

DEVELOPING MORE EFFECTIVE LABOUR MARKET POLICIES AND INSTITUTIONS IN EMERGING ECONOMIES: THE BRAZILIAN CASE

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1. INTRODUCTION

It is a widespread notion that labour market outcomes are deeply affected by institutions and governmental policies. However, this relationship is assumed to have particular features depending on the type of country under study. For example, compared to OCDE countries, low- and middle-income countries face different challenges concerning labour market outcomes and have diverse institutions. In particular, Brazil can be classified as a middle-income country with singular characteristics. It has continental dimensions, a large population and economy (the eighth in the world). On the other hand, Brazil suffers from many structural problems. Among them are very high income inequality and poverty levels, low qualification of the labour force and high informality in the labour market. For instance, Ramos (2007) provides an overview of the recent evolution of some Brazilian labour market variables such as unemployment, informality and income, confirming this scenario. On the other hand, Ferreira et al. (2009) conclude that the very low GDP growth in Brazil between 1985 and 2004 left the problem of poverty largely unchanged. Concerning inequality, several authors have found a high level in Brazil, although since 2004 there has been substantial improvement (Barros et al., 2007; Hoffman, 2006; Scorzafave and Lima, 2010).

In this scenario, Brazil showed very particular behaviour during and after the most recent international crisis. While most OECD countries experienced a period of deep recession and rising unemployment, such as Spain, France, Portugal, Italy and

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Greece, the Brazilian economy performed much better, with only a modest increase in unemployment followed by strong recovery.

While different countries face very distinct situations during crises, it is important to understand which factors drive the different paths in national economies and labour markets during and after a crisis. To shed some light on these questions, it is important to have a detailed picture of countries' labour markets and institutions. For instance, depending on their labour market policies and institutions, different countries can be more or less successful in fighting high unemployment or in targeting specific groups to alleviate the consequences of a crisis (for instance, youth or less educated women).

The recent good economic conditions in Brazil makes the country an interesting case study concerning the relationship among labour market data, policies in response to the crisis and labour market institutions. There are some questions concerning possible explanations for the behaviour of the Brazilian economy during the crisis. What is the role of governmental policies adopted to face crisis? How much is the structure of the Brazilian economy, and in particular its labour market institutions, responsible for this behaviour? In other words, if the institutions were different, would the response of the Brazilian economy to global crisis be the same? What were the most (and least) affected demographic groups? Were there any policies focusing on these groups?

To try to address these questions, this country study provides an overview of the recent behaviour of Brazilian labour markets, covering aggregate labour market statistics such as labour force status, unemployment rates, informality rates, wages and earnings between 2001 and 2008. Unfortunately, there are no nationally representative data available yet for 2009.

After that, we estimate a multinomial logit model to investigate which factors are associated with different labour force statuses. Here, we try to comprehend the role of individual and household characteristics such as age, education, gender, race, region and spouse characteristics in this process.

In Brazil there are panel data that permit tracking individuals over time and their transitions between different labour market states (formal employment, informal employment, unemployment and out of the labour force). We describe the raw transitions and the determinants of the transitional probabilities, also for 2001-2008.

After that, we describe the main aspects of Brazilian labour market policies and institutions, trying to assess the effectiveness of policies, the impact of institutions and

whether they effectively target vulnerable groups, as well as to what extent social groups participate in the formulation of labour market policies and institutions.

Next, we explore the impact of the crisis on the Brazilian labour market as well as the policy responses from government. Finally, we make some recommendations on designing more effective labour market policies and institutions in Brazil.

2. ANALYSIS OF LABOUR MARKET CHARACTERISTICS

This section has three subsections. First, we present some aggregate labour market characteristics in Brazil. After that, we implement a multinomial logit estimation using microdata, trying to understand which factors are associated with labour force status. Then, we study the determinants of labour market transition probabilities, which allow identifying the effect of individual and household characteristics on the probability of moving from one state to another.

2a. Aggregate statistics and trends

The data in this section and next come from the National Household Survey (*Pesquisa Nacional por Amostra de Domicílios*, or PNAD), a nationally representative household survey that interviews more than 100,000 households in Brazil every year in September. Unfortunately, the last available PNAD is from 2008, so we cannot work with data from the year just after the subprime crisis.

The aim of this section is to analyze in depth the behaviour of the Brazilian labour market since 2001. We cover the main labour force variables, such short- and long-term unemployment rate, informal employment, participation rate, employment-population rate, wages, earnings, hours worked and NEET² rate. All the variables are decomposed by age and gender to help identification of differential behaviour of demographic groups over time. We focus on the population between 15 and 65 years old.

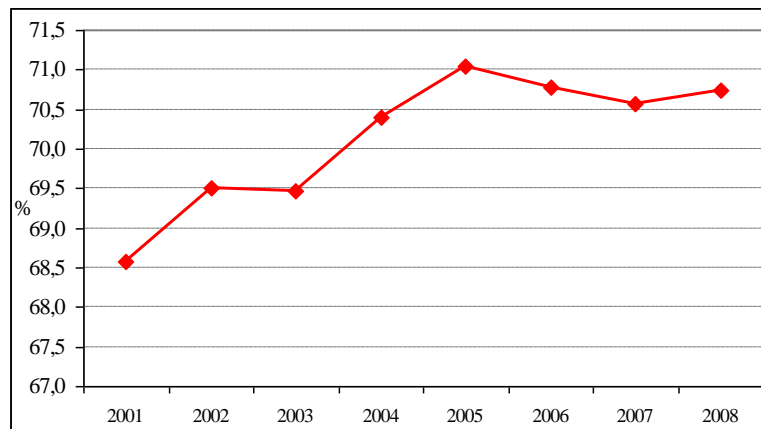
² Not in employment, education or training.

Labour Force Participation Rate

Concerning the labour force participation rate (LFPR), there was a 2 percentage point increase from 2001 to 2005 and, after that stabilization, as shown in Figure 1. This increase in LFPR was led by women (4 p.p. increase), since men have a high and stable LFPR in Brazil. In Figure 2 and 3, we disaggregate the result by age groups (15-24, 25-50 and 51-65), revealing that among women, all three age groups presented an increase. The most significant increase in LFPR was from women 25 to 50 years old (5.4 p.p.), followed by women from 51 to 65 (5.1 p.p.). It is interesting that for younger men there is a drop (3 p.p.) since 2005, which can be associated with a delayed entrance into the labour market in more recent years, associated with more time in school. For women, there is stagnation in the LFPR increase since 2005 too. Finally, Figures 2 and 3 suggest that the gender gap reduction in LFPR in Brazil is still in process.

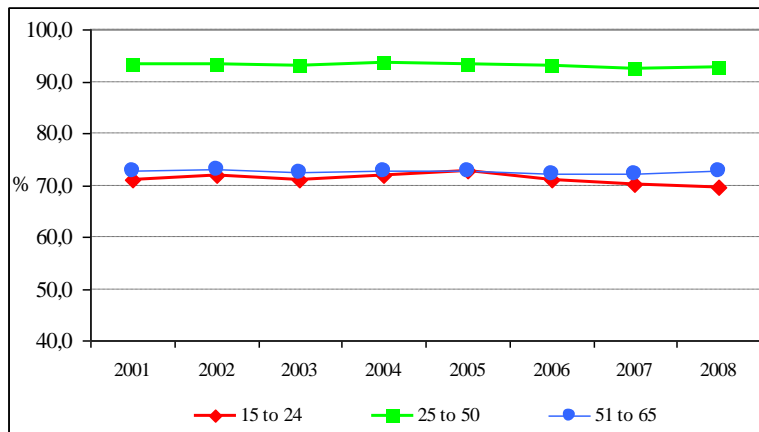
The reason why figures here vary from those reported by OECD is that they use a different database, which is the Monthly Employment Survey (*Pesquisa Mensal de Emprego*, or PME). The PME collects information from six Brazilian metropolitan regions. Therefore, it is expected that LFPR calculated with PNAD data to be a bit lower because the LFPR is higher in metropolitan regions than in non-metropolitan ones.

Figure 1 – Overall Labour Force Participation Rate



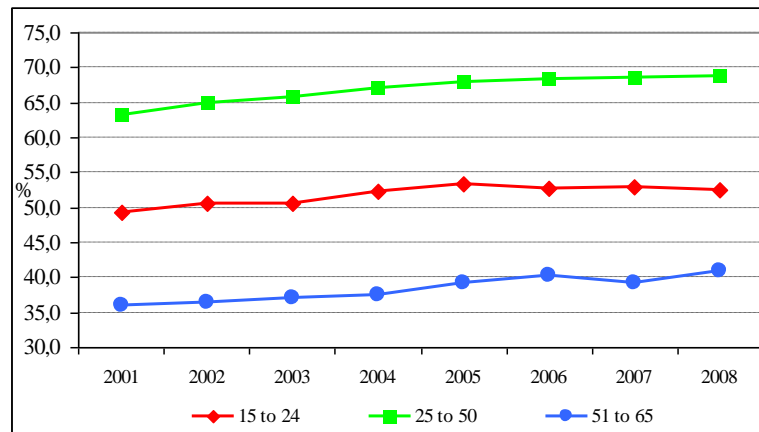
Source: Authors, based on PNAD data

Figure 2 – Male Labour Force Participation Rate



Source: Authors, based on PNAD data

Figure 3 – Female Labour Force Participation Rate

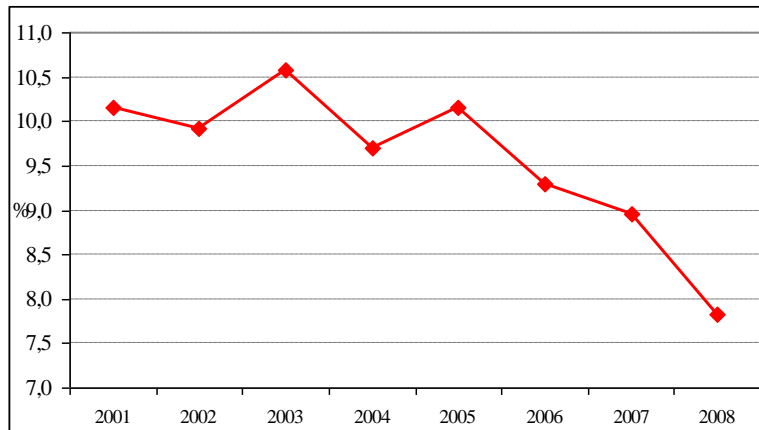


Source: Authors, based on PNAD data

Unemployment rate

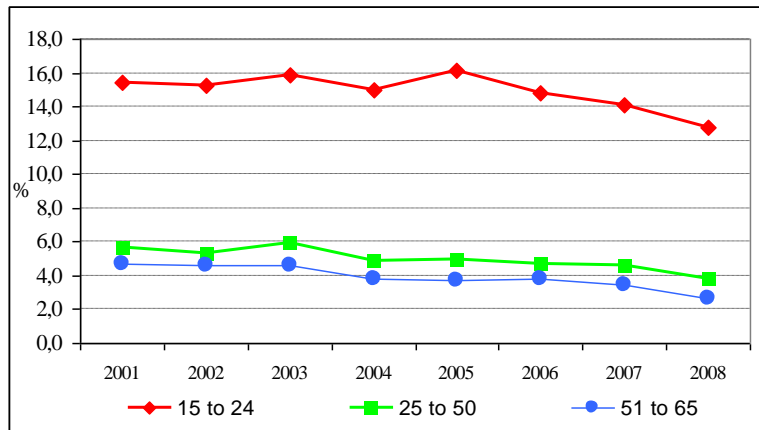
According to Figure 4, the unemployment rate fell strongly (2.3 p.p.) between 2001 and 2008, from 10.1% to 7.8%. As shown in Figures 5 and 6, the decrease is almost the same among men and women (2.4 p.p.) but those 15 to 24 years old had the biggest drop. Women have a much higher unemployment rate than men, for all age groups. For prime working-age people, the female unemployment rate is more than twice as large as the male one. The pattern of high unemployment among young people is also verified in Brazil. For instance, women 16-25 years old have unemployment rates over 20%, compared with rates around 10% for prime-aged women and 5% for the oldest female group.

Figure 4 – Overall Unemployment Rate



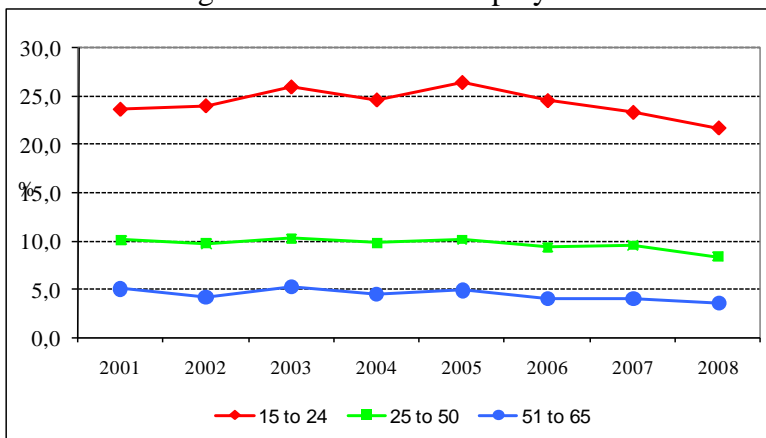
Source: Authors, based on PNAD data

Figure 5 – Male Unemployment



Source: Authors, based on PNAD data

Figure 6 – Female Unemployment

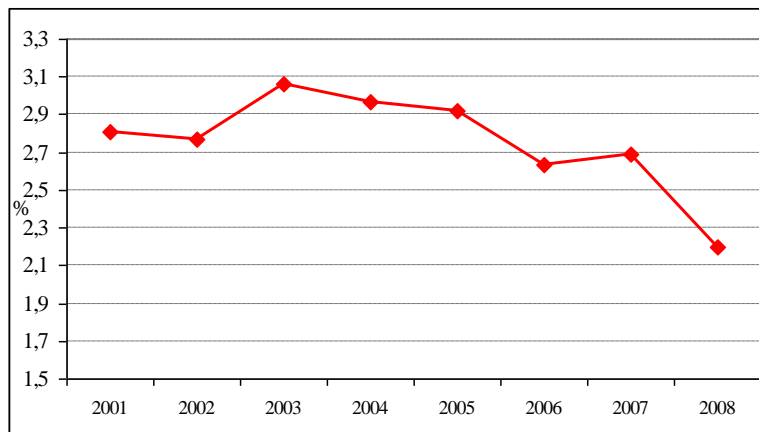


Source: Authors, based on PNAD data

Long-Term Unemployment Rate (LTUR)

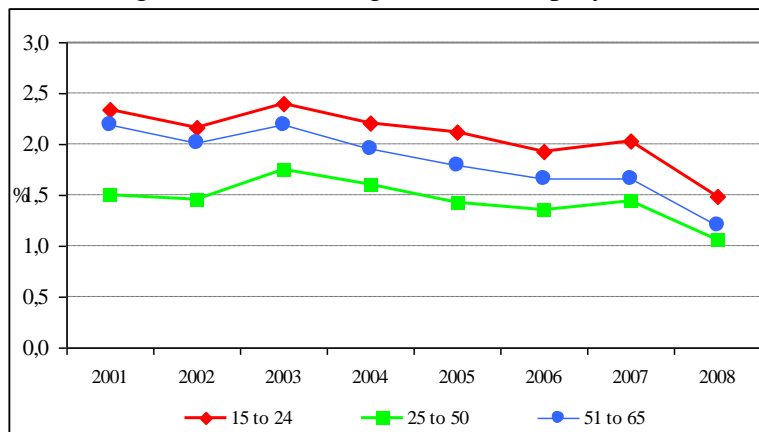
Another important labour market indicator is the long-term unemployment rate, defined here as the percentage of the labour force that has been unemployed for more than 12 months. This figure is important because it provides some information about how easy it is for people to return to employment. For Brazil, Figure 7 identifies a LTUR pattern similar to that found in the unemployment rate: an accentuated decrease after 2003. The steepest fall happens from 2007 to 2008 for all age and gender groups, as shown in Figures 8 and 9. The age profile of long-term unemployment is different for men and women. While older women have the smallest rates, the prime-aged group is less affected by long-term unemployment among men. However, the level of long-term unemployment is always higher for women than men in every age group, similar to the picture for unemployment. Finally, men from 51 to 65 years old showed the biggest decrease in long term unemployment rate, 1 p.p.

Figure 7 – Overall Long-Term Unemployment Rate



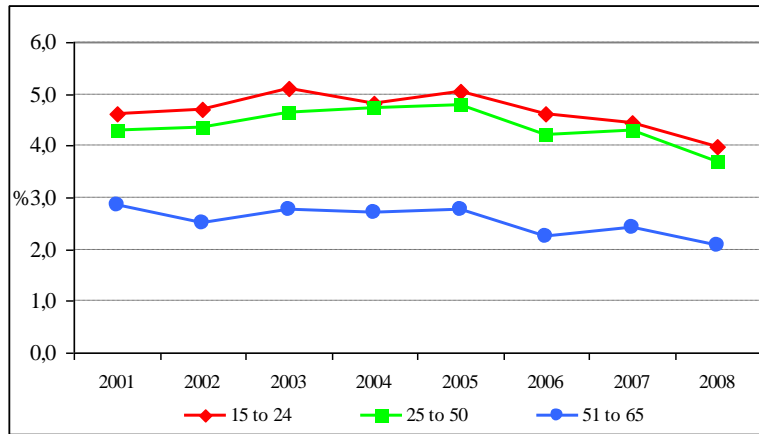
Source: Authors, based on PNAD data

Figure 8 - Male Long-Term Unemployment



Source: Authors, based on PNAD data

Figure 9 – Female Long-Term Unemployment



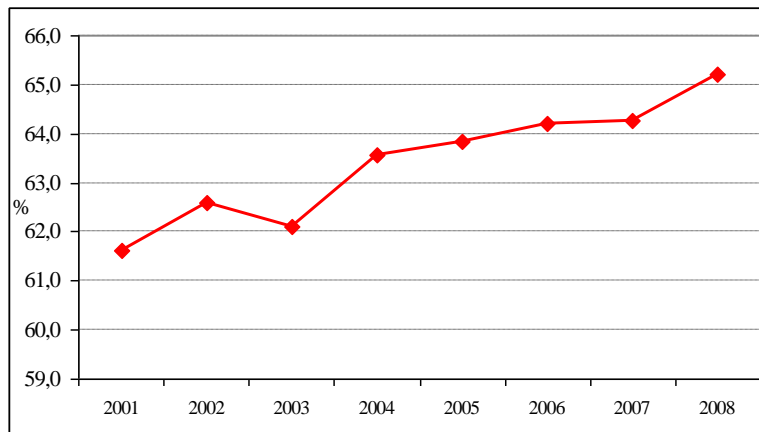
Source: Authors, based on PNAD data

Although the figures above show differences between groups over time, the LTUR is not a major problem in Brazilian labour markets, because the percentage of unemployed people in this situation is very low compared to European and other Latin America countries. For example, in Chile, the LTUR is 12% and Mexico has rates similar to Brazil's (1.7%). According to Eurostat (2010), Portugal, Spain, Latvia, Hungary and Slovakia had rates over 4% in 2009.

Employment-Population Rate

As shown in Figure 10, the employment-population rate had a strong upward trend after 2003, with a variation of 3.6 p.p. in the whole period. Figure 12 shows that women 25 to 50 years old had the most significant increase (6 p.p.), followed by women from 51 to 65 (5.4p.p).

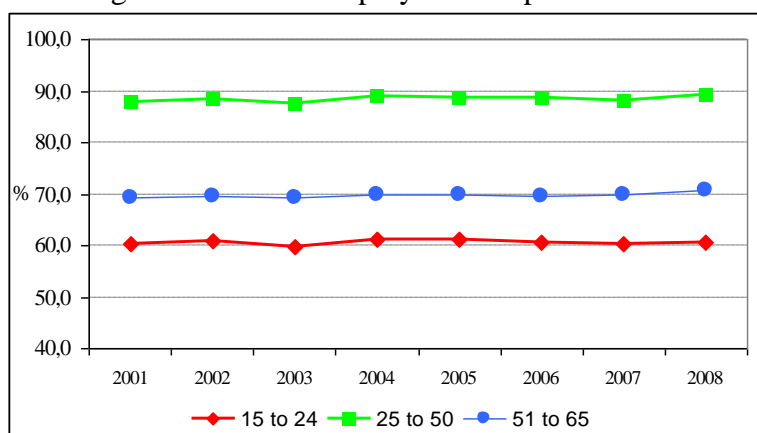
Figure 10 – Overall Employment-Population Rate



Source: Authors, based on PNAD data

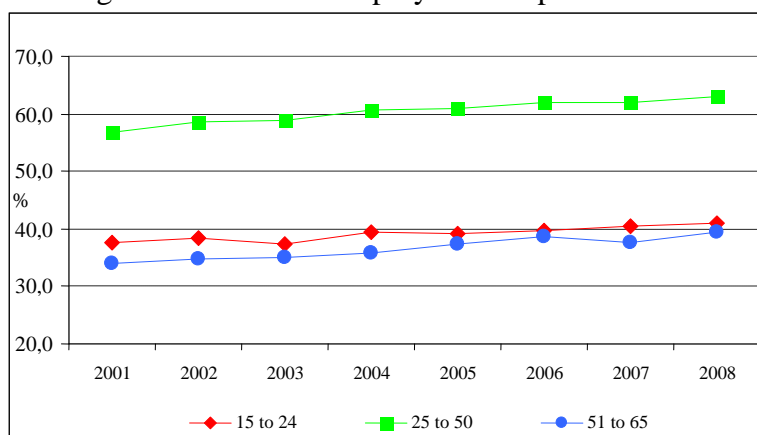
Since men had only a small increase (1.6 p.p.) in this rate, once again women were responsible for the overall rising trend of this indicator.

Figure 11 – Male Employment-Population Rate



Source: Authors, based on PNAD data

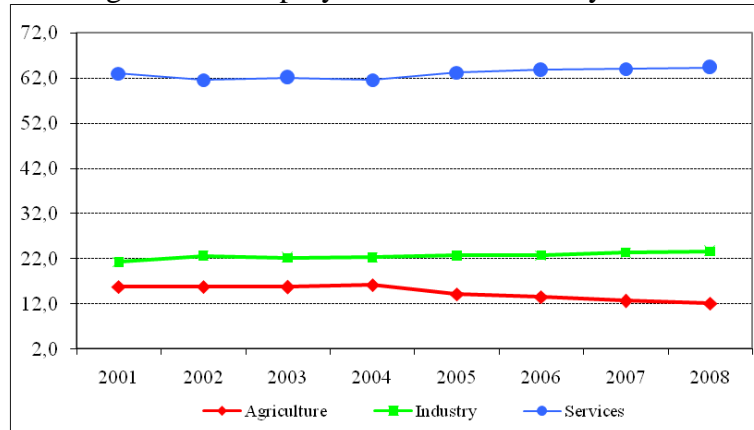
Figure 12 – Female Employment-Population Rate



Source: Authors, based on PNAD data

At this point, it is interesting to get an overview of Brazilian employment by activity sector. The Brazilian labour market is similar to those of more developed economies, in the sense that the service sector is the most important in terms of employment distribution (64%), as can be seen in Figure 13. The industrial sector accounts for 22% of the jobs and agriculture is responsible for 12%. In the last decade, there has been no substantial change in these figures. In the first half of the decade the numbers were very stable, probably reflecting the small job generation in Brazil up to 2004. Since then, however, employment generation has accelerated with economic recovery and the movement towards more services and less agricultural jobs restarts.

Figure 13 – Employment Distribution by Sector



Source: Authors, based on PNAD data

Informality Rate

Informality is one of the major issues in the Brazilian labour market, as the country has a high proportion of these workers. While there is no consensus in defining informality, we use that of Mello et al. (2006) and Scorzafave and Lima (2010). Informal workers are defined as those who fit in one of the following descriptions: employees without signed labour booklets³, including domestic maids; self-employed people; those producing for their own consumption; those constructing their own homes; and unpaid workers. Probably the main difference between the informality rates shown here and those by the OECD is due to the different databases used. Since the OECD used PME data, which only covers metropolitan regions, the informality rate calculated is lower than the rates reported here, as there is evidence of higher informality in non-metropolitan areas of Brazil.

As shown in Figure 14, informality dropped consistently in the whole period, from 52.4% in 2001 to 46.3% in 2008. This drop is highly correlated with the economic recovery process in Brazil in the last two years. One of the characteristics of this process is the strong generation of formal jobs, contributing to drop in informality rates.

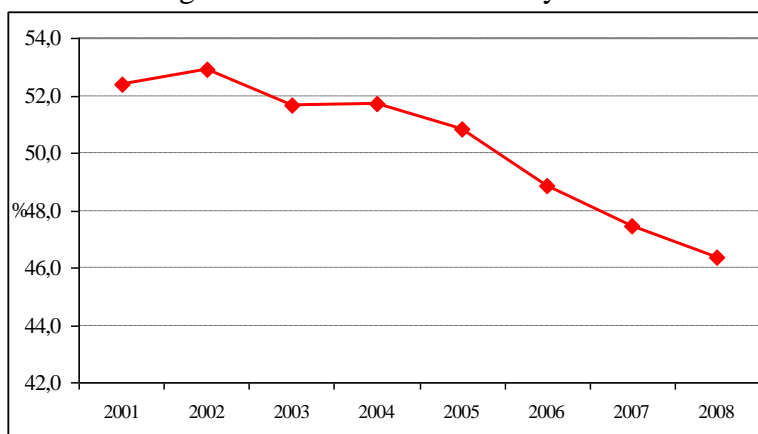
All age-gender groups have experienced less informality recently, as can be seen in Figures 15 and 16. The most significant fall happened for men from 51 to 61 years old (7.7 p.p.), followed by men from 15 to 24 years old (7 p.p.). Though smaller, the decrease for women was also very expressive, 6.8 p.p. for those between 51 and 65 years old. Women show a more flat pattern in informality than men, for all age groups.

³ Brazilian workers have small labour record booklets, which employers are obliged to sign and indicate the wage level and job category.

In 2008, female informality was higher than the male rate except for the youngest group.

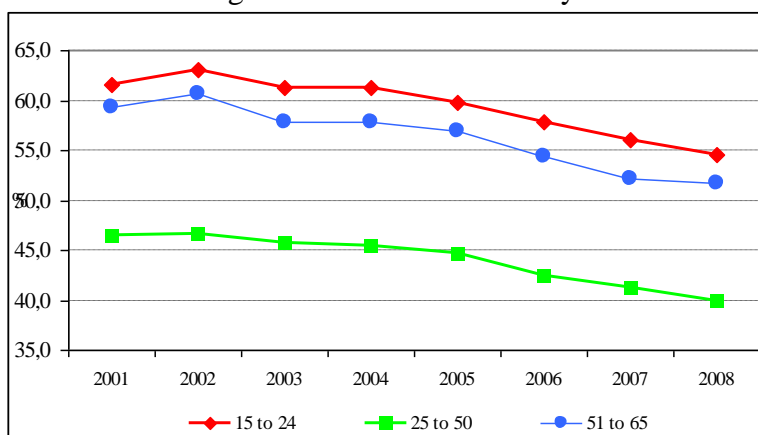
One interesting aspect in the Brazilian case is that prime-age workers have lower informality rates than younger or older ones. For young workers, the high informality can be explained by the difficulty in entering the labour market, because most formal jobs require previous experience and high school diplomas. Younger workers can see the informal sector as a way into the labour market, sometimes an activity along with school. After gathering some experience, these workers try to migrate to the formal sector. This explains why there is a fall in informality after the age of 25. On the other hand, there is a considerable contingent of old workers engaged in informal activities. Many of them are retirees who keep working to supplement their pensions. For example, Melo et al. (2006) found that in 2004, a third of Brazil's retirees were still working.

Figure 14 – Overall Informality Rate



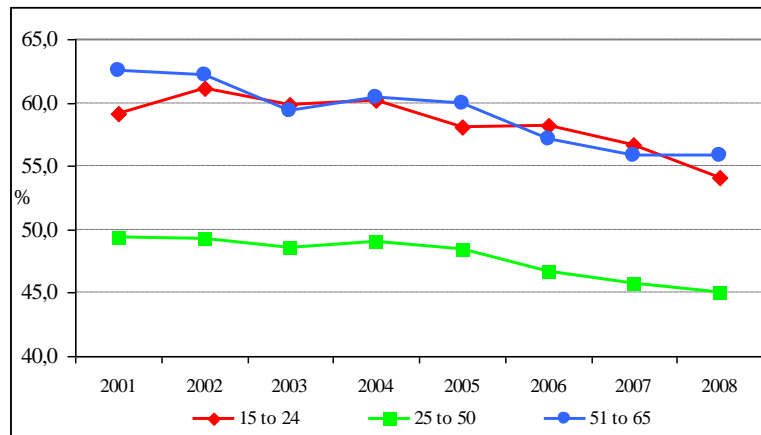
Source: Authors, based on PNAD data

Figure 15 – Male Informality



Source: Authors, based on PNAD data

Figure 16 – Female Informality

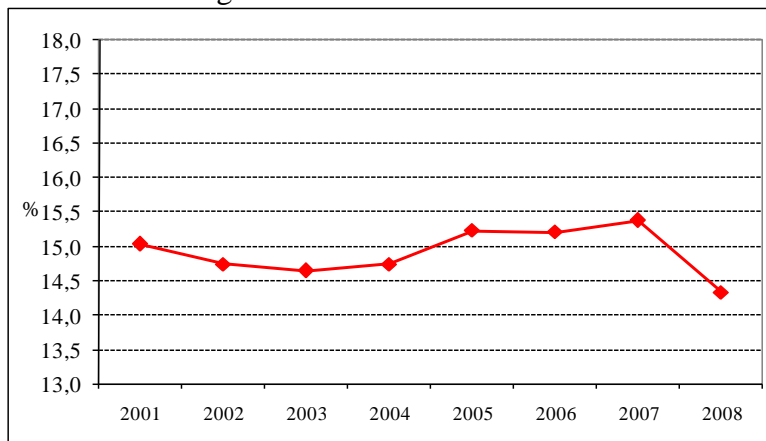


Source: Authors, based on PNAD data

NEET Rate

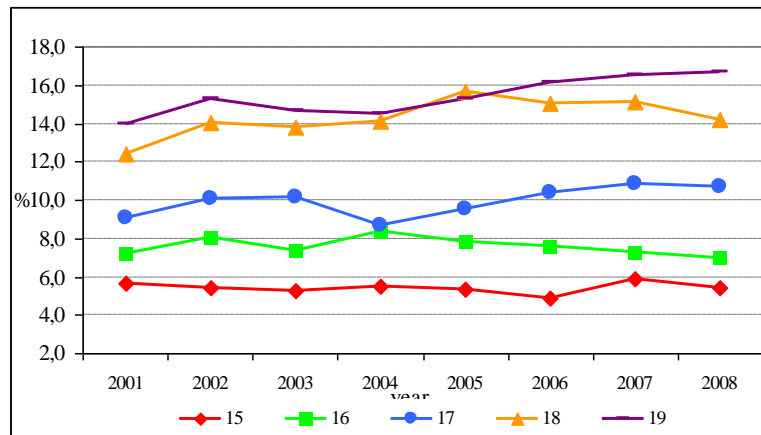
As Figure 17 shows, the NEET rate (not in employment, education or training) has a singular pattern: a decrease from 2001 to 2003, then a small raise from 2003 to 2007, and again another decline in 2008. In the whole period, the rate fell only 0.7 p.p., showing relative stability in the whole period. Disaggregating this result for age, there are very interesting patterns, as can be seen in Figures 18 and 19. Women have a higher NEET rate than men for all ages. On the other hand, between 2001 and 2008 there was a reduction in the NEET gender gap: while there was an increase in the rate of 1.03 p.p. for men, for women the rate fell 2.3 p.p. It seems that the rates shows a dramatic increase when people reach 18. For example, it is worrying that almost 16% of 19 year-old men (and 30% of women!) were not participating in school or in the labour market.

Figure 17 – Overall NEET Rate



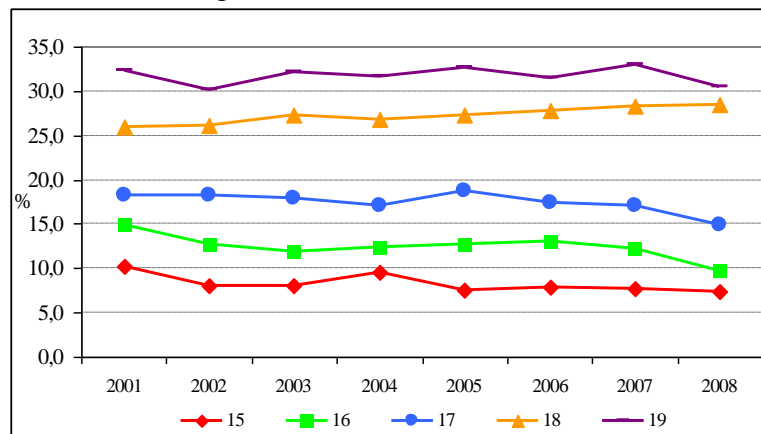
Source: Authors, based on PNAD data

Figure 18 – Male NEET Rate



Source: Authors, based on PNAD data

Figure 19 – Female NEET Rate

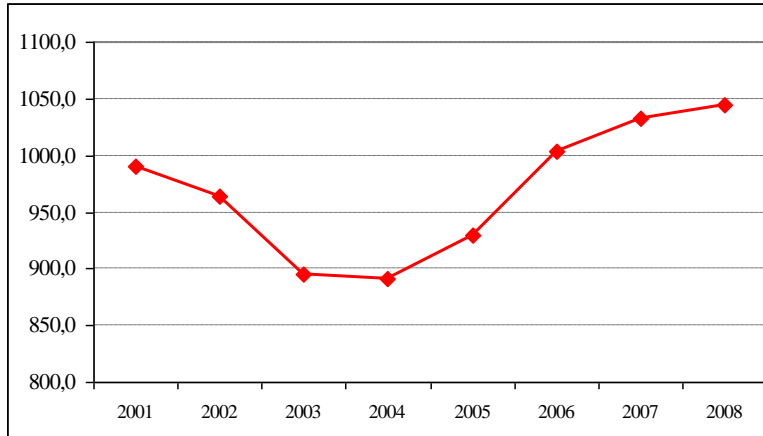


Source: Authors, based on PNAD data

Earnings

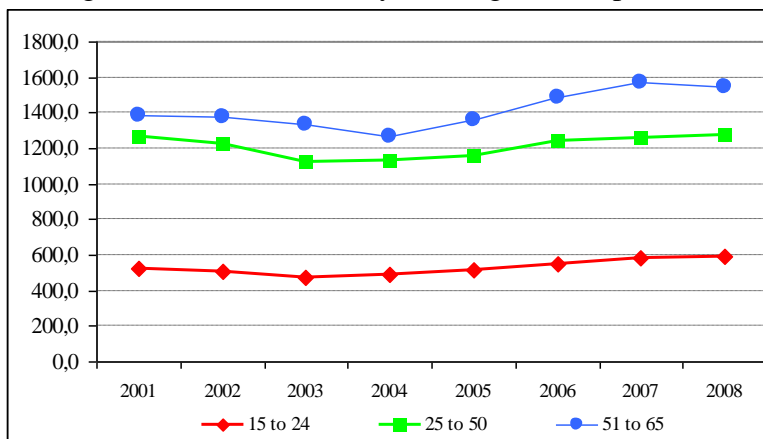
Here, earnings are measured as total monthly labour income, in constant R\$ (Brazilian currency, the Real, plural Reais) figures. There was a positive variation of R\$ 54.82 (US\$27.00) in the period, but we can identify two distinct periods. From 2001 to 2004, the average monthly income dropped almost 10%. However, this fall was more than offset after 2004, when there was a raise of R\$153.10 (US\$ 75.00). People 15 to 24 years old had very low earnings compared to other age groups of men and women. In the period, the gender earnings gap remained constant, with men earning 40% more than women.

Figure 20 – Overall Monthly Earnings (R\$ Sept. 2008)



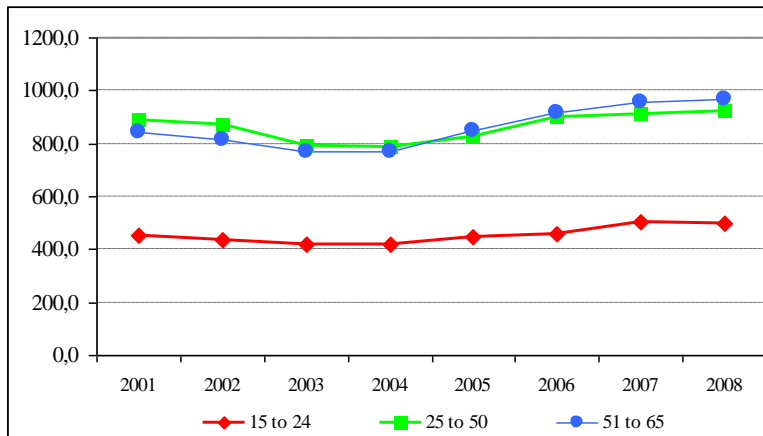
Source: Authors, based on PNAD data

Figure 21 – Male Monthly Earnings (R\$ Sept. 2008)



Source: Authors, based on PNAD data

Figure 22 - Female Monthly Earnings (R\$ Sept. 2008)



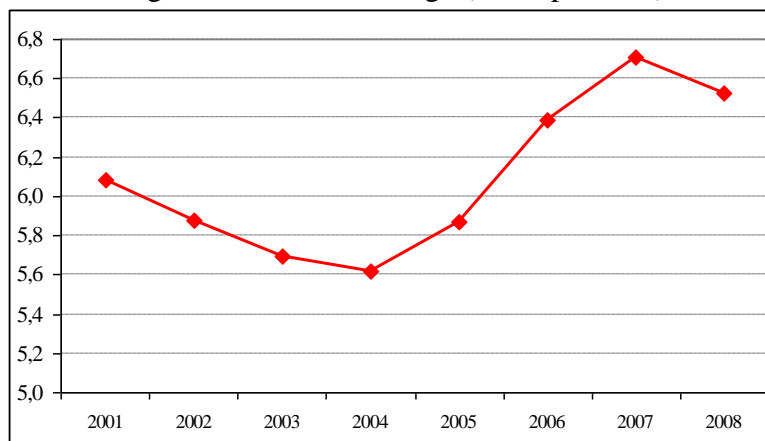
Source: Authors, based on PNAD data

It is interesting that although there is no official poverty line in Brazil, many authors use the value of R\$140.00 (US\$ 77.00) in per capita household income as a poverty line. On average, four people live in each Brazilian household, so the poverty line at the household level corresponds to R\$ 560.00 (US\$ 311.00) per month. So, the mean earnings of Brazilian workers are well above the poverty line.

Wages

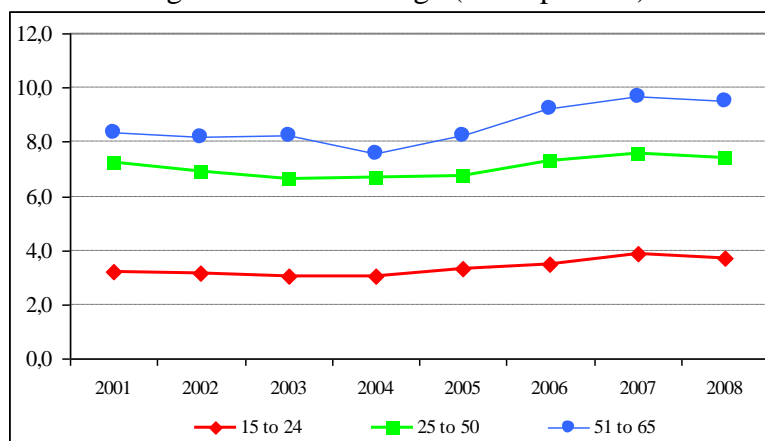
As shown in Figure 23, the pattern for wages (measured in *Reais* per hour) is similar to that for earnings, with a decrease from 2001 to 2004 and an increase thereafter. The only difference in these figures is that wages declined from 2007 to 2008. In the whole period, wages increased 7.3%. For men and women, the prime-age group experienced the lowest wage increases (2.2% and 3.3% respectively). On the other hand, younger and older workers experienced increases of more than 10%.

Figure 23 – Overall Wage (R\$ Sept. 2008)



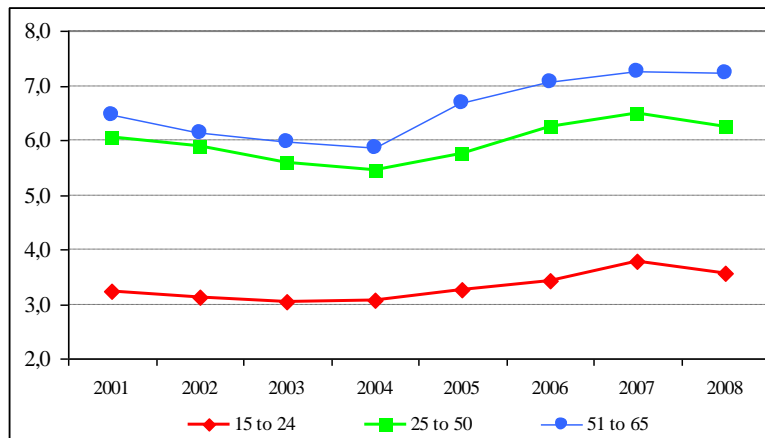
Source: Authors, based on PNAD data

Figure 24 – Male Wage (R\$ Sept 2008)



Source: Authors, based on PNAD data

Figure 25 – Female Wage (R\$ Sept 2008)



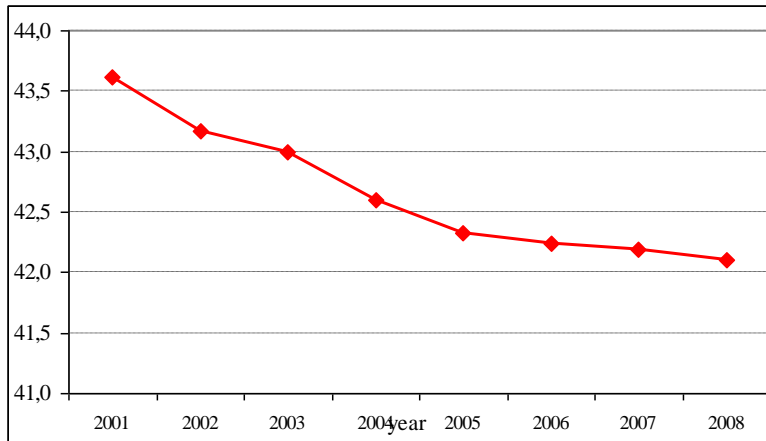
Source: Authors, based on PNAD data

Here it is important to understand the effect of these trends in wages and earnings on inequality levels. Scorzafave and Lima (2010) decompose several inequality indexes in order to assess the impact of different income sources on per capita household income inequality. They conclude that the 13% reduction in the concentration rate of wages was the most important factor explaining the recent drop in Brazilian inequality, as labour income accounts for more than 60% of total household income.

Hours worked

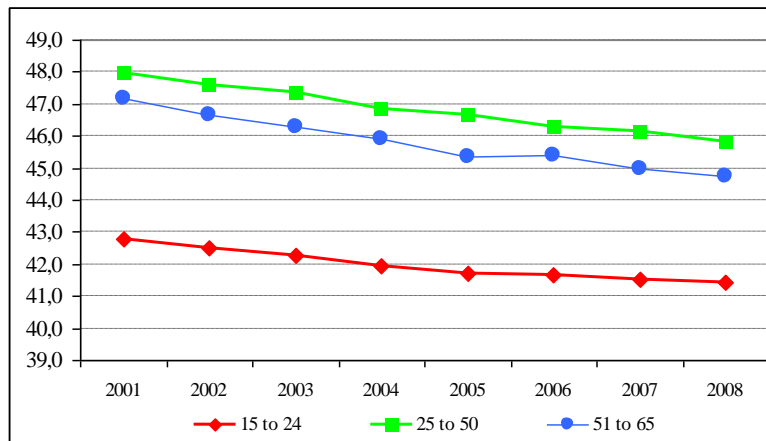
Data about hours worked per week reveal a steadily declining tendency in the period. In 2001, Brazilians worked an average of 43.6 hours per week, while in 2008 this figure was 42.1 hours. All groups of men experienced a decrease in weekly hours worked. Women also registered a decrease in the whole period, but from 2005 to 2008 there was a slight increase in hours worked for women. The age pattern is also different for men and women. While 15-24 year-old men work the fewest hours a week, among women the oldest work the fewest hours.

Figure 26 – Overall Weekly Hours Worked



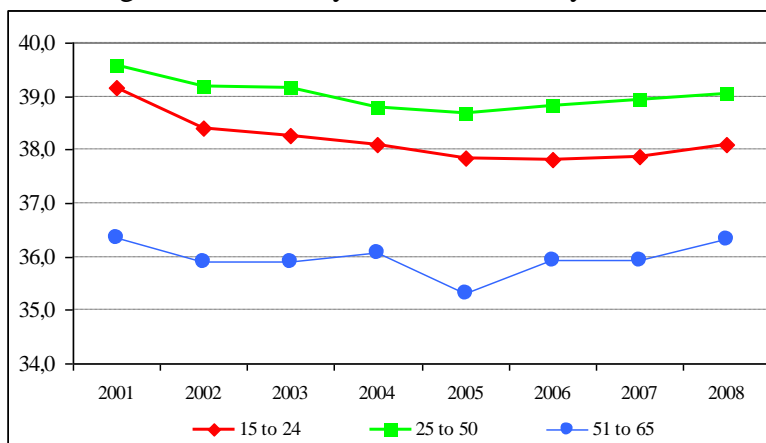
Source: Authors, based on PNAD data

Figure 27 - Weekly Hours Worked by Men



Source: Authors, based on PNAD data

Figure 28 – Weekly Hours Worked by Women



Source: Authors, based on PNAD data

Since 2001 Brazil has shown an improvement in most labour market indicators. The period is marked by an increase in female labour force participation, growth in

employment-population, rising earnings and wages and declining unemployment and weekly hours worked. Finally, NEET shows stable behaviour. So, we can conclude that the behaviour of the main labour market indicators shows a favourable evolution in Brazil up to 2008. However, the aggregate scenario masks important inequalities between gender and age groups. These inequalities are relatively stable for almost all measures presented here. Only in some cases do gender differentials decrease over time.

2b. Factors associated with different labour force status in Brazil: 2001-2008

In the preceding subsection, we depicted the recent evolution of the main labour market indicators in Brazil. Here, we present the results of the estimation of a multinomial logit model to disentangle the main factors associated with the “choice” of different labour force status in the period from 2001 to 2008. The data used in the estimation also come from the PNAD. These data allow us to identify four labour statuses: formal employment, informal employment, unemployment and out-of-labour force. Unfortunately, we cannot identify discouragement in the PNAD data.

We estimate separate models for each year and gender. Table 1 reports the results for 2001 and 2008 for men and Table 2 reports female figures. The results indicate that urban men are more likely to be in the formal sector and to be unemployed compared to rural men; however, they have less probability to be in the informal sector. This is also true for women, although the marginal effects are smaller. This result is consistent with anecdotal evidence that informality is very high in rural areas of Brazil. The older a man is, the higher the probability of being out of the labour force. The same is true for women.

Table 1 - Multinomial Marginal Effects - Men

Base category	Out of Labour Force 2001			Out of Labour Force 2008		
	Formal	Informal	Unemployed	Formal	Informal	Unemployed
Age	-0.003*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)	-0.004*** (0.000)	-0.001 (0.000)	-0.001*** (0.000)
Urban	0.067*** (0.003)	-0.291*** (0.004)	0.041*** (0.001)	0.072*** (0.003)	-0.203*** (0.004)	0.024*** (0.001)
Southeast	0.033*** (0.004)	-0.095*** (0.004)	0.009*** (0.002)	0.039*** (0.004)	-0.071*** (0.004)	-0.001 (0.002)
Northeast	-0.051*** (0.003)	0.001 (0.004)	0.006*** (0.002)	-0.080*** (0.004)	0.039*** (0.004)	0.008*** (0.002)
South	0.046*** (0.004)	-0.067*** (0.005)	-0.002 (0.002)	0.041*** (0.005)	-0.060*** (0.004)	-0.005** (0.002)
North	-0.060*** (0.004)	0.002 (0.006)	-0.008*** (0.002)	-0.067*** (0.004)	0.044*** (0.006)	-0.006*** (0.002)
N. of children 0-4	-0.054*** (0.002)	-0.066*** (0.002)	-0.010*** (0.001)	-0.062*** (0.003)	-0.056*** (0.003)	-0.010*** (0.001)
N. of children 5-9	-0.039*** (0.002)	-0.065*** (0.002)	-0.012*** (0.001)	-0.048*** (0.002)	-0.052*** (0.002)	-0.009*** (0.001)
N. of children 10-15	-0.054*** (0.002)	-0.048*** (0.002)	-0.014*** (0.001)	-0.072*** (0.002)	-0.049*** (0.002)	-0.011*** (0.001)
4-7 yrs of schooling	0.150*** (0.003)	0.093*** (0.003)	0.045*** (0.002)	0.160*** (0.004)	0.076*** (0.004)	0.030*** (0.002)
8-11 yrs of schooling	0.346*** (0.004)	0.036*** (0.004)	0.049*** (0.002)	0.376*** (0.004)	0.049*** (0.003)	0.042*** (0.002)
12+ yrs of schooling	0.491*** (0.006)	-0.103*** (0.005)	-0.001 (0.003)	0.483*** (0.005)	-0.093*** (0.004)	0.016*** (0.003)
Household head	0.358*** (0.003)	0.272*** (0.004)	-0.003* (0.001)	0.394*** (0.004)	0.191*** (0.004)	-0.008*** (0.001)
Spouse	0.346*** (0.011)	0.058*** (0.011)	-0.015*** (0.003)	0.397*** (0.006)	0.027*** (0.006)	-0.018*** (0.001)
White	-0.018*** (0.002)	-0.047*** (0.003)	-0.019*** (0.001)	-0.026*** (0.003)	-0.036*** (0.003)	-0.013*** (0.001)
N. of adults	0.031*** (0.001)	0.048*** (0.001)	0.006*** (0.000)	0.035*** (0.001)	0.033*** (0.001)	0.004*** (0.000)
Observations	183,697	183,697	183,697	185,082	185,082	185,082

Note: *** significant at 1%; ** significant at 5%; * significant at 10%; standard errors in parentheses

There are also differences across Brazilian regions in the multinomial logit marginal effects, with men living in the South and Southeast regions having more chance to be in the formal sector and the opposite happening in the North and Northeast regions compared to the Midwest (reference group)⁴. So, there is a relationship between the development level and institutions of a region and the probability to be in a formal job. Exactly the opposite happens regarding informal employment. There is also a

⁴ Brazil is officially divided into five regions: North, Northeast, Midwest, Southeast and South.

higher probability of unemployment in less developed regions of the country. For women, the pattern is similar, although in the North women are less likely to be unemployed, but with a very small marginal effect.

Table 2 - Multinomial Marginal Effects - Women

Base category	Out of Labour Force 2001			Out of Labour Force 2008		
	Formal	Informal	Unemployed	Formal	Informal	Unemployed
Age	-0.001*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)	-0.002*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)
Urban	0.042*** (0.002)	-0.104*** (0.003)	0.028*** (0.001)	0.057*** (0.002)	-0.041*** (0.003)	0.020*** (0.001)
Southeast	0.010*** (0.002)	-0.025*** (0.003)	0.008*** (0.002)	0.019*** (0.002)	-0.020*** (0.003)	0.001 (0.001)
Northeast	-0.018*** (0.002)	0.002 (0.003)	0.003* (0.002)	-0.035*** (0.002)	0.013*** (0.003)	0.002 (0.001)
South	0.034*** (0.003)	0.009* (0.004)	0.003 (0.002)	0.043*** (0.003)	-0.004 (0.004)	-0.005** (0.002)
North	-0.028*** (0.002)	-0.012** (0.004)	-0.008*** (0.002)	-0.034*** (0.003)	0.001 (0.004)	-0.008*** (0.001)
N. of children 0-4	-0.048*** (0.001)	-0.066*** (0.002)	-0.010*** (0.001)	-0.060*** (0.002)	-0.066*** (0.002)	-0.007*** (0.001)
N. of children 5-9	-0.020*** (0.001)	-0.024*** (0.002)	-0.009*** (0.001)	-0.027*** (0.002)	-0.029*** (0.002)	-0.005*** (0.001)
N. of children 10-15	-0.016*** (0.001)	-0.010*** (0.002)	-0.013*** (0.001)	-0.022*** (0.001)	-0.020*** (0.002)	-0.009*** (0.001)
4-7 yrs of schooling	0.085*** (0.003)	0.073*** (0.003)	0.054*** (0.002)	0.121*** (0.004)	0.073*** (0.003)	0.052*** (0.003)
8-11 yrs of schooling	0.255*** (0.004)	0.089*** (0.003)	0.087*** (0.002)	0.289*** (0.004)	0.097*** (0.003)	0.087*** (0.002)
12+ yrs of schooling	0.552*** (0.006)	0.015*** (0.004)	0.040*** (0.004)	0.567*** (0.006)	-0.009* (0.004)	0.053*** (0.003)
Household head	0.159*** (0.004)	0.294*** (0.006)	0.048*** (0.003)	0.155*** (0.004)	0.262*** (0.005)	0.025*** (0.002)
Spouse	0.097*** (0.002)	0.221*** (0.003)	0.026*** (0.002)	0.123*** (0.003)	0.214*** (0.004)	0.014*** (0.001)
White	-0.010*** (0.001)	-0.033*** (0.002)	-0.018*** (0.001)	-0.012*** (0.002)	-0.037*** (0.002)	-0.013*** (0.001)
N. of adults	0.010*** (0.001)	0.024*** (0.001)	0.006*** (0.000)	0.011*** (0.001)	0.024*** (0.001)	0.003*** (0.000)
Observations	193,391	193,391	193,391	196,021	196,021	196,021

Note: *** significant at 1%; ** significant at 5%; * significant at 10%; standard errors in parentheses

Another interesting result is that number of children affects the labour market sector occupied by men. One additional very young child decreases the probability of being in the formal (or in the informal) sector by 6 p.p. compared to being out of the labour force. This result is weaker for children between 5 and 9 years old and is also

stronger for older children. For women, however, the effect has a similar sign but is smaller as children get older. These results are very interesting, since it is counterintuitive for the number of children to affect men's employment status. Although significant, the effect of size regarding unemployment is lower than the other categories for both women and men.

So, families with many children exhibit less quality in their insertion in the labour market. As Brazil is at the tail end of its demographic transition, the number of children in families is decreasing over time, although this drop is less pronounced in poorer households. So, in the coming years this variable should become less important to explain allocation in the labour market.

The results concerning schooling are very interesting. The omitted reference group is 0-3 years of schooling. So, the more educated people are, the higher the probability they are formal workers, compared to being out of the labour force. The opposite result is found for informal work, mainly for men. So, with the continuing growth of Brazilian labour force's schooling, there should be some effect on formality rates. In the case of unemployment, our results reflect the stylized fact that education and unemployment probability have an inverted-U relationship for both males and females. This result is associated with the growth in the relative supply of workers with 8 to 11 years of schooling in recent years who cannot find jobs.

For men and women, household heads and spouses have both higher probabilities to be in formal jobs than people in other household positions (reference group: sons, other parent, etc.). For informality, again there is considerably more chance for household heads to be out of the labour force. The opposite happens regarding male unemployment, but not for female household heads and spouses, who face a higher probability of being unemployed compared to other women.

Non-white men and women both have a higher probability to be out of the labour force than white men (and white women) respectively, for every occupational situation, but the magnitudes of these marginal effects are not so high, especially for formal jobs and unemployment. Also, the presence of more adults inside the household increases the probability of insertion in the labour market, as formal workers, informal workers and, to a lesser extent, as unemployed for both men and women, although the marginal effects are higher for the former group. Finally, the marginal effects for both men and women in general did not change appreciably between 2001 and 2008, with very few exceptions.

2c. Factors associated with different labour force status in Brazil

In this subsection, we investigate the labour market transitions in Brazil. First, we describe raw labour market transition probabilities and then we estimate another multinomial logit model in an attempt to disentangle the effect of individual and household characteristics on the probability of moving from one state to another. The main differential of this analysis is that here we track individuals over time in a panel data set, using the Monthly Employment Survey (*Pesquisa Mensal de Emprego*, or PME). This database has some limitations because it is not nationally representative. Instead, it covers only six Brazilian metropolitan regions (São Paulo, Rio de Janeiro, Curitiba, Salvador, Recife and Porto Alegre). On the other hand, the PME provides the only panel data available in Brazil that permit tracking individuals in all aspects studied here (formal, informal, unemployed and inactive).

We defined informal workers as those who do not have a formal labour contract (meaning a labour booklet signed by the employer). The unemployed category refers to those who were not working and were looking for a job in the last 30 days, whether or not they had worked before. People out of the labour force are those neither working nor looking for a job in the last 30 days.

Another advantage of the PME is it allows identification of discouragement, which cannot be done with PNAD data. In all the results of this section, we study the behaviour of each household member in two distinct periods: time t and 3 months later ($t+3$). This analysis permits understanding the persistence degree of each labour status and also if there are considerable transitions between categories. This is interesting, since higher persistence and low transitions can be related to a more segmented labour market.

Raw labour market transitions

We present raw labour market transitions for two periods; pre-crisis (2003-2007) and for the beginning of the crisis period (2008)⁵. We perform a separate analysis for men and women and for three age groups: 15-24, 25-50 and 51-65 years old.

⁵ As will be seen in more detail later, the effects of the international financial crisis on the Brazilian economy were relatively mild, causing recession in the fourth quarter of 2008 and first quarter of 2009, after which the economy rebounded strongly.

The relative transition tables allow us to analyze the proportions of people who transited from one situation (in the first interview) to another situation three months later (in the fourth PME interview). The diagonal of each table reveals the percentage of people who stayed in the same situation in the period.

Men's transitions

As can be seen by Table 3, the percentages of male transitions for the period from 2003 to 2007 does not differ greatly from those in 2008. In the first period, 90.1% of men stayed in the formal sector. The most significant transitions were from formal to informal (3.8%) and for inactivity (2.7%). For 2008, there was a slight change in these figures, but the portrait is almost the same. Despite these similarities, we can point out an interesting fact concerning unemployment: while in the first years the number of people who stayed unemployed was of 45.3%, in 2008 this percentage fell to 37.2%.

The percentage of people who were discouraged in the first interview and went to the formal sector later also rose significantly: from 3.3% in the first period to 8.3% in 2008. The number of people identified as discouraged was very low in both periods (0.1% of the sample).

Table 3 – Raw labour market transitions - Men

		Men (2001-2007)					
		To					
		Formal	Informal	Unemployed	Self-Employed	Out of Labour Force	Discouraged
From	Formal	90.1	3.8	1.7	1.6	2.7	0.0
	Informal	16.0	61.8	5.0	10.4	6.9	0.0
	Unemployed	10.4	12.9	45.3	8.2	22.9	0.3
	Self-Employed	4.4	9.4	2.7	77.9	5.6	0.0
	Out of Labour Force	3.6	5.7	8.8	4.7	77.1	0.1
	Discouraged	3.3	9.2	20.8	15.0	45.0	6.7

		Men (2008)					
		To					
		Formal	Informal	Unemployed	Self-Employed	Out of Labour Force	Discouraged
From	Formal	89.8	3.3	1.7	2.0	3.1	0.0
	Informal	17.4	60.0	3.9	11.0	7.6	0.0
	Unemployed	16.1	12.6	37.2	8.1	26.0	0.0
	Self-Employed	5.4	8.7	2.1	78.4	5.4	0.0
	Out of Labour Force	4.2	5.8	6.4	4.4	79.1	0.0
	Discouraged	8.3	0.0	8.3	8.3	66.7	8.3

Table 3 also shows that from 2001 to 2008, fewer people remained unemployed or in informal sector for more than three months and the migration increased from these categories to formal and self-employed activities. For example, the transition from unemployment to formal employment rose from 10.4% to 16.1% in the period.

These figures indicate an improvement in working opportunities and probably a reduction in unemployment duration for men.

Women's transitions

For women, these numbers are not so different. In Table 4, 88.2% of them stayed in the formal sector in the first period against 87.7% in the second. Most of the women who did not stay in this situation passed to the informal sector or to inactivity, just like men. However, the number of women that went from the formal sector to inactivity increased in 2008 to 4.65%, against 4.2% in the period from 2003 to 2007. Also, the number of women who were discouraged and then passed to the formal sector dropped from 2.09% in the 2003-2007 period to 0.00% in 2008. The most stable situations were formal and out of the labour force, with over 80% stability in each. Unlike men, the pattern of transition from unemployment did not improve in 2008 vis-à-vis 2003-2007; the only change was a reduction in the proportion of women that remained unemployed and an increase in the fraction that transitioned to inactivity.

Table 4 – Raw labour market transitions - Women
Women (2003 – 2007)

		To					
		Formal	Informal	Unemployed	Self- Employed	Out of Labour Force	Discouraged
From	Formal	88.2	5.2	1.7	0.8	4.2	0.0
	Informal	12.3	68.0	4.4	4.8	10.4	0.0
	Unemployed	6.5	11.2	46.1	3.2	32.4	0.6
	Self-Employed	2.4	8.8	2.2	73.2	13.4	0.0
	Out of Labour Force	1.7	3.9	6.4	3.2	84.7	0.2
	Discouraged	1.5	9.2	20.2	6.5	54.6	8.0

Women (2008)

		To					
		Formal	Informal	Unemployed	Self- Employed	Out of Labour Force	Discouraged
From	Formal	87.7	5.1	1.8	0.8	4.7	0.0
	Informal	14.1	66.4	3.6	4.6	11.4	0.0
	Unemployed	9.9	11.6	39.6	3.2	35.3	0.4
	Self-Employed	2.9	8.9	1.5	71.4	15.3	0.0
	Out of Labour Force	1.9	4.3	5.2	2.9	85.5	0.1
	Discouraged	0.0	7.6	19.2	7.6	57.7	7.7

Transition for 15-24 year-olds

As shown in Table 5, the data from the youngest group also show a fall in the percentage of people who stayed unemployed. From 2003 to 2007, 48.0% of these people remained unemployed while in 2008 this percentage was only 39.2%.

It can also be seen that in 2008 there were fewer self-employed people (57.0%, against 60.6% in the first period). In 2008, most of them went to the informal sector (17.4%) or to the out-of-the labour force group (13.5%). The percentage of people staying out of the labour force rose to 79.51%. The number of people staying in the informal sector diminished 3.5 percentage points. Many of them went to the formal sector or to out-of-the-labour force sector. For this age group, higher migration to inactivity is not necessarily bad news, as this can reflect a movement of returning to school. This can be related to a strategy of increasing human capital to increase the chances of finding more qualified jobs in the future.

Table 5 – Raw labour market transitions for 15-24 year-olds
(2003 – 2007)

		To					
		Formal	Informal	Unemployed	Self-Employed	Out of Labour Force	Discouraged
From	Formal	86.1	5.9	3.0	0.6	4.5	0.0
	Informal	13.9	64.0	7.5	3.6	11.0	0.0
	Unemployed	7.7	11.8	48.0	2.5	29.6	0.4
	Self-Employed	4.8	16.7	6.3	60.6	11.7	0.0
	Out of Labour Force	2.7	6.2	11.8	1.5	77.7	0.2
	Discouraged	2.2	11.1	31.1	5.6	42.2	7.8

(2008)

		To					
		Formal	Informal	Unemployed	Self-Employed	Out of Labour Force	Discouraged
From	Formal	86.5	4.6	3.0	0.6	5.3	0.0
	Informal	17.0	60.5	5.9	3.7	12.9	0.0
	Unemployed	11.7	12.2	39.2	2.8	33.8	0.3
	Self-Employed	6.4	17.5	5.6	57.0	13.5	0.0
	Out of Labour Force	3.4	6.7	9.0	1.4	79.5	0.1
	Discouraged	0.0	0.0	33.3	0.0	66.7	0.0

Transitions for 25-50 year-olds

As shown by Table 6, for adults between 25 and 50 years old there also was a decline in the percentage of people remaining unemployed: from 44.8% in the first period to 38.8% in 2008. There were no significant changes in the stability

percentages of other situations. In the second period, all other situations had a bigger percentage of transition to the formal sector compared to the first period.

While between 2003 and 2007, 9.0% of the people who were unemployed went to the formal sector, in 2008 this number was 13.7%. Similarly, in 2008 4.4% of the people who were discouraged passed to the formal sector, against 2.6% in the first period.

Table 6 - Raw labour market transitions for 25-50 year-olds
(2003-2007)

		To					
		Formal	Informal	Unemployed	Self-Employed	Out of Labour Force	Discouraged
From	Formal	90.5	3.9	1.5	1.4	2.7	0.0
	Informal	14.8	65.8	3.8	8.6	6.9	0.0
	Unemployed	9.0	12.2	44.8	7.4	26.2	0.5
	Self-Employed	4.0	9.4	2.5	77.1	7.0	0.0
	Out of Labour Force	2.9	5.0	8.0	5.2	78.7	0.2
	Discouraged	2.6	9.7	17.2	11.0	52.0	7.5

(2008)

		To					
		Formal	Informal	Unemployed	Self-Employed	Out of Labour Force	Discouraged
From	Formal	89.8	3.9	1.6	1.7	3.1	0.0
	Informal	15.8	65.1	3.0	8.7	7.5	0.0
	Unemployed	13.7	12.2	38.8	6.8	28.2	0.3
	Self-Employed	4.8	9.3	1.8	76.6	7.6	0.0
	Out of Labour Force	3.4	5.7	6.9	4.5	79.5	0.1
	Discouraged	4.4	4.4	17.4	8.7	56.5	8.7

Transitions for 51-65 year-olds

As shown in Table 7, there was relative stability for the oldest group in the two periods. For instance, the percentage of people who stayed out of the labour force remained at almost 92% in both periods. However, as for the other age groups, there was a higher transition to the formal sector. Another significant change is that from 2003 to 2007, 36.5% of the people who were unemployed left the labour force, while in 2008 this proportion was 44%. This is probably associated with a higher worker discouraged effect. Like what happened with the other groups, the number of people who stayed unemployed in the second period dropped.

Table 7 - Raw labour market transitions for 51-65 year-olds
(2003-2007)

		To					
		Formal	Informal	Unemployed	Self- Employed	Out of Labour Force	Discouraged
From	Formal	87.1	5.1	0.6	1.9	5.3	0.0
	Informal	10.3	64.9	1.8	10.9	12.0	0.0
	Unemployed	5.4	9.9	37.1	10.4	36.5	0.7
	Self-Employed	2.0	6.0	1.3	78.3	12.3	0.1
	Out of Labour Force	1.1	2.0	1.4	3.7	91.8	0.1
	Discouraged	0.0	4.6	16.9	7.7	63.1	7.7

(2008)

		To					
		Formal	Informal	Unemployed	Self- Employed	Out of Labour Force	Discouraged
From	Formal	87.9	4.4	0.5	2.0	5.2	0.0
	Informal	11.3	63.9	1.7	10.4	12.7	0.0
	Unemployed	6.7	8.9	33.3	7.1	44.0	0.0
	Self-Employed	2.8	5.3	1.2	78.2	12.7	0.0
	Out of Labour Force	1.2	2.0	1.2	3.7	91.9	0.0
	Discouraged	0.0	8.3	8.3	8.3	66.7	8.3

The analysis of the above tables indicates that labour market segmentation is not very important in Brazil, since at least 1/3 of informal workers transit out of this kind of occupation a few months later. The same is true for unemployed people: there is a reasonable transition outside unemployment for most groups. The good news is the high persistence in formal jobs (over 80% for all groups) and the decline in unemployment persistence between 2003-2007 and 2008.

Determinants of labour market transition probabilities

In this section, we disentangle the factors associated with labour market transition probabilities, using PME data from the 2001-2008 period. As there are very few people classified by the PME as discouraged, here we treat them as out of the labour force.

Transitions from the formal sector

The results of the multinomial logit are in the Appendix. Tables A1 to A5 show the results of the marginal effects for all workers. Tables A6 to A10 present results only for women and Tables A11 to A15 for men.

As can be seen in Tables A6 and A11, there is no practical marginal effect of age on transitions from formal to informal, unemployment and out-of-labour forces

compared to the alternative of staying in the formal sector for both men and women. The regional dummy coefficients show that there are differences among Brazilian workers. For example, formal male workers living in Rio de Janeiro have more stability in formal employment than similar workers in Porto Alegre (reference group). However, many regional effects are not significant and the strongest is 3.8 p.p.: Formal female workers in Recife have a 3.8 p.p. higher chance of passing to informality than those living in Porto Alegre. An interesting result is for schooling. Up to 7 years of schooling, there is no effect of schooling in transition probabilities from the formal sector. However, after this level, the more educated the worker, the less likely that she (and also he) will leave the formal sector going to an informal job or out of the labour force. On the other hand, there is no effect of education on transition probabilities from formal jobs to unemployment and self-employment for both men and women.

Household male (and also female) heads also have more stability in the formal sector than men in other household positions, except again for transition to self-employment for women, where the result is the opposite. Household heads have less chance to transit from formal to informal jobs than other people. White formal male workers do not have a clearly better position than non-white (*pardo*⁶ and black) formal workers in transition probabilities. For example, while white males (reference group) have less chance than *pardos* to transit to unemployment, there is no difference compared to blacks. For women, there is no effect of race on transition probabilities from formal jobs.

Finally, there are some interesting aspects concerning time dummies. First, for women, there is no significant difference in transition probabilities from formal to informal jobs, unemployment or self-employment (the omitted year dummy is 2008). There is a 0.7 p.p. higher chance of transition from the formal sector to the out-of-labour force group in 2008 compared to other years, a result of modest magnitude. For men, this behaviour also occurs, but toward self-employment (roughly 0.4 p.p.)

Transitions from the informal sector

The results of the multinomial logit for this transition are in Table A7 (men) and A12 (women) in the Appendix.

⁶ *Pardo* is a broad mixed-race category, meaning “browns”.

Here there are also dissimilar patterns of transition probabilities in different regions of the country. For example, Rio de Janeiro informal male and female workers have less chance to transit to other categories than do workers in other regions. Also, for both men and women the more educated an informal worker is, the higher the probability of passing to a formal job. On the other hand, for men there is not a significant relationship between schooling and transition probabilities from informality, except that male high school graduates have less chance to transit to the out-of-labour market category. For women, the result is similar: the more schooling, the lower the probability of transition from informality to being out of the labour force, after we controlled for other explanatory variables.

Household male heads have a higher probability of escaping from informal to formal jobs (and to self-employment) than other family members. On the other hand, they have less chance to transit to unemployment and to out-of-labour force, an expected result. Female heads and spouses have higher chances than others to transit from informal to self-employment. For men, skin color does not affect transition probability from informality. For women, black ones have less chance to transit to formality than others.

Finally, 2008 presents the highest probability of migration toward formal jobs for men and women.

Transitions from unemployment

The marginal effects for unemployment are shown in Tables A8 (women) and A13 (men) in the Appendix. Again, the situation of women is worse than men, because they have less chance to escape unemployment and to find a job (formal, informal or self-employed). Again, the patterns of transition probabilities are very dissimilar across the country. Regarding education, the more educated an unemployed man is, the higher the probability of passing to a formal job (the most educated men have 11 p.p. more chance than other unemployed men to transit to formality!) and the lower the probability of passing to informal work (3.9 p.p.), self-employment (5.7 p.p.) or being out of the labour force (7.5 p.p.). For women, the relationship between schooling and transition probabilities appears in the direction to formal jobs (3.9 p.p.) and to out-of-labour force (8.8 p.p.).

Household heads have a higher probability of escaping from unemployment to any kind of job than other family members and less chance to transit to inactivity than

other family members. There is no difference in the probability of passing from unemployment among black, *pardo* and white unemployed men and women to formal, informal or self-employed occupations. Male and female black unemployed workers have less chance to transit from unemployment to out of the labour force. Finally, 2008 presents the highest probability of movement from unemployment to any kind of job and the marginal effects are higher for men in this year. This can reflect the good economic conditions in Brazil until the crisis hit in September 2008.

Transitions from out-of-labour force and from self-employment

These results are in Tables A9, A10, A14 and A15. In general, the results of these transitions reinforce the previous results. Women have more difficulty to leave these categories, as do less educated workers, mainly to formal jobs.

The analysis of this section shows very interesting patterns. First, undoubtedly education is very important to increase the chances of finding a more qualified job in Brazil. Concerning raw labour market transitions, there is no important difference between men and women and the periods 2003-2007 and 2008. The figures indicate that more than 80% of formal workers remain in this state three months later; on the other hand, in 2008 there is more mobility from the informal sector than before (2003-2007), indicating a low degree of labour market segmentation in Brazil. Finally, the determinants of transition reinforce the importance of education to increase the chances of remaining in the formal sector and passing out of unemployment and informality.

3. ASSESSMENT OF NATIONAL LABOUR MARKET POLICIES AND INSTITUTIONS

Sections 1 and 2 of this report provide an overview of the Brazilian labour market and the determinants of labour market insertion and transitions, focusing in individual and household characteristics as the determinants of this process. However, it cannot be ignored that people make choices, in a societal and institutional framework that can influence their labour market results. Besides this, labour market policies also can have a huge influence on labour market behaviour, favouring (or harming) some specific population subgroups.

In this section we fully describe and analyze Brazilian labour market policies and institutions and discuss the pitfalls and advantages of these regulations and institutional environment, to shed light on what can be done to improve labour market conditions in Brazil and to better understand the behaviour of the Brazilian labour market during and after the recent crisis.

3a. Labour Market Policies

Brazil has a huge body of labour market policies aimed at reducing unemployment and informality and increasing labour force participation. The federal government⁷ offers help to people trying to get into the labour market, such as training, job search assistance, and wage subsidies, along with other incentives. In addition, government also provides social assistance and unemployment benefits to unemployed workers. In this sub-section we briefly review the main aspects of these policies.

Training policies

Concerning training, the federal government has a job training program called the *Programa Nacional de Qualificação* (PNQ), or National Qualification Program. This program encompasses actions taken in a non-centralized way, by means of regional qualification programs (in partnership with states, municipalities⁸ and NGOs), special training project (in partnership with the social movements and NGOs) and sectorial training programs (in partnership with labour unions, trade associations, social movements and state and municipal governments). The regional programs aim to identify and meet regional demands. The special projects try to develop methods and technologies for social and professional qualification. Finally, the sectorial programs seek to meet demands found in the different sectors of the economy.

One example of a special training project was the one developed in Bahia in 2005, where 2,137 trainees were inserted in the labour market with the help of the local office of the Labour Ministry. The retail sector was the biggest employer, hiring 34.40%, followed by services, 30.45%. This program also promotes learning seminars with participation of private companies, governmental and nongovernmental entities.

⁷ Labour law is federal in Brazil, enforced through a separate federal labour court system.

⁸ The local political division in Brazil is the municipality, which is akin to a county in the United States, except that there is a single mayor and municipal council. There are no unincorporated areas in the country.

A good example of a sectorial training program is that to train aeronautical workers in the state of São Paulo, in the municipalities of São Carlos, Gavião Peixoto and Araraquara. The aim was to train 900 workers in this area to find jobs with airlines such as TAM or aviation manufacturers such as Kawasaki and Embraer over the life of the program. Another example of this kind of project is the “Domestic Work with Dignity Project”, which happened in the end of 2005, in the cities of Campinas (SP), Recife (SP), Rio de Janeiro (RJ), Salvador (BA) and São Paulo (SP). It was developed in partnership with the National Federation of Domestic Workers and governmental entities that implement policies for women’s rights, as well as the ILO

One example of a regional program is that of the DRT Pará (*Delegacia Regional do Trabalho do Pará*, or the regional Labour Ministry office in the state of Pará), which trained an average of 1,800 youths between 16 and 24 years old from May 2005 to September 2006 in that state. The classes, held at SEBRAE (*Serviço Brasileiro de Apoio às Micro e Pequenas Empresas*, the small business assistance service) covered information about the labour market, duties and rights, health, safety, interpersonal relationships and employment in the public and private sectors. In 2005, R\$ 703,907.50 (US\$ 289,673.00) was given by the federal government to the state of Pará for this program. The amount invested in all such programs in Brazil in 2005 was R\$ 22,670,704.50 (US\$ 9,329,508.00). One of the criticisms of this program is that the decentralized actions are not articulated with other labour market and social policies (Souza et al., 2007; Bulhões, 2004).

First Job Incentive Programs

Created in 2003, the *Programa Nacional de Estímulo ao Primeiro Emprego* (PNPE), or First Job Incentive National Program, consists of several actions aimed to create new jobs and to prepare young people (16 to 24 years old) for better insertion in the labour market. Under the program the government gives financial incentives to firms to hire workers just entering the labour force. Companies can participate in the program through two lines: (a) the social responsibility line, hiring youths registered but not yet receiving the benefit (in this case, they receive only a certification as partner of the First Job Program) or (b) the financial incentive line, for all firms that hire young people from this program (the incentive is R\$ 1,500.00 (US\$ 700.00) annually for each job created).

To enter the program, companies must prove tax regularity (no back taxes owed) and must respect all the labour obligations concerning the new hires (paying all payroll charges). The firm must also prove that the young worker is not crowding out an older one. Besides this, there is a limit on the percentage of such young workers from the program; it cannot exceed 20% of all the firm's workers. The aim of these rules is to avoid substitution between regular and subsidized employees.

Young people interested in participating in the program must have no prior formal employment; come from a family earning up to one-half minimum monthly wage⁹ per capita and be regularly enrolled in school or any course for adults who did not complete their educations.

Despite the good intentions, according to Ribeiro and Juliano (2005), the program does not have any impact on job creation. Excess bureaucracy and rules and an incorrect diagnosis of the causes of juvenile unemployment are the reasons indicated by them for the program's failure. They also argue that the program itself does not necessarily raise the number of jobs for young people, which is crucial to overcome this problem. For them, economic growth has a much larger impact on job creation than these policies.

In 2008, the federal government implemented another policy for young people. *Projovem* (Pro-youth) aims to prepare youths for the labour market and for alternative activities that can bring them and their families extra income. The program also has different lines. Any unemployed person between 18 and 29 years old and whose family earns up to half the minimum wage per person can participate in the program. The participants receive a monthly benefit of R\$ 100.00 (US\$ 55.00) for six months if they prove their attendance in the training courses offered. Each course lasts 350 hours. The program is developed in partnership with the states, civil society and private sector. The objective is to stimulate the generation of job opportunities, business, social insertion and entrepreneurship.

The *Projovem Adolescente* program is another line of the overall *Projovem* program. It is a social and educative project serving people from 16 to 17 years old. The project integrates the actions of the *Proteção Social Básica* (Basic Social Protection) from the *Sistema Único de Assistência Social* (National Social Assistance System) and

⁹ The federal government establishes a minimum monthly wage for those working what is considered a normal workweek. It is typically adjusted every year, and in recent years has been adjusted more than inflation, to provide real gains. The states can set higher regional minimums. Some social security benefits are also tied to the minimum wage. For more details, see Section 3b.

tries to improve the basic protection of families through the creation of mechanisms that guarantee harmony and collaboration among people in families and communities, to create a better setting for teen development. It also aims at the insertion, reinsertion and persistence of the youths in the educational system. In 2009, *Projovem Adolescente* served more than 16 thousand youths between 16 and 17 years old, at a cost of R\$ 204 million according to the Social Development Ministry.

There is also the *Projovem Urbano* program, with the objective of improving education in urban areas. The last modality of *Projovem* is the *Projovem Campo*, which tries to strengthen and amplify the access and persistence of poor rural youths (from farm worker or smallholder families) in the educational system, by improving educational opportunities by the same means as the *Projovem Urbano* program does. It is a reformulation of a previous program called *Saberes da Terra*, taking into consideration the seasonal nature of the agricultural cycle.

In 2007, R\$ 2,743,228.00 (US\$1,414,035.00) was spent in the whole *Projovem* program. The fact that this program is recent and that its activities are diverse, targeting different groups, hinders evaluation of the impact of this program at the moment.

Unemployment Benefits

Brazilian workers in the formal sector are eligible to receive unemployment insurance benefits. The benefits are managed by the Social Security Administration (National Social Security Institute, or INSS). Besides financial support in the event of being laid off, the program assists people to try to find new jobs. The money is provided by the *Fundo de Amparo ao Trabalhador* (FAT), or Worker Support Fund and the number of monthly payments varies from three to five, depending on how long the employee worked before being discharged. The amount of the benefit is based on an average of the last monthly salaries received by the worker but cannot be less than the minimum wage. In 2009, 7.7 million workers received these payments (75% of all unemployed), for a payout of R\$ 19.7 billion (US\$ 9.85 billion) that year.

Wage Subsidies

Among wage subsidies, there is the Wage Allowance (*Abono Salarial*), which is a benefit of one time the minimum wage paid once a year to low-wage workers. More specifically, every worker has the right to receive this benefit if his or her monthly wage is up to two times the minimum (currently US\$530). The beneficiary also must have

contributed to the Social Integration Program (*Programa de Integração Social, PIS*) or to the Civil Servant Asset Formation Program (*Programa de Formação do Patrimônio do Servidor Público, PASEP*) for at least five years. So this program only benefits formal sector workers. The last condition is a to have held a formal job for at least 30 days in the previous year.

In the period from July 2009 to June 2010 there were 12 million of benefits payments made, at a cost of R\$ 16.5 billion. (US\$ 7.9 billion)

Labour Booklet

The Labour and Social Security Booklet, or CTPS, must be signed by the employer in the formal sector. It guarantees access to some of the main labour rights, such as unemployment insurance, social security benefits and FGTS¹⁰. In its 74 years of existence it has undergone many changes. When it was created in 1932, it was a simple card. Today, the CTPS contains information about worker's qualification, professional life and social security contributions.

Social Assistance

There are two basic social assistance actions: CRAS (*Centro de Referência de Assistência Social*) and CREAS (*Centro de Referência Especializado de Assistência Social*). The first one is a municipal-level action and is a component of SUAS, just like *Projovem*, while the second one is state-level action. They both offer basic and specialized services to families and individuals that are found in various situations of rights violation, such as domestic violence and child exploitation. The interventions are based in cultural and sports experiences, trying to enhance living conditions. The beneficiaries can also obtain psychological treatment, dental treatment, educational and legal assistance and treatment for chemical dependency, among others. Some units of CRAS and CREAS provide different services from others, depending on the city and state. There is also the PAIF (*Serviço de Proteção e Atendimento Integral à Família*), which seeks to improve of life quality of families by strengthening their protective function, preventing their breakup and promoting access and use of rights; and the BPC (*Benefício de Prestação Continuada de Assistência Social*), which pays a welfare benefit of one time the minimum wage to people 65 years or older with disabilities that

¹⁰ See section 3b below.

prevent them from leading independent lives and families whose per capita income does not reach a quarter of the minimum wage. In June 2006, over 1.3 million people received this benefit. There is robust evidence that BPC has helped fight poverty and inequality in recent years in Brazil. For example, Scorzafave and Lima (2010) found that a 1% increase in BPC benefits is responsible for a 0.3% reduction in the Gini index. Guedes and Araujo (2009) found after micro simulation exercises that if the unmet BPC demand (eligible elderly, but not yet served) was eliminated, extreme poverty would decrease 4%. Medeiros (2008) found that the BPC is important in reducing poverty in Brazil. Soares et al. (2006) reported evidence that the BPC is responsible for 7% of the decline in inequality in Brazil between 1995 and 2005.

Another social assistance program is the PETI, which means Child Labour Eradication Program. It pays benefits to families that have children and adolescents in working situation. In Brazil, the minimum age to work is 16 years old, except for specific apprenticeship programs, where the minimum age is 14. PETI has been incorporated into a bigger program, *Bolsa Família* (or Family Stipend). This integration aimed to extend the programs' coverage by eliminating fragmentation and overlap of functions.

Bolsa Família

Another big federal program, perhaps the most known, is the *Bolsa Família*, a program of direct conditional cash transfers. The program benefits poor families (with monthly per capita income from R\$ 70.00 to R\$ 140.00 in 2009, corresponding to US\$35.00 to US\$70.00 in 2009) and extreme poverty (with monthly per capita income up to R\$ 70.00). Besides the above programs, it also integrated the *Fome Zero* (Zero Hunger) program.

The program is based on three steps for overcoming hunger and poverty. The first is promotion of the immediate relief of poverty and hunger through direct transfer of income to needy families. The second is strengthening the exercise of social and basic rights in the areas of education and health, through the requirement to satisfy conditions, aiming to break the poverty cycle between generations. The third is coordination of complementary programs that aim to develop families to overcome vulnerability and poverty. Some examples of these auxiliary programs are programs for job and income generation, adult literacy and registration to obtain documents.

Evidence in the literature suggests that *Bolsa-Família* is a well-focused program and contributes to reduce poverty and inequality in Brazil. Soares (2006) showed that 80% of *Bolsa-Família* beneficiaries belong to the targeted group and that *Bolsa Família* and BPC together account for 28% of the fall in the Gini index between 1995 and 2004 (7% from BPC and 21% from *Bolsa-Família*). Hoffman (2006) argued that a fifth of the overall reduction in inequality between 2001 and 2005 was due to conditional transfer programs (*Bolsa-Família*, BPC). In the poorest regions, like the Northeast, these programs are responsible for about 46% of the reduction in the Gini index between 1998 and 2005 and 87% in the period between 2002 and 2004. Barros et al. (2006) argued that the main factor behind the effect of these social programs on inequality is the increase in their coverage between 2001 and 2005, especially in the case of *Bolsa-Família*. In fact, there was a huge expansion of the program: in 2003, *Bolsa-Família* served 3.6 million people, rising to 6.5 million in 2004, 8.7 million in 2005, 11 million in 2006 and 12.7 million in 2009 (IPEA, 2010).

Scorzafave and Lima (2010) also show that *Bolsa Família* has been very important to reduce inequality. Furthermore, there is no evidence of collateral effects in terms of labour supply reduction by beneficiaries of the program (Ferro and Nicolella, 2007; Mattos et al., 2008). Finally, the program helps improve the consumption of basic staple foods by poor households (Hermeto and Resende, 2006)

3b. Labour Market Institutions

The Brazilian labour market is regulated under the influence of many institutions. Some of them include employment protection legislation, unionization and minimum wage legislation. Labour laws were unified in one law consolidation, called *Consolidação das Leis Trabalhistas* (CLT). In this sub-section, we discuss the main features of these institutions.

CLT

The basic Brazilian labour code (CLT) was promulgated in 1943, during the Vargas dictatorship. Its principal objective is the regulation of individual and collective labour activities. It regulates the urban and rural labour market. Among the main aspects of the CLT, we highlight: (a) definition of the workweek (which is currently 44 hours, but there is a proposal being discussed in Congress to change it to 40 hours); (b) 1-day

off per week (preferably Sunday); (c) 30 days' paid vacation a year; (d) special treatment for some labour categories (such as mandatory extra pay for those involving activities considered risky or unhealthful); and (e) unionization.

Unionization in Brazil has very strong characteristics. One is mandatory union dues, deducted from pay, independently of being a union member. In 2007, 25.2% of Brazilian employees were unionized. The industrial sector is the most unionized, having 38.1% of its workforce unionized that year. Also, men are generally more unionized than women: 26.3% of men were union members in 2007 against 23.3% of women (PNAD, 2007).

Due to its bureaucracy and excessive rules, one may say that labour legislation in Brazil needs to be reformed, especially to simplify the rules applicable to small and medium businesses. In addition, the many costs that the employers must bear end up being a barrier to new hiring and stimulate informality

There are some papers that link informality and labour market institutions, especially CLT, in Brazil. Scandiuzzi (1999) assumed that formal firms respect minimum wage legislation and informal firms do not. The author pointed to a negative relationship between informality and probability of punishment of informal firms. Loyaza (1996, p. 148) concluded that “the size of the informal sector is found to depend positively on tax burden and labour-market restrictions, and negatively on a proxy for the quality of government institutions.”

Ulyssea (2006) also argued there is a consensus in the Brazilian literature that contractual rigidity and heavy payroll taxes are the main reasons for the high informality in Brazil (Barros, 1993; Amadeo and Camargo, 1996). Ulyssea (2008, p. 525) developed a theoretical model that “incorporates the main trade-offs faced by workers and firms when deciding in which sector they will operate. Simulations show that increasing unemployment benefits and reducing payroll taxes generate positive, though small, effects on labour market indicators. However, intensifying government auditing implies a substantial reduction of informality rates, but it also causes unemployment to increase and the deterioration of other important indicators in the Brazilian labour market.”

Ulyssea and Reis (2005) simulated the effect of reducing payroll rates on the level of informality. If the rate of payroll levies as a whole fell from 27.5% to 10%, informality would decrease just 5 percentage points

Public sector workers are covered by a particular legal regime, called *Regime Jurídico Único*. The main benefits are job security retirement income equal to the last wage level for those hired up to 2002 when the rule was changed because of huge deficits in the pension system.

FGTS

Another important characteristic of the Brazilian labour market is the FGTS, which stands for Time of Service Guarantee Fund (*Fundo de Garantia por Tempo de Serviço*). It was created in 1967 to assure a money reserve proportional to the time of work of every contributing worker in case of lay-off, death or at retirement. Each formal private worker has a compulsory saving account into which the employer deposits 8% of the monthly salary. The worker can withdraw upon being laid off without cause (but not if fired for cause of resigning), along with other particular moments, like the purchase of a home, in case of some serious diseases (cancer, AIDS) and at the time of retirement. In the case of lay-off, the employer must pay the worker an additional 40% of the amount deposited during the work period, plus a 10% fine to the government.

FGTS resources are legally earmarked to finance low-income housing programs, environmental sanitation and urban infrastructure. In 2008, 44% of Brazilian workers contributed R\$ 54 billion (US\$30 billion) to the fund. On the other hand, there was R\$ 42 billion (R\$23.3 billion) in withdrawals from 29 million accounts. So in 2008 there was a net increase of US\$6.7 billion. (CAIXA, 2010)

INSS

The Social Security Administration, or INSS, is responsible for pensions to retirees and their survivors, as well as disability, sick leave and other benefits specified in law. The contributions are deducted every month from pay (with shares paid by the employer and employee). The percentage of the worker's share varies depending on the salary level. For salaries up to R\$ 965.67 (US\$482.00), the percentage is 8%; from R\$ 965.68 to R\$ 1,609.45 (US\$ 800.00), 9%; from R\$ 1,609.46 to R\$ 3,218.90 (US\$ 1,600.00), 11% and above 3,218.90 the maximum discount is R\$ 381.41 (US\$190.00). The employer's share is a flat 20%. Almost 40% of private workers in Brazil contribute to the INSS. Like in most countries, the, the retirement system is pay-as-you-go.

Minimum Wage

The minimum wage in Brazil was first established in the 1930s. In 2010, the national minimum wage in Brazil is R\$ 510.00 (US\$ 276.00) and corresponds to roughly 45% of the mean monthly earnings. The states are free to set higher state-wide limits. For example, in 2010 São Paulo set its minimum wage at R\$560.00 (US\$ 303.00) and in Rio de Janeiro it is R\$581.00 (US\$316.00). The higher state wage floors do not apply to INSS pensioners, who are subject to the federal legislation. In the last 15 years, the minimum wage has rising in real terms, helping raise pay levels but also placing a heavy burden on the pension system, because the benefits are tied to the minimum wage, with the minimum benefit being the same as the minimum wage and other benefit levels calculated in multiples thereof. Since 2004, the minimum wage has increased more than 130% in real terms. There is evidence that the equalizing effects of minimum wages are not as strong now as in the middle 90s. Also, there is no evidence that minimum wage increases unemployment in Brazil (Firpo and Reis, 2006).

Judicial System

As mentioned, labour relations are enforced by a separate system of federal labour courts. These courts tend to favor employees, as the weaker party. According to the Brazilian Constitution of 1988 and the CLT, workers have certain inalienable rights that they may not bargain away. Individual labour contracts or collective bargaining agreements may only add extra benefits to those legally required. Another problem is the heavy caseload, aggravated by the excessive bureaucracy of labour market institutions: the labour courts hear an average of 2 million suits every year and average length of each case is 31 months, including appeals (Meneguín and Bulgarin, 2008).

Affirmative action for disabled people

Brazilian legislation guarantees minimum quotes for disabled or rehabilitated people in firms with more than 100 employees. The quota is proportional to the size of the firm. Therefore, firms with up to 200 workers must reserve 2% of their jobs, while firms with 201 to 500 workers must reserve 3%; firms with 501 to 1000 workers must reserve 4%; and firms with more than 1000 must hire 5% of people with special needs. Data from the National Employment System (*Sistema Nacional de Emprego, SINE*) indicate that despite the offer of 36,837 jobs in the whole country in 2007 for disabled people, only 7,206 (20%) of them were filled. It is hard to tell how many companies actually comply with the quota because this number depends not only on government

supervision. According to the Brazilian government, since 2000, 64,177 disabled people were inserted in the labour market as a direct result of government inspections. Despite the concern with disabled and rehabilitated people, there is no labour market affirmative action focused on gender, race, immigrants or long-term unemployed in Brazil.

On the whole, while there are a significant number of programs, as seen above, there is little connection among them and reform is needed to reduce red tape and allow more flexibility in the labour market.

4. Impact of global financial crisis and the labour market and social policy response

The recent international financial crisis had an acute but temporary impact on the Brazilian labour market. Until September 2008, the Brazilian economy was growing steadily, generating new jobs at an increasing rate, especially in the formal sector, with important reductions in unemployment and informality, as seen before. Despite the fact that the Brazilian financial sector did not suffer from the problems that led to the crisis in the United States and Europe, it was not long before the crisis affected the Brazilian economy. The main channels through which the crisis affected Brazil were: (a) the reduction in the prices of commodities, which are responsible for a big share of Brazilian exports; (b) lack of credit, as many firms could not roll over their foreign debts, since the international banks were much more risk averse. These firms started to compete for the few lines of credit available internally. Therefore, interest rates rose for most credit lines. In particular, consumer credit, which had been growing at a rate of 20% a year since 2005, was all but interrupted, with a big impact on car sales, for instance; (c) the greater risk aversion of Brazilian banks, even with respect to inter-bank loans, which threw smaller banks into trouble.

At the end of 2008, the unemployment rate started to rise again, from 6.8% in December to 8.2% in January 2009. In many sectors, workers started to trade wage reductions for employment maintenance with their employers. Many firms decided to give paid holidays to their employees, reduced their workweek and reduced wages, expecting a quick reversal of their fortunes. The relatively high costs of layoff in Brazil, as shown in the previous section, gives an incentive to firms to avoid layoffs as a first solution to adjust costs. This is also reflected in the high proportion of formal workers that remain in this sector some months later in Brazil, indicated in Section 3. This is a

particular feature of the Brazilian institutional setting that contributed to attenuate the crisis's effects.

However, these adjustment costs of unemployment were not enough to offset the adjustment requirements. Therefore, since the uncertainty level was very high and employers did not have a clear idea of crisis's duration, some firms started to dismiss workers and unemployment started to rise. Between December 2008 and February 2009 about 800,000 workers lost their formal jobs. This corresponds to 38% of the jobs created between January 2008 and November 2008. The unemployment rate rose from 6.8% in December 2008 to 8.5% in February 2009.

Among the consequences of the recession on the performance of the Brazilian labour market in 2009, we can mention the strong rise in unemployment until April 2009. Another deleterious consequence was the increase in informality. Given that the majority of lost jobs in the worst period of the crisis were in the formal sector, transitions from informal to formal jobs became more difficult, which likely increased the rate of permanence in the informal sector and decreased the rate of transitions from the informal to the formal sector. Unfortunately, the absence of more disaggregated data for this period does not allow a clear investigation of what kind of workers were most hurt by the crisis. However, based in our previous findings, it is probable that women, young and less educated workers were the most affected groups.

In December 2008 alone, more than 600 thousand jobs are destroyed in all sectors, but mainly in construction, services, retail and manufacturing. Even agricultural showed negative numbers. In the first two months of 2009, services and construction started to recover, but manufacturing, agriculture and retail continued losing jobs.

The Brazilian government did not immediately take action to face the crisis triggered in September 2008 by the Lehman Brothers bankruptcy. In December, the Brazilian Central Bank kept the benchmark interest rate at 13.75% a year to fight inflation. Only at the end of January did the Central Bank start to loosen monetary policy. In December, the government started to implement other policies with more immediate effect to fight the crisis. However, most of them were not directly related to the labour market. According to Cazes et al. (2009), the government changed some policies related to income support. Specifically, it extended the period of unemployment insurance for some labour-intensive economic sectors; 300 thousand workers laid off between December 2008 and February 2009 received five to seven monthly unemployment insurance payments instead of the usual three to five. The cost of this

extension was R\$ 263 million (US\$ 138 million), less than 2% of the total amount of resources spent on unemployment insurance in 2009. It was a short-run measure; since March 2009, when the formal hiring data started to show positive numbers, the government eliminated the two extra monthly payments. Unfortunately, there are no data available yet to allow studying the impact of this specific policy on the beneficiaries. However, the positive aspect is that the government adapted an existing policy and did not provide a general and large expansion to fight unemployment. The extra unemployment insurance was announced by the government (and understood by society) as a temporary policy to alleviate consequences of the crisis. This was important in the sense that the policy configuration probably did not change the incentives of workers in their job search, reducing the possible collateral effects of the measure.

Another policy that contributed to alleviate the crisis was minimum wage growth policy. First, since the minimum wage indexes a large portion of unemployment benefits, it contributes to increase the unemployment insurance transferred to laid-off workers. In January 2009, the national minimum wages rose 12% (7% in real terms). Second, as most pensions provided by the INSS are indexed to the minimum wage, its increase at the beginning of 2009 may have acted as a intra-household redistribution mechanism: older retired members transferring income to unemployed relatives.

Other government actions during crisis were more related to non-labour market policies, but that indirectly impacted labour market behaviour.

- a) Credit markets: There was a series of interventions aimed at providing credit liquidity, since many foreign (but also domestic) loan transactions could not be rolled over by Brazilian debtors. This entailed aggressive action by state-owned banks to increase lending. So, in a period of credit restriction by private banks, state-owned banks expanded credit. Also relevant was the direct intervention of the Central Bank: US\$30 billion in international reserves were used by the Bank to provide bridge loans, mainly to Brazilian exporters.
- b) Fiscal policy: The government reduced taxes in the automotive sector (for 12 months) and white-line appliances (for 18 months). All these goods have a manufacturing process with long productive chains and are responsible for a significant number of industrial jobs, the most affected in the crisis. It also

reduced income tax (permanently) in order to keep aggregate demand as high as possible.

- c) Monetary policy: The basic interest rate was cut from 13.25% to 8.75% between December 2008 and August 2009, and there was an increase in the volume of subsidized loans by the BNDES (National Bank for Economic and Social Development). These resources were used for investments by some firms and for government infrastructure investments.
- d) Social assistance: The *Bolsa-Família* program was extended during the crisis. More than 1 million families were incorporated in the program in 2009, mainly in metropolitan regions, the most affected by the consequences of the crisis. Since 2008, the *Bolsa Família* was paying a benefit to 16-17 years-old people, to try to keep them in school. In a context of employment reduction, this benefit was aimed to avoid the entrance of these people in the already weakened labour market and to prop up household income (added-worker effect).

How have the Brazilian economy, and more specifically its labour markets, been behaving just after crisis? At this moment, recent aggregated data suggested that GDP is growing at 7% per year, and the recovery process seems to be general in all sectors of the Brazilian economy. Unemployment rates are already back to pre-crisis levels and the generation of formal jobs is growing again.

It is not easy to isolate the effect of different policies and institutions in this recovery process. In general, it seems that the institutional framework and policies adopted during the most acute crisis period generated the expected effects. Although some of the characteristics of Brazilian labour institutions were criticized in “normal times” – for example, the high layoff costs imposed by labour legislation – they may have helped Brazil to face a very quick unemployment storm. On the other hand, once the worker is laid off, the 40% FGTS penalty received can contribute to extend unemployment duration.

One lesson from this crisis is that Brazil was in much better condition to face this adverse situation than on previous occasions, probably due to good macroeconomic conditions and the growing internal market in Brazil, which are doing the job of keeping the Brazilian economy growing strongly. Probably the institutional framework and labour policies are also helping in this process. For example, the existence of the CRAS social assistance program contributes to attenuate crisis consequences in households and

the *Bolsa Familia* helps to prop up aggregate demand. It is also important to mention that the National Employment System (SINE) grew in Brazil a few years ago, when unemployment rates were very high. So, its existence, operation and effectiveness were already known by employers and employees, favouring employment reallocation in the recovery phase.

Another important fact is that the employment is showing a dynamic behaviour. However, it is not clear that all kinds of workers (men, women, young, low-skilled, etc.) are receiving equal benefits from the economic recovery. Based on our findings, it is possible that this vigorous growth is not enough to diminish the distance between them and the rest of population. More structural policies are needed – such as aggressive investment in high quality education – to change the difficult situation of some of these groups. This is the most obvious investment to be made, since our results show the beneficial effects of education on several indicators. For instance, education increases the probability of holding a formal job and decreases the chance of an informal one.

5. Conclusions

In this report, we investigated the main labour market institutions and policies in Brazil. We also provided an overview of the recent evolution of the country's main labour market indicators as well as the determinants of occupational choices in the labour market. Based on the evidence assembled thus far, what are the policy lessons that can be used to generate more and better jobs?

The first point to stress is that Brazil faces different regional realities. Each region faces different challenges concerning its economy and labour markets. It is important that policies take this into account to obtain better effects. A way of dealing with this is through decentralization. In practice, many policies in Brazil are already decentralized. However, there are not enough instruments developed to monitor and evaluate the impact of these policies in their different contexts. In some places, even local government workers do not have human capital enough to perform their job duties adequately. So, the central government should act as a coordinator in this process, identifying the most vulnerable regions and developing tools specially designed for them.

In terms of gender differences in the labour market, there seems to be no evidence that the recent crisis worsened this situation, with both groups being equally

affected in this process. An important aspect here concerning gender is that *Bolsa-Familia* benefits are given to a household woman in order to balance intra-household bargaining power. We believe that not all policies should have gender bias, but every policy should be studied in order to verify if it is possible and economically logical to introduce a gender bias similar of that mentioned above.

Policies that permit incorporation of poor people in the labour and consumer market are undoubtedly one aspect that has to be reinforced in the institutional labour market framework.

After a couple of decades with very volatile macroeconomic conditions and high levels of inequality, growth in the new century in Brazil has been able to generate jobs at an increasing pace. This has led to a decline in unemployment and informality, despite an increasing labour force participation rate. Moreover, the increasing level of human capital accumulation, coupled with the expansion of the conditional cash transfer programs like *Bolsa-Família*, has led to a steady fall in inequality, for the first time in decades. This evidence suggests that after a period of adjustment to the trade liberalization and privatization reforms, Brazil has found a stable development path. It is important to stress that the recent crisis did not change this more structural path. The crisis's affects were acute but brief, and the labour market soon recovered. Brazil exhibited an impressive capacity to overcome the crisis's effects very quickly.

The challenge to the country is more related to structural (microeconomic) changes. In order to continue in this positive path, despite the recent global economic uncertainty, Brazil has to continue expanding the education of its workforce, increasing the transitions from high school to college education. Moreover, it has to improve the *Bolsa-Família* program, so that the 11 million families that benefit from it in Brazil can find a way out of poverty in the long run and start participating more effectively in the labour market.

To decrease informality, it is necessary to promote institutional reforms to speed up the process of creating new firms, to reduce the tax burden on the small formal firms, to simplify the tax and the labour judiciary systems and to implement labour market reforms so that the hiring and firing of formal employees becomes less expensive.

One important aspect that is evident from the analysis of the Brazilian labour market structure is the total absence of integration among different policies. To improve the performance of public policies, the government needs to build a system of integrated labour market policies that coordinate decentralized efforts in order to achieve better

labour market results, as stated before. It is also clear that group-targeted labour market policies should at least be studied, since there are substantial differences between the insertions of different socio-demographic groups in the Brazilian labour market, as shown in Section 2.

But which economic policies could be adopted in this context to improve the quality of the Brazilian labour market? Here, we provide some actions that could contribute to this process.

- a) Tax reforms: Brazil has among the most complex tax systems in the world. There are more than 60 different types of taxes, which dramatically increase transaction costs and the inefficiency of firms, workers and consumers. Companies have to spend an enormous amount of time understanding the system and devising ways to pay lower taxes. Brazilian firms spend on average 2600 hours per year to pay taxes, the highest rate in the world (World Bank, 2009). Despite new initiatives aiming at simplifying the tax system for small firms (the *SIMPLES* regime), there are still many distortions in the Brazilian tax system.
- b) Labour costs: It is very expensive to hire workers in the formal sector. Firms have to pay up to 80% of the value of monthly wages as additional labour costs. To lay workers off in case of necessity, firms have to pay fines equivalent to 50% of all the forced savings accumulated during the job period (FGTS account). This system could be providing incentives for formal workers to change jobs often and disincentives for firms to keep workers for a long time. However, there is no empirical evidence regarding this issue. In Brazil, firms only hire formal workers if they are sure that demand will rise continuously for a long time. In an unexpected crisis as that of 2008, it is difficult to adjust employment and most of the burden is placed on the employer. This system has to be changed to increase labour market flexibility. There are also informal agreements between employers and employees when workers want to quit. The employer agrees to discharge the worker and the worker pays back some fraction of the FGTS fine to the employer.
- c) Judicial system: according to Meneghin and Bugarin (2008), every year 2 million labour suits are initiated and the average length of each case is 31 months. The most common result of these suits is that workers and firms share the amount in dispute: workers receive on average 40% of the total value. Employers, therefore, have incentives not to pay the full value of workers'

rights, since they know they will have to pay more after the litigation comes to an end (Meneghin and Bugarin, 2008). It is necessary, therefore, to speed up and rationalize the Brazilian labour court system, so that more formal jobs can be generated.

- d) Cost of doing business: Brazil appears in 125th position among 181 countries in the World Bank's (2009) report on the costs of doing business in each country. Brazil is one of the countries with the most stringent regulations for opening a new business, requiring 18 different procedures. Moreover, it takes on average 152 days to close a firm in Brazil. It is therefore necessary to simplify all the procedures necessary to open and close firms, and to reduce significantly the bureaucracy in the Brazilian public sector.
- e) Improved quality of education: There is an urgent need to improve education to diminish the NEET rate and to enhance the skills of future Brazilian workers. It is particularly important to improve the job prospects of the poorest fraction of young Brazilians. Expanded vocational education can be a solution for this problem. Another related problem is that middle-educated workers have the higher unemployment rates in Brazil. So, special attention should be given to this population group.
- f) Expanded coverage and amount of the *Bolsa-Família* program: In the context of a financial crisis, it would be necessary to expand the coverage of a program that is generally held in high regard in the literature, both in terms of targeting and in terms of its effect on poverty and inequality. This is necessary to keep family income above a minimum value necessary to buy adequate food in case the head becomes unemployed in the poorest regions and to keep children from dropping out from school and start working to replace the temporary fall in family income.
- g) Creation of incentives for informal workers to contribute to the retirement system: Today informal workers do not contribute to INSS, but they have a right to a minimum wage retirement at 70 years old. So, for low-income informal workers, this reduces the incentive to contribute to the retirement system.

Hence, there is a large set of changes that need to be implemented in Brazil to positively transform the labour market. Changing institutions created a long time ago is not an easy task. However, it is a necessary step to achieve better conditions for all

Brazilian workers. This recent crisis occurred while Brazil was in an extremely favorable macroeconomic situation. However, it is prudent for the government to reform institutions before another crisis affects Brazil in a less positive scenario.

Appendix

Table A1 – Transition Probabilities from Formal Sector

To	Informal	Unemployed	Self-Employed	Out of Labour Force
Woman	0.391*** (0.034)	0.036 (0.054)	-0.738*** (0.071)	0.457*** (0.039)
Age	-0.113*** (0.009)	-0.078*** (0.017)	0.064*** (0.020)	-0.183*** (0.010)
Age ²	0.001*** (0.000)	0.001** (0.000)	-0.001** (0.000)	0.002*** (0.000)
Recife	0.552*** (0.065)	0.187* (0.099)	0.400*** (0.110)	0.190*** (0.069)
Salvador	-0.002 (0.069)	-0.277*** (0.103)	-0.065 (0.119)	-0.632*** (0.079)
Bahia	0.228*** (0.054)	-0.100 (0.080)	0.245*** (0.089)	-0.103* (0.055)
Rio de Janeiro	-0.263*** (0.060)	-0.945*** (0.104)	-0.734*** (0.112)	-1.126*** (0.073)
São Paulo	0.130** (0.051)	-0.214*** (0.076)	-0.513*** (0.096)	-0.601*** (0.056)
Number of children	0.006 (0.004)	0.017*** (0.006)	-0.009 (0.007)	0.008* (0.005)
1-3 years of schooling	-0.062 (0.125)	-0.228 (0.242)	0.248 (0.257)	0.054 (0.130)
4-7 years of schooling	-0.117 (0.110)	-0.145 (0.207)	0.353 (0.233)	-0.180 (0.116)
8-10 years of schooling	-0.313*** (0.112)	-0.135 (0.207)	0.176 (0.236)	-0.330*** (0.119)
11 or more years of schooling	-0.683*** (0.110)	-0.407** (0.205)	-0.055 (0.233)	-0.852*** (0.117)
Household head	-0.345*** (0.045)	-0.265*** (0.068)	0.167* (0.090)	-0.284*** (0.053)
Spouse	-0.352*** (0.051)	-0.320*** (0.083)	0.272*** (0.104)	0.027 (0.056)
<i>Pardo</i>	-0.068* (0.038)	0.061 (0.061)	-0.240*** (0.071)	-0.009 (0.044)
Black	0.032 (0.057)	0.313*** (0.085)	-0.166 (0.106)	0.046 (0.065)
2003	0.136** (0.054)	0.070 (0.082)	-0.194** (0.095)	-0.258*** (0.062)
2004	0.114** (0.053)	0.054 (0.082)	-0.210** (0.095)	-0.256*** (0.061)
2005	-0.009 (0.058)	-0.276*** (0.094)	-0.375*** (0.105)	-0.237*** (0.064)
2006	0.037 (0.053)	-0.119 (0.083)	-0.201** (0.091)	-0.101* (0.057)
2007	0.022 (0.052)	-0.042 (0.080)	-0.236*** (0.091)	-0.160*** (0.057)
Constant	-0.650*** (0.199)	-1.506*** (0.346)	-5.346*** (0.431)	0.714*** (0.215)
Observations	97,600	97,600	97,600	97,600

Note: *** significant at 1%; ** significant at 5%; * significant at 10%; Standard-errors in parentheses.

Table A2 – Transition Probabilities from Informal Sector

To	Formal	Unemployed	Self-Employed	Out of Labour Force
Woman	-0.360*** (0.030)	-0.067 (0.049)	-1.049*** (0.042)	0.369*** (0.039)
Age	0.049*** (0.008)	-0.030** (0.014)	0.129*** (0.011)	-0.148*** (0.009)
Age ²	-0.001*** (0.000)	-0.000 (0.000)	-0.001*** (0.000)	0.002*** (0.000)
Recife	-0.103* (0.061)	0.300*** (0.095)	0.216*** (0.077)	0.320*** (0.066)
Salvador	-0.736*** (0.063)	-0.414*** (0.100)	-0.719*** (0.086)	-1.018*** (0.079)
Bahia	0.180*** (0.050)	0.107 (0.085)	0.177*** (0.067)	0.104* (0.057)
Rio de Janeiro	-0.862*** (0.055)	-1.114*** (0.105)	-0.795*** (0.073)	-1.670*** (0.080)
São Paulo	-0.261*** (0.047)	0.027 (0.078)	-0.277*** (0.063)	-0.565*** (0.057)
Number of children	0.004 (0.004)	0.017*** (0.006)	0.002 (0.005)	0.004 (0.004)
1-3 years of schooling	-0.121 (0.114)	0.326* (0.180)	-0.186 (0.115)	-0.140 (0.104)
4-7 years of schooling	0.154 (0.097)	0.282* (0.161)	-0.023 (0.098)	-0.098 (0.088)
8-10 years of schooling	0.497*** (0.098)	0.345** (0.163)	0.089 (0.102)	-0.094 (0.092)
11 or more years of schooling	0.792*** (0.097)	0.194 (0.162)	0.094 (0.099)	-0.493*** (0.092)
Household head	0.134*** (0.042)	-0.217*** (0.069)	0.252*** (0.058)	-0.288*** (0.055)
Spouse	0.004 (0.048)	-0.332*** (0.081)	0.377*** (0.066)	0.034 (0.058)
<i>Pardo</i>	0.016 (0.035)	0.135** (0.056)	0.052 (0.046)	0.024 (0.043)
Black	-0.113** (0.053)	0.176** (0.080)	-0.000 (0.067)	0.012 (0.062)
2003	-0.076 (0.049)	0.433*** (0.081)	0.015 (0.066)	-0.116* (0.060)
2004	-0.159*** (0.049)	0.226*** (0.083)	0.010 (0.064)	-0.251*** (0.061)
2005	-0.109** (0.050)	0.001 (0.091)	-0.174** (0.070)	-0.253*** (0.064)
2006	-0.188*** (0.048)	0.278*** (0.081)	-0.081 (0.064)	-0.106* (0.058)
2007	-0.236*** (0.048)	-0.055 (0.086)	-0.149** (0.065)	-0.197*** (0.058)
Constant	-2.291*** (0.174)	-1.985*** (0.281)	-4.404*** (0.227)	0.991*** (0.181)
Observations	43,258	43,258	43,258	43,258

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A3 – Transition Probabilities from Unemployment

To	Formal	Informal	Self-Employed	Out of Labour Force
Woman	-0.572*** (0.051)	-0.118*** (0.043)	-0.947*** (0.065)	0.332*** (0.033)
Age	0.104*** (0.016)	0.017 (0.013)	0.158*** (0.017)	-0.109*** (0.009)
Age ²	-0.001*** (0.000)	-0.000 (0.000)	-0.002*** (0.000)	0.002*** (0.000)
Recife	-1.054*** (0.101)	-0.214** (0.087)	0.049 (0.112)	0.392*** (0.065)
Salvador	-1.894*** (0.103)	-1.323*** (0.091)	-1.062*** (0.122)	-0.529*** (0.064)
Bahia	0.034 (0.079)	0.272*** (0.077)	0.242** (0.105)	0.274*** (0.062)
Rio de Janeiro	-1.786*** (0.095)	-1.176*** (0.084)	-1.070*** (0.115)	-0.860*** (0.063)
São Paulo	-1.115*** (0.077)	-0.286*** (0.070)	-0.728*** (0.101)	-0.337*** (0.056)
Number of children	0.011* (0.006)	0.020*** (0.005)	0.018*** (0.007)	0.012*** (0.004)
1-3 years of schooling	0.165 (0.259)	0.194 (0.162)	-0.090 (0.180)	-0.118 (0.126)
4-7 years of schooling	0.198 (0.226)	0.034 (0.142)	-0.182 (0.155)	-0.033 (0.108)
8-10 years of schooling	0.451** (0.226)	-0.253* (0.144)	-0.490*** (0.161)	-0.075 (0.108)
11 or more years of schooling	0.702*** (0.224)	-0.354** (0.142)	-0.719*** (0.159)	-0.295*** (0.107)
Household head	0.304*** (0.068)	0.254*** (0.059)	0.308*** (0.080)	-0.096** (0.046)
Spouse	0.083 (0.080)	0.001 (0.067)	0.227** (0.096)	0.301*** (0.047)
<i>Pardo</i>	0.029 (0.057)	0.007 (0.048)	-0.059 (0.069)	-0.010 (0.036)
Black	-0.157* (0.084)	-0.108 (0.070)	-0.256** (0.100)	-0.200*** (0.052)
2003	-0.978*** (0.083)	-0.392*** (0.073)	-0.286*** (0.101)	-0.516*** (0.054)
2004	-0.811*** (0.082)	-0.121* (0.071)	-0.140 (0.102)	-0.267*** (0.053)
2005	-0.694*** (0.087)	-0.371*** (0.080)	-0.456*** (0.117)	-0.358*** (0.058)
2006	-0.609*** (0.079)	-0.257*** (0.073)	-0.192* (0.103)	-0.345*** (0.054)
2007	-0.554*** (0.079)	-0.279*** (0.075)	-0.277*** (0.106)	-0.377*** (0.055)
Constant	-2.191*** (0.344)	-0.802*** (0.255)	-3.890*** (0.350)	1.513*** (0.186)
Observations	26,638	26,638	26,638	26,638

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A4 – Transition Probabilities from Self-Employment

To	Formal	Informal	Unemployed	Out of Labour Force
Woman	-0.570*** (0.067)	0.105*** (0.040)	-0.007 (0.074)	0.933*** (0.041)
Age	0.000 (0.017)	-0.057*** (0.010)	-0.116*** (0.018)	-0.183*** (0.010)
Age ²	-0.000* (0.000)	0.000*** (0.000)	0.001*** (0.000)	0.002*** (0.000)
Recife	-0.219** (0.111)	-0.057 (0.071)	0.671*** (0.124)	0.555*** (0.065)
Salvador	-0.894*** (0.119)	-1.044*** (0.080)	-0.639*** (0.143)	-0.873*** (0.079)
Bahia	0.320*** (0.086)	0.004 (0.061)	0.361*** (0.117)	0.074 (0.061)
Rio de Janeiro	-1.014*** (0.101)	-0.704*** (0.063)	-1.546*** (0.160)	-1.941*** (0.088)
São Paulo	-0.300*** (0.089)	0.071 (0.057)	0.184 (0.115)	-0.354*** (0.062)
Number of children	0.013** (0.007)	0.018*** (0.004)	0.022*** (0.008)	0.020*** (0.005)
1-3 years of schooling	0.114 (0.225)	-0.174* (0.104)	-0.221 (0.182)	-0.071 (0.099)
4-7 years of schooling	0.215 (0.200)	-0.190** (0.090)	-0.295* (0.157)	-0.109 (0.087)
8-10 years of schooling	0.562*** (0.202)	-0.239** (0.094)	-0.310* (0.164)	-0.213** (0.092)
11 or more years of schooling	0.958*** (0.199)	-0.265*** (0.092)	-0.393** (0.162)	-0.460*** (0.090)
Household head	0.075 (0.080)	-0.278*** (0.052)	-0.353*** (0.090)	-0.523*** (0.060)
Spouse	-0.031 (0.098)	-0.354*** (0.061)	-0.559*** (0.111)	-0.119* (0.063)
<i>Pardo</i>	0.084 (0.066)	0.102** (0.043)	0.278*** (0.079)	0.159*** (0.045)
Black	0.132 (0.102)	0.172*** (0.064)	0.417*** (0.115)	0.070 (0.072)
2003	-0.165* (0.089)	0.148** (0.059)	0.640*** (0.109)	-0.041 (0.062)
2004	-0.187** (0.088)	0.149** (0.058)	0.375*** (0.114)	-0.095 (0.062)
2005	-0.497*** (0.101)	-0.078 (0.064)	0.015 (0.128)	-0.260*** (0.067)
2006	-0.435*** (0.092)	-0.142** (0.061)	0.114 (0.119)	-0.120* (0.061)
2007	-0.090 (0.084)	-0.039 (0.060)	0.026 (0.121)	-0.137** (0.061)
Constant	-2.422*** (0.382)	0.026 (0.218)	-0.212 (0.375)	1.332*** (0.223)

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A5 – Transition Probabilities from Out-of Labour Market

To	Formal	Informal	Unemployed	Self-Employed
Woman	-0.916*** (0.046)	-0.420*** (0.034)	-0.331*** (0.027)	-0.772*** (0.038)
Age	0.217*** (0.010)	0.120*** (0.007)	0.178*** (0.007)	0.216*** (0.008)
Age ²	-0.003*** (0.000)	-0.002*** (0.000)	-0.003*** (0.000)	-0.003*** (0.000)
Recife	-0.981*** (0.080)	-0.268*** (0.053)	-0.037 (0.047)	0.235*** (0.057)
Salvador	-1.262*** (0.089)	-1.068*** (0.067)	-0.246*** (0.049)	-0.541*** (0.072)
Bahia	-0.086 (0.062)	0.121** (0.047)	-0.015 (0.044)	0.255*** (0.053)
Rio de Janeiro	-1.319*** (0.077)	-1.454*** (0.065)	-0.800*** (0.049)	-1.110*** (0.070)
São Paulo	-0.478*** (0.064)	-0.212*** (0.048)	0.179*** (0.042)	-0.247*** (0.055)
Number of children	0.021*** (0.005)	0.019*** (0.004)	0.022*** (0.003)	0.012*** (0.004)
1-3 years of schooling	0.602*** (0.161)	0.501*** (0.089)	0.444*** (0.092)	0.180** (0.085)
4-7 years of schooling	0.751*** (0.139)	0.474*** (0.077)	0.665*** (0.077)	0.393*** (0.072)
8-10 years of schooling	1.051*** (0.140)	0.393*** (0.079)	0.828*** (0.077)	0.314*** (0.077)
11 or more years of schooling	1.731*** (0.136)	0.603*** (0.078)	1.321*** (0.076)	0.438*** (0.075)
Household head	0.239*** (0.063)	0.131*** (0.048)	0.142*** (0.039)	0.459*** (0.055)
Spouse	-0.489*** (0.069)	-0.383*** (0.049)	-0.593*** (0.039)	0.280*** (0.057)
<i>Pardo</i>	0.222*** (0.049)	0.188*** (0.035)	0.304*** (0.029)	0.099*** (0.038)
Black	0.271*** (0.073)	0.282*** (0.053)	0.374*** (0.043)	0.083 (0.060)
2003	-0.182*** (0.069)	-0.140*** (0.050)	0.465*** (0.042)	0.103* (0.056)
2004	-0.272*** (0.069)	-0.082* (0.049)	0.311*** (0.042)	0.151*** (0.055)
2005	-0.254*** (0.072)	-0.173*** (0.052)	0.292*** (0.044)	-0.002 (0.059)
2006	-0.123* (0.066)	-0.082* (0.049)	0.244*** (0.043)	0.116** (0.055)
2007	-0.079 (0.064)	-0.097** (0.048)	0.145*** (0.043)	0.085 (0.054)
Constant	-6.591*** (0.229)	-4.059*** (0.149)	-5.293*** (0.137)	-7.062*** (0.176)
Observations	41,098	41,098	41,098	41,098

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A6 – Transition Probabilities from Formal Sector - Women

To	Informal	Unemployed	Self-Employed	Out of Labour Force
Age	-0.000* (0.000)	-0.001*** (0.000)	0.000*** (0.000)	-0.000 (0.000)
Recife	0.038*** (0.007)	0.002 (0.002)	0.007* (0.003)	0.009* (0.004)
Salvador	0.005 (0.005)	-0.002 (0.002)	0.002 (0.002)	-0.016*** (0.003)
Belo Horizonte	0.016*** (0.004)	-0.000 (0.002)	0.001 (0.001)	-0.001 (0.003)
Rio de Janeiro	-0.007* (0.004)	-0.009*** (0.001)	-0.002 (0.001)	-0.028*** (0.002)
São Paulo	0.012** (0.004)	-0.003* (0.002)	-0.001 (0.001)	-0.016*** (0.002)
Number of children	0.000 (0.000)	0.000* (0.000)	-0.000* (0.000)	0.000* (0.000)
1-3 years of schooling	-0.007 (0.007)	-0.006 (0.004)	0.018 (0.017)	-0.008 (0.005)
4-7 years of schooling	-0.009 (0.006)	-0.006 (0.003)	0.012 (0.011)	-0.015*** (0.004)
8-10 years of schooling	-0.018** (0.006)	-0.006 (0.003)	0.010 (0.010)	-0.015*** (0.004)
11 or more years of schooling	-0.047*** (0.009)	-0.008 (0.005)	0.007 (0.004)	-0.043*** (0.008)
Household head	-0.012*** (0.003)	-0.001 (0.001)	0.002 (0.001)	-0.006* (0.002)
Spouse	-0.017*** (0.003)	-0.005*** (0.001)	0.002 (0.001)	0.002 (0.002)
<i>Pardo</i>	-0.001 (0.003)	0.001 (0.001)	-0.001 ,	-0.001 (0.002)
Black	0.005 (0.004)	0.004 (0.002)	-0.002 (0.001)	-0.006 (0.003)
2003	0.001 (0.004)	-0.002 (0.002)	0.001 (0.001)	-0.008** (0.003)
2004	0.003 (0.004)	-0.001 (0.002)	-0.001 (0.001)	-0.008** (0.003)
2005	-0.003 (0.004)	-0.003* (0.002)	-0.002 (0.001)	-0.007* (0.003)
2006	0.001 (0.004)	-0.002 (0.002)	-0.000 (0.001)	-0.004 (0.003)
2007	-0.002 (0.003)	-0.001 (0.002)	0.000 (0.001)	-0.006* (0.003)
Observations	40,235	40,235	40,235	40,235
Pseudo R2	0.026	0.026	0.026	0.026

Note: *** significant at 1%; ** significant at 5%; * significant at 10%; Standard-errors in parentheses.

Table A7 – Transition Probabilities from Informal Sector - Women

To	Formal	Unemployed	Self-Employed	Out of Labour Force
Age	-0.000 (0.000)	-0.001*** (0.000)	0.001*** (0.000)	0.000 (0.000)
Recife	-0.017* (0.008)	0.005 (0.005)	0.006 (0.006)	0.016* (0.008)
Salvador	-0.054*** (0.006)	-0.011** (0.004)	-0.020*** (0.004)	-0.070*** (0.004)
Belo Horizonte	0.012 (0.007)	-0.002 (0.004)	0.000 (0.005)	0.004 (0.006)
Rio de Janeiro	-0.068*** (0.005)	-0.026*** (0.003)	-0.011** (0.004)	-0.092*** (0.004)
São Paulo	-0.024*** (0.006)	-0.003 (0.004)	-0.007 (0.004)	-0.040*** (0.005)
Number of children	0.000 (0.001)	0.001* (0.000)	-0.000 (0.000)	0.000 (0.000)
1-3 years of schooling	-0.001 (0.017)	0.019 (0.013)	-0.008 (0.007)	-0.019* (0.009)
4-7 years of schooling	0.040* (0.016)	0.009 (0.009)	0.002 (0.007)	-0.024** (0.008)
8-10 years of schooling	0.067*** (0.019)	0.012 (0.010)	0.016 (0.009)	-0.020* (0.008)
11 or more years of schooling	0.120*** (0.018)	0.010 (0.009)	0.018* (0.008)	-0.056*** (0.008)
Household head	0.003 (0.006)	0.000 (0.003)	0.025*** (0.005)	-0.024*** (0.005)
Spouse	-0.006 (0.006)	-0.007* (0.003)	0.030*** (0.005)	-0.005 (0.005)
<i>Pardo</i>	0.001 (0.005)	0.005 (0.003)	0.002 (0.003)	0.002 (0.004)
Black	-0.023*** (0.007)	0.013** (0.005)	-0.000 (0.005)	0.001 (0.007)
2003	-0.007 (0.007)	0.021*** (0.006)	0.014* (0.005)	-0.007 (0.006)
2004	-0.009 (0.007)	0.010* (0.005)	0.010* (0.005)	-0.017** (0.006)
2005	-0.010 (0.007)	0.001 (0.005)	-0.001 (0.005)	-0.015* (0.006)
2006	-0.022*** (0.006)	0.010* (0.005)	-0.001 (0.005)	-0.009 (0.006)
2007	-0.027*** (0.006)	-0.001 (0.004)	-0.001 (0.005)	-0.016** (0.005)
Observations	23,445	23,445	23,445	23,445
Pseudo R ²	0.045	0.045	0.045	0.045

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A8 – Transition Probabilities from Unemployment - Women

To	Formal	Informal	Self-Employed	Out of Labour Force
Age	-0.000 (0.000)	-0.000 (0.000)	0.001*** (0.000)	0.002*** (0.000)
Recife	-0.042*** (0.004)	-0.038*** (0.008)	0.020* (0.008)	0.101*** (0.018)
Salvador	-0.060*** (0.003)	-0.083*** (0.006)	-0.002 (0.005)	-0.076*** (0.015)
Belo Horizonte	-0.007 (0.005)	0.011 (0.009)	0.012 (0.006)	0.033* (0.016)
Rio de Janeiro	-0.049*** (0.003)	-0.071*** (0.006)	-0.013** (0.004)	-0.126*** (0.014)
São Paulo	-0.043*** (0.004)	-0.018* (0.008)	-0.007 (0.004)	-0.045** (0.014)
Number of children	-0.000 (0.000)	0.001* (0.001)	0.000 (0.000)	0.003** (0.001)
1-3 years of schooling	-0.014 (0.016)	0.054 (0.028)	0.008 (0.013)	-0.040 (0.031)
4-7 years of schooling	0.002 (0.017)	0.009 (0.019)	0.006 (0.010)	-0.022 (0.028)
8-10 years of schooling	0.009 (0.018)	-0.020 (0.017)	0.004 (0.010)	0.002 (0.028)
11 or more years of schooling	0.039* (0.017)	-0.015 (0.018)	0.007 (0.009)	-0.088** (0.028)
Household head	0.010 (0.006)	0.026** (0.008)	0.012* (0.005)	-0.045*** (0.012)
Spouse	-0.005 (0.005)	-0.011 (0.007)	0.007 (0.004)	0.048*** (0.011)
<i>Pardo</i>	-0.002 (0.004)	0.007 (0.006)	-0.004 (0.003)	0.007 (0.009)
Black	-0.003 (0.006)	-0.007 (0.009)	-0.003 (0.004)	-0.033* (0.013)
2003	-0.033*** (0.004)	-0.019* (0.008)	0.002 (0.005)	-0.081*** (0.013)
2004	-0.032*** (0.004)	-0.002 (0.009)	0.003 (0.005)	-0.032* (0.013)
2005	-0.020*** (0.005)	-0.020* (0.009)	-0.008 (0.005)	-0.037** (0.014)
2006	-0.019*** (0.004)	-0.011 (0.008)	-0.001 (0.005)	-0.050*** (0.013)
2007	-0.018*** (0.004)	-0.010 (0.009)	-0.003 (0.005)	-0.056*** (0.013)
Observations	15,036	15,036	15,036	15,036
Pseudo R ²	0.049	0.049	0.049	0.049

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A9 – Transition Probabilities from Self-Employment -Women

To	Formal	Informal	Unemployed	Out of Labour Force
Age	-0.001*** (0.000)	-0.002*** (0.000)	-0.001*** (0.000)	0.001*** (0.000)
Recife	-0.005 (0.003)	-0.017* (0.008)	0.009* (0.005)	0.050*** (0.011)
Salvador	-0.011*** (0.003)	-0.064*** (0.005)	-0.003 (0.003)	-0.066*** (0.006)
Belo Horizonte	0.004 (0.004)	-0.010 (0.007)	0.006 (0.004)	-0.000 (0.008)
Rio de Janeiro	-0.010*** (0.003)	-0.017* (0.007)	-0.012*** (0.002)	-0.129*** (0.005)
São Paulo	-0.004 (0.003)	0.018* (0.008)	0.005 (0.004)	-0.033*** (0.007)
Number of children	0.000 (0.000)	0.000 (0.001)	0.000 (0.000)	0.001* (0.001)
1-3 years of schooling	0.007 (0.017)	-0.022* (0.010)	-0.000 (0.005)	-0.008 (0.013)
4-7 years of schooling	0.021 (0.017)	-0.037*** (0.009)	-0.005 (0.004)	-0.016 (0.011)
8-10 years of schooling	0.021 (0.019)	-0.049*** (0.008)	-0.004 (0.004)	-0.031** (0.011)
11 or more years of schooling	0.040* (0.018)	-0.051*** (0.010)	-0.005 (0.004)	-0.055*** (0.011)
Household head	-0.001 (0.003)	-0.002 (0.007)	-0.003 (0.002)	-0.040*** (0.008)
Spouse	-0.007* (0.003)	-0.026*** (0.007)	-0.010*** (0.002)	0.001 (0.008)
<i>Pardo</i>	-0.006* (0.002)	0.005 (0.005)	0.002 (0.002)	0.011 (0.006)
Black	-0.006 (0.003)	0.020* (0.009)	0.001 (0.003)	0.000 (0.010)
2003	-0.002 (0.003)	0.008 (0.008)	0.011** (0.004)	-0.020** (0.007)
2004	-0.005 (0.003)	0.009 (0.008)	0.007 (0.004)	-0.017* (0.007)
2005	-0.004 (0.003)	-0.007 (0.007)	0.003 (0.004)	-0.038*** (0.007)
2006	-0.006* (0.003)	-0.017** (0.007)	0.003 (0.003)	-0.021** (0.007)
2007	0.000 (0.003)	-0.004 (0.007)	0.002 (0.003)	-0.025*** (0.007)
Observations	16,352	16,352	16,352	16,352
Pseudo R ²	0.066	0.066	0.066	0.066

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

**Table A10 – Transition Probabilities from Out-of Labour Market -
Women**

To	Formal	Informal	Unemployed	Self-Employed
Age	-0.000*** (0.000)	-0.001*** (0.000)	-0.002*** (0.000)	0.000 (0.000)
Recife	-0.009*** (0.001)	-0.008*** (0.002)	-0.002 (0.002)	0.008*** (0.002)
Salvador	-0.010*** (0.001)	-0.022*** (0.001)	-0.007** (0.002)	-0.010*** (0.002)
Belo Horizonte	-0.001 (0.001)	0.005* (0.002)	-0.001 (0.002)	0.010*** (0.002)
Rio de Janeiro	-0.011*** (0.001)	-0.031*** (0.001)	-0.025*** (0.002)	-0.021*** (0.001)
São Paulo	-0.005*** (0.001)	-0.007*** (0.002)	0.007** (0.002)	-0.006*** (0.002)
Number of children	0.000 (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.000 (0.000)
1-3 years of schooling	0.003 (0.004)	0.017*** (0.005)	0.014* (0.006)	0.002 (0.003)
4-7 years of schooling	0.007* (0.003)	0.014*** (0.004)	0.021*** (0.005)	0.011*** (0.003)
8-10 years of schooling	0.010** (0.004)	0.007 (0.004)	0.023*** (0.005)	0.014*** (0.004)
11 or more years of schooling	0.028*** (0.005)	0.015*** (0.004)	0.063*** (0.007)	0.015*** (0.003)
Household head	0.003* (0.001)	0.008*** (0.002)	0.018*** (0.002)	0.031*** (0.003)
Spouse	-0.003** (0.001)	-0.004* (0.002)	-0.006*** (0.002)	0.024*** (0.002)
<i>Pardo</i>	0.002** (0.001)	0.006*** (0.001)	0.013*** (0.002)	0.003* (0.001)
Black	0.005** (0.002)	0.014*** (0.003)	0.020*** (0.003)	0.000 (0.002)
2003	-0.002 (0.001)	-0.006*** (0.002)	0.019*** (0.003)	0.002 (0.002)
2004	-0.003** (0.001)	-0.003 (0.002)	0.013*** (0.003)	0.004 (0.002)
2005	-0.004*** (0.001)	-0.006*** (0.002)	0.009*** (0.003)	0.001 (0.002)
2006	-0.001 (0.001)	-0.004* (0.002)	0.008** (0.002)	0.005* (0.002)
2007	-0.001 (0.001)	-0.004* (0.002)	0.005* (0.002)	0.002 (0.002)
Observations	81,007	81,007	81,007	81,007
Pseudo R ²	0.069	0.069	0.069	0.069

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A11 – Transition Probabilities from Formal Sector - Men

To	Informal	Unemployed	Self-Employed	Out of Labour Force
Age	-0.000 (0.000)	-0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)
Recife	0.017*** (0.004)	0.002 (0.002)	0.004 (0.002)	-0.001 (0.002)
Salvador	-0.003 (0.003)	-0.005** (0.001)	-0.002 (0.002)	-0.014*** (0.001)
Belo Horizonte	0.005 (0.003)	-0.003 (0.001)	0.004* (0.002)	-0.005*** (0.001)
Rio de Janeiro	-0.009*** (0.002)	-0.011*** (0.001)	-0.009*** (0.001)	-0.020*** (0.001)
São Paulo	0.003 (0.003)	-0.002 (0.001)	-0.008*** (0.001)	-0.014*** (0.001)
Number of children	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
1-3 years of schooling	-0.001 (0.006)	-0.001 (0.004)	0.000 (0.004)	0.004 (0.005)
4-7 years of schooling	-0.006 (0.005)	0.000 (0.004)	0.004 (0.004)	-0.004 (0.003)
8-10 years of schooling	-0.010* (0.005)	0.001 (0.004)	0.001 (0.004)	-0.007* (0.003)
11 or more years of schooling	-0.020*** (0.006)	-0.004 (0.004)	-0.003 (0.003)	-0.020*** (0.004)
Household head	-0.022*** (0.002)	-0.006*** (0.001)	0.004** (0.001)	-0.022*** (0.002)
Spouse	-0.018*** (0.002)	-0.003 (0.002)	0.007** (0.002)	-0.013*** (0.001)
<i>Pardo</i>	-0.004* (0.002)	0.001 (0.001)	-0.003** (0.001)	0.001 (0.001)
Black	-0.002 (0.003)	0.006** (0.002)	-0.002 (0.001)	0.006* (0.002)
2003	0.010** (0.003)	0.003 (0.002)	-0.004*** (0.001)	-0.005** (0.002)
2004	0.007* (0.003)	0.002 (0.002)	-0.003* (0.001)	-0.006*** (0.002)
2005	0.003 (0.003)	-0.003* (0.001)	-0.005*** (0.001)	-0.005** (0.002)
2006	0.002 (0.003)	-0.001 (0.001)	-0.003** (0.001)	-0.002 (0.002)
2007	0.004 (0.003)	-0.000 (0.002)	-0.004** (0.001)	-0.003 (0.002)
Observations	57,365	57,365	57,365	57,365
Pseudo R ²	0.031	0.031	0.031	0.031

Note: *** significant at 1%; ** significant at 5%; * significant at 10%; Standard-errors in parentheses.

Table A12 – Transition Probabilities from Informal Sector - Men

To	Formal	Unemployed	Self-Employed	Out of Labour Force
Age	-0.001* (0.000)	-0.001*** (0.000)	0.002*** (0.000)	0.001*** (0.000)
Recife	-0.017 (0.010)	0.021** (0.008)	0.025** (0.009)	0.019** (0.007)
Salvador	-0.062*** (0.009)	-0.003 (0.006)	-0.036*** (0.007)	-0.027*** (0.004)
Belo Horizonte	0.029** (0.010)	0.008 (0.006)	0.022** (0.008)	-0.001 (0.005)
Rio de Janeiro	-0.061*** (0.008)	-0.026*** (0.004)	-0.051*** (0.006)	-0.054*** (0.003)
São Paulo	-0.018* (0.008)	0.015** (0.006)	-0.015* (0.006)	-0.027*** (0.004)
Number of children	0.001 (0.001)	0.001 (0.000)	0.000 (0.000)	-0.000 (0.000)
1-3 years of schooling	-0.022 (0.019)	0.013 (0.013)	-0.011 (0.011)	-0.006 (0.009)
4-7 years of schooling	0.000 (0.018)	0.012 (0.011)	-0.004 (0.010)	-0.008 (0.008)
8-10 years of schooling	0.055** (0.020)	0.009 (0.010)	-0.015 (0.010)	-0.008 (0.008)
11 or more years of schooling	0.091*** (0.019)	-0.004 (0.009)	-0.015 (0.010)	-0.044*** (0.007)
Household head	0.050*** (0.007)	-0.021*** (0.004)	0.037*** (0.006)	-0.056*** (0.004)
Spouse	0.041** (0.012)	-0.018*** (0.004)	0.053*** (0.011)	-0.042*** (0.003)
<i>Pardo</i>	-0.000 (0.006)	0.005 (0.003)	0.004 (0.005)	-0.002 (0.004)
Black	-0.000 (0.009)	0.001 (0.005)	0.002 (0.007)	0.000 (0.006)
2003	-0.015 (0.009)	0.020** (0.006)	-0.013* (0.006)	-0.008 (0.005)
2004	-0.027** (0.008)	0.012* (0.006)	-0.006 (0.007)	-0.014** (0.005)
2005	-0.006 (0.009)	0.003 (0.006)	-0.017* (0.007)	-0.016*** (0.005)
2006	-0.019* (0.008)	0.018** (0.006)	-0.006 (0.007)	-0.003 (0.005)
2007	-0.017* (0.008)	0.002 (0.005)	-0.011 (0.006)	-0.005 (0.005)
Observations	19,813	19,813	19,813	19,813
Pseudo R ²	0.048	0.048	0.048	0.048

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A13 – Transition Probabilities from Unemployment - Men

To	Formal	Informal	Self-Employed	Out of Labour Force
Age	-0.001 (0.000)	-0.002*** (0.000)	0.002*** (0.000)	0.001** (0.000)
Recife	-0.070*** (0.006)	-0.011 (0.013)	-0.013 (0.007)	0.104*** (0.020)
Salvador	-0.084*** (0.006)	-0.078*** (0.009)	-0.050*** (0.006)	0.009 (0.018)
Belo Horizonte	-0.006 (0.008)	0.027* (0.013)	-0.002 (0.008)	0.059** (0.018)
Rio de Janeiro	-0.081*** (0.005)	-0.056*** (0.010)	-0.033*** (0.006)	-0.078*** (0.015)
São Paulo	-0.065*** (0.006)	0.009 (0.011)	-0.038*** (0.006)	-0.012 (0.015)
Number of children	0.001 (0.001)	0.002* (0.001)	0.001 (0.001)	-0.002 (0.001)
1-3 years of schooling	0.054 (0.040)	-0.005 (0.024)	-0.010 (0.011)	-0.052 (0.028)
4-7 years of schooling	0.046 (0.031)	0.001 (0.021)	-0.012 (0.010)	-0.044 (0.026)
8-10 years of schooling	0.087* (0.035)	-0.032 (0.019)	-0.037*** (0.009)	-0.054* (0.026)
11 or more years of schooling	0.110*** (0.031)	-0.039* (0.020)	-0.057*** (0.010)	-0.075** (0.026)
Household head	0.051*** (0.009)	0.036*** (0.009)	0.036*** (0.007)	-0.087*** (0.011)
Spouse	0.064*** (0.017)	0.006 (0.016)	0.047*** (0.013)	-0.099*** (0.014)
<i>Pardo</i>	0.009 (0.006)	-0.007 (0.007)	-0.001 (0.005)	-0.016 (0.010)
Black	-0.005 (0.009)	0.004 (0.011)	-0.013 (0.007)	-0.027* (0.013)
2003	-0.056*** (0.006)	-0.012 (0.011)	-0.006 (0.008)	-0.055*** (0.013)
2004	-0.050*** (0.006)	0.008 (0.012)	-0.004 (0.008)	-0.035** (0.013)
2005	-0.044*** (0.007)	-0.017 (0.012)	-0.015* (0.008)	-0.046** (0.014)
2006	-0.040*** (0.007)	-0.010 (0.011)	-0.000 (0.008)	-0.043** (0.013)
2007	-0.032*** (0.007)	-0.013 (0.011)	-0.007 (0.008)	-0.047*** (0.013)
Observations	11,602	11,602	11,602	11,602
Pseudo R ²	0.053	0.053	0.053	0.053

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A14 – Transition Probabilities from Self-Employment -Men

To	Formal	Informal	Unemployed	Out of Labour Force
Age	-0.001*** (0.000)	-0.002*** (0.000)	-0.001*** (0.000)	0.001*** (0.000)
Recife	-0.009* (0.004)	-0.004 (0.007)	0.018*** (0.005)	0.033*** (0.006)
Salvador	-0.022*** (0.003)	-0.053*** (0.005)	-0.010*** (0.002)	-0.022*** (0.003)
Belo Horizonte	0.014** (0.004)	0.004 (0.006)	0.007* (0.003)	0.005 (0.004)
Rio de Janeiro	-0.027*** (0.003)	-0.050*** (0.005)	-0.020*** (0.002)	-0.052*** (0.003)
São Paulo	-0.011** (0.003)	0.003 (0.006)	0.003 (0.003)	-0.014*** (0.003)
Number of children	0.000 (0.000)	0.002*** (0.000)	0.000 (0.000)	0.001* (0.000)
1-3 years of schooling	0.004 (0.009)	-0.004 (0.010)	-0.005 (0.003)	-0.003 (0.005)
4-7 years of schooling	0.006 (0.008)	0.000 (0.009)	-0.005 (0.003)	-0.008 (0.005)
8-10 years of schooling	0.027* (0.011)	0.005 (0.010)	-0.006 (0.003)	-0.009 (0.005)
11 or more years of schooling	0.040*** (0.011)	-0.000 (0.010)	-0.008** (0.003)	-0.021*** (0.004)
Household head	0.011*** (0.003)	-0.026*** (0.005)	-0.009*** (0.002)	-0.056*** (0.005)
Spouse	0.016** (0.006)	-0.019** (0.006)	-0.007** (0.002)	-0.032*** (0.002)
<i>Pardo</i>	0.007* (0.003)	0.007 (0.004)	0.007** (0.002)	0.007* (0.003)
Black	0.009 (0.005)	0.008 (0.007)	0.013** (0.004)	0.006 (0.005)
2003	-0.007* (0.003)	0.014* (0.007)	0.016*** (0.004)	0.006 (0.004)
2004	-0.006 (0.003)	0.015* (0.007)	0.008* (0.003)	0.000 (0.004)
2005	-0.017*** (0.003)	-0.002 (0.006)	-0.000 (0.003)	0.001 (0.004)
2006	-0.014*** (0.003)	-0.004 (0.006)	0.002 (0.003)	0.004 (0.004)
2007	-0.004 (0.003)	-0.000 (0.006)	-0.000 (0.003)	0.003 (0.004)
Observations	24,746	24,746	24,746	24,746
Pseudo R ²	0.063	0.063	0.063	0.063

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Table A15 – Transition Probabilities from Out-of Labour Market - Men

To	Formal	Informal	Unemployed	Self-Employed
Age	-0.001*** (0.000)	-0.002*** (0.000)	-0.003*** (0.000)	-0.000 (0.000)
Recife	-0.019*** (0.002)	-0.008* (0.003)	0.010 (0.006)	0.012** (0.004)
Salvador	-0.025*** (0.002)	-0.036*** (0.002)	-0.007 (0.005)	-0.019*** (0.003)
Belo Horizonte	-0.003 (0.002)	0.004 (0.004)	0.000 (0.005)	0.005 (0.003)
Rio de Janeiro	-0.025*** (0.002)	-0.044*** (0.002)	-0.038*** (0.004)	-0.030*** (0.002)
São Paulo	-0.012*** (0.002)	-0.007* (0.003)	0.023*** (0.006)	-0.009** (0.003)
Number of children	0.001*** (0.000)	0.001*** (0.000)	0.002*** (0.000)	0.001*** (0.000)
1-3 years of schooling	0.025* (0.011)	0.016 (0.008)	0.024 (0.012)	0.005 (0.005)
4-7 years of schooling	0.020** (0.007)	0.012 (0.006)	0.041*** (0.010)	0.010* (0.004)
8-10 years of schooling	0.029*** (0.008)	0.006 (0.006)	0.054*** (0.011)	-0.012** (0.004)
11 or more years of schooling	0.070*** (0.012)	0.024*** (0.007)	0.119*** (0.014)	-0.001 (0.004)
Household head	0.037*** (0.004)	0.029*** (0.004)	0.027*** (0.005)	0.040*** (0.004)
Spouse	0.053*** (0.010)	0.036*** (0.009)	0.028** (0.009)	0.059*** (0.009)
<i>Pardo</i>	0.007*** (0.002)	0.009*** (0.003)	0.023*** (0.003)	0.004 (0.002)
Black	0.006 (0.004)	0.003 (0.004)	0.026*** (0.006)	0.006 (0.004)
2003	-0.008** (0.002)	-0.005 (0.003)	0.047*** (0.006)	0.003 (0.004)
2004	-0.008*** (0.002)	-0.004 (0.003)	0.029*** (0.006)	0.007 (0.004)
2005	-0.006* (0.003)	-0.005 (0.004)	0.037*** (0.006)	-0.003 (0.003)
2006	-0.006** (0.002)	-0.001 (0.004)	0.027*** (0.006)	-0.001 (0.003)
2007	-0.002 (0.003)	-0.003 (0.003)	0.015** (0.005)	0.003 (0.003)
Observations	34,208	34,208	34,208	34,208
Pseudo R ²	0.071	0.071	0.071	0.071

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

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