, mas uma



das causas da desigualdade extrema e um dos principais desafios no campo das políticas para o mercado de trabalho.

Voltando às citações acima, governança nesse sentido significa todas as formas de regulação coletiva dos assuntos sociais, incluindo a regulação institucionalizada própria dos atores sociais (como por exemplo, os contratos coletivos entre sindicatos de trabalhadores e empregadores). Também significa atos soberanos de atores do Estado (como, por exemplo, o governo e as formas distintas de interseção entre atores estatais e sociais, tais como os contratos tripartites) (MAYNTZ, 2004: 66).

A segunda citação determina o sentido dos instrumentos que são importantes para essa “governança”: políticas macroeconômicas, fiscais e monetárias, de um lado; e a regulação dos mercados de trabalho, do emprego e da proteção social, do outro. Partindo desse entendimento, o presente estudo pretende entender como essas dimensões do problema da informalidade estão hierarquizadas no Brasil e como isso afeta a extensão e o grau da informalidade no trabalho.

A literatura sobre informalidade mostra perspectivas distintas para o problema. Historicamente, podem ser diferenciadas três abordagens que tentaram categorizar e entender a informalidade. Isso levou a recomendações políticas diversas de acordo com as referências conceituais e ideológicas próprias de cada abordagem.

A abordagem dualista entendeu informalidade como um setor separado, que inclui todos aqueles indivíduos que tiveram de escolher estratégias de sobrevivência por não encontrarem um emprego formal, devido à insuficiência de oferta de empregos no setor moderno da economia.

Outra abordagem considera o setor informal como sendo resultante da economia capitalista que cria um excesso de população e assim aumenta a pressão sobre os mercados de trabalho. Por isso, estruturalistas e dualistas viam na maior demanda de mão-de-obra uma resposta básica à informalidade que necessariamente levaria à integração dessas atividades na economia formal.

A abordagem legalista se popularizou durante a década de 1980 e tinha o foco na ilegalidade presente em cada atividade informal. A solução para o problema estaria baseada na redução da regulação e da burocracia estatal, assim como em controles estatais mais eficazes para formalizar essas atividades. A informalidade, nessa

perspectiva, seria causada pela regulação demasiadamente densa, que aumenta os custos de funcionamento para segmentos com baixos níveis de produtividade, forçando indivíduos a trabalharem de modo informal (ou seja, evitando o sistema legal com suas taxas e contribuições).

Todas as abordagens consideram as políticas econômicas como uma influência básica para a informalidade, mas se distinguem na compreensão e nas recomendações adequadas: ou garantindo a criação de empregos ou seguindo uma política liberal de mercado que pretende reduzir a regulação. Por isso, a direção da política econômica durante os últimos anos e os seus efeitos sobre a informalidade serão examinados nesse estudo.

Uma abordagem mais recente e atualmente mais usada considera a informalidade como uma parte crucial da economia de países em desenvolvimento. Sendo responsável por geração de emprego e pela criação de riqueza e geralmente, está caracterizada pela ligação à economia formal. Esta abordagem otimista enfatiza também a importância de normas sociais e trabalhistas que muitas vezes não são aplicadas à população que trabalha na informalidade. Para entender melhor se este problema tem uma dimensão de regulação de caráter excludente, este estudo investiga os efeitos da política econômica sobre a informalidade e busca descobrir o quanto o arcabouço institucional das políticas sociais e das políticas do trabalho, no Brasil, estão reproduzindo a exclusão social de membros da economia informal.

Para esse fim a questão seguinte deve ser respondida: **Quais efeitos tiveram as políticas econômicas brasileiras recentes, de um lado, e as políticas sociais e do trabalho, do outro, sobre a economia informal?**

A questão parte da perspectiva teórica dos trabalhos de Claus Offe (1972) e da literatura sobre o desenvolvimento dos estados de bem-estar (ESPING-ANDERSEN, 1991). Essa perspectiva relaciona políticas sociais e políticas do trabalho à ordem econômica e política, argumentando que a análise tem de entender a relação mútua entre essas dimensões.

Com base nas abordagens relativas à informalidade apresentadas acima, serão analisadas diversas políticas e suas consequências sobre a informalidade. As abordagens dualistas e estruturalistas indicam a importância da política econômica para

a demanda de mão-de-obra (excessiva). A abordagem legalista propõe controles e eficácia dos mercados para reduzir a informalidade. E a abordagem relacional indica a importância das políticas sociais e do trabalho. Essas dimensões serão analisadas no presente estudo.

# Introduction

“Informality is principally a governance issue”

(ILO, 2002)

“Macroeconomic frameworks, and the degree of expansiveness or restrictiveness of fiscal and monetary policies, need to be responsive to the employment outlook. Balanced development of labour markets, employment and social protection is an indispensable pillar of balanced global growth” (SOMAVIA, 2011)

Informality is one of the largest problems developing countries are facing, especially in Latin America. In general, it is associated with a lack of well structured labour markets, causing also a reduced tax revenue for the state and indicates the existence of social groups without social protection, often resulting in poverty and misery. The problem of informality is not new it persists in Latin America since the beginning of industrialization and shows the persistence of heterogeneous societal structures in these countries. Until today governments in these countries face difficulties when they try to implement policies that would seek to eliminate the problem in a planned manner. It is no coincidence that the high rates of informality become apparent in combination with extreme inequality, especially in Brazil.

Nevertheless, it is important to remind that not all employment in the informal economy can be characterised as precarious and not all parts of it are poor, since some of the participants in the informal economy in fact have a relatively high income. Heterogeneity of its segments is one of the most important characteristics of the informal economy (compare chapter 2). In this study, informality is considered as being not only an expression of the complexity found in the Brazilian and Latin American social dynamic,

but as a source for the extreme inequality and a principal challenge for labour market policies.

Returning to the citations above, governance in this sense means all ways of collective regulation of societal affairs, including institutionalized self-regulation by societal actors (as for example collective agreements between trade unions and employer associations). It also means sovereign acts of regulation by state actors as for example the government and the different forms of intersection between state and societal actors (tripartite agreements for example) (MAYNTZ, 2004: 66). The second citation gives a concrete meaning to the regulations that are important for this “governance”: macroeconomic and fiscal and monetary policies on the one hand and the regulation of labour markets, employment and social protection on the other. Departing from this notion, this work tries to understand the hierarchy of the dimensions of the informality problem in Brazil and how this affected the extension and degree of informality of labour. Literature on informality provides different perspectives on the problem. Historically, three approaches can be made out that tried to categorize and understand informality. These lead to different policy recommendations in accordance to each approaches’ conceptual and ideological points of reference.

The dualist approach understood informality as a separated sector that contained all those individuals that had to choose survival strategies because they could not find formal employment, due to a lack of employment supply in the modern sectors of the economy.

Another approach considered the informal sector as being caused by the capitalist economy, creating a surplus population that increased pressure on the labour market. Both structuralists and dualists therefore saw one basic response to informality in higher demand for labour, which would be necessary to integrate these activities into the formal economy.

The legalistic approach became popular during the 1980s and focused on the illegality present in every informal activity. The solution for the problem would be based on a reduction of state regulation and bureaucratic procedures but also more effective state control to formalize them. Informality in this perspective would be caused by too tight

state regulation that increases costs for the low-productivity segments forcing individuals into informality (so to say, by avoiding the legal system with its taxes and contributions). All approaches consider economic policy as a crucially influencing informality, but differ in its comprehension and recommendations: whether it should be employment oriented or whether it should follow a liberal market oriented policy that reduces regulation. Therefore, economic policy guidelines during the recent years and its effects on informality will be examined in this study.

A more recent and currently mostly used approach considers informality as a crucial part of the economy in developing countries, being responsible for employment, wealth creation and being interconnected with the formal economy. This optimist approach stresses the importance of social and labour regulations, which often are not being applied to the informally working population. In order to better understand whether this problem also has a regulatory-excluding dimension this study wants to investigate the effects of economic policy on informality and find out in how far the institutional setting of social and labour policies in Brazil is excluding informal economy members. To this end the following question shall be answered: **What effect do the recent Brazilian economic policies on the one hand and social and labour policies on the other hand had on the informal economy?**

The question departs from a theoretical perspective based on the works of Claus Offe (1972) and the literature on welfare state development (ESPING-ANDERSEN, 1991). This perspective relates social and labour policies to the economic and political order, arguing that an analysis has to understand the mutual relationship between these dimensions.

Based on the approaches to informality presented above, several policies and their impact on informality will be analysed: the dualist and structuralist approach indicate the importance of economic policy for the demand of (excess) labour. The legalistic approach proposes controls and market effectiveness for the reduction of informality and the relational approach indicates the importance of social and labour policies. These dimensions will be analysed in this study.



# 1 Theoretical considerations

This chapter seeks to present the debate about the informal economy and its conceptual predecessors. Thereby focusing on the role that is given to social and labour policies in these concepts it shall become clear through a second step how these policies are fundamental for the existence of the informal economy. Hypotheses to be considered will be established by the end of each part.

## ***1.1 The debate on the informal economy***

The concept of the informal sector became popular after research conducted in Kenya in the 1970s, when a group of scientists tried to discover, why so many people work in non-standard employment. Low payment, unstable employment conditions and lack of basic rights were the main attributes found to describe the working conditions of a large part of urban workers of developing countries. Working under these conditions was interpreted as a survival strategy in a context of lacking productive opportunities (TOKMAN, 2007: 256). All activities, either by companies or workers, which would fit in this box of unregulated and low quality working conditions, were understood to form a separate sector of the economy: the informal sector. A further theoretical conceptualization, which would go beyond this descriptive approach, was not done at the time. Nevertheless, this concept rapidly became popular among researchers who worked on labour market as well as on development in a general sense. The policy recommended at that time was to increase economic growth in order to create a more structured labour market (PREALC, 1978; KREIN; PRONI, 2010: 8).

In the 1980s, the debate was pushed further by Latin-American researchers at PREALC, who saw an excess of the labour force as the cause for the existence of the informal sector. In this dualist understanding informal sector formed a second economy, which existed alongside the formal one, which is why this is termed as the dualist approach



(CHEN, 2005: 4). The informal sector was understood to be an unproductive, low pay and basically small-scale enterprise sector, in which the excess workforce (“reserve army”) would exist, thus putting the formal economy's labour under pressure. Poverty was a central attribute of the informal sector, even though research at the time already further distinguished between more and less productive segments of the informal sector. Policy recommendations should therefore strengthen the productive segments and increase the “modern” economy, in order to eradicate the informal sector. The theoretical perspective of this approach can be termed “functional”, since it saw structural characteristics of the capitalist economy as the cause for the informal sector's existence (KREIN; PRONI, 2010: 9).

Another approach that came up during the 1980s focused on the illegality of the informal sector, where the non-appliance of taxes, contributions and labour regulations determine whether activities are formal or informal. In the spirit of the decade, this approach focused on the liberal notion that government regulation forces small entrepreneurs into informality in order to avoid (over-) regulation and taxation (CHEN, 2005: 4). This legalistic approach recommends deregulation and lower taxes to be combined with increased controls and enforcement of rules over the informal sector, in order to increase formality.

In this general debate about what distinguishes the informal sector, the International Labour Organization played an important role, since it constantly changed its understanding. During the 1990s, it was debating about two policy responses to the informal sector: The improvement of the productivity and competitiveness should lead at least parts of the informal sector towards formalization and an overall increase of productivity, thereby promoting jobs for the socially excluded as well. The second policy response focused on the social dimension, e.g. the problem of precariousness and the eradication of poverty, which should be attained by expanding social protection coverage to the informal sector. Without really solving this dilemma, ILO recommended a combination of both suggestions linking the eradication of extreme forms of exploitation while at the same time improving its productivity (KREIN; PRONI, 2010). Tokman (2007) also stresses the importance of these two options reminding that integration of the informally working is also necessary to reduce inequality and societal segmentation and

should therefore be the major preoccupation of policies. This integration may follow three lines: Provide support to the increase of productivity so that informal activity maintains its role as job creator and gets closer to the formal economy's production level. The second line includes social welfare for informal workers, reducing poverty and providing systems of risk protection. Finally, the regulatory framework should be adopted, trying to formalize informal work while not reducing the (labour and security) standards for the formal economy (ibid.: 259)

In 2002, the ILO adopted the concept of the “informal economy”, considering the importance of all informal activities, productive and unproductive ones, and thus abandoning the dualist approach. This concept was the result of debates about the need of an internationally comparable concept, which would hopefully help to understand the problem and provide examples of best practice. In order to provide a better understanding of this complex universe of activities, it included not only informal entrepreneurs and self-employed workers, but was broadened to embrace as well those who work in informal employment relationships. Two major categories are therefore distinguished: self-employed in informal enterprises, made up by employers, self-employed entrepreneurs and unpaid family workers. On the other hand, employees of informal enterprises make up informal employment relations: casual or day labourers, domestic workers, unregistered or undeclared workers, temporary or part-time workers and industrial outworkers (also called home workers) (CHEN, 2005: 7).

Thus, the informal economy approach sees tight links between the informal and the formal economy, focusing on the interdependence and the complementarities of formal and informal work and firms. Informal firms thus are related to formal firms by providing products in value chains or through individual transactions between firms or through the establishment of a sub-sector network. Informal salary worker on the other hand might work in formal companies, which means that their status is disguised. It might also be an ambiguous relationship, at which a real salary relationship is doubtful or it might even be doubtful, in cases where the employer of an existing informal relationship may not be clearly defined (CHEN, 2005: 18).

The most important aspect of the new ILO and academic understanding of the informal economy is that it includes the question of job quality and social security to be a part of

the problem and its solution, reflecting the former debate about how to combine the need for an increase of productivity by some parts and forms of social protection for the most vulnerable parts of society. Social and labour policies are therefore one corner stone in this strategy to reduce informality. Accordingly, this concept suggested the improvement of working conditions according to the “Decent Work”-agenda, provided by the ILO. Its main policy suggestions are according to Chen (2005: 23):

- Promote opportunities for training and other service to increase productivity and competitiveness
- Secure rights through expanding legal rights to informal workers and ease access to credits for self-employed
- Provide a social safety net for informal worker
- Build and recognize the “voice” of informal workers

These advices are of interest for this work, since they provide the notion that the causes of informality lay not alone in the labour market or the legal system, but also in the non-inclusion of informally working people in social protection systems. It is therefore necessary to understand why these people have no access to social protection and how these systems in themselves work leading to the exclusion of nearly 50% of the population from the social protection schemes. In order to achieve a better understanding of these excluding processes, the next chapter will elaborate a theoretical framework for the analysis of social and labour policies.

The Brazilian perception of the debate about informality is not less heterogeneous than the international debate, which is due to the heterogeneity of work forms, working conditions, social and regional characteristics of different segments of the Brazilian informal economy, as will be shown in Chapter 3. Nevertheless it is important to introduce some of the most important reflections undertaken by Brazilian authors on this topic, taking in mind to focus on how this literature treats the link between social policy and the informal economy:

First, the national debate differs in semantic terms from the international discourse, since the term “informality” is more common used than the more recently introduced “informal economy”.

In conceptual terms, the debate sometimes reflects international approaches, as for example the focus on the role of economic policy for the creation of a sufficient number of jobs by Tomazini (1995), emphasizing the limits of this concept for a heterogeneous informality that differs strongly between some urban developed labour markets and underdeveloped rural labour markets.

Cacciamali (2000, 2002) uses the criteria of access to social protection and a formal labour contract to define newer forms of informality that are resulting from a deregulation policy that was applied to the labour market during the 1990s. She calls this the “process of informality”, referring to an increase of these jobs and some “new” forms of informality like atypical employment, temporary work and false cooperatives, among others. These new forms seem to be formerly regulated and protected and thus formalized jobs that underwent a restructuring and *informalization* in accordance with the political project of deregulation and low economic growth rates at the time (CHEN, 2005: 3, even though Chen argues that this process started on a global level in the 1980s). These new forms of informality increase the complexity of characteristics but are nevertheless important for the understanding of current developments.

Krein and Proni (2010: 28) elaborate on this approach by proposing that the “new” forms of informality should be taken into account when informality is determined, including the following categories: Juridical persons (hidden employment 1), self-employed workers (hidden employment 2), false cooperatives, outsourced workers, triangular work relationships, false volunteers in the service sector, Internship-employees, temporary or limited employment. All these forms of work result in lower remuneration and less access to social protection, than the same kind of activity under a different legal umbrella that might formerly existed. Changes in the social and labour regulation are seen as the source for these new forms of informality, besides the effects of a low economic growth (KREIN; PRONI, 2010: 25).

What can be learned from this discourse about informality?

First and foremost: It is a very contested concept that is difficult to catch, also because the causes that are made responsible by the authors for its existence, differ according to ideological perspectives on the economy, labour and politics (KREIN; PRONI, 2010: 22).

Nevertheless it is possible to find a common smallest denominator in the discourse on informality, if one is willing not to include the different explanations for its existence:

1. Informality has a dimension of illegality, since the units and persons present in it are not adhering to all regulations that are imposed on their activity by the state (labour regulation, taxation, among others)
2. Productivity is another dimension, with some parts of it having accumulated a quite high amount of capital and knowledge and thus may be even creating many jobs (the range is open from competitive firms that compete on the market by using its non-appliance of regulation to gain competitive advantages to strategies of individual survival, obviously without major productivity gains)
3. Informality has a dimension of precariousness, even though it differs according to the activity undertaken (linked to the productivity dimension and the lacking access to the “legal” dimension, which could provide social protection in the case of low productivity if access would be possible) and often correlates to gender and race characteristics (CHEN, 2005b: 10)

This mapping of informality suggests that the different segments of it require different policy responses, since each segment faces different problems, an idea that was also already found in previous definitions of informality (TOMAZINI, 1995 for example divides it into two spheres, of which one is “nearly” formal, due to its high competitiveness, and the other is marked by less productivity).

The very productive but illegal segments may need a stricter regulation and bureaucratic procedures that are adapted to their needs. Less productive units may benefit more from economic growth policies, enabling them to improve their income or develop into more competitive actors.

In accordance to these interpretations of the informal economy, two hypotheses will be tested in the course of this work:

The first refers to the effect of economic growth and the increase in employment demand attributed to it has on the informal economy. This vision is especially popular among scholars from the structuralist perspective on informality, since they consider a lack of formal employment as a structural characteristic of labour markets in developing

countries, which might be possible to overcome with employment oriented economic growth. The first hypothesis therefore goes:

**Economic growth policy reduced informality.**

The second hypothesis departs from the assumption that informality is mainly a question of legal controls since social and labour laws also exist in Brazil but are not enforced. This perspective considers an increase in control efforts as a viable strategy for the reduction of informality and matches partially with the legalist approach. Since labour regulations in Brazil are quite flexible<sup>1</sup>. This approach also shows its limits, since this liberal regulation was applied in Brazil in the 1990s and did not increase formal employment, despite economic growth. The theoretical foundation of the following hypothesis is therefore rather vague, since the control of imposed labour laws (independent of their political orientation) is a rather given factor of policy making. It is nevertheless important to consider the effects of labour controls on informality, which will be tested by the following hypothesis:

**An increase in controls reduces social and labour law infringements and leads to less informality.**

Despite these two hypotheses, two aspects are nevertheless worth taking in mind for the further debate

- There are different forms of informality, which can be divided into groups; segments with different degrees of illegality, productivity and precariousness.
- Social and labour policies are intrinsically linked to informality as a social problem, impacting differently on the various segments of informally active people.

Changes in social and labour policies lead to the emergence of “new” forms of informality, but instead of focusing on the ways, how these changes occurred and how they influence the chances of formal labour market access, most scholars focus on the question of how the conditions on the labour market may be improved in order to include them into the formal workforce. Proposing measures that are based on a greater effective demand for a more skilled workforce and that focus on more and better controls

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<sup>1</sup> Flexible dismissal regulations, low coverage of social security, resulting in social risks linked to unemployment and informality.

are doubtlessly important, as will be shown in chapter 4, but they do not change the structure of Brazilian social and labour policies. The next chapters will argue that part of the problem is caused by the structure of these policies and that a different approach could help to decrease informality, combining economic policy, legal controls and changes in the social and labour policies.

## ***1.2 The relational approach to the capitalist order***

The relational approach to the capitalist order departs from the functional understanding that subsystems are coexisting in modern societies (BORCHERT; LESSENICH, 2010): Offe focuses his analysis on the economic and the political subsystem that are existent in capitalist-democratic societies. Each subsystem follows a set of distinct logics, what causes conflict among them and creates problems for the system as a whole, which is why they are named “structural problems” (OFFE, 1969).

The state as the materialisation of the political subsystem for example has to provide the basis for the economic subsystem by providing legal and social institutions, without which economic exchange and production could not work. Schooling, enforcement of contracts and the provision of security are only some aspects of these tasks. The state as a non-market sphere has to fulfil these tasks, because it is in its self-interest to establish favourable conditions for economic activity, since they provide the basis of its existence: Taxes and contributions are mostly dependent on the created wealth, which happens in the economic subsystem. The state as a political-administrative system has to guarantee the accumulation of capital, not only because the interests of capital determine it's being but due to its need for funding. State and economy are therefore relationally dependent on each other and the state is in this sense a capitalist state (OFFE, 1969).

On the other hand it is necessary, at least in a democratic set-up, to provide legitimacy to such a system. The political system therefore has to fulfil as well a political-legitimatory function and conduct measures that sustain his existence as well as the economic order. Capitalist modes of production cause inequality, poverty and life-threatening working conditions, even until the point of destroying the basis of reproduction for each worker and thus the state's resource. It is the state who therefore

regulates the influence of the economic sphere over people's life's, by securing their livelihood through labour and social policy. This manifests itself in a range of actions and provisions, as for example income guarantees (unemployment benefits), protection against inhuman working conditions and thus the dependence on market mechanisms in the struggle for reproduction. Social policy in this understanding becomes not only a voluntary or charitable effort but also a central duty of the capitalist state that provides legitimacy and control at the same time. Decommodification or the lifting of economic pressures on individuals is therefore a central aspect of the state's role.

While social policy has a strong decommodifying aspect, it also prepares the workforce for the market, improving its productivity through schooling or at least, enabling it to offer its labour power on the labour market, instead of using it for self-subsistence. This process may be termed commodification or the process of adapting individual potential to the exigencies of the labour market. Commodification and decommodification are in this perspective dialectic, since they depend on each other in order to create labour. Social and labour policies therefore do not mean exclusively to restrain the market but also to structure it and make it compatible with capitalist market exigencies. This also means to respect the boundaries of such decommodifying approaches, since they cannot go as far as to threaten the accumulation process.

In a capitalist-democratic society, the state has thus the need to legitimize its existence through balancing the interests of the capitalist economy and societal needs for reproduction and welfare. The state thus sets up limits and institutions to reduce the impact of the economic system on society, mainly by providing those services which characterise the welfare state: Prohibition of child labour and social security systems in general, labour laws, institutionalized industrial relations and education, to name only some aspects of the decommodifying actions undertaken by the state. On the other hand, the capitalist state has to guarantee accumulation, since its most influential interest groups are capitalists and due to its own need for funding. The second function of the political system is to limit the access of societal claims and needs, since a consideration of all groups and interests may turn economic activity unprofitable.

This political-administrative function of the political system therefore also has to handle social conflicts and provide a systemic control, including some of societal needs and



interests while excluding others. Especially those interests that are central for the accumulation process are necessarily taken into account while others may simply be “silenced” by institutions and policies that exclude them from economic and political participation (OFFE, 1972a: 79). The dialectic process of commodification and decommodification finds its counterpart in this thought, since legitimacy does not derive only from social policy but also from economic prosperity.

From this perspective, the state has certain autonomy and is not totally determined by powerful interest groups or its role as materialized class interest. Some groups are more capable in influencing these policies, but this is dependent on their conflict potential on the one hand, and on their ability to organise. The conflict potential reflects their ability, to refuse collectively a systemically important activity (OFFE, 1969: 33). Organizing would then mean to be able to collectively gather material and motivational resources that are necessary to set up an association or political party, which are the basic means of political representation. Some groups or societal interests on the other hand are simply incapable of achieving these two requirements and are thus excluded from the political process. The structural requirements for interests to be considered in the political process are therefore mechanisms that help to maintain societal structures intact. Selection mechanisms control the chances of influence, by requiring certain forms of participation, embedded in the institutions of the political process: Political parties, associations (including trade unions) and the parliament (OFFE, 1969).

Offe understands this mix of functions (enabling capitalist exploitation and at the same time trying to reduce its effects) as a self-adaptation-capability of the capitalist-democratic state. This complexity is the cause for capitalism's ability to adapt to changing societal and economic challenges, by influencing state policy. At the same time, this co-existence of different systems causes a set of structural problems, which are immanent to the complexity. Since the logics of the systems are not coherent, they may threaten each other. The legitimizing system of decommodification and social policy for example may be interfering with the economic system (logic of accumulation), worsening the conditions for accumulation. This would affect the legitimacy of the political system, as would the contrary case: Accumulation without social protection. The political system may also influence the stability of the total system (political-

administrative logic), since the restraint of access to power may stop important interest groups from shaping the system in according to their demands, which may lead to revolts against the system or in other words, a threat to legitimacy (BORCHERT; LESSENICH, 2006: 11).

Societal groups that are not central for society's reproduction are therefore excluded from central decision-making, revealing a power relation between social groups and interests (OFFE, 1969: 46). Applied to the debate about informality, this means that the social and political situation of the informally active persons cannot be separated from their economic situation. A precarious insertion into the labour market is related to the chances of access to the political system and the ability to make their interests become basis for state policies, which eventually would help to (de) commodify their (informal but then formal) activity. Informality thus becomes to be a question of adequate regulation that is coherent to the interests of those performing these activities. Or formulated in the opposite sense: The formal economy was able to influence state and social structures in such a way that it is in accordance to its needs and interests.

Which interests and groups benefit from social and labour policies and who has access to social protection systems and; or political means of interest representation is therefore the key to understand the power structures and non-inclusion mechanisms in a capitalist-democratic society.

When trying to adapt this relational approach to the Brazilian debate on the informal economy, it becomes clear that some structural differences must be observed between the western welfare states that were the main point of reference for Offe's analysis, and the Latin-American countries.

Historical differences in the development of capitalism and of social structures constrain the use of a model that was invented on the basis of western European welfare states of the 1950s and 60s. The specific structure of capital accumulation in Brazil (export-oriented) and its effects on the labour market (creating a relatively highly regulated and socially supported group of workers in this export-oriented industries while leaving the majority out of these protective systems) are one important difference, which also explains the huge differences between social inequality level between Europe and Brazil. But, using the relational approach offered by Offe, it is not necessary to use

indicators or criteria that are simply copied from observations on Europe. The approach in fact allows an empirically open approach to systems of social protection and does not loose itself in the need for classification of systems (as the current welfare-regime literature does). Analysing the relations between capital accumulation, social protection schemes and political system is on the contrary a useful and necessary approach in every system with such institutions, because it may help to understand these relations better. An analysis of social and labour policies as a source for inequality in Brazil is worth a closer look: Large parts of the Brazilian society live under precarious conditions, despite a comparatively high social spending. Brazil has a regionally relatively high tax rate<sup>2</sup> that in theory could provide for more income justice but redistribution through social policy and other state policies is rather ineffective for the creation of a more equal income distribution. This is also due to a very regressive tax system (compare chapter 3 and 4). And despite the existing trade unions, no representation of the informal workers on political level can be found (compare chapter 4). This list is not complete but it shows the potential of an analysis that takes all these dimensions into account.

In order to undertake such an analysis, it will be necessary to get a precise idea of the informal economy in Brazil, which will be done in chapter 3. Presenting the extent of informality in Brazil, its heterogeneity, the different segments present in it and the vulnerability of each segment. By this it will become clear, which segments are most threatened by poverty and precariousness. Presumably, these segments are the most excluded as well from the economic processes and the social and labour systems, and must therefore be named in order to understand how this situation comes into being.

As a second step, it will be necessary to thoroughly understand the accumulation process of the Brazilian economy, how informality is related to it and how its political direction evolved over the last years. Chapter 4 will provide such an analysis and try to reconnect it to the discussion of economic and political non-inclusion that is assumed in social and labour policies. The changes in economic policy provided more favourable

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<sup>2</sup> This does not mean that Brazilian tax rates are high by international standards, as for example Goñi (2008), Cetrángolo & Gómez-Sabaini (2007) and Lora (2008: 99-101) present. This literature shows that only value-added taxes are on an international level, impacting heavily on low and medium-income earners, and that income and corporation taxes are mostly under international average thus explaining the inequality promoting effects of the tax systems in Latin America.

conditions for the informally active population, but no such changes occurred in the social protection systems. Thus, economic policy might increase the available resources but it does not necessarily change the structurally predetermined distribution of it. So even if economic policy improved the labour market conditions for informally active people by increasing demand for workforce, it is not necessarily indicated that all of them will be included economically and politically. Considering the size of the informal economy in Brazil, it will be important to see, which actions were undertaken despite the economic policies that helped to reduce informality and that would provide a middle- or long-term perspective for these segments. This topic will be treated in the second step. Departing from this first analytic step, the effects of Brazilian social and labour policies and their legitimizing dimension will be analysed. The persistent high rates of informality and inequality will be at the centre of this research that will try to understand, how the specific balance of legitimizing policies is implemented in Brazil and how this can be related to its democratic political structures.

That is why it will be explored, if and how the Brazilian social and labour policies is maintaining a system of extreme social inequalities. To this end it will be necessary to understand, which social and labour policies are directed towards those that are part of the informal economy and in how far these policies improve their situation. And it will be interesting to see, which social and labour protection systems do not reach the informally active population and which mechanisms of non-inclusion lead to this. The hypothesis to be tested goes

**Social and Labour policies in Brazil excludes informally active people.**

This assumption leaves enough space to check, whether the analysis of European welfare states that says that social and labour policies helps to maintain power structures matches with the Brazilian case. It will be analysed, which social policies are in place, what changes they underwent in the recent years and how this affected the informally active population. This will shed some light on the assumption that social and labour policies are in fact a result of the power relations in place in a country determining social status in accordance with the economic and social role people fulfil.



## **2 Brazilian informal economy**

This chapter presents the main characteristics of the Brazilian informal economy, in order to provide a better understanding of this phenomenon. First, the historical perspective of informality in Brazil will be presented, followed by an oversight of the current segments according to the ILO definition and their size. The last step will be to present some insights into the current risks and problems faced by each segment.

### ***2.1 Historical development***

The informal economy is a structural characteristic of the Brazilian economy, since the beginning of industrialisation in the 1930s. In this period, two major characteristics determined labour: First of all, the recent (1888) abolition of slavery was still present in the economic and social structures (BARBOSA, 2008: 285), leading to a large unproductive and poor part consisting of former slaves, a relatively skilled but nevertheless poor part of European immigrants and a small class of (land) owners.

The second characteristic was the non-existing labour market in a strict sense. Due to the over-supply of labour, capital accumulation did not increase the productive capacity and labour reproduction and working conditions were precarious (BARBOSA, 2008: 287). A salaried working class thus did not develop due to the over-supply of workforce, which forced a huge part of society to choose survival strategies outside the labour market. Delgado (2005) claims that in a historical perspective, the major part of Brazilian society necessarily adopted activities that guaranteed their survival, mainly through subsistence agriculture. As a result of industrialisation and urbanization, this population transformed their activities partially into urban informal activities, reproducing similar social and economic structures as can be found in the rural subsistence activities (DELGADO, 2005: 46). Nevertheless this urbanization reduced the rate of subsistence, but the major part of rural population still had to guarantee for their survival alone by

subsistence agriculture, which is still the case today (DELGADO, 2005: 44). These subsistence activities make up a special segment among the informally active population, since they are the ones that suffer most precarious conditions of living. Precariousness is therefore always an important dimension to take in mind when informality is considered.

Returning to the historical development of informality in Brazil one has to consider that regional differences, especially between the economically growing Southeast and the poor Northeast with a huge potential for workforce supply, played an important role in the over-supply of workforce. Increasing industrialisation in Brazil's dynamic centre (the Southeast region of Sao Paulo, Rio de Janeiro and Minas Gerais and the major metropolitan areas) lead to significant internal migration and urbanization, thus concentrating labour markets in and around vast urban conglomerations. Between 1940 and 1980, population in cities with over 500 thousand inhabitants exploded from 10% to 62% of urban population. At the same time, rural population that made up two-thirds of population at the beginning of industrialisation made up for one-thirds of the whole population by 1980. These formerly rural workforces migrated from regions like the Northeast, where living conditions and employment opportunities were low, to the economically dynamic centres. The harsh increases in urban population brought problems of planning and provision of infrastructure, since the capacities of the state did not follow the pace of this development (THEODORO, 2005: 106-109).

The state was dominated during the early decades of industrialization by the little class of company owners and reflected their interests, since their accumulation was based on the supply of cheap and unskilled labour. The maintenance of this over-supply is present also in the introduction of the first labour laws, which regulated only those parts of the labour market that were central for production, but left the majority of the workforce outside the system (BARBOSA, 2008: 239, 250). Since the access to social and labour protection and rights was connected to the status of being a formal employee with labour contract, the majority of the working population, especially the rural workers, was excluded from their provisions. The "Consolidation of Labour Laws" (CLT) provided the legal instrument for this paternalistic and authoritarian system (BARBOSA, 2008: 250). This lack of integration into the social protection systems did combine with the lack of

economic integration into a structured labour market and resulted in situations, which nowadays would be called “informal”, but at the time of the Vargas-regime was only the normal state of being for the majority of Brazilians (BARBOSA, 2008: 256). In fact, this meant as well that their status as “citizens” of the Brazilian state was not yet achieved, neither legally or de facto. Since citizenship with full social and economic rights was connected to a formal employment, the informally active surplus population was kept in a state of “pre-citizenship”. Only with the Constitution from 1988 would the right to social inclusion be universalized to all Brazilians, even though the old systems of social and labour security (based on the criteria of “formality”) remained in place.

Nevertheless, changes in this informal part of population occurred during the first beginnings of the Brazilian industrialisation and the current days, especially labour markets changed substantially. Due to expansion of economic activity during the years 1930 until 1980, workforce increased by 15 million to 45 million, but this was not enough to include the also growing economically active population into the formal labour market. Informality and precariousness were existent to differing degrees in the urban centres, in Sao Paulo around one-third of the working population and in Recife as a city in the Northeast around 53% (THEODORO, 2005: 111-112).

Urbanization and concentration of population in metropolitan areas increased during the period of 1980 to 2000 as well, but economic dynamic was reduced considerably. This lead to an increase in the informally active population and precariousness, since the capacity of workforce absorption was smaller (THEODORO, 2005: 112-114). This leads us now to the present days and the question, how to measure the development of informality during the recent years.

## ***2.2 Current measures of informality***

When it comes to the operationalisation and measuring of informality, the variety of perspectives on it reveal their trickiness. Despite the number of theories about its origin, specifications and characteristics, there are no commonly recognized data about informality in Brazil. The most common used data is collected by the household survey PNAD. Unfortunately, it does not apply the ILO-Definition of the informal economy, but relies on a definition that reflects the Brazilian case and the debate of informality, making



international comparisons rather difficult. The data available nevertheless allows a successive approximation to the measuring of informality, using the following indicators:

- The first is the lack of a legally registered employment contract<sup>3</sup> entitling the worker to social security and labour rights. This criterion is not able to cover self-employed and other informally active people that are for example working in subsistence agriculture.
- The second indicator would be the lack of social security contributions, which can be done on a voluntary basis also by informally active employers and self-employed, but would in any case allow the inclusion of a larger part of informality.
- The third indicator refers to the size of an establishment in which work is done, considering establishments with less than five employees as informal.

These indicators will be used to describe the extent of informality in Brazil. This will be done in a successive manner, choosing the lack of access to social protection contribution as the first indicator, because of four reasons:

First, it allows considering the largest parts of informality, in comparison to the other indicators. It allows to include informal employees, including domestic workers, informal self-employed as well as employers (unless they pay social contribution voluntarily, revealing a low level of precariousness and a high level of illegality<sup>4</sup>) and activities without remuneration (subsistence and own-use construction, non-remunerated employment).

Secondly, data availability for the social protection contribution permits to measure the size and extension of informality, and thus allows measuring the impact of the different policies on informality (in this manner conceptualized), which is the basic aim of this work. Due to the limits of this particular definition of informality, the scope of informational value is unfortunately not very high, but this would be the case with any other indicator as well.

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3 In Brazil this means a registration of the employment, by filling out the prerequisite documents ("carteira de trabalho"). This document provides references about the workers' professional history and entitles to social protection coverage.

4 Corseuil and Reis (2011: 30) reveal by comparing social protection contributions to legal registration (CNPJ) that only 10,5% of self-employed and 8,6% of employers do participate in social protection without being legally registered. The unregistered non-participating percentage is considerably higher: 75,5% of self-employed and 22,9% of employers.

Thirdly: The combination of a lacking contribution to social protection schemes in combination with an indicator of low income provides an overview not only of the informally active people but also of those that are living and working under precarious conditions. Since the contribution to social protection is not compulsory for self-employed, some of them may choose to take the risk and save their money because they cannot afford the contribution. Unfortunately, there is no data available to check this assumption. Nevertheless, it will be interesting to consider the precariousness of informality in Brazil, which is possible with the indicator of social security contribution (in combination with income level).

As a final point, the lack of access to social protection also allows to measure “new” forms of informality, as proposed by Krein and Proni (2010, compare chapter 1.1).

Turning now to the presentation of informality as defined above, it is important to consider two dimensions:

1. The evolution of informality over time
2. The composition of informality

The first dimension shows that informality retreated over the last years, but still persists on a high level (Table 2). By 2009, 47.9% of the economically active population was thus considered informal, revealing the huge challenge that informality poses to politics, economy and society.

In order to better understand the composition of the Brazilian informal economy, it is necessary to locate it among the economically active population. As Table 1 shows, it consisted of diverse activities and locations, highlighting those surroundings and occupations which are believed to indicate informality in grey.

The advantage of this table is the detailed presentation of occupational situations and work surroundings, which allow an estimation about the working and living conditions of the different segments. This indication is very superficial since the work surrounding and occupational does not necessarily mean that a work is done informally, but since for many occupational groups like self-employed workers it is difficult to determine one characteristic that qualifies them as informal, these dimensions will be taken into account. With the end of approaching to the extent of informality in Brazil it is assumed in this first step that urban and rural workplaces like shops and farms are relatively

organized surroundings since they are physically tangible and thus also open for controls. Unorganized workplaces on the other hand are difficult to control since they are often a private space (the own or the employer's house), in a vehicle or in the public space (places and streets). Due to the instability of these workplaces such as street and public places or domestic places in general, it is assumed that they indicate the existence of informality, even though it is not a very strong indicator since numerous exemptions may exist.

**Table 1 Occupied Population above 15 years, according to occupational situation and workplace, Brazil 2009, in thousand<sup>5</sup>**

Place of work Position at occupation	Shop, factory, school, office, government office, shed, etc.	Farm, Ranch, etc.	Place of living	Place of employer, partner or customer	In place designated by the client, employer or customer	In a vehicle	In public street or other space	Total	Total %
Employees	46,778	4,614	168	449	1,635	373	297	54,314	61.2%
Domestic workers	-	-	504	6,719	-	-	0	7223	8.1%
Self-employed	4,188	3,612	3,822	1,153	3,624	910	1,670	18,979	21.4%
Employers	2,961	422	173	72	265	54	46	3,993	4.8%
Unpaid	1,095	2,640	318	19	55	25	146	4,298	4.8%
Total	55,022	11,288	4,985	8,412	5,579	1,362	2,159	88,807	
Total %	62.0%	12.7%	5.6%	9.5%	6.3%	1.5%	2.0%		100%

Source: IBGE-PNAD, 2009, own illustration

Table 1 clearly shows that a slight majority (51 million out of 88 million) of the active population is occupied as employees and works in relatively well organized workplaces, mostly in the urban areas but also in rural areas. The second largest occupational group are self-employed or self-employed workers, who are also mostly found in relatively in unorganized workplaces (11.1 million), but a considerable share (7.7 million) is working in organized workplaces. Unpaid workers are quite common to find in farming, some of

<sup>5</sup> Without unemployed

them living in slave-like conditions. This group in general represents informality and has a dimension of nearly 4.3 million people.

The small number of employers on the other hand cannot be considered purely informal since some of them may have opted for remaining in illegality due to tax evasion and the dribbling of labour law (610,000 employers would be indicated to be in an informal workplace, a small share of the overall nearly 4 million employers in Brazil). Nevertheless, this represents a condition similar to some domestic employees, who in fact have such a low income that the financial burdens of a formal work relationship incentive the informal option.

Domestic workers are one of the most prominent informal workers and represent a large share of the Brazilian economically active population (7.2 million), as visible in Table 1. This group also shows the limits of this indicator, since when measured with other indicators a (rather small) part of domestic workers can be considered formal, as will be shown later.

Considering the occupational position and the workplace surrounding alone would not represent the whole picture of informality in Brazil. In order to approach to the dimension of informality in Brazil, a combination with other indicators is necessary. As will be shown in consequence, it is not possible to assume that a certain occupation or workplace mean automatically a formal work. Considering other indicators as the contribution to social protection and the legality of labour contracts, the picture becomes much more detailed and clear, especially for the largest occupational groups of employees, self-employed workers and domestic workers.

When considering the contribution to social protection as an indicator for informality, distribution of informality among forms of occupation that are entitled to contribute to these schemes becomes clear (compare Table 2, Table 4 and Table 3): most self-employed and domestic workers work informally and a considerable part of employees (20.8% in 2009) is also without social protection. The percentage of informality among occupied people decreased between 2002 and 2009 in total from 53.3% to 44.8%, among employees from 30.1% to 22.7%, among domestic workers only slightly from 70.9% to 67.7% and among self-employed workers nearly without changes from 86.0% to 82.6%. The reduction therefore is centred on employees and only a small amount (if

at all, considering statistical variations) of self-employed workers and domestic workers were able to access social protection. This nevertheless means that there are still at least 40 million occupied people in Brazil that had no access to social protection schemes.

**Table 2 Contribution to social protection insurance of occupied people above 15 years, in thousand<sup>6</sup>**

		2002	2003	2004	2005	2006	2007	2008	2009
<i>Employed</i>	<i>Contribution</i>	29,485	30,508	32,513	33,849	35,425	37,730	40,405	41,172
	<i>Non-contribution</i>	12,674	12,455	13,142	12,922	13,212	12,728	12,764	12,087
	<i>Total</i>	42,159	42,963	45,656	46,771	48,637	50,458	53,169	53,260
<i>Domestic Workers</i>	<i>Contribution</i>	1,713	1,803	1,812	1,901	1,992	2,024	1,997	2,255
	<i>Non-contribution</i>	4,180	4,164	4,435	4,516	4,516	4,419	4,429	4,728
	<i>Total</i>	5,893	5,967	6,247	6,417	6,508	6,444	6,427	6,984
<i>Self-employed</i>	<i>Contribution</i>	2429	2647	2666	2749	2895	3139	2872	3205
	<i>Non-contribution</i>	14,985	15,088	15,184	15,371	15,272	15,299	15,226	15,179
	<i>Total</i>	17,415	17,735	17,851	18,121	18,168	18,438	18,098	18,384
<i>Employers</i>	<i>Contribution</i>	1,870	1,972	1,994	2,100	2,322	1,966	2,297	2,336
	<i>Non-contribution</i>	1,478	1,382	1,435	1,508	1,579	1,381	1,801	1,611
	<i>Total</i>	3,349	3,355	3,430	3,608	3,902	3,348	4,098	3,948
<i>Unpaid</i>	<i>Contribution</i>	104	111	129	142	222	281	252	319
	<i>Non-contribution</i>	7,330	7,466	7,159	7,606	7,341	7,215	6,984	6,473
	<i>Total</i>	7,435	7,577	7,289	7,749	7564	7,496	7,236	6,792
<i>Total</i>	<i>Contribution</i>	35,604	37,043	39,116	40,744	42,859	45,142	47,826	49,289
	<i>Non-contribution</i>	40,649	40,556	41,358	41,924	41,921	41,043	41,205	40,080
	<i>TOTAL</i>	76,253	77,600	80,475	82,669	84,781	86,186	89,031	89,369

Source: IBGE-PNAD, 2010, own illustration

Table 3 shows the changes in the composition of the occupied population: self-employment and non-remunerated employment lost weight in comparison with employment (from 55.3% in 2002 to nearly 60% in 2009), while domestic work remained the same. In total numbers this looks different, since only the number of non-remunerated work decreased while all other occupations increased (compare Table 2). The shifts in composition are therefore a result of the proportionately large increase of employment and not of a real reduction of occupation in the other occupational groups.

<sup>6</sup> Without northern rural areas and Tocantins.

This also means that the heterogeneity of occupations and of informality did not decrease since no real changes in the occupational structure occurred.

**Table 3 Contribution to social protection insurance of occupied people above 15 years, in accumulative %<sup>7</sup>**

		2002	2003	2004	2005	2006	2007	2008	2009
<i>Employed</i>	<i>Contribution</i>	38,7%	39,3%	40,4%	40,9%	41,8%	43,8%	45,4%	46,1%
	<i>Non-contribution</i>	16,6%	16,1%	16,3%	15,6%	15,6%	14,8%	14,3%	13,5%
	<i>Total</i>	55,3%	55,4%	56,7%	56,6%	57,4%	58,5%	59,7%	59,6%
<i>Domestic Workers</i>	<i>Contribution</i>	2,2%	2,3%	2,3%	2,3%	2,3%	2,3%	2,2%	2,5%
	<i>Non-contribution</i>	5,5%	5,4%	5,5%	5,5%	5,3%	5,1%	5,0%	5,3%
	<i>Total</i>	7,7%	7,7%	7,8%	7,8%	7,7%	7,5%	7,2%	7,8%
<i>Self-employed</i>	<i>Contribution</i>	3,2%	3,4%	3,3%	3,3%	3,4%	3,6%	3,2%	3,6%
	<i>Non-contribution</i>	19,7%	19,4%	18,9%	18,6%	18,0%	17,8%	17,1%	17,0%
	<i>Total</i>	22,8%	22,9%	22,2%	21,9%	21,4%	21,4%	20,3%	20,6%
<i>Employers</i>	<i>Contribution</i>	2,5%	2,5%	2,5%	2,5%	2,7%	2,3%	2,6%	2,6%
	<i>Non-contribution</i>	1,9%	1,8%	1,8%	1,8%	1,9%	1,6%	2,0%	1,8%
	<i>Total</i>	4,4%	4,3%	4,3%	4,4%	4,6%	3,9%	4,6%	4,4%
<i>Non-remunerated</i>	<i>Contribution</i>	0,1%	0,1%	0,2%	0,2%	0,3%	0,3%	0,3%	0,4%
	<i>Non-contribution</i>	9,6%	9,6%	8,9%	9,2%	8,7%	8,4%	7,8%	7,2%
	<i>Total</i>	9,8%	9,8%	9,1%	9,4%	8,9%	8,7%	8,1%	7,6%
<i>Total</i>	<i>Contribution</i>	46,7%	47,7%	48,6%	49,3%	50,6%	52,4%	53,7%	55,2%
	<i>Non-contribution</i>	53,3%	52,3%	51,4%	50,7%	49,4%	47,6%	46,3%	44,8%
	<i>Total</i>	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: IBGE-PNAD, 2010, own illustration

Taking into account the total number of self-employed workers shown in Table 1 it becomes clear that this group is very likely to work informally, even though a relatively large share of them works in organized environments. The non-contribution to social protection means that these people do not only bear the risk of entrepreneurship but also the risks covered by social protection like unemployment, old age and disease. Employees are in fact the only group that is protected in majority by social protection, revealing the structural problems of this system to include workers that are not salaried.

<sup>7</sup> Without northern rural areas and Tocantins.

The percentage of employers contributing to social protection did not change substantially, from 55.9% in 2002 to 59.2% in 2009. But this group might not be the neediest due to their better income chances and wealth share. Those occupied at the margins of the labour market (Non-remunerated family members, non-remunerated workers and workers in construction for own purpose use) did increase their contribution to social protection only slightly, but the vast majority remains unprotected.

**Table 4 Contribution to social protection insurance of occupied people above 15 years, in %<sup>8</sup>**

		2002	2003	2004	2005	2006	2007	2008	2009
<i>Employed</i>	<i>Contribution</i>	69,9%	71,0%	71,2%	72,4%	72,8%	74,8%	76,0%	77,3%
	<i>Non-contribution</i>	30,1%	29,0%	28,8%	27,6%	27,2%	25,2%	24,0%	22,7%
<i>Domestic Workers</i>	<i>Contribution</i>	29,1%	30,2%	29,0%	29,6%	30,6%	31,4%	31,1%	32,3%
	<i>Non-contribution</i>	70,9%	69,8%	71,0%	70,4%	69,4%	68,6%	68,9%	67,7%
<i>Self-employed</i>	<i>Contribution</i>	14,0%	14,9%	14,9%	15,2%	15,9%	17,0%	15,9%	17,4%
	<i>Non-contribution</i>	86,0%	85,1%	85,1%	84,8%	84,1%	83,0%	84,1%	82,6%
<i>Employers</i>	<i>Contribution</i>	55,9%	58,8%	58,2%	58,2%	59,5%	58,7%	56,1%	59,2%
	<i>Non-contribution</i>	44,1%	41,2%	41,8%	41,8%	40,5%	41,3%	43,9%	40,8%
<i>Non-remunerated</i>	<i>Contribution</i>	1,4%	1,5%	1,8%	1,8%	2,9%	3,8%	3,5%	4,7%
	<i>Non-contribution</i>	98,6%	98,5%	98,2%	98,2%	97,1%	96,2%	96,5%	95,3%
<i>Total</i>	<i>Contribution</i>	46,7%	47,7%	48,6%	49,3%	50,6%	52,4%	53,7%	55,2%
	<i>Non-contribution</i>	53,3%	52,3%	51,4%	50,7%	49,4%	47,6%	46,3%	44,8%
	<i>TOTAL</i>	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: IBGE-PNAD, 2010, own illustration

As a next step, the volume of illegal labour contracts will be considered, which allows focusing on the group of informally salaried employees while other occupational groups will be presented in the following. This measure excludes the group of self-employed and employers by definition and includes public service employees, but it is important since the group of employees is a relatively large group and represents thus a large share of informality, in total numbers. Informality according to the registration of the employment relation reduced considerably during the recent years, from 34.1% in 2002 to 28.2% in 2009 (Table 4).

<sup>8</sup> Without northern rural areas and Tocantins.

**Table 5 Development of informality of employees according to the labour contract, in percent**

	2002	2003	2004	2005	2006	2007	2008	2009
<i>Registered employees</i>	54.1	55.0	55.0	52.7	53.1	54.4	58.8	59.6
<i>Unregistered employees</i>	34.1	32.8	33.1	37.3	36.5	35.0	29.3	28.2
<i>Military &amp; public employees</i>	11.8	12.1	11.9	10.0	10.4	10.5	11.9	12.2

Source: IBGE-PNAD, 2010, own illustration

This decrease also reflects the growing number of formally employed people and of public or military employees. They made up respectively 59.6% and 12.2% of all employees. Nevertheless, only a little less than one third of all employees still works without registered employment relations and is thus not entitled to social protection and political representation in the labour relations system.

The number of people working in establishments with less than 5 employees is another indicator for informality. This indicator reveals the difference between informality among companies, mostly small scale and more comparable to self-employed activities, and informality in the labour market, both as employees and as those self-employed, which are in a situation of hidden employment. It thus reveals those workers that in theory work in companies that are not capable of adhering to the law and provide formal jobs. It must be recognized nevertheless that not all small companies are in this situation, since some companies may not need a large workforce, especially with the possibilities of outsourcing. The income dimension is therefore an important instrument to distinguish between those companies that are truly dependent on informality as a means to reduce cost by not paying taxes or legal wages, and those that are simply not in need of a large workforce, since they are profitable and flexible enough to survive in the market. The following table will give an overview of these relations.



**Table 6 Employers and salaried employees according to unit size, in percent**

<i>Type of establishment</i>	<i>Employers in non-agriculture companies</i>	<i>Employed</i>
<i>1 employee</i>	<i>31.7</i>	<i>No data available</i>
<i>1-2 employees</i>	<i>50.4</i>	<i>7.4</i>
<i>3-5 employees</i>	<i>25.0</i>	<i>15.2</i>
<i>1-5 employees</i>	<i>75.4</i>	<i>22.6</i>
<i>more than 5 employees</i>	<i>24.6</i>	<i>77.4</i>

Source: IBGE-PNAD, 2009, own illustration

It shows that the 75.4 % of employers are working in companies with less than 6 employees, showing the large amount of small companies. Only 22.6% of employees work in establishments with 1 to 5 employees. These establishments indicate a higher probability of informality but due to the imprecision of this indicator, it cannot be affirmed that all who work in such small establishments in fact are informally active. Considering this indicator alone would mean that three out of four employers and the reverse number of salaried employees (one out of four) work in workplaces whose probability of informality is high. Since table 3 shows that 28.2% of employee's work informal it is important to better understand the workplace indicator. It also shows again the need to combine various indicators and use a successive approach based on these indicators to get a more precise idea of informality in Brazil. The following table takes this in mind for the salaried employees and combines the criteria registered contract, number of employees at the establishment and type of establishment to determine the number of informally working people. The indicator of social protection contribution is left out here since it is assumed that this contribution is covered by the registration of the employment relation indicator.

Table 7 shows the impact of the workplace indicator in greater detail. It is especially important to consider those groups, that fall under all categories that indicate informality, such as the type of establishment (with high probability of informality or low), the occupational status of the employees and the number of employees in the establishment of work. The indicator "type of establishment" would result in 36.161 thousand formal and 2.816 thousand informal employees, or an informality rate of only 7.2%. But due to the fact that there are also registered employees in "organized" establishments, it

becomes clear that this indicator cannot be taken alone for the determination of informality. The indicator “registration of labour contract” indicates 10.146 thousand informal employees and 28.831 thousand formal employees, or an informality rate of 26%. The “establishment size”-indicator provides a number of 30.402 thousand formal employees and 8.575 informal employees (in establishments with one to five employees), or a rate of 22% informal employees. Out of these, as shown above, only 5,131,000 can be considered informal with absolute certainty, since their labour contract is also not registered. It is interesting to note that the distribution of registered and unregistered employees differs, according to the establishment size and type: The probability of working informally is higher in very small establishments, especially in urban and “unorganized” establishments (reminding that these are mostly located in the urban areas like public streets, vehicles or place designated by the employer). Only establishments with six to ten employees of the rural organized and the unorganized type show slightly higher numbers of unregistered employees, but all other types with more than five employees indicate a majority of registered employment, especially among urban employees. This indicates that large urban establishments provide a better surrounding for formal salaried employment and that activities in unorganized small-scale workplaces favour informal work.

**Table 7 Salaried Employees according to establishment and size of workplace, in thousand, 2009**

			Number of employees at the establishment during the month of reference				
			2	3 to 5	6 to 10	11 and +	
Type of establishment in that work was undertaken	Urban organized workplaces (shop, factory, office, government office, etc.)	Registered employees	716	2,564	3,625	21,045	27,952
		Unregistered employees	1,116	2,432	1,597	2,917	8,063
	Rural organized workplaces (Farm, ranch, etc.)	Registered employees	7	7	9	56	81
		Unregistered employees	10	21	10	21	64
	Not organized workplace	Registered employees	61	83	79	573	797
		Unregistered employees	897	655	179	286	2,018
Total			2,810	5,765	5,502	24,900	38,978

Source: IBGE-PNAD, 2009, own illustration

When analysing the situation of groups that have a high risk of informality but are not employees, a higher rate of informality can be stated. Self-employed workers (18,978 thousand) and domestic workers (7,223 thousand) are the largest occupational groups besides employees, as Table 1 showed. Only 7,800 thousand self-employed workers can be considered formal when the “type of establishment” indicator is used and none when it is attributed to domestic workers. Using the indicator of social protection, to which both groups theoretically can contribute informality decreased during the recent only slightly and still remains on very high levels (above 70% for domestic workers and above 80% for self-employed workers), as Table 2 showed. Due to these characteristics it is interesting to observe, whether these occupational groups are in fact able to gain a salary that is in accordance with the law and how their social vulnerability is affected by their status of work. This is important since it gives a better understanding of these occupational groups and their socio-economic reality. Departing from this understanding, economic and social policies can be adjusted to meet their actual needs. If the remuneration does not provide enough income for these groups, it might be necessary to improve the access to employment and/or social protection and to guarantee higher income.

Large groups of domestic workers and self-employed workers suffer from social vulnerability, here defined as low wages and lack of access to social protection. In 2009, 3,410 thousand of all domestic workers (7,223,000) earned less than one minimum wage, thus not only gaining an illegal wage but also clearly not enough to be considered a fair wage. Another 1,298 thousand did earn less than two minimum wages and had no access to social protection, which means that at least 4,808 thousand domestic workers worked under very precarious conditions. Nevertheless, the situation of domestic workers improved when compared to 2003, when 4,877 thousand domestic workers earned less than one minimum wage and 1,447 less than two minimum wages and had no access to social protection (Table 8).

Self-employed workers faced a similar situation, since out of the nearly 19 million self-employed in 2009, 7,494 thousand received less than one minimum wage and 4,579 thousand earned less than two minimum wages and had no access to social protection. These shares also decreased in comparison to 2003 from 9,526 thousand self-employed

workers with less than one minimum wage. 4,294 self-employed workers earned less than two minimum wages at the time, which means that this group actually increased slightly during 2003 and 2009, revealing a sometimes very limited improvement in this segment, since the changes in income for many self-employed workers were not enough to get out of the most vulnerable segment. Both groups are therefore not only strongly represented in the informal economy, but are also highly threatened by poverty and precarious working conditions.

**Table 8 Estimation of occupational vulnerability, Brazil, 2009**

Type of Vulnerability or Occupational Precariousness	Male		Female		Total	
	In thousand	(%)	In thousand	(%)	In thousand	(%)
EAP (16 years or more)	54,631	100.0	43,717	100.0	98,348	100.0
<i>1. Lack of employment or remunerated occupation</i>						
a. Unemployment	3,635	6.7	5,343	12.2	8,979	9.1
b. Non-mercantile occupation	1,392	2.5	2,116	4.8	3,508	3.6
c. Occupation in unpaid employment	1,133	2.1	2,149	4.9	3,283	3.3
Subtotal 1 (a+b+c)	6,162	11.3	9,609	22.0	15,771	16.0
<i>2. Occupation with remuneration &lt; 1 minimum wage</i>						
d. Unregistered Employment	3,814	7.0	1,846	4.2	5,661	5.8
e. Unregistered domestic work	118	0.2	3,292	7.5	3,410	3.5
f. Self employment	4,130	7.6	3,363	7.7	7,494	7.6
g. Employer	95	0.2	36	0.1	131	0.1
Subtotal 2 (d+e+f+g)	8,158	14.9	8,539	19.5	16,697	17.0
<i>3. Remuneration between 1-2 minimum wages without social protection</i>						
h. Unregistered Employment	3,545	6.5	1,507	3.4	5,053	5.1
i. Unregistered domestic work	114	0.2	1,184	2.7	1,298	1.3
j. Self employment	3,304	6.0	1,275	2.9	4,579	4.7
k. Employer	267	0.5	73	0.2	340	0.3
Subtotal 3 (h+i+j+k)	7,231	13.2	4,041	9.2	11,273	11.5
<b>Total (1+2+3)</b>	<b>21,552</b>	<b>39.5</b>	<b>22,189</b>	<b>50.8</b>	<b>43,742</b>	<b>44.5</b>

Source: IBGE-PNAD, 2009, own illustration

What stands among some groups of the informally active population is the high coincidence with precariousness, especially for those that receive little income (less than 2 minimum wages) and are not covered by social protection. These socially vulnerable groups made up around 44.5% of the EAP in 2008 (PRONI, 2011: 18). Precariousness

is more likely in groups that work informally: domestic workers, non-remunerated workers and self-employed are strongly affected by precariousness. Despite the fact that there may be part of these occupational groups that receive a relatively high income it became clear that the majority of them face not only informal but also precarious working conditions. Informality is therefore not only a problem on and for the Brazilian labour market but its dimension and coincidence with precariousness make it an important social phenomenon.

## **2.3 Conclusion**

Informality decreased recently, independent from the indicator used but not in the same way for all occupational groups. Especially the formalization of employees took important advances, nowadays covering more than two thirds of employees, according to all indicators. Nevertheless, it is obvious that by the total numbers informality is also still a problem for employees. Though reflecting nowadays a relative high share of formal employment, there are still a total of at least 10 million informal employees.

The reduction of informality indicates a successful integration of some groups into the labour market and an improvement in their living conditions. The remaining high number of informal domestic workers (around 70% of the total 7,2 million) and the considerable share of informal self-employed workers (80% of the 18,9 million) nevertheless indicates variations in this success story, since their reduction was weaker than the reduction among employees and it remains on high levels (considering the social contribution indicator). These groups are often also suffering from very low income and social protection, thus are more vulnerable for poverty and precarious working and living conditions. Besides these there are also the 4,3 million unpaid workers that suffer from informality and even illegality (compare Table 1 and Table 2).

Based on these numbers and taking the slippery concept of informality into account, it is only possible to conclude that in Brazil still exists a large part of the economically active population working under informal and often precarious conditions, extending over nearly half the working population (when the indicator contribution to social protection is considered). This reveals that on the one hand there is a lack of jobs, which could be created with a higher productive capacity and higher economic growth and on the other

hand it shows an excess of labour that has not been integrated into the formal labour market and has to make its living in informal occupations. Precariousness is therefore one key dimension of informality, at least when it is understood as a social problem and not an economic problem alone (which could be solved over the labour market). Some groups like domestic workers, self-employed workers (especially in small enterprises) and employees without legal contract in small enterprises are likely to combine informal and precarious working conditions. Economic growth and social policies are likely to have diverse impacts on these distinct informal groups, as will be shown in the following chapters.

The numbers and characteristics of informality show that there is still a very high stock of informally working people in Brazil, which put pressure on the labour market and especially on its low-income segments. This combination of social precariousness with informal working conditions is important to take in mind when it comes to the discussion of the possible impacts of economic or social and labour policies, since it reveals also a problem of distribution and redistribution.

How the relation between the different informal groups and the formal labour market work in detail are not very well documented and require further research, especially when it comes to the identification of informality. From the presented numbers it is possible to map out informal groups and segments but it is not possible to identify with certainty all informally active people since data and concepts at hand are limited. This chapter provided an approximation to the dimension of informality in Brazil and its development over the recent years, which will be important for the next steps of showing the impact of economic and social policies on the informal economy.



### **3 Brazilian economy and economic policy**

This chapter will present the Brazilian economic structure and the main economic policies and developments of the recent years, while highlighting its impact on the informal economy's development. Especially the role and the applied macroeconomic policies in creating effective demand and higher growth rates will be stressed, since they have an impact on the labour market. In consequence, the hypotheses developed in chapter 2 will be tested, elaborating on the impact of economic policy on the informal economy in Brazil.

#### ***3.1 The Brazilian economic development in historical perspective***

The Brazilian economy before industrialisation based on raw-material exportation (coffee), national production of consumer goods and imports of aggregate value products as well as an underdeveloped internal market until the 1930s, when a national plan of industrialization was implemented (REGO; MARQUES, 2006: 31). The so called import substitution policy was partly a response to the shortages of international credit provisions but aimed also towards a greater independence of the Brazilian economy, developing a national industry of consumer durables and an development of basic industries like mining, petroleum, electric energy and communication, among others (IPEA, 2010a: 18). This pattern of development came to be known as “national developmentalism” and was found at the time across Latin-America (IPEA, 2010a: 19). The state played an important role in the implementation of this new economic development, establishing an administrative and legal basis for industrial expansion, but despite its name it did not lead to an inclusion of all parts of Brazilian society. The transformation into a capitalist class system maintained the social structures of non-inclusion in place, also under this new economic pattern (IPEA, 2010a: 20). The mechanisms of this social non-inclusion shall be analysed in detail in the next chapter.



This development is also based on the accumulative model of the Brazilian economy, which before industrialisation and to a considerable amount even after it remains an export-oriented economy with strong needs for foreign capital and open capital markets for the nationally produced surplus values. The dependency of this former colony from imperial economies is still persistent in trade relations, financial dependency and technological development. The dependence of foreign markets also had impacts on the national market: Internal market and production did not develop sufficiently to integrate the whole workforce, in consequence the labour market structurally separated an “elite” of workers in export-oriented sectors vs. majority of “unnecessary” low productivity labour (SOUZA, 2004; LOPREATO, 2006). This regionally strongly heterogeneous system was reproduced in several dimensions despite all political and even economic changes.

The 1980s marked the preliminary end of this development concept, also triggered by the end of the Bretton Woods System and the global shift towards a financialized economy (see definition and debate of “financialization” below). Brazil faced a shortage of credits and entered a debt crisis along with other developing countries that pursued a developmental pattern alike the Brazilian until this point. Due to the dependence on foreign capital, Brazilian industrial production collapsed during the economically “lost decade”, which was followed by an adaptation to the new liberal order (IPEA, 2010a: 23).

Privatization and macroeconomic adaptations (high interest rate and reform of the national currency, the “Plano Real”) marked this process, which initiated soon after the democratization of 1988 (IPEA, 2010a: 26). Caused by liberal policies that called for privatization, less regulation (especially of the labour market), budget restraints, flexible exchange rates, high interest rates and a return to the idea of comparative advantages as the constituting pillar of world trade (REGO; MARQUES, 2006: 204-240). Macroeconomic policy was based on the three elements floating exchange rate, inflation rate targeting and primary fiscal surplus. High interest rates were the result of this policy, causing low economic growth and thus low labour market performance during the 1990s and the early years of the new century (BARBOSA; PEREIRA DE SOUZA, 2010: 78).

### **Box 1 Keynes' theory of employment**

From a Keynesian point of view, labour demand is related to the volume of production and the technology used in production and is not determined preliminary by the relation of supply and demand on the labour market (Herr 2002: 74). Labour demand depends on two factors:

1. Production decisions made by the employers, who themselves base these decisions on the short-term expectancies about market development. These decisions influence the number of labour that is used in the production cycle.
2. The entrepreneurs base investment decisions on the long-term expectancies and since the productive capacities installed and technologies used determine the volume of theoretically available employment, this affects the total volume of labour demand. It should be noticed that full employment is not a natural outcome of markets in this perspective, since enterprises rarely runs all his excess capacities.

Employment is therefore dependent on the expectations made by entrepreneurs, since their investment decisions determine the volume of employment available. These expectations depend on the other hand on the effective demand of other companies, the population or the government. It is therefore crucial to maintain stable growth (in order to guarantee investments by entrepreneurs), what might require an increase of demand by one of these actors in situations of uncertainty and crisis, e.g. increased government spending, company investments or population consumption. Macroeconomic policy, especially the interest rate and growth sustaining measures, are therefore crucial for economic growth and thus the creation of jobs, since they influence the investment decisions by entrepreneurs. The interest rate influences, besides expectations, whether an investment in productive capacity is undertaken or whether it the capital is applied on the financial markets. If the interest rate is higher than the expected return from an investment in productive capacity, the latter becomes more unlikely.

An increase in effective demand, either through government stimulation policies (creating demand or influencing the investment conditions through the interest rate) or increased private consumption might lead to an increase of investment and thus more productive capacity, which translates into potential employment (KEYNES 1936)..

### ***3.2 Developmentalism or Neoliberalism? Current policies***

The debate about a developmentalist or monetarist; neoliberal economic policy was the decisive struggle during Lula's presidency. Differing about the contents of economic policy and the state's role, this struggle was going on inside and between government agencies. During the first three years of Lula's presidency, the monetarists controlled the ministry of finance and the central bank, while the developmentalists had their stronghold in the chief of staff (casa civil). The dispute concerning economic policy was about whether the state should pursue an active role in the coordination of economic development and guarantee its sustainable growth (also by market intervention and government spending). This perspective is influenced by Keynesian theories about employment and economic growth, which are presented briefly in the box "Keynes' theory of employment".

Or, from the monetarist perspective, the idea is that the state should merely provide the basic framework of stable money value and let the markets regulate themselves, which would lead eventually to growth. The basic framework would be the control of external balances and the government's spending as well as an assumed control of inflation (SOUZA, 2008: 327). Especially the use of macroeconomic policies was disputed:

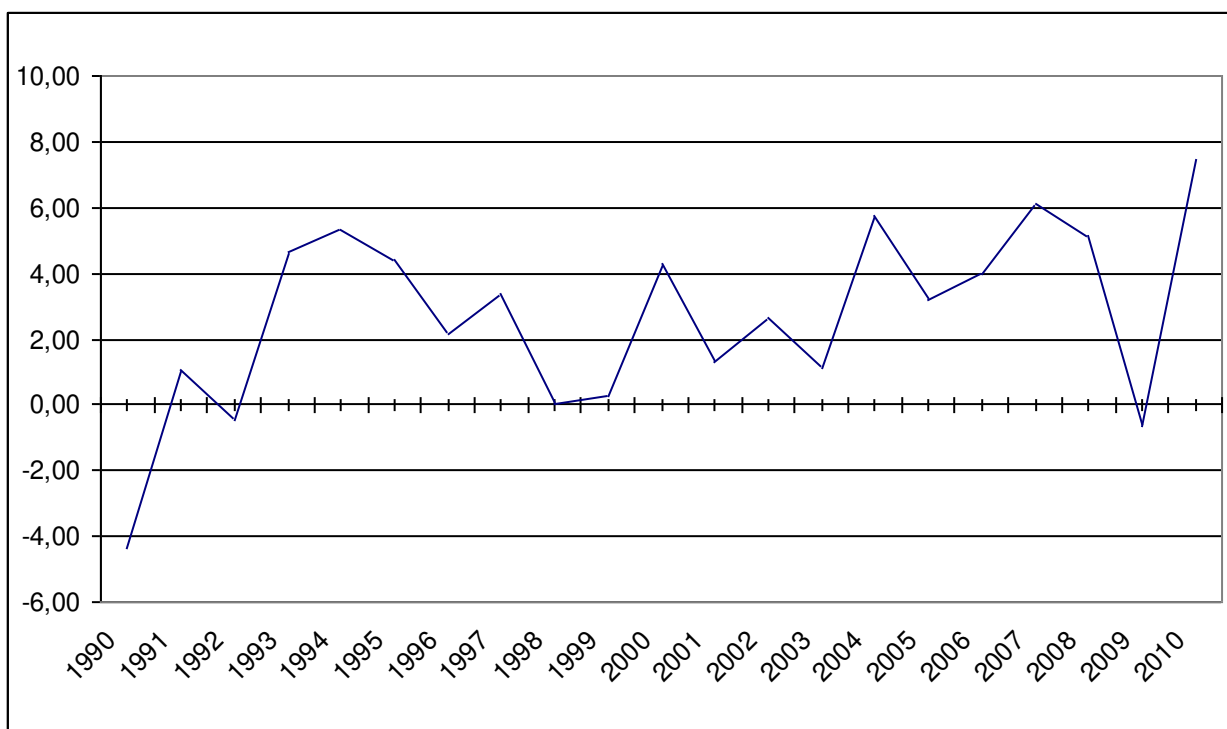
The use of the interest rate (Taxa Selic) during the first years aimed mainly at low inflation, considering it from a monetarist perspective that was put forward by the Central Bank under Henrique Meirelles and some parts of the ministry of finance under Antonio Palocci. In this view, an excess of money leads to the "loss" of its value and thus higher inflation, which is why the "price" (interest rate issued by the central bank) of money must kept this inflation threat in mind (SOUZA, 2008: 293). Since inflation during the eight years of Lula's presidency was low<sup>9</sup>, the interest rate was reduced over time to a level that helped to increase investment, taking advantage of a situation that allowed for the combination of a monetarist and a developmentalist perspective. This adaptation also had personal aspects, since the defender of a monetarist policy Palocci had to resign from the ministry of finance and made way for the more developmentalist-friendly

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<sup>9</sup>This low inflation was caused by a valuation of the Brazilian currency and thus increased imports that influenced the development of national prices (Souza 2008: 306).

Guido Mantega in 2006, at the end of Lula's first term in office. In the second term, a more growth friendly interest rate was implemented, according to the political aim to maintain economic growth at a level of 5% in order to guarantee a socially inclusive growth (SOUZA, 2008: 326). Inclusive means the reduction of the labour surplus population by increasing demand on the labour market. The following graph gives an idea of the positive GDP development since 2000, the downturn of the international financial crisis will be dealt with later.

**Figure 1 GDP growth, real GDP rate, 1990-2010 (percentage change to year before)**

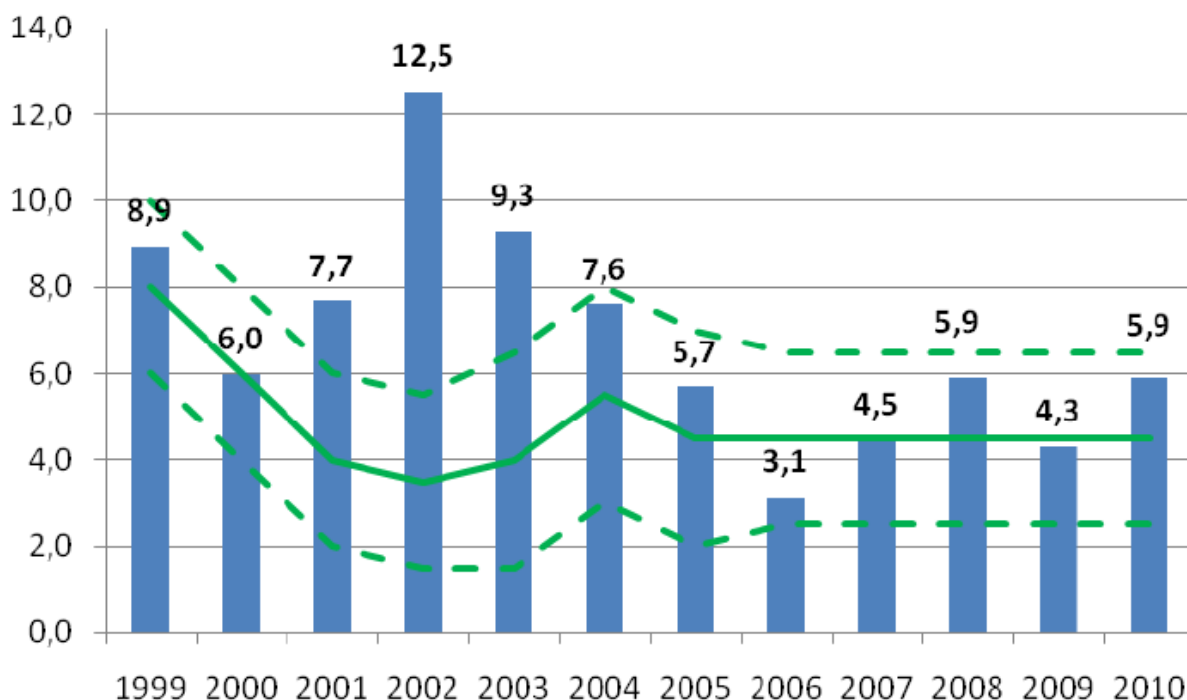


Source: IPEA, 2011.

Inflation was controlled as well and even though it still adhered to the neoclassical inspired inflation rate targeting, it did not interfere with the employment oriented growth strategy but was also not elevated by it, as the neoclassical theory would suggest. In fact inflation as measured by consumer prices (IPCA) was inside the target rate since 2004 and even during the global financial crises could be maintained in this corridor

(compare Figure 2). In comparison to the last decade of the 20<sup>th</sup> century this is a much better record which was achieved in combination with an increase in wages and an employment oriented macroeconomic policy.

**Figure 2 Inflation rate and inflation target**



Source: SERRANO; SUMMA, 2011: 3

Before the financial crisis in 2007, plans were developed to increase public investment in order to create more effective demand (BARBOSA; PEREIRA DE SOUZA, 2010: 73-75), applying the Growth Acceleration Programme (“Programa de Aceleração do Crescimento”, PAC). It aimed at increasing economic growth, an increase of employment and the improvement of Brazilian's conditions of living, thus following clearly Keynesian ideas, in that government induced effective demand increase will lead to an increase in economic growth and also employment growth. With the beginning of the financial crisis, this programme was expanded considerably. Its aims should be achieved by measures in four areas:

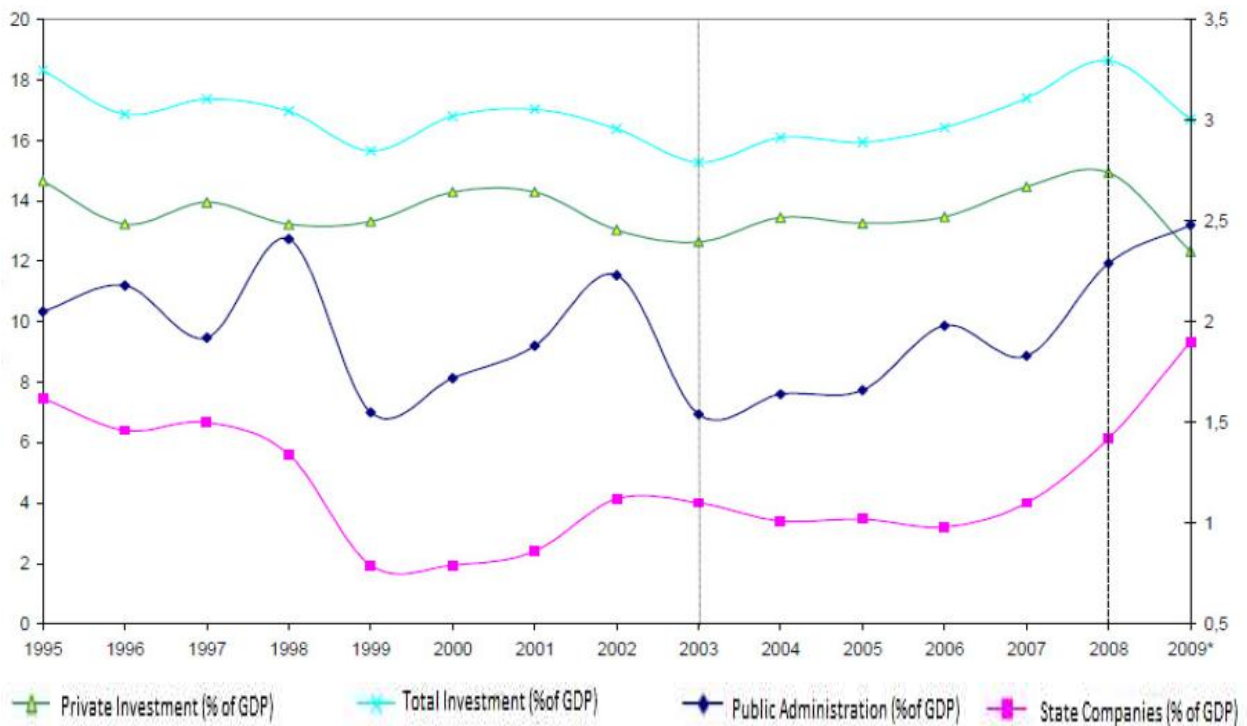
- Investments in infrastructure
- Credit stimulation and simplification of credit access
- Improvement of investment environment
- Long-term and short-term fiscal measures

Special attention was given to investments in social infrastructure like housing and sewage treatment and basic infrastructure like transportation and energy. (SOUZA, 2008: 326). 503,9 billion Reais were planned to be invested over the period of 2007 to 2010.

Besides the PAC investments in infrastructure, another programme was introduced: The new habitation program “Minha Casa Minha Vida” was adopted with the aim of providing access for poor families to habitation. This is needed, since there is an estimated lack of 7,2 million houses in Brazil, especially for the poorest parts of society. At the same time this programme served as an important instrument for economic recovery and for structural changes in the Brazilian housing market, taking poor peoples' demands stronger into account. Residential construction is also due to this program one of the most important causes for economic growth of the recent years (BARBOSA; PEREIRA DE SOUZA, 2010: 93).

Figure 3 shows the public and private investment rate over the recent years. The increasing importance of public investment (both public administration and state-owned enterprises) especially during the recent years reveals the counter-cyclical intentions of the government's macroeconomic policy. The figure also shows the importance of the state owned companies as a vehicle of public intervention into market instability, since they allow for a replacement of private investments during times of crisis.

**Figure 3 Public and private investment rate, percent of GDP**



Source: SERRANNO; SUMMA, 2011: 23.

Credit expansion and tax cuts were the main financial instruments to deal with the crisis and to improve demand by reducing for example consumer taxes (IPI) and providing loans through the semi-public banking sector, especially through BNDES (ILO, 2011: 39-48). Lending by public banks during 2009 increased by 26% while private sector lending only increased by 5.8%, thus rising from a share of 34% in October 2008 to 39.4% in December 2009. Especially small and medium sized enterprises benefitted from the increased public lending. One third of the Brazilian formal workforce is concentrated in these companies and it continued to grow also during the crisis by 4.5 and 4.6% respectively. Large firms also benefitted from government lending and were able to increase employment by 4.8% (ILO, 2011: 60-62).

The interest rate had an important role for the impact of the PAC, since a high interest rate could contradict the growth effects of public investment by preventing private investments. This displays the unsolved power-struggle between the monetarists in the central bank and the “developmentalists” in the government.

The adoption of a growth sustaining macroeconomic policy had important impacts on the creation of jobs. The inclusion of the economically active population into the labour market increased between 2003 and 2009, while unemployment decreased. This also led to a reduction of the informally active population (BALTAR; MORETTO; KREIN, 2010: 43; data for metropolitan areas). This increase of inclusion was also due to a stagnating participation rate of the economically active population (EAP), at least in the metropolitan areas the EAP did not increase and thus eased the situation on the labour market. First of all, growth, especially growth of fixed capital, increased the number of employment (BRUNO; MACEDO, 2010: 43).

In the case of Brazil, the government has another important instrument at hand to influence the income distribution and thus effective demand: The minimum wage. Besides industrial policies and the interest rate, this instrument focuses on the distribution of income and has the potential to increase the share of wages in the distribution of income against profits and it may also help to decrease the income inequality present in Brazil, where the richest 10% of population have control over 45% of the GDP (BRUNO; MACEDO, 2010: 45). The minimum wage increased nearly 150% during 2002 and 2009, from 200 to around 450 Reais, while inflation (IPCA) decreased during this period (BARBOSA; PEREIRA DE SOUZA, 2010: 103, 106).

More important to this thesis: Since the minimum wage serves as a guideline for the informal economy, it ends up influencing the income levels in the informal economy as well (BRUNO; MACEDO, 2010: 52-55). Economic growth thus increases overall demand for workforce on the labour market, but, as Bruno and Macedo (2010) argue, only a high economic growth provides the necessary conditions that lead to a stronger growth of formal employment than of informal employment. They think that the employers' uncertainty about the evolution of the effective demand influences the decision whether to hire or not, until economic growth is high enough to wipe out these fears (BRUNO; MACEDO, 2010).

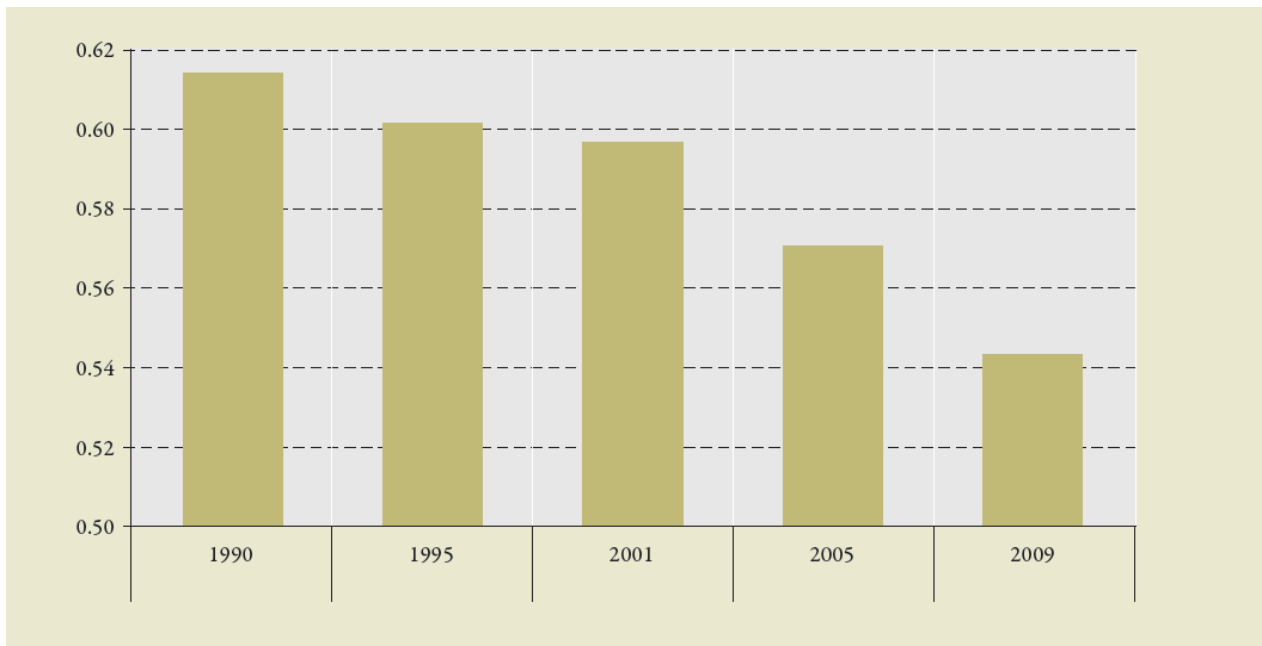
Another important effect of an increasing minimum wage and of economic growth is that it helps to increase the effective demand and thus labour market performance and in consequence improves the bargaining power of workers (BARBOSA; PEREIRA DE SOUZA, 2010: 64). Baltar, Moretto and Krein (2010: 46) describe some effects of these



policy changes: Effective demand was mainly driven by private consumption, even though this contribution declined between 2003 and 2008. Government consumption increased slightly over the period, while investments had a slightly higher increase, indicating the improvement of production capacity. The items exports and imports changed in opposite directions, since exports decreased their contribution to effective demand, while imports increased. This reflects the increased strength of the Brazilian currency, which had a contradictory effect on the improvements in effective demand.

Income distribution was thus affected in two ways: The increase of economic activity lead to more employment and higher wages, while the minimum wage also put further pressure for increases on wages. Nevertheless, a considerable part of the economically active population was not included into the formal labour market and suffered thus social and economic non-inclusion (PRONI, 2011: 9). Besides the primary income distribution on the labour markets, influenced by bargaining processes or the minimum wage, state intervention plays a crucial role for the secondary distribution through taxation and redistribution policies. Income distribution is therefore also dependent on social policies since they provide income and redistribute. In other words, besides the primary income distribution on the labour markets, the secondary distribution of state intervention is important for income and equality.

**Figure 4 Inequality in Brazil, Gini-Index**



Source: ILO, 2011: 26

Berg (2010) relates that the increase of the minimum wage was responsible for 66% of the drop in inequality, attributing another 16% to pensions (that increase with the minimum wage), 6% to the “Bolsa Família” programme and 12% to the Continued Benefit Provision (both see chapter 4).

Other income and distribution related policies underwent changes during Lula's presidency, which are worth mentioning:

Fiscal policy underwent a structural change, since the income tax was changed. Until 2008, there existed three tax levels, zero, 15% and 27.5%, which was adapted to a system of five levels. Now these levels consist of zero, 7.5%, 15%, 22% and 27.5%. These new levels were designed for two reasons. First to not increase the tax weight on the population. Second, lift tax weight, especially for the low-income classes, leading to an increase 0.7% of GDP of available income in 2009 (BARBOSA; PEREIRA DE SOUZA, 2010: 86). This change is nevertheless based on a highly regressive tax system, which helps to reduce the positive effects of increased economic growth and redistribution systems. Afonso (2010) points out that lower income population faces a

much higher share of (direct and indirect) taxation than high-income groups. Until 2004, this difference even widened, since tax weight (especially of indirect taxes) increased for low-income groups (ibid.: 12). The overall tax rate in Brazil is thus quite high, even if compared to other OECD-countries, but its composition is different, relying strongly on indirect taxes and less on direct taxes or social security contributions (ibid.: 7). In combination with the high interest payments for public debt it is necessary to state that the Brazilian tax system lays heavy burdens on low-income groups and transfers huge parts of this tax money to high income groups (through the redistributive social systems, especially pensions) and in general to the wealthy group, which owns much of the public debt<sup>10</sup>.

### ***3.3 International integration and financialization***

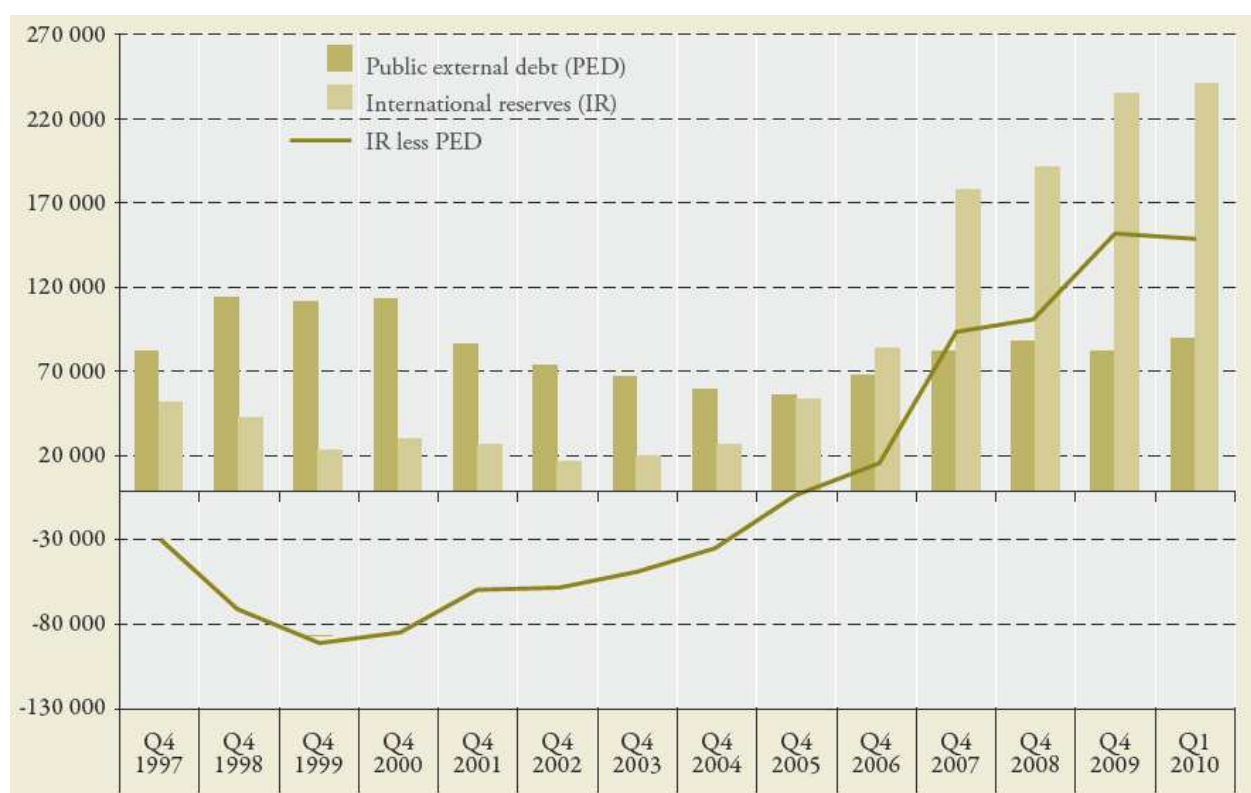
To complete this overview of the Brazilian economy and its development over the last years, the relation to international markets and the role foreign capital plays in Brazil will now be highlighted. In addition, the role of the international crisis and its impacts on Brazil will be presented. Foreign capital investment always played an important role in Brazil's development, providing the necessary capital for industrialization but at the same time implementing a system of dependency on foreign markets and capital. The effects of this relation could be observed during the 1980s, when the international development forced Brazil into a debt crisis that hindered development for a considerable time. Since the international financial market in sequence adopted a new pattern of accumulation, one that is based on the financial markets and the increase of the money and the stock market value and not the increase of productive capacity, several adaptations were undertaken in Brazil to respond to this "financialization" (BRUNO; MACEDO, 2010: 63). Financialization thus refers to the increasing determination of the economy by the financial markets. Since these have a dominant role over the producing economy and thus over the labour market, this development lead to deep changes in the labour market structures and in the state's macroeconomic policies. Financial actors have basically two options to invest, the real economy

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<sup>10</sup> For an overview and discussion of the Brazilian tax system, see Pinto and Biasoto Júnior (2006).

(productive investment) or the financial markets, whose return is fundamentally determined by the interest rate. A high interest rate and the actors' preference for the flexibility of financial markets (in contrast to fixed capital investments) thus putted real economy investments under pressure (MATTOS, 2009: 74). Especially the changes in macroeconomic policy during the 1990s responded to these new requirements, which until today are basically in place, even though some changes in policy were possible.

**Figure 5 Public external debt and international reserves**

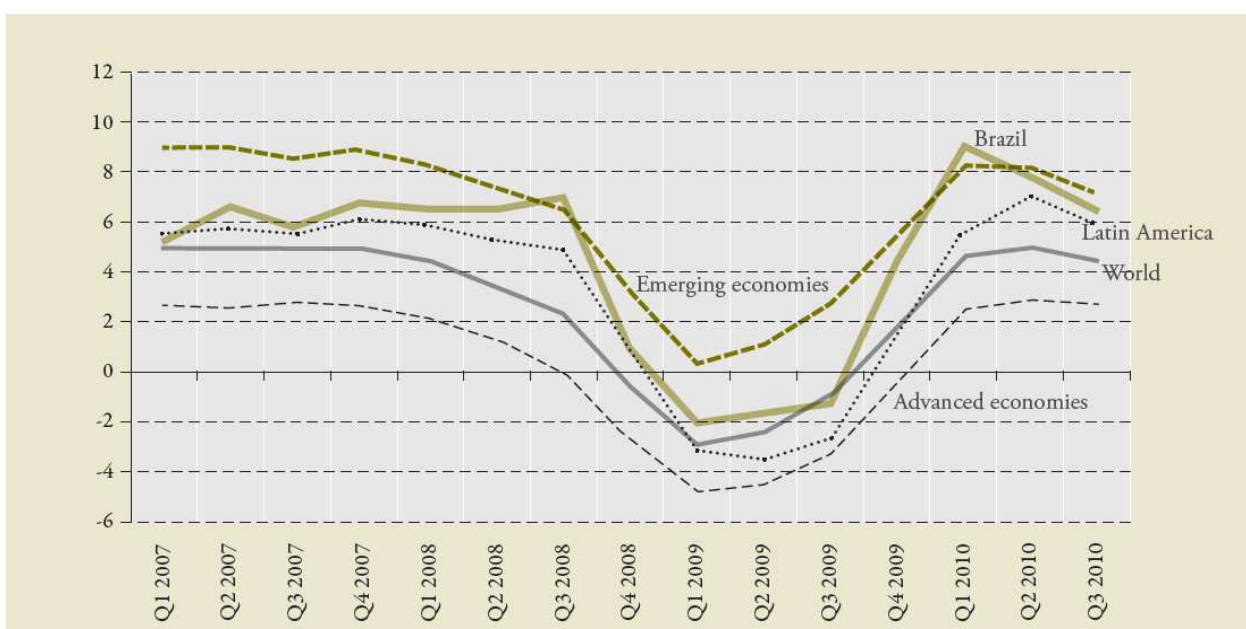


Source: ILO 2011: 32

Interestingly, it was the international financial crisis that eased these shifts in macroeconomic policies, since more government spending and interventionist policies were not only considered necessary to deal with the crisis, but they were also adopted by the central countries of current capitalism and thus opened ideological and practical windows for the macroeconomic changes undertaken in Brazil. These changes provided enough demand to overcome the negative effects of the international economy's

development and also allowed the stabilization of internal demand through public spending, increases in minimum wage and public wages, and through credit supply by semi-public banks (BNDES) and a reduction in some consumer taxes (BARBOSA; PEREIRA DE SOUZA, 2010: 86, 90). The crisis therefore did not hit Brazil as hard as it did with other countries in Latin America and around the world, as can be seen in the following graph.

**Figure 6 GDP growth, quarterly real GDP rate, 2007-2010 (percentage change to year before)**



Source: ILO, 2011: 16

The crisis thus did not hit Brazil as hard and for a shorter period as it affected the advanced economies. Indeed, growth was only interrupted by a sharp decline after the third quarter of 2008 to the first quarter in 2010. The implemented policies on the economic side (especially credit supply, macroeconomic direction and increase of demand through the minimum wage and public demand) helped to diminish the crisis' impacts. The role of social policies for this development will be analysed in the next chapter.

### ***3.4 Conclusions: Effects on the labour market and informality***

The changes in economic policy towards a higher growth had an important effect on informality in Brazil, since the informality rate decreased together with the increase of economic indicators. The hypothesis concerning the impacts of economic policy on informality can therefore be approved, a relation between economic growth policy and informality reduction is existent. A relatively high rate of growth over an extended period seems to be the most effective measure to increase formality in Brazil and to reduce the stock of informal and precarious work.

It is interesting to note that between 2003 and 2008 did not only the number of unemployed and of non-remunerated workers decline by 17.5% and 4.5%, but the number of total employees increased by 14.7% indicating the overall trend of formal employment creation. Table 9 shows the development of the EAP between these years. Nearly all indicators show that improvements took place, even though large numbers are still working in under precarious conditions. Work without remuneration made up 7,2 million people and an additional 7,7 million were unemployed, which means that nearly 15 million Brazilians had no access to a remunerated activity. Taking in mind the large share of informality and precariousness among the 89 million occupied people, it becomes clear that there are still huge challenges ahead. Chapter 2.2 showed that nearly halve the occupied population works informally and that nearly 45% of the workforce suffers from precarious working conditions (compare Table 8). But the improvements of the labour market and the occupational structure are by no means negligible since the creation of occupation was accompanied by an increase in the total EAP of an additional 10 million people between 2003 and 2008 alone.

**Table 9 Economically active population (EAP), occupied (with and without remuneration and unemployed, Brazil: 2003 and 2008**

Activity	2003		2008		2003-2008	
	in thousand	In percentage	in thousand	In percentage	in thousand	In percentage
EAP (16 years and more) <sup>(1)</sup>	86,968	100.0	96,749	100.0	9,781	11.2
Unemployed <sup>(2)</sup>	9,351	10.8	7,718	8.0	-1,633	-17.5
Occupied people	77,617	89.2	89,031	92.0	11,414	14.7
Occupied with monetary remuneration	70,039	80.5	81,794	84.5	11,756	16.8
Occupied without monetary remuneration	7,579	8.7	7,237	7.5	-342	-4.5
- Unpaid work	4,344	5.0	3,464	3.6	-880	-20.2
- Own use production	3,128	3.6	3,678	3.8	551	17.6
- Work in own use construction	108	0.1	94	0.1	-13	-12.3

Notes: (1) Excludes the rural population for the Northeast, except Tocantins.

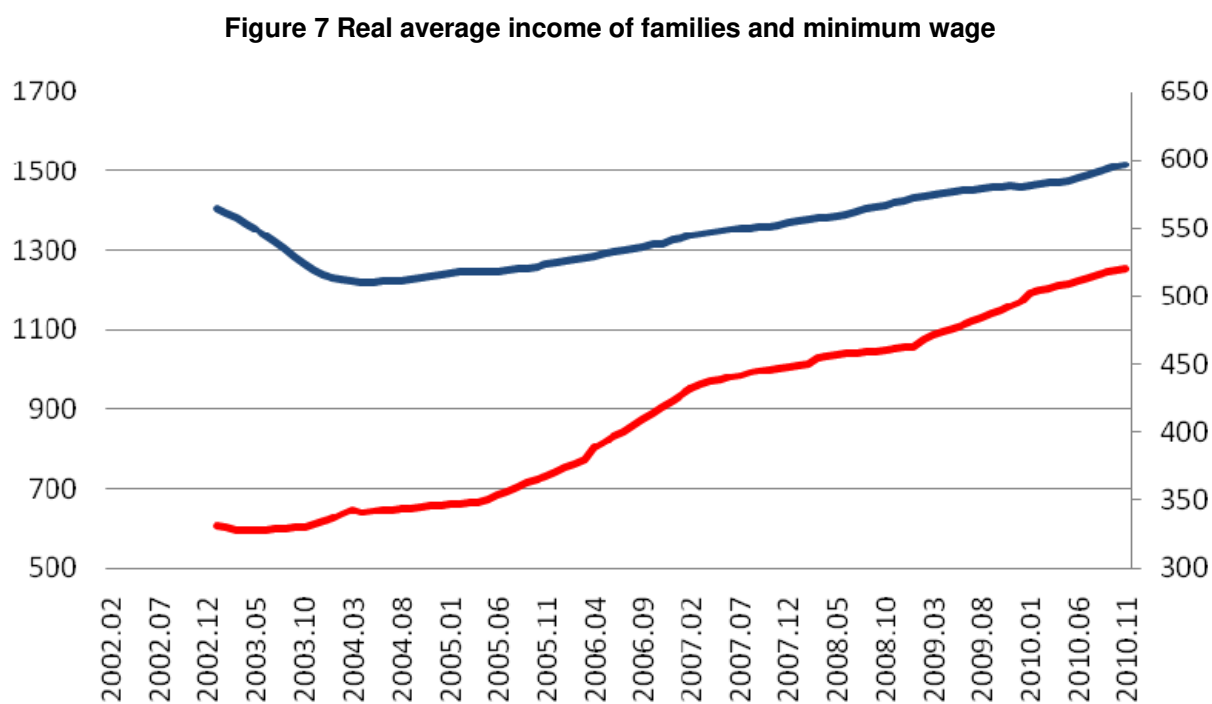
(2) Population of 16 years and older that was searching work during of 30 days before the interview.

Source: PRONI, 2011: 11.

The second important lesson to learn from this chapter is the importance of the minimum wage, which guarantees demand by increasing the available income for poor people. This increase in demand can lead to more productive capacities and thus new jobs, besides the stabilization effects it has on internal demand. This last point is important in the underdeveloped internal market of Brazil, but also faces pressures due to open market policies and thus international competition. Salaries of the informally working population are also influenced by the elevation of the minimum wage, since it acts as a guideline for remuneration. The substantial and continuous increase of the minimum wage is therefore necessary to substantially reduce informality in Brazil, even though it may take some time until the effects of increased demand impact on the productive capacity and labour market structure.

Due to minimum wage increases the medium income of families increased as well (compare Figure 7). In means of aggregate demand this did not only lead to an increase in private spending (SERRANO; SUMMA, 2011: 24) but was also responsible for an increase in government spending, since many social provisions like pensions are tied to the minimum weight. It is therefore a central variable for the direction of the Brazilian economic and social development.

These numbers are important to consider since they indicate a better distribution of income among Brazilians, or a decrease in inequality and poverty. As it was shown in chapter 2, informality is for a large number of people a survival strategy that is directly related to their socio-economic conditions. An improvement of these situations is therefore also likely to reduce informality since the need to choose a survival strategy is reduced.

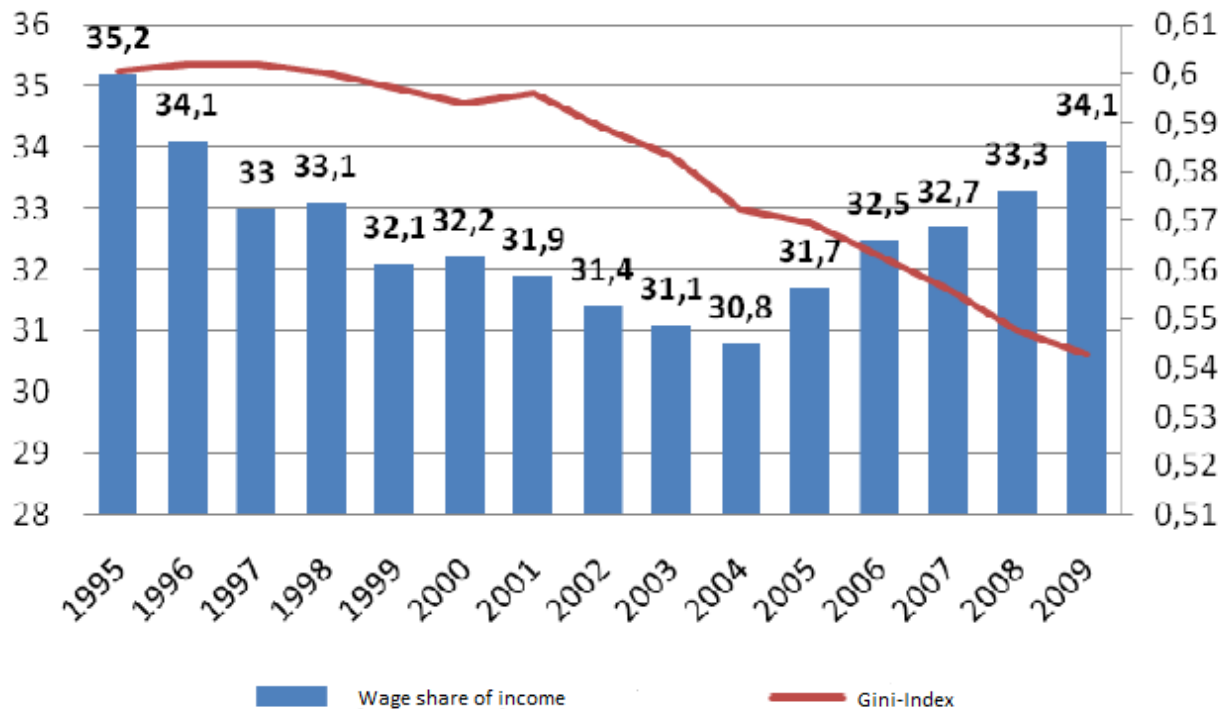


Source: SERRANO; SUMMA, 2011: 27

Besides the improvements in the distribution of income and the inequality rates (see Figure 4), the increase in minimum wages and the negotiated wage increases lead to an increase in the share of salaries in the national income, indicating improvement of the salary-dependent population in comparison to other income receiving groups. The share of salaries in national income increased from 30.8% in 2004 to 34.1% in 2009. Compared to the former decade and other countries (Germany for example had a share of salaries of 39.4% in 2010, after taxes) it nevertheless is clear that there is still considerable space for improvements.



**Figure 8 Share of salaries in national income and Gini-Index**



Source: SERRANO; SUMMA, 2011: 26

Nevertheless it is important to take in mind that a purely growth oriented strategy for the reduction of informality and precariousness faces serious challenges in a capitalist economy. Since cyclical slow-downs, stagnations or even negative growth rates are very likely experiences in a capitalist economy, it is necessary to consider the impacts on the development of informality. As economic growth leads to more employment, its decrease will necessarily lead to less reduction of or even an increase of informality. In a capitalist economy, economic growth cannot be guaranteed due to its cyclical development and full employment is also very unlikely to take place. Therefore it is necessary to consider how the groups that are vulnerable to end in informal working conditions may be supported. This support would translate into forms of income besides the market income, since this would allow diminishing the involuntary (survival-strategy) informality. Social policy is at least temporarily and for a limited number of people capable of providing an alternative source of income. If and how Brazilian social policy is able to achieve this goal will be analysed in the next chapter.

## **4 Brazilian social and labour policies**

As presented in chapter 1.2 social and labour policies are understood in this work to have influence on the structure of labour markets and on labour as the people who offer their workforce on these markets. These policies on the one hand shape the offer of labour, through policies that prepare individuals to take part in the labour market and that guarantee their reproduction (such as social assistance, education, health). On the other hand, they provide an alternative to market income and reduce the dependence on the need to sell one's labour power (by providing social insurance like pensions for example). These functions of social policy also influence the composition of the labour market, since they determine the available group of people and the conditions, under which they act on the labour market. Needless to say that these theoretical considerations lead in reality to different systems in each country, which have distinct impacts on national labour markets and income distribution. Social and labour policies thus must be seen in relation to the development of the economic system (which provides the demand for labour) and also the political system, since it defines these policies.

The Brazilian social and labour policies date back to the old republic but only gained major importance during the Vargas-era between 1930 and 1945, even though it was unable to address until today the huge problems imposed by poverty, inequality and social vulnerability (GIOVANNI; PRONI, 2006: 170-171). Brazil has a relatively high level of social spending, which is around 14% of GDP, a share that ranks close to eastern European countries and way beyond Latin American levels of social spending, which show much less extreme problems of poverty and inequality. In 2005, the federal government transferred pensions worth 7.5% of GDP and had an equivalent of 27.2% of GDP in current expenditures (GIMENEZ, 2008: 180). The development of the current expenditures between 1995 and 2006 reveals that increases took mainly place in debt

related payments, which increased considerably (10.82% for debt amortization and 8.08% for interest payments). Only transfers to federal states increased (1.89%) during this period while all other sorts of payments decreased (Personnel: -11.11%, Pension payments -0.82%, Investments -0.91%) (GARCIA, 2008: 13).

Hence, the distribution of social spending must be considered. In Brazil, the top quintile receives around 50% of social transfers (WEHR, 2009: 181; ECLAC, 2006: 144-146; ECLAC, 2010: 185), revealing not only its high primary income but also the inequality enforcing function of Brazilian social policy. 90% of social security spending is directed towards pensions, which only cover 50% of the workforce, thus explaining the inequality-reinforcing function of social security spending in Brazil (ILO, 2011: 81).

The quality of social services, especially the national health service or the public education system and the universal social assistance schemes are considered to be worse than the private sector alternatives, which concentrate considerable resources and lead to a divided system. Privatisation of some social systems and lacking investments in basic services such as sewage treatment during the 1990s worsened this divide (FAGNANI, 2005: 496).

But some improvements were achieved in this respect over the last years, as a reduction in inequality and poverty show. In order to understand, which social policies helped to decrease inequality and thus provided a better starting point for the poor to enter the labour market, a careful analysis of these policies is necessary. This chapter will present the historical development of Brazilian social and labour policies and examine the mechanisms of exclusion and inclusion these policies had during the last eight years of Lula's presidency. The following systems will be analysed: social protection, social assistance, minimum wage and employment service system.

As the Research Institute of Applied Economics (IPEA) pointed out, this presidency was marked by favourable economic conditions that helped to increase employment and wages, including a gradual decrease of informality and inequality, which nevertheless remained high (IPEA, 2010a: 28). As is argued in chapter 1.2, social and labour policies can be one cause for the extreme inequality in Brazil. Which role social and labour policies played in the most recent development in Brazil will be analysed in the following.

#### **4.1 Historical development**

Social security systems on a national level were developed in Brazil for the first time at the beginning of industrialisation in the 1930s. The implementation of the Consolidated Labour Laws (CLT) marked an important step in this respect, implementing a labour law, a social security system, consistent of a pension security (including an unemployment security), labour jurisdictions and a legal and institutional setting of labour relations. The individual and the collective aspects of the labour relation were thus organised. The social question imposed by the emergence of a urban industrial workforce was thus organized in a corporative fashion, including as well social insurance schemes that are based on the principle of contribution and meritocracy, as can be found in the “Bismarckian” welfare states of continental Europe (CARDOSO; JACCOUD, 2005: 189). These systems generally tend to preserve social structures and are therefore also called “conservative” (compare denomination by ESPING-ANDERSEN (1992).

Another distinctive axis of Vargas’ strategy, the social integration of the urban wage and salaried workers, was supported by four core new institutions: the nationwide labour union structure, the social security system, labour regulations, and the imposition of a national minimum salary. (DRAIBE, 2007: 255). Some parts of this system like the minimum wage were universal in nature including all parts of society; others were clearly directed toward the needs of the urban formal workers, as for example the union structure and the contribution based pension system. Other aspects of the “social question” resulting from a capitalist economy like inequality and poverty were not addressed in a universal fashion until the 1980s, when the democratization of the political and social relations was achieved (DRAIBE, 2007: 240).

The constitution of 1988 installed for the first time a universal health system (“Sistema Único de Saúde” – SUS) and a social assistance system for the needy population, trying to implement a universalization of social inclusion (DRAIBE, 2007: 245). Despite the differences between the historically rooted conservative social protection system and this new universal approach, no substantial changes were made in the central institutions of social protection: The pension system remained based on contribution and the social assistance system was not universalized in every sense (especially in terms of

resources). The effort of universalization thus faced severe obstacles from the historically rooted system and also from the political development in the years after 1988, due to the unfavourable economic and ideological conditions. Besides the non-inclusion through social and labour policies, this broadening of the population to be attended by the social systems is opposed by a very regressive tax system, which contradicts the effects of a state organised redistribution to the poor parts of society and a reduction of inequality (AFONSO, 2010: 16).

In the 1990s neoliberal ideas gained importance and the newly established social protection system faced severe restrictions. (FAGNANI, 2005). Macroeconomic policies imposed limits on social spending and had a negative impact on the labour market, contributing to an increase of unemployment and a reduction of medium wages. This led to precarisation among the middle class and increased the poorest' vulnerability.

The national labour relations system also faced great challenges at the same time, since flexibilization of the formal labour market now put those under pressure, which formerly had access to the "good" part of the labour market (KREIN, 2001: 96). During the Fernando Henrique Cardoso-government („FHC“, 1994-2002) labour and collective bargaining rights backed by the constitution were attacked and undermined by policies oriented towards the Washington Consensus (KREIN, 2001: 98).

On the other hand, social policy programs underwent changes and some new measures were taken up: universal programs (health, social security, education, housing and sanitation) were decentralized and oriented towards poverty reduction (a "focusing" of social policy should reduce poverty). A "work, employment and income" program was set up as well as a program that aimed at the eradication of poverty. Most of the projects introduced in this realm later on developed into the poverty eradication programme during the Lula government. The formerly conservative social security system that had been combined with the aim to universalize its benefits thus was conducted with a liberal instrument of needs-tested social assistance, which differs strongly from the universal principles written down in the constitution and from the status-preserving principles of the historically rooted system (CARDOSO; JACCOUD, 2005: 195). How the different systems of social security in Brazil influenced the development of informality and inequality will be analysed in the following chapters in detail.

## ***4.2 Contributory Systems: Pension Insurance and Unemployment Protection***

The pension insurance system (“previdência social”) in Brazil provides protection against the loss of income for those able to contribute. It can be applied in cases of accidents, old age, pregnancy, illness and imprisonment. Contributions may be paid voluntarily, but the vast majority of the social protections contributors are formal workers, as shown in chapter 2. Nearly half the working population is therefore excluded from this protection scheme and this chapter tries to understand how this happens. The system of pension insurance consists of the following regimes:

- First the General Regime of Social Security (Regime Geral de Previdência Social, RGPS), which is public and mandatory for all private-sector workers, including domestic and self-employed workers (even though they have to fulfil criteria to be eligible).
- The second is the Pension Regime for Government Workers (Regimes Próprios de Previdência Social, RPPS) where public-sector employees are covered under specific pension provision.
- The last scheme is the Complementary Pension Regime (Regime de Previdência Complementar, RPC).
- In addition to these three regimes, there are non-contributory social pensions to provide poverty relief to the elderly (ILO, 2011: 83).

Pensions are paid to former contributors on the base of their age or in situations of work inability (caused by accident or disease). In most cases it is necessary to be registered at the social protection insurance but only in the case of accidents it is not necessary to be a regular contributor to the social protection insurance. One major change was undertaken in the 1970s, when the social protection system was opened for self-employed and domestic workers, in an attempt to integrate non-formal workers while maintaining contributions as access criteria (CARDOSO; JACCOUD, 2005: 201). This opened the door to a partial protection of these occupations, which nowadays is around 16% for self-employed and 30% of domestic workers (compare chapter 2 of this work). The ministry responsible for pensions (MINISTRY OF THE PENSION SYSTEM, 2011)

states that in 2009, 27 million Brazilians received pensions out of the public pension system, 84.0% received pensions due to contribution, 2.9% received pension due to accidents and 13.1% received beneficial pensions. Around 69.7% of these pensions were paid to urban clientele and 30.3% to rural clientele. Compared to 2008, total number of pension payments increased 3.3%, while contributory based pensions increased 3.2%, beneficial pensions 5.5% and pensions based on accidents decreased by 2.4%. The largest group received pensions due to old age (29.3%), death (24.1%) and contribution based on the time of contribution (15.8%).

Another important change under the new constitution was the introduction of the rural pension system, which provides pensions without the formal need of contribution (DRAIBE, 2007: 246, thus representing a “stranger” to the rest of the social protection system). To be eligible for this pension, rural workers need to provide evidence of 15 years of rural activity. It is financed by the State through taxes, especially through a tax of 2.1 per cent tax on agricultural products is. The programme has expanded significantly since the early 1990s. The number of beneficiaries has doubled in the past two decades rising from 4.1 million in 1992 to 8.2 million in the first half of 2010 (Ministry of the Pension System, (MPS)). It is estimated that for 2010, spending will total R\$50 billion (US\$28 billion, 1.6 percent of GDP, ILO 2011: 82).

A general problem of the pension system is the low value of its benefits, which reflect extreme differences of income distribution in Brazil. Very high and very low pension benefits that force a considerable part of retired persons to continue working are one source for old-age poverty and participation in the informal economy of the elderly. The decommodification of pensioners is thus not successful because the financial resources are too few and have no substantial redistributive effect.

Unemployment protection exists in two forms:

The older unemployment protection is a severance payment through a fund employers are required to contribute monthly an equivalent of 8% of the employee's wage (it is called Fundo de Garantia por Tempo de Serviço - FGTS). It was installed in 1966 in “exchange” for the abandoning of strict dismissal rights (CARDOSO; JACCOUD, 2005: 201). It is tied to the duration of the formal employment relationship, whilst the probation

period of 90 days does not qualify for it. Unqualified workers are therefore mostly excluded from it (ZOCKUN, 2007: 61).

The second, real unemployment security was introduced during the democratization period and provides a contribution and salary dependent security. It is designed to link financial aid and the pursuit of employment by means of labour market intermediation services, professional training programmes, and investments. The Fund is managed by a tripartite council (CODEFAT or FAT Deliberative Council) composed of representatives of government, workers' organizations and employers' organizations, whose aim is to define, finance, approve, and monitor the Fund's work plans. It is financed through another fund, the "Fundo de Amparo ao Trabalhador" (FAT). Curiously, the financial basis of this unemployment insurance is not contributive but based on a business-sales tax (currently 0,56% through the "Programa de Integração Social" PIS-PASEP). Its value depends on the industrially produced surplus value, but all other economic sectors are object of this calculation (ILO, 2011: 85). Low qualified and potential informal workers are therefore financing the unemployment insurance of the formally employed.

The access conditions for this security are also based on contributions and payments provided for a maximum period of five months. The value depends on the former salary but has a limit of currently 1019,70 Reais. It is applicable to all contributing formal employees and domestic workers that were dismissed without justification that participate in a formation programme of the employer, professional handcraft fishermen during periods of recovery and workers saved from slave-like working conditions (CAIXA ECONOMICA, 2011). During the international financial crisis, this duration period was partially extended by two months in order to ease the transition period for those affected by the crisis, what had immediate effect due to the highly flexible dismissal protection: unemployment insurance claims increased from 447,193 in October 2008 to 780,125 in March 2009, retreating to a value around 500,000 in November 2009 (ILO, 2011: 87).

Another problem consists of the values and duration of payments provided by the unemployment security. The value is linked to the structurally low minimum wage and in many cases does not guarantee a survival of the "protected". The duration of payments of maximum five months is in the case of the highly flexible and rotative Brazilian labour market also a problem, since the necessary contributions may not be accumulated due



to the “hiring and firing” procedures and an adequate job may not be found during the rather short period of unemployment security payment. The decommodification of the protected employees is thus already low, but since the social protection does not include most informally working, it does contribute as a system to the persistence of informality. The social protection system is structurally linked to the contributions paid to gain access to its payments. This limit is a problem for informally active people, since they cannot access this system. Only few segments of informality gained access to the system, as for example domestic workers and handcraft fishermen that are able to fulfil the necessary conditions (being registered and paying contributions for example). This also shows that the problem of a lacking unemployment security for the informally working lead in the past to an inclusion of some of its segments, but not of all.

#### ***4.3 Non-Contributory Systems: Social Assistance***

Universal social rights for all citizens were included in Brazil's constitution of 1988. Progressive political forces were able to implement their aims at the time, but their intention was opposed by the following economic crisis and the liberal economic policy adopted by the government of Fernando Henrique Cardoso. Nowadays, social expenditures represents about 22% of Brazilian GDP (IPEA, 2010: 24), while about 9% of these are direct transfers (ibid. 16). Pension spending (which provides very limited benefits to the formerly informally working) represent the largest share of social spending, while spending with education and health as well as direct transfer payments to families increased in the last 15 years (also through conditional cash transfer programmes as “Bolsa Família”). Nevertheless: Taking the range of public social sector programmes as a whole, it is easy to verify the unequal distribution of resources among them. 29 per cent goes to universal and pro-poor programmes; 70 per cent to social protection insurance and the other contributory programmes, and only one per cent goes to subsidized programmes, such as housing (DRAIBE, 2007: 247).

The increase in transfers was the result of a stronger commitment to the aim of poverty reduction by the federal government, which departed from former programs (“Fome Zero”, among others) and finally lead to the establishment of the “Bolsa Família”-programme. It consists of cash transfers to families in extreme poverty, imposing a set of

conditions: the family's children have to attend school, health check-ups and nutritional advises. The large majority of "Bolsa Família" beneficiaries supposedly works informally, since the available income of a family per capita must be below 140 Reais, which means that the family income must be dependent on a level below the minimum wage (ILO, 2011: 90). Income below the minimum wage and being a "Bolsa Família"-Beneficiary indicates therefore informality.

By the end of 2007, 8,7 million families were attended by this programme and it transferred 0.3% of GDP, in average an amount of 95 Reais while Benefits may vary between 32 and 242 Reais (BARBOSA; PEREIRA DE SOUZA, 2007: 65). During the financial crisis, both values and coverage of the programme were increased, providing more income to the poorest Brazilian families (ILO, 2011: 57). This programme represents a shift in Brazilian social assistance and poverty programmes: From a clientelistic scheme during the period of 1930 to 1988, towards cash-transfers like "Bolsa Família" (DRAIBE, 2007: 245). For the first time, this means a direct redistribution to the most vulnerable of Brazilian society and is in line with the poverty eradication policies that became popular during the 1990s. They adopted a strategy of "focusing" state efforts on the reduction of poverty, mostly through conditional-cash-transfers. While these programmes show a limited success in the reduction of poverty, they are nevertheless not aiming at a solution of the wider problems like persisting informality or the regressive tax system, thus not changing the basis of social inequality.

**Figure 9 Regional distribution of beneficiary families and of the poor, 2009, percent**

Regions	Distribution of beneficiary families in February 2009	Distribution of the poor
North	10.2	9.9
Northeast	51.2	47.0
Southeast	25.2	27.4
South	8.3	9.7
Midwest	5.2	6.0

Source: ILO, 2011: 91

Beneficiaries of the “Bolsa Família” Programme are mostly situated in Brazilian northern and north-eastern regions. The concentration of poor people is also higher in these regions and displays the different levels of economic and social development among Brazilian regions. In the prosperous southeast region it can be observed that a surprisingly high share of poverty and “Bolsa Família” beneficiaries is situated there. Despite the regions’ productivity and economic development, it has still serious problems with poverty and inequality (compare figure 11).

Another cash transfer programme called Continued Benefit Provision (Benefício de Prestação Continuada) covers the disabled and the elderly poor and is universal. Its benefits depend on the minimum wage and are provided either to persons aged 65 or older, or to persons of any age who are unable to work due to disability, with per capita household income less than one-fourth of the minimum wage (the extreme poverty line). In 2009, 1,54 million elderly and 1,63 million disabled households received benefits through the BPC. Total spending amounted to R\$16.9 billion (US\$8.5 billion), equivalent to 0,05 % of GDP. The average benefit in 2009 was 444 Reais per month (due to the increase in the minimum wage from 415 to 465 Reais in February 2009).

Total social expenditures redistribute around 23% of Brazilian GDP (AFONSO, 2010: 22). The relatively high rate of social spending and the tax revenue would, from a comparative point of view, indicate that income distribution should be more homogeneous since such a significant part of overall income is being redistributed through the state. Nevertheless, very high levels of inequality persist in Brazil, even though income concentration was reduced over the last years (AFONSO, 2010: 4). The inequality measure Gini-coefficient provides an idea about the positive development of the recent years, but shows also the still very elevated level of inequality in Brazil. Figure two shows this reduction from a value of around 0,61 in 1999 to 0,54 in 2009. Countries with a less developed social security system in Latin-America have comparable levels of inequality (for 2007: Bolivia 0,58; Ecuador 0,54; Argentina 0,5; Uruguay 0,46; ILO, 2011: 121). Since the redistribution effect of the Brazilian social security systems seems not to be very strong, it may help to look at the programmes in place and analyse, whom they benefit and which groups improved their share during the last years.

**Figure 10 Income inequality in G20 and selected Latin-American countries, 2007**



Source: ILO, 2011: 121.

From a spending perspective, social redistribution underwent considerable changes. A new strategy concerning an evaluation of the minimum wage and conditional-cash-transfer led to some improvements of income distribution (BARBOSA; PEREIRA DE SOUZA, 2010: 64), but high inequality nevertheless persists (AFONSO, 2010: 18). This can be seen also in the relative spending and its increase that is used for transfers from high income to low income groups (as are conditional-cash-transfer programs like “Bolsa Família”) and for transfers that benefit those that were able to get a formal job and accumulate formal working years that entitle for pension payments. In 2008, only 0.38% of GDP was directed towards conditional-cash-transfer programs while 7.24% of GDP were applied to the pension system. Access to this pension scheme is largely limited to formerly contributing people, thus excluding most informally active people by definition. Spending in this part of social spending is improving importantly the position of high-income groups (AFONSO, 2010: 24) and since conditional-cash-transfer-programs or

universal transfer programs are not nearly spending as much money, inequality is maintained by social spending structure. The increases of conditional-cash-transfers did thus help to decrease inequality, but its financial volume was too small to result in significant changes. It is also important to mention that the increase in minimum wage did help to increase the income from transfers for those that rely on a compulsory pension or universal social assistance, since these are usually tied to the minimum wage's value (IPEA, 2010b: 106). The redistributive effect of the Brazilian social security system is thus not very strong, even though the most recent development leads in the right direction. The importance of providing income for the poor may also be shown by the multiplier effect of conditional cash transfers, as shown by IPEA: Each Real spend in the “Bolsa Família” Programme is believed to have a multiplier effect of 2,2 on family income and of 1,4 on GDP (ILO, 2011: 95). Redistributive social policy is therefore not only positive for social but also for economic development and should be increased.

Remaining basic social policy systems that need to be mentioned are the education and health systems. Both are universal and thus open for the informally active population, but since funding is low, no major redistribution through it happens. Brazilian health service is organized as a national health service (Sistema Único de Saúde - SUS) and provides free treatment, as are public schools. The development of spending in the last years shows a positive development, but the role of private health insurances and education facilities is nevertheless important, since it creates two-class health and education systems. Informally active people are thus in theory covered by the free services, but since the whole system is rather dualist than integrative, one cannot determine health and education policy in its current form and extent of spending as a mean to integrate informality (CARDOSO; JACCOUD, 2005: 191).

#### ***4.4 Employment Policy***

Employment policies have the aim to focus on supply and demand in the labour market, structuring the exchange process and the characteristics of the “objects”, or to say it in more detail: The capacities of workers and the conditions of employment (MORETTO, 2010: 8). To this end, there are several means existent:

- Dismissal protection and unemployment security, which helps to sustain a worker and his capacities in moments of unemployment (in Brazil, this is done in the realm of the FGTS and the unemployment security, financed by the Fundo de Amparo ao Trabalhador – FAT).
- Employment service, which helps to ease the process of employment search, either by intermediation between labour market demand and supply of individuals or by easing adaptation of individual workers to labour market demands through training and qualification programmes (in Brazil, the institutional setting is the Sistema Nacional de Emprego - Sine).
- Salary Policy, which may be influenced through the minimum wage.
- Control of the adherence to labour laws.

Dismissal protection in the sense of protecting workers against unjustified dismissal and income loss is very weak in Brazil. Lay-offs may be made during a probation period of 90 days and after that, only an indemnification payment has to be paid. If the employer does not give advice of the lay-off 30 days ahead, he or she will have to pay a fee, but no justification is necessary. Lay-offs of unskilled worker and thus a high rotativity are common characteristics of the Brazilian labour market. Lay-offs often occur at the end of probation period, in order to avoid the fee related to the advice of lay off (ZOCKUN, 2007: 58). This protection against dismissal is increasing the number of those that might have to work in the informal economy, due to a loss of their job during recessions and a resulting lack of alternatives.

In Brazil, the labour market policies are inhibiting a better structuring, since the dismissal protection, the unemployment security and social protection systems force fired workers into precarious jobs (MORETTO, 2010: 22-23). Even worse, since the unemployment benefits are linked to formal employment, it is very unlikely for those who entered the informal-precarious economy to get out of the vicious circle of precarious work. A lack of training possibilities for unemployed workers is also worsening their chances to enter the labour market again (MORETTO, 2010: 23). And to make things worse, these provisions only apply for formal workers in any case. As a matter of fact, only 7% of Brazil's unemployed are covered by unemployment insurance (ILO, 2011: 113). Moretto states

that the “traditional unemployment insurance” therefore is not capable of addressing the problems the informal economy imposes on society (MORETTO, 2010: 23).

Active labour market policy in form of the public employment service (Sine) was established in 1975 and passed to treat five million workers in 2002 (ILO, 2011: 111): “In 2009, only 2.1% of unemployed workers received support from Sine during their job search” (ILO, 2011: 115). Due to this low number (less than 10 percent of the economically active population) it only has a limited impact on the labour market structuring. Nevertheless it has the potential to increase formation (through formation system PNQ) and labour market structuring, if it is possible to increase its extension and improve the placement services. Until the extension of these services it must be considered that the employment service is not fulfilling its function and is also not capable of providing services to those that try to enter the formal labour market.

The minimum wage was first implemented in the 1930s and fits into the state determined system of labour relations by determining the socially acceptable legal minimal remuneration but at the same time, lifting organisation and representation pressures from the affected and their potential institutions, e.g. trade unions (DRAIBE, 2004: 86). Development of the minimum wage over the recent years was positive, despite the financial crisis. It recovered parts of its decline in comparison to the former decades after 2004-5 and thus improved redistribution, helping demand and providing economic stability (BARBOSA; PEREIRA DE SOUZA, 2010: 5). The minimum wage increased nearly 150% during 2002 and 2009, from 200 to around 450 Reais, while inflation (IPCA) decreased during this period (BARBOSA; PEREIRA DE SOUZA, 2010: 103, 106).

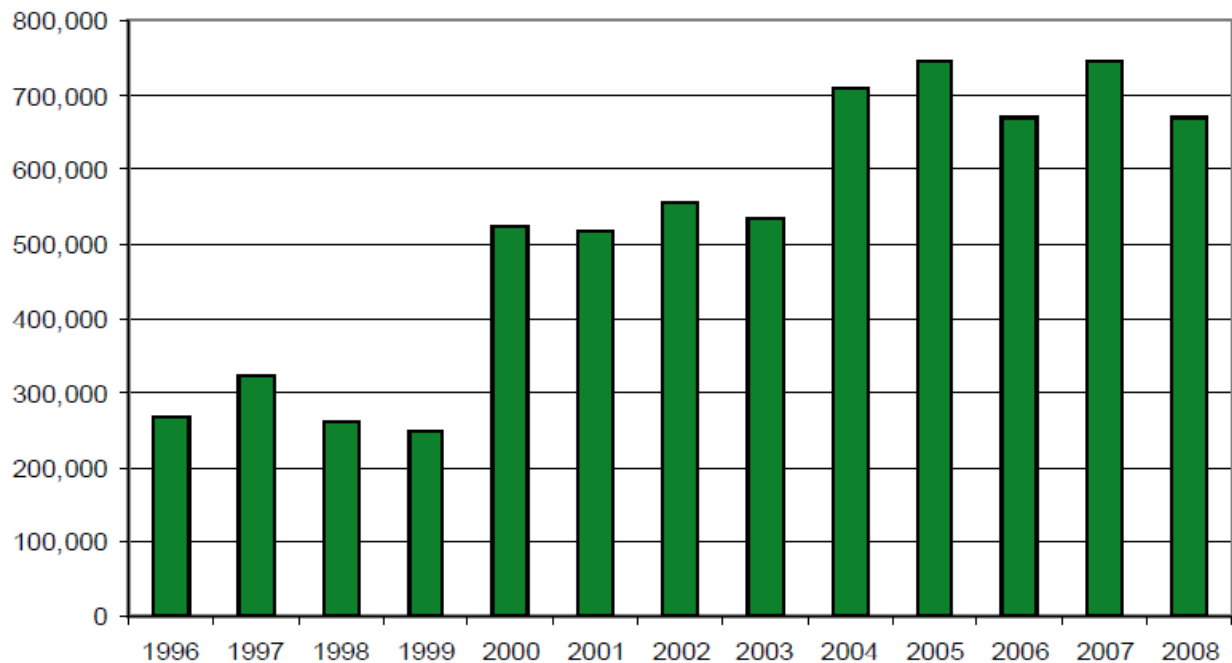
Labour inspections are crucial to guarantee the adherence to labour laws. Structure and development of labour regulation changed most recently, as a direct consequence of the 1988 Constitution: The Public Labour Attorney (Ministério Público do Trabalho, or MPT) was installed. Until 1988, the MPT was a subsidiary of the Labour Supreme Court and its provincial agencies (the Regional Labour Courts), producing reviews of the judicial sentences. After 1988, the MPT became a defender of the juridical order, the democratic regime, and was entitled to diffuse social and individual workers’ rights. During the 1990s, the MPT consolidated judicial action focusing on human rights at work, immediately forcing companies or State agencies to adopt “terms of adjustment” relating

to many risky working conditions (even when not defined by labour law). Discrimination on grounds including gender, race and disability (and others such as moral harassment), and dangerous working conditions (including child and slave work), have become major MPT concerns, thus importantly increasing the role of the public authority in Brazil's industrial relations system (CARDOSO; GINDIN, 2009: 23). Nevertheless it remains clear that the controlling capacity is not enough to meet the challenge of the enormous informal economy both in terms of enterprises and in terms of the labour market. In 2008, there was only one inspector for each 30.000 workers in Brazil, even though the ILO recommends at least one inspector for each 15.000 workers (BERG, 2010: 18).

During the last years, considerable advances were observed in this field despite the lack of inspectors. Increasing the number of workers formalized as a result of labour inspections (compare the following graph). Berg (2010: 18) explains this increase with changes in the remuneration and motivation structure of inspectors, whose salaries are now partially linked to success of formalization. Nevertheless she also states that the workers thus formalized are employed in formal companies, since the labour inspection do not cover informal companies. She therefore argues that an increase in the formalization efforts of companies must be undertaken in order to complement the inspection advances.



**Figure 11 Workers formalized as a result of labour inspections**



*Source: BERG, 2010: 18.*

This also shows that the hypothesis concerning the positive impact of labour inspection can be accepted, there is a relation between these inspections and formalization. Since the achievements of inspections seem to differ considerably, it is interesting to note that the increase in efforts could be enhanced by a further increase in the number of labour inspectors.

Another important development for the structure of the labour market derived indirectly from reforms in the micro and small enterprise legislation: in July 2009 the status as micro-enterprise or entrepreneur (“Empreendedor Individual”) was created, consisting of one employer and one employee with a maximum billing of 36 thousand Reais per year. This form of enterprises has to fulfil less bureaucratic exigencies and pays lower taxes, but at the same time allows for access to social protection systems and other services that are crucial for enterprises. The aim of this reform was the formalization of small enterprises and as the Ministry of Development, Industry and Foreign Trade claims, succeeded with the registration of 1 million enterprises until 2011 (MINISTRY OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE; 2011). Unfortunately there are

no profound analyses of this development available yet that would verify these results and check the impacts of this law. It is possible that it helps to improve formalization, access to social protection and to basic entrepreneurial services like banking, but it must be analysed whether it really causes decreasing informality or whether some entrepreneurs only use a change of their legal status to pay less taxes.

#### **4.5 *Labour relations system***

The Brazilian system of labour relations dates back to the Vargas era and the establishing of the CLT in the 1940s. The authoritarian Vargas-regime used the regulation of labour to follow a national development plan, which defined economic key sectors that should increase economic prosperity (KREIN, 2001: 54). In accordance with the economic plan at the time, these laws aimed also at an improvement of the internal market or the effective demand at the time, using labour legislation to provide better conditions of living and increase the workers purchasing power (SOUZA, 2008: 16). This structuring of the labour market had far reaching effects:

Despite the lack of a powerful labour movement, these key sectors underwent a thorough regulation, which included the construction of a safety net for the employed. The linkage between social benefits and a formal labour relation originates here. It is also characterised by a geographically divided system of union representation, organised according to professions and financed by a compulsory union tax, paid by every worker and redistributed by the state (CARDOSO; GINDIN, 2009: 17). Collective bargaining is therefore mostly regionally bound and extends only to a certain category of workers in one company, which is why Krein terms it a “pulverized” system without a strong conflict potential (KREIN, 2001). Little systemic changes were undertaken in the following years (POCHMANN, 1994) and the system of work relations continued to persist despite its changing economic basis and political surrounding. Considering the links to the informal economy, it repeats the pattern of linking social and labour benefits and rights to a formal employment – union representation is not foreseen to those without formal employment.

Labour legislation and a system of labour jurisdiction was first introduced during the Vargas-era, determining in many cases the priority of the state over labour struggles,

ruling in questions of salary development and thus diminishing the role of the labour negotiation. Its function was to provide cheap labour for the establishment of a national industry, thus leading to the development of a weakly structured labour market and state directed labour relations (THEODORO, 2005: 110).

#### **Box 2 Brazil's Labour Relations System**

Labour relations in Brazil are termed by Boschi (2006: 117) as “state-led corporatism” that is based in contrast to the Scandinavian civil-society corporatism on direct control over labour conflicts. Individual and collective conflicts are therefore regulated in a way that allows the state to intervene through judicial systems and through the institutional setting. Until the implementation of the democratic constitution in 1988, unions had to be registered and recognized at the Ministry of Labour and even today, bargaining is not completely in the responsibility of trade unions and employers. The labour courts are still responsible if the actors are not able to finish negotiations during a pre-determined time period.

Main actors in this system are the trade unions that are organized on regional level and according to professions. Union unity as a principle determines that each profession or category of workers may only be represented by one trade union in a certain territory (municipality). Until the recognition of the trade union centrals, federations and confederation by industry were the only legal representations above the municipal level, with a more political function (in theory).

Another important organizing principle is the union tax, which is paid by every Brazilian salaried employee with a registered labour contract, financing the trade unions independently from their number of affiliates and partially the Ministry of Labour, which also redistributes the tax among the registered unions.

Employers in Brazil are also organized in trade unions, even though the international determination would be employers association (compare KREIN, 2001).

The democratisation movement of the 1980s was demanding changes in these structures, mainly what concerns the institutionalized representation through trade unions. The central actors at the time CUT (Central Única dos Trabalhadores) and PT (Partido dos Trabalhadores) demanded change the union structures, end the union tax and independence from the Ministry of Labour and Employment, but could only gradually achieve some of these goals until today. An important source for the persistence of the informal economy lies therefore in the Brazilian political system, especially in the institutional setting of trade unions (and labour relations as a whole) and political parties (compare SILVA, 2006a: 180, 190). Representation of informally active employees, be they hidden employees (in form of informal self-employed) or informal employees, is thus not a systemically assigned task for the Brazilian trade unions, despite their de facto status as wage receiving workers. Only some trade unions and parts of the labour movement considered this system of representation worth changing, while others remain comfortable with the advantages of nearly effort-free funding through the union tax.

The labour relations system can be observed from a broader perspective that considers the relations between employers and employees, or their organizations (trade unions and employers associations) or more general, between capital and labour as subject of state and thus political regulation. The most important aspect of the confrontation between capital and labour is the regulation of representation of the individual workers, since it determines their ability to organise and pursue better conditions of living, working and of payment. As the Brazilian trade unions are designed to represent only formally employed people but the market reality at the same time forces half of the economically active population into informal occupations, this means the exclusion of these informal workers from a solidary defence against capitalist exploitation. Why the quantitative power of informally active population did not translate into political power is an important question for further research, especially in a democratic system like Brazil. Until today no real political representation for those working in the informal economy could be established (KREIN; PRONI, 2010: 38).

## **4.6 Conclusion**

Informality is influenced by the institutional and regulative setting of Brazilian social and labour policies. For many people informality is a survival strategy since they are not able to access the formal labour market and social security mechanisms are not able to provide them with an alternative income – despite the regionally rather high rate of social spending in Brazil. At this point, the constitution of social policies becomes important. Since access to important social protection systems and services (pension system and unemployment security in especially) is tied to participation in the formal labour market, informally active people have only limited access to social protection. The social assistance and other universal systems that theoretically are able to provide a social basis for the informally active population have too few financial resources to balance the negative effects of informality. Cash-transfer programmes are too limited in volume to decommodify substantially the poorest sectors of society, even though they are helping to improve their situation. A substantial decommodification of some groups would mean the lifting of pressure to seek access to market income. In other terms, it would also mean an increased redistribution towards the poorest and most vulnerable parts of society. This could allow for a better structuring of the labour market, since the biggest problems (informality and precariousness) are related to the low-income sectors. Putting pressure on the labour market inhibits an increase in productivity and of living conditions and creates a vicious circle, also due to the sheer numbers of informally active people. A state-led decommodification could allow for a reorganization of these groups and may in the long run even improve the economic productivity since low-income and informal groups may be able to improve their education and formation. Another important effect of an increased decommodification would be the potential for redistribution via taxes and social spending. Economic growth is of course crucial in this scenario since it allows for more redistribution and more creation of employment.

The labour market policies are also not helping to achieve a better structuring of the labour market, since dismissal is flexible and unemployment benefits are linked to contributions. Many informal workers or formal workers that did not contribute for the required time are therefore left without income in the case of unemployment. Alternative

income sources like transfer payments (social assistance) do not cover the situations of temporary income problems sufficiently, so workers need to find employment under all circumstances. Informality is therefore resulting of the social and labour policies' structures.

Those who choose informality as an accumulation strategy like some self-employed or domestic workers with high incomes end up retreating into the socially vulnerable groups in case of a major life risk like accidents, illness or old age. A real and not only theoretically possible inclusion of these groups into the systems of social protection like the unemployment security systems would be a strategy for improvement in these cases. Criteria of eligibility would have to be reformulated and barriers be taken down.

The systems of political representation especially the labour market (trade unions and employer organizations) are as well organized in a fashion that maintains the interests of informally active people excluded from the political process. The requirements and structures of labour and social policies are therefore maintaining inequality and the need to work informally. The regulation of labour relations and bargaining does not reflect the necessity of informally active workers, since they are not entitled to organize and be represented in the unions systems. An inclusion of these groups could also provide them with important political representation.

These examples show that informal work is influenced by the construction of social and labour policies. From a historical perspective, social rights are not tied to citizenship but to a formal work relation, which is why Pochmann (1995: 181) determines it as a "regulated citizenship". Even though social rights were broadened by the Brazilian constitution of 1988, the institutions of social and labour policies seem to work still according to the old scheme of requesting formal work as a condition for access. Some advances were made by the increase of the minimum wage, but especially the problem of political representation was not addressed during the last years. Despite the fact that the historical forces who fought for a reform of this system are in power, the structures of labour relations remained basically untouched and continue to exclude the informally active population. The same can be observed for labour market policy.

Economic policy tried to create conditions that allow inserting informally active people into the labour market, but only limited actions were undertaken in this direction in the

field of social policy. And even though the changes in the economic policy were political decisions, these changes did not occur in the social policy field. The high persistence of informality and the institutional setting of the social and labour policies indicate that if the basis of informality (inequality and poverty) shall be diminished, changes in the social policy field are also necessary. The increase in redistribution can be considered a step in this direction, but as shown above, it is too limited in scope and volume in its present form and the major part of the social transfers in fact have the opposite effect of deepening inequality and exclusion. The changes in social assistance, especially the increase of conditional cash transfers (“Bolsa Família”) helped to ease the situation of the poorest. They allowed them to advance in several dimensions (productivity through education and health for children, less need to accept low remunerated work for adults), but the value of transfers remains low and not capable to guarantee a real decommodification of considerable part of the workforce.

## Considerações finais

A informalidade ainda é um problema grave que a sociedade brasileira enfrenta no campo do mercado de trabalho. Marcado pela complexidade em sua estrutura e suas causas, é um conceito que se materializa em diferentes segmentos e grupos de pessoas afetadas pelas condições do trabalho informal. Essas pessoas sofrem muitas vezes de insegurança, falta de proteção e pobreza. Por isso, foi argumentado que políticas sociais e do trabalho têm um papel importante na reprodução da informalidade no Brasil.

A maneira como o governo brasileiro tem procurado resolver os problemas da economia informal nos últimos anos exprime larga confiança numa política econômica que amplia a demanda agregada e, em segundo plano, no esforço de fiscalização, como foi mostrado no capítulo 3. Essas medidas têm sucesso e de nenhum jeito contradizem a abordagem sugerida neste estudo para entender a situação dos trabalhadores atuando na informalidade. Ao longo do texto, foi enfatizada a necessidade de reconhecer o papel das políticas sociais e do trabalho para a acumulação capitalista e, também, para a manutenção da desigualdade e da pobreza. Considerar essa conexão quando políticas estratégicas são definidas poderia ser um próximo passo para o melhoramento das condições de vida da população que atua informalmente e para avançar em direção à redução das desigualdades sociais.

A demanda elevada por mão-de-obra contribuiu para uma redução gradual da informalidade antes da crise de 2008-2009. A orientação das políticas públicas com a finalidade de estimular a criação de empregos também diminuiu de modo considerável o número de trabalhadores informais. O capítulo 3 tentou fornecer uma ideia desses mecanismos e mostrou que as mudanças na política macroeconômica sustentaram esse objetivo. A redução da taxa de juros, a política de valorização do salário mínimo (que recuperou o poder de compra perdido durante as últimas décadas) e a expansão



dos investimentos públicos são as principais fontes desse sucesso. Mas a persistência do alto nível de informalidade, porém, indica que o problema é mais profundo. A teoria econômica de fato mostra que o crescimento econômico sozinho não pode resolver esse problema, uma vez que o pleno emprego não é um fenômeno “natural” numa sociedade capitalista. Por isso, foi colocada ênfase, neste estudo, na combinação entre a política econômica e a política social.

Considerando o fenômeno da informalidade persistente no Brasil a partir da perspectiva da política social, detectou-se que grupos sofrem em intensidades diferentes com a “falta de mercadorização”. Explicando: numa sociedade como a brasileira, parece necessário incorporar esses segmentos vulneráveis da força de trabalho de acordo com as exigências e demandas do mercado de trabalho (por exemplo, através de uma educação melhor, de formação profissional ou de intermediação de mão-de-obra que auxilie a inserção no mercado de trabalho), de forma a garantir rendimentos do trabalho de modo regular.

Mas lhes falta também maior proteção social (ou “desmercadorização”), que poderia torná-los menos vulneráveis (por exemplo, uma proteção mais abrangente contra o desemprego) ou menos dependentes dos rendimentos do mercado (através de políticas sociais universais ou de programas de transferência de renda). Isto permitiria seguir uma estratégia de melhor integração no mercado, como foi descrito no capítulo 4.

Devido à heterogeneidade da informalidade no Brasil, a falta de proteção não é geral e igualmente distribuída, como mostram os diferentes tipos de inserção no mercado de trabalho e as diferenças em termos de contribuição para a previdência social. Alguns grupos ou segmentos talvez já estejam pesadamente “mercadorizados”, mas têm a necessidade de serem incluídos nos esquemas da proteção social, enquanto outros ainda não estão adaptados às exigências do mercado. Tem de ser lembrado que uma parte considerável da população talvez não seja capaz de garantir para si rendimentos no mercado, devido à falta de capacidades e de oportunidades. “Desmercadorizar” a condição desses grupos significaria tirá-los do mercado de trabalho.

Empregados informais são o maior grupo atuante na economia informal e aqueles que provavelmente mais se beneficiam da abordagem política atual, já que estão mais perto do emprego formal. Nos seus lugares de trabalho pode haver uma fiscalização; e, como

já estão inseridos no mercado de trabalho, têm melhores chances de aproveitar os efeitos das políticas em curso. Políticas destinadas à “desmercadorização” poderiam ajudar ao retirar trabalhadores precários e sem alta produtividade do mercado de trabalho, mas os números na tabela 7 indicam que essa situação (trabalhadores sem registro em pequenos estabelecimentos) atinge “somente” cerca de 5 milhões de empregados assalariados.

A quantidade de trabalhadores domésticos (7,2 milhões – ver tabela 1) é um bom exemplo da necessidade de políticas de “mercadorização” (para promover uma melhor inserção no mercado de trabalho) e de “desmercadorização” (para retirar do mercado os trabalhadores que são forçados a vender a sua força de trabalho apesar da sua baixa produtividade, mas não são capazes de melhorar a sua formação profissional para atingir um salário mais alto no longo prazo). Esquemas de proteção social que ajudem trabalhadores adultos sem rendimento em época de desemprego, independente das suas contribuições para o seguro desemprego, são outro exemplo de políticas necessárias para beneficiar em especial os desempregados e os trabalhadores domésticos, que são ameaçados por informalidade e precariedade. Um maior acesso aos sistemas de proteção social ajudaria a estabilizar e regularizar a situação desses grupos<sup>11</sup>. Em conjunto com uma política de criação de empregos, a política social poderia fornecer melhores condições para uma inserção adequada no mercado de trabalho, ao passo que a “desmercadorização” substancial poderia ser direcionada para as parcelas mais vulneráveis desses grupos.

Foi mostrado que existem quase 19 milhões de trabalhadores por conta própria (tabela 1), dos quais quase 80% não têm esquemas de proteção social (tabela 4). Grande parte deles está sofrendo com precárias condições de trabalho. Por exemplo, 12 dos 19 milhões dos trabalhadores por conta própria ganham menos que um salário mínimo. Isso indica que o trabalho por conta própria é uma estratégia de sobrevivência e não necessariamente compensa o risco que o empreendedorismo traz. A formalização das micro-empresas poderia representar uma melhora da situação destes grupos, mas o

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<sup>11</sup> A decisão recente da OIT de criar uma convenção para os trabalhadores domésticos também aponta nessa direção, procurando dar aos trabalhadores domésticos os mesmos direitos que têm os trabalhadores assalariados registrados (OIT, 2011b).

seu número grande indica que mais esforços são necessários para fornecer acesso à proteção social para esse grupo.

Por sua vez, a existência de trabalho não remunerado coloca problemas particulares que dificilmente serão resolvidos com mais fiscalização das relações de emprego. Por isso, o grande número de trabalhadores nesta situação (quase 4,3 milhões) indica que há a necessidade de atenção especial para esse grupo (ver tabela 1).

Essas políticas para os distintos segmentos informais têm de ser executadas articuladamente e com o fim de atingir duas metas: a “mercadorização” e a “desmercadorização”, com a finalidade de não somente forçar as pessoas a participarem no mercado de trabalho como também de criar condições favoráveis de desenvolvimento social e individual.

As políticas de “desmercadorização” têm uma dupla importância: por um lado, reduzir a pobreza e desigualdade; por outro lado, aumentar a produtividade por diminuir a pressão sobre o mercado de trabalho e a necessidade dos indivíduos de vender a sua força de trabalho sob qualquer circunstância. Isso poderia permitir um desenvolvimento mais favorável do mercado de trabalho, desde que grupos de baixos rendimentos pudessem obter remunerações maiores e talvez fossem capazes de aumentar a sua produtividade. Porém, a “desmercadorização” também pode permitir àqueles trabalhadores investir na sua formação (ou na dos seus filhos) e assim aumentar suas chances de competir por bons empregos no futuro. Em outras palavras, a reprodução de trabalho ficaria mais eficiente com uma ampliação das políticas de “desmercadorização”, pois estas podem abrir espaços para ganhos de produtividade.

Quando se olha o quadro brasileiro das políticas sociais e do trabalho, que em teoria podem fornecer tanto uma “desmercadorização” como uma “mercadorização”, se observa que especialmente a população que trabalha na informalidade atualmente é em grande parte aquela não atendida e/ou não apoiada o suficiente. O núcleo duro do sistema de proteção social exclui essas pessoas pela exigência de ter um emprego formal; e os programas recentes de redução da pobreza são ainda limitados em termos de volume financeiro e valor dos benefícios, por isso não são capazes de fornecer uma “desmercadorização” substancial. Programas de transferência de renda como o Bolsa Família sem dúvida são importantes e têm favorecido até um certo êxito na redução da

pobreza extrema, mas não são capazes de fornecer uma renda que emancipe parcela significativa da população economicamente ativa devido aos baixos valores repassados às famílias no esquema atual. Levando em conta a baixa taxa de redistribuição do gasto social brasileiro, fica claro que as instituições de proteção social no Brasil não atuam necessariamente em direção a uma distribuição de renda mais homogênea, contribuindo para que se mantenham as taxas de desigualdades muito elevadas. Isso é um problema porque a constituição brasileira assegura direitos iguais a todos os cidadãos, entretanto, diante das enormes diferenças de rendimento e da baixa redistribuição pelo gasto social, parcela expressiva da população não tem acesso pleno aos direitos sociais e essa igualdade acaba sendo teórica e não real.

Há uma representação política dos trabalhadores na disputa por melhores condições de trabalho e por melhores salários, que procura influenciar as políticas públicas. Contudo, o mesmo não ocorre para os trabalhadores informais, o que caracteriza a privação de um direito fundamental. Alguns segmentos da economia informal talvez sejam capazes de se organizar (caso em alguns lugares de trabalhadores domésticos e vendedores ambulantes urbanos), mas seu potencial de conflito e sua capacidade de negociação são baixos. Instituições que atuam como atores políticos, tais como as centrais sindicais, que teoricamente poderiam representar os interesses desses segmentos, ainda têm dificuldades em fazê-lo, pois sua prioridade é defender os empregados em estabelecimentos com um grau mínimo de organização. Note-se que muitos trabalhadores informais (por exemplo trabalhadores domésticos) não contribuem com uma taxa sindical e seus “empregadores” não são institucionalizados. Pode-se argumentar que os sindicatos no Brasil recebem uma renda garantida por contribuições descontadas da folha de pagamento das empresas, o que lhes permite ser “independentes” da população trabalhadora que se encontra na informalidade. Assim os informais enfrentam dificuldades em introduzir os seus interesses no sistema político. Enquanto as forças políticas continuarem sem capacidade de realizar mudanças nas estruturas da representação política e no comportamento dos seus atores, o acesso daqueles que mais precisam dessa representação provavelmente continuará sendo ineficiente. De qualquer modo, são necessários estudos no campo das ciências políticas para entender mais profundamente essas relações.

Políticas sociais de combate à pobreza extrema tiveram alguns efeitos no sentido de aliviar a situação daqueles que trabalham na informalidade para sobreviver. Outros segmentos não puderam se beneficiar destas políticas. Por outro lado, o aumento do salário mínimo permitiu um aumento dos rendimentos da maioria dos segmentos da economia informal. Como essa política é vinculada ao alto crescimento econômico, não se pode dizer com certeza por quanto tempo essa abordagem terá efeitos positivos. Vale a pena considerar também que as restrições adotadas pelo próprio governo no sentido de obter superávits fiscais limitam as políticas redistributivas. E como os superávits fiscais têm prioridade sobre o gasto do governo (especialmente o gasto social), essas restrições vão limitar o volume disponível para transferências de renda ou outros gastos sociais.

Uma trajetória que contemple alterações nos modelos de gasto social e crescimento econômico sustentável necessita incluir não somente mudanças no campo das políticas sociais e econômicas, mas requer também mudanças profundas no modelo macroeconômico de acumulação e distribuição. Em certo sentido, o Estado precisaria mudar suas prioridades e assim passar por uma metamorfose. Se esta trajetória é possível, não pode ser prevista com base neste estudo, mas nele se encontram argumentos para seguir nessa direção.

O crescimento econômico não é um produto automático na economia capitalista, marcada por movimento cíclico. Dependendo da amplitude e ritmo do crescimento econômico, podem ocorrer variações no nível da informalidade: períodos de baixo crescimento ou de estagnação prolongada levaram a aumentos de informalidade no passado. Isso mostra a importância da política macroeconômica, no sentido de garantir uma taxa razoável de crescimento para ampliar a demanda de mão-de-obra ou os recursos disponíveis para redistribuição. No caso do Brasil, não se sabe por quanto tempo será mantida uma taxa elevada de crescimento, nem se permanecerá a tendência de redução do trabalho informal.

Uma das preocupações deste estudo foi mostrar que essa trilha de crescimento não resulta, automaticamente, numa sociedade mais igual e com menos informalidade. Maior representação política de pessoas trabalhando informalmente, ampliação da cobertura das políticas destinadas à proteção dos trabalhadores e maiores efeitos

redistributivos das políticas sociais são objetivos que devem ser priorizados na agenda política. Mudanças nesses campos de políticas seriam necessárias para causar melhorias substanciais para a força de trabalho informal. Em suma, o desenvolvimento econômico é uma condição necessária para a melhoria dos indicadores sociais no Brasil, mas não é uma condição suficiente. Em complemento, é preciso que o sistema de proteção social seja remodelado.



## Final Considerations

Informality is still a major problem Brazilian society is confronting on the labour market. Complex in its structure and causes, it is a very slippery concept that materialises itself in different segments and groups of people affected by informal working conditions. These people suffer often from insecurity, lack of protection and poverty. Therefore it was argued that social and labour policies have an important role in the reproduction of informality in Brazil.

The Brazilian government's approach of trying to solve the informal economy problem relied during the last years largely on a demand increasing economic policy and secondly on better controls of law adherence, as was shown in chapter 3. These measures have proven successful and in no way contradictory to the approach suggested here to understand the situation of informally active Brazilians. In this study it was rather argued that recognizing the role of social and labour policies for capitalist accumulation and thus for the formation of inequality and poverty. Taking this connection in mind when strategic policies are defined would be a next step towards an improvement of the informally active population's living conditions and towards a reduction of social inequality.

The increased demand for workforce contributed to a gradual reduction of informality before the crisis of 2008-09. Orientation of public policies towards job creation also decreased the number of informal workers considerably in the recent years. Chapter 3 tried to provide an insight into these mechanisms and showed that the changes in macroeconomic policy supported this aim. The lowered interest rate, a valorising minimum wage policy (that recovered purchasing power lost during the last decades) and public investments were the main sources for this success. But the persistence of the high level of informally active people nevertheless indicates that the problem lies deeper. In fact, economic theory also shows that economic growth alone cannot solve



this problem, since full employment is not “natural” in a capitalist society. This indicates the importance of combining economic and social policy, which was emphasized in this study.

Considering the phenomenon of persistent informality in Brazil from the perspective of social policy shows that groups suffer in different degrees from a “lacking commodification” that would transform their labour force according to the market demands (for example through better education; adult formation or an employment service, which helps them to find jobs) and guarantee a regular market income. But they also lack of social protection or “decommodification”, which would make them less vulnerable (for example a general protection against unemployment) or less dependent from market income (through universal social policies or income transfer programmes). This would allow pursuing strategies of a better market integration as described in chapter 4.

Due to the heterogeneity of informality in Brazil, this lack is not general and equal, as the different levels of market insertion and access to social protection show. Some groups or parts of groups might already be strongly commodified but need to be included into social protection schemes, while others are still not adapted to market exigencies. It must also always be reminded, that a considerable part of the population may not be able to guarantee a market income on their own, due to lacking skills and to lacking opportunities. Decommodification of these groups would mean to take them out of the labour market.

Informal employees as the biggest informal group are probably most benefitted by the current policy-approach, since they are already close to formal employments: their workplace allows labour controls and since they already participate in the labour market, they are more likely to benefit from its better structure. Decommodifying policies might in this case only help to take unproductive and very precarious workers out of the labour market, but the numbers in Table 7 indicate that this situation (unregistered workers in small establishments) affects “only” approximately 5 million salaried employees.

The quantity of domestic workers (7,2 million, compare Table 1) provide a good example of the lacking commodifying policies (to promote a better labour market insertion) and decommodifying policies (to take people that are forced to sell their workforce despite of

its low productivity and remuneration out of the labour market; also to help them improve their formation in order to reach a higher salary in the long run). Social protection schemes that help adults without income during times of unemployment independent from their contribution to unemployment security would be another example that could especially benefit self-employed and domestic workers, who are often threatened by informality and precariousness. An improved access to the systems of social protection could help to stabilize and regularize these groups' situation<sup>12</sup>. In combination with a job-creating economic policy, social policy could provide the conditions for labour market integration on the one hand and a substantial decommodification of the most vulnerable parts of these groups on the other.

It was shown that there are nearly 19 million self-employed (table 1), of which nearly 80% have no social protection schemes (table 4). A large number of them suffer from precarious working conditions. For example, 12 out of 19 million self-employed workers earned less than one minimum wage, which indicates that self-employment for many is a survival strategy and not necessarily worth the risk entrepreneurship brings. The formalization of micro-companies would be an improvement of this group's situation, but the large numbers indicate that more efforts are needed to provide access to social protection to this group.

Unpaid labour faces particular problems that might be able to be resolved with the positive impacts labour controls had on the formalization, but the high number of nearly 4,3 million indicates that there is still need for special attention for this group (compare Table 1).

Such policies for the different informal segments must be implemented cautiously and with the aim to reach both: commodification and decommodification, in order not to only force people into the labour market but to create conditions for a favourable economic and individual development as well.

The important function of these decommodification policies is therefore on the one hand, to reduce poverty and inequality. At the same time, it is important to increase productivity by releasing pressure on the labour market and on individuals to sell their

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<sup>12</sup> The recent decision of the ILO to create a convention for domestic workers points in this direction as well and will give domestic workers the same social rights as all other salaried workers (ILO, 2011b).

labour force under every circumstance. This could allow a more favourable labour market development, since low income groups could bargain for better wages and may be able to increase their productivity. But it also could enable those that are dependent on a market derived income to invest in their (or their children's) formation and thus compete for better employments in the future. In other words, the reproduction of labour could become more efficient with more decommodifying policies, since they open space for productivity gains.

When looking at the structure of Brazilian social and labour policies, which in theory could provide such a decommodification and commodification, it becomes clear that especially the currently informally active population are to a large extent not sufficiently covered and supported. The core systems of social protection exclude these people due to the requirement of having a formal job and the more recent programmes of poverty reduction are relatively small in scale and financial volume and are therefore not able to provide a substantial decommodification. Conditional cash-transfer programmes like "Bolsa Família" are without doubt important and to a certain extent successful in the reduction of poverty but they are not able to provide an income that decommodifies substantial parts of the economically active population due to the low values transferred in these systems. Taking in mind the low redistributive rate of Brazilian social spending it becomes clear that the social institutions in Brazil are not essentially leading towards a more homogeneous distribution of income but maintaining the very high inequality rates. This is a problem because the Brazilian constitution provides equal rights to every citizen but due to the huge differences in income and the low redistribution through social spending, this equality remains theoretical and not real.

Having a political representation in the dispute between capital and labour is another fundamental right informally active people are deprived of. Some parts of the informal economy might be able to organize, like some urban domestic workers or street vendors, but their conflict potential and negotiating capabilities are rather low. Existing institutions and political actors like trade unions that theoretically could represent their interests are still having trouble to do so because they focus on defending employees that work in at least minimally organized surroundings. It is important to note as well,

that many informal workers (as for example domestic workers) often do not contribute to the union tax and are hard to represent, since their “employers” are not institutionalized. It might be argued therefore that unions in Brazil receive a guaranteed income that is charged on the companies’ salary payments, which allows them to be “independent” from the informally working population. Therefore, these groups are confronted with more difficulties when trying to introduce their interests into the political system. As long as the political forces remain unable to change the structures of political representation and of its actors, the access of those who most need representation will probably remain inefficient. In any case, further research also in the field of political science is needed in order to fully understand these relations.

Social policy of fighting extreme poverty had some alleviating effects on those that have to work informally in order to survive. Other segments could not benefit from this policy. The increase in minimum wage on the other hand allowed an increase of the purchasing power of most segments of the informal economy. Since this policy is linked to a high economic growth, it is uncertain for how long this approach will have a positive effect. It is also worth considering that the self-imposed restriction of maintaining fiscal surpluses restricts a redistributive policy. Since fiscal surpluses have priority over other government spending, especially social spending, this restriction will limit the volume available for transfer payments or other social spending.

Changes in the patterns of social spending and sustainable economic growth do therefore not only necessarily include changes in the fields of social and economic policy, but requires profound changes in the macroeconomic model of accumulation and distribution. The state in a certain sense would have to change his priorities and thus undergo a metamorphosis. Whether this is a possible or likely trajectory cannot be answered on the basis of this study, but it provides arguments to follow this direction.

Economic growth is not an automatism in a capitalist economy with its cyclical development. Depending on the amplitude and rhythm of economic growth is likely that the levels of informality will vary: low growth or prolonged stagnation periods lead to increases of informality in the past. This points towards the importance of a macroeconomic policy that seeks to guarantee reasonable growth rates in order to

increase demand of labour or resources available for redistribution. In the Brazilian case, it cannot be said with certainty for how long this policy of a high growth rate, not even whether it will continue to reduce informal work.

One of the major preoccupations of this work was to show, that this growth path does not automatically lead to a society with less inequality and less informality. Better political representation, increasing the coverage of policies that seek to protect informal workers and enhanced redistributive effects of social policy should be prioritised on the political agenda. Changes in these policy fields would be necessary to cause substantial improvements of the informally active workforce. Economic development is therefore a necessary condition for the improvement of social indicators in Brazil, but as long as the social protection system is not improved, it alone is not a sufficient condition.

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