

The Minimum Wage Campaign in Brazil and the Fight against Inequality

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ABSTRACT

This article summarises the Brazilian experience on the minimum wage campaign and the results and challenges brought by the increase in real value of the minimum wage. In 2005 and 2006, the minimum wage in Brazil underwent significant increases, and in 2006 an agreement about a long-term process to elevate its purchasing power was established between the government and the labour union centrals; in 2011 the agreement became law, defining the per cent of adjustment and real increase until 1 January 2015, and this year the law will have to be reviewed. In the last decade, Brazilian income inequality diminished, and the gains of the minimum wage seem to have an effective role in this process. After describing briefly the trajectory and legislation of the minimum wage in Brazil, the article shows how many individuals receive the equivalent of one minimum wage, either in the labour market or as a social security benefit. Some data about the wage distribution and inequality are also presented and discussed. The process of increase of the purchasing power of the minimum wage is now at risk insofar as the economy slows down since, according to the law, its gain is determined by GDP growth. Other difficulties are set by the impacts of the increase of the minimum wage over social security expenditures. The high concentration of salaries between 1 and 1.5 minimum wage and the current value of 43.4% to the proportion between the minimum wage and the median wage of full-time workers signals a stronger resistance against the long-term improvement of the minimum wage in Brazil.

INTRODUCTION

The International Labour Organisation (ILO, 2008: 34) defines the minimum wage (MW) as the wage constituting a floor to the salary structure, which is established in order to protect workers who occupy the lowest position in the wage distribution hierarchy. The minimum wage represents an ethical dimension incorporated into price formation, by setting a limit to the compensation the labour force is paid. It is based upon political criteria for establishing the value of labour and the living conditions considered reasonable in a certain society (Medeiros, 2005). Adam Smith had this in mind when he wrote:

No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged (Adam Smith, 1776: Book I, Chapter VIII, paragraph 36).

The minimum wage is the lowest monetary value that must be paid to workers in a certain region and period as compensation for their work-time. It is generally related to a survival standard that is believed to be basic by a given society, and has the purpose of safeguarding the income and

living conditions of workers considered the most vulnerable in the labour market, as well as those of their families. Some countries determine this standard by law while others determine it through a tripartite dialogue, in which representatives of workers, employers and government take part. There are also collective agreements resulting from negotiations between workers and employers.

Since its establishment in July 1940, the real value of the Brazilian minimum wage – that is, its purchasing power – has repeatedly moved up and down. Ultimately, the purchasing power of the minimum wage depends on the one hand on the inflation rate, and on the other hand on the way both its adjustments (to accompany rises in prices) and its real increases (its value above the inflation rate) are implemented. The value is conditional on the macroeconomic and political environment, in particular on the pace of inflation and level of trade union organisation in defence of the minimum wage. It is also dependent on its use by the government to achieve certain economic policy goals, such as combating inflation, developing the country or expanding the domestic consumer market. After the inauguration of President Luis Inacio Lula da Silva in 2003, and following two years of very small increases in the value of the minimum wage, the Brazilian trade union movement launched a struggle for more significant increases, and then for a long-term policy of real growth of the minimum wage. In Brazil, a very significant volume of people receive gains corresponding to one minimum wage – either in the labour market or through government transfers. Furthermore, a range of incomes stays under its influence. Thus the combination of successive annual increases in the value of the minimum wage and favourable economic performance in the country, with reduced unemployment and strong job creation in sectors demanding low-income workers, tended to reduce income inequality. More recently, however, this virtuous cycle appears to be faltering. This article describes briefly the history of the minimum wage in Brazil, and discusses its impact on inequality, as well as the trade union campaign to increase its real value. Lastly, it points out some challenges ahead if these social gains are to be maintained.

The Minimum Wage in Brazil

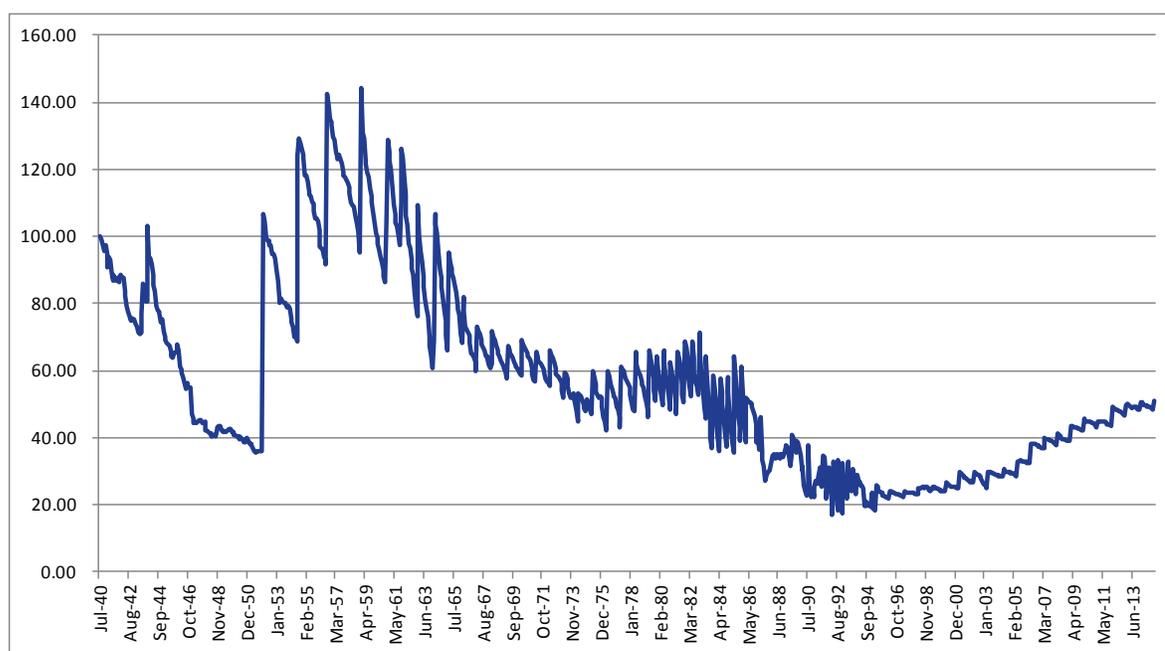
Unions in Brazil had been demanding a minimum wage since the end of the nineteenth century. It first appeared in law in 1934, although it was not implemented until 1940. Over its long and eventful seventy-year course as an obligation for employers, the purchasing power of the minimum wage has fluctuated. Its volatile trajectory reflects the net effects of inflation and nominal adjustments, rising or decreasing with attempts to achieve different political and economic objectives.

In the long-term view, the purchasing power of the minimum wage underwent many ups and downs, as seen in Figure 1. These different phases highlight the priorities of the government's socio-economic policy and the effects of the general economic context. Some authors propose that politics rather than economy explain these fluctuations, for the minimum wage was reduced under many favourable economic circumstances (Silva, 2009).

The trajectory of the purchasing power of the minimum wage is subject to the evolution of inflation and to the frequency of its adjustments. Depending on the interests at play and the balance of power, the minimum wage was considered either as a mechanism to raise the purchasing power of workers and widen the domestic market, or as a way to hold back wages and consumption in the national economy. Especially in circumstances of accelerated inflation, wage controls were instituted as a way to cut back demand and/or production costs and, supposedly, to stabilise prices.

At the beginning of this century, however, labour unions decided to fight for increases in the minimum wage. From 2004 to 2009, trade union centrals undertook joint national campaigns each year, focused on issues relevant to the Brazilian working population.¹ The first march for the minimum wage, organised by the unions, took place at the end of 2004 in Brasília (the capital of

Brazil). It resulted in a substantial increase to the minimum wage, effective from May 2005 onwards. The second and third marches, in 2005 and 2006, also obtained *ad hoc* raises in the minimum wage in the following years. At the end of 2006, however, the government and the unions agreed to a ‘policy to increase the MW’. Although this agreement did not become law until 2011, the government, which had been establishing the MW value, followed its rules. This process of increasing the purchasing power of the minimum wage had a great impact on the Brazilian economy and society. The higher minimum wage, the *Bolsa Família* programme of conditional cash transfers and the expansion of credit stimulated economic flows and activity in Brazil when the international crisis hit the country. Moreover, the higher minimum wage, improvements in the labour market and the expansion of *Bolsa Família* contributed to alleviating the high level of inequality in Brazil.



Source: Departamento Intersindical de Estatística e Estudos Socioeconômicos (Interunion Department of Statistics and Socioeconomic Studies, DIEESE).

Notes: Inflation rate calculated by ICV-DIEESE (July 1940 index = 100). This data shows the evolution of the real minimum wage for the city of Sao Paulo, which had the second highest value in Brazil when the minimum wage was created in 1940 (inferior only to the former capital, Rio de Janeiro). There were fourteen regional values until the minimum wage was nationally unified in the 1980s.

Figure 1
Monthly evolution of the real minimum wage in the city of Sao Paulo based on the inflation rate, July 1940 to January 2015

As the Brazilian economy slowed down, however, public debate about the revitalization of basic wages in the country has been re-ignited by its impact on public finances, especially as regards social welfare. Some segments of the population have resisted this increase because of the pressure it exerts on families that hire housekeepers and on company expenditure. Nonetheless, maintaining the minimum wage revitalisation process and discussing its role in the development of the country is critical, as income inequality remains a severe problem in Brazil.

The criterion of attending to workers' basic needs has been present in the Brazilian minimum wage legislation since its origin in the 1934 Constitution and its regulations, though those initial laws disregarded family needs. However, the 1988 Constitution, currently in force, explicitly includes a more thorough expense structure in its legal text:

Article 7. The following are rights of urban and rural workers, among others that aim to improve their social conditions:

[...]

IV - nationally unified minimum wage, established by law, capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation and social security, with periodic adjustments to maintain its purchasing power, being forbidden to be used as an index for any purpose (Constitution, 1988).

The current Constitution prescribes that the value of the minimum wage shall be fixed through legislation; that is, the National Congress must establish it by law. Nevertheless, immediately after the Constitution entered into force, the executive power started to legislate through a legal instrument called a 'provisional measure', which in theory should only be used in exceptional cases or emergencies.

The 1988 Constitution also stated that the minimum wage would be the basis for pension (art. 201) and welfare (art. 203) benefits for elderly and disabled persons, who cannot support themselves or have no family to cater for their needs.² It additionally established the equivalence of welfare benefits between urban and rural areas (art. 194). In other words, the Constitution unified the basic pension and welfare benefits for urban and rural workers and established the minimum wage as the floor for the benefits of the welfare system. Furthermore, the Constitution guarantees the right to unemployment insurance (art. 7), which also has the minimum wage as its monetary floor (Act n° 7998/1990).

Therefore, besides establishing the basic salary of the wage range in Brazil, the minimum wage also plays a central role in the country's public policies. The fact that it determines the floor for pension, welfare, and unemployment insurance benefits derives from a view that the minimum wage is the minimum necessary value for the vital needs of a family, as the Constitution proposes.

Although the main purpose of the minimum wage is to protect the income of workers at the bottom of the wage hierarchy in a specific region or country, this function does not exhaust its role in the economy and the society of a country. Considering the Brazilian experience, various functions can be identified:

- protection for the 'losers in the wage bargain';
- a tool to combat poverty;
- a tool to combat wage inequality based on personal characteristics like gender and race;
- reference for wages paid to new workers entering the labour market;
- reference point for work remuneration and income in general (including that of self-employed workers);
- organization of the salary scale (that is, when the MW value is low in real terms, the range of salaries is wide; when the MW value is high, the scale is narrow);
- inhibition of staff turnover;

- promotion of regional equality and dynamism;
- institution of a floor for social security benefits; and
- stimulation of the domestic consumer market and socio-economic development.

In September 2013, more than 30 million people in Brazil received an income corresponding to the minimum wage. This includes active, retired and unemployed workers, as well as very poor individuals who had the right to the BPC from social welfare (Table 1).³

Table 1: Distribution of occupied workers and beneficiaries of social security according to income from main job and classified in groups related to the monthly value of the minimum wage, Brazil, September 2013 (1000s of persons)

Occupational position ¹	Without remuneration	Less than 1 MW	1 MW	More than 1 MW	Not declared	Total
Employee with signed card	1	536	4.560	32.042	1.373	38.513
Military servant	(2)	19	26	285	18	347
Civil servant	(2)	59	703	5.809	220	6.791
Employee without signed card	2	4.890	2.017	6.960	381	14.250
Domestic servant with signed card	(2)	88	721	1.276	38	2.122
Domestic servant without signed card	17	2.715	479	1.070	71	4.351
Self employed	73	6.799	1.023	11.160	869	19.924
Employer	10	96	72	3.202	242	3.623
Not remunerated worker	2.395	(2)	(2)	(2)	(2)	2.395
Total in labour market	2.498	15.202	9.602	61.805	3.211	92.317
Pension system beneficiaries	0	721	16.583	9.401	0	26.706
Social assistance beneficiaries	0	8	4.108	0	0	4.116
Unemployment insurance beneficiaries	0	0	270	464	8	742
Total in Social Security	0	729	20.961	9.865	8	31.563
Grand total	2.498	15.931	30.563	71.669	3.219	123.880

Source: National Household Sample Survey (PNAD, 2013) – IBGE. Boletim Estatístico da Previdência Social. MPS, Coordenação-Geral do Seguro Desemprego, do Abono Salarial e Identificação Profissional – MTE.

Notes:

- 1) 'Occupational position' is a technical expression in Brazil that refers to the kind of labour relation to which a worker is submitted.
- 2) There is no statistically significant case in the sample for these cells.
- 3) The data for 'unemployment insurance beneficiaries' were estimated based upon the monthly average from the annual number of 2013 (8.9 million, according to Nota Técnica nº 035/2014 – CGFAT/SPOA/SE/MTE) and upon the 2012 value distribution.
- 4) Data for 'workers for own consumption' and 'workers for own use' (who have no monetary remuneration) were excluded, considering that these workers are not economically occupied in the labour market.
- 5) Some workers may earn remuneration equivalent to one MW on an hourly basis, but work less than the regular 220 hours per month, thus receiving less than MW on a monthly basis due to their reduced work time.

In September 2013, 21 million welfare beneficiaries received benefits equivalent to one minimum wage. Of those, 16.6 million depended on pensions, 4.1 million depended on assistance

(through BPC and other benefits no longer granted), and 270 000 received unemployment insurance. Additionally, out of 26.7 million pension benefits, 62% amounted to the value of one MW. More than 98% of all beneficiaries in rural areas received a pension equivalent to one MW, as compared to 44% in urban sectors (MPS, 2012).⁴ Thirty-six percent of all unemployment insurance beneficiaries received benefits equivalent to one MW, according to data provided by the Ministry of Labour and Employment.

Considering the labour market alone, in September 2013, 10.4% of the workers in Brazil received a labour income whose values were equal to one minimum wage. Some worker categories, however, have a greater propensity to be paid this amount. For instance, 34% of domestic servants officially registered as family employees – i.e., ‘domestic servants with a signed labour card by the employer’ – earned one MW, even though registered domestic servants amounted to only one-third of the category (with or without a signed labour card).⁵ Employees (with and without a signed labour card) and unregistered domestic servants also showed a high incidence of one MW as their earnings.

Some analysts criticise the minimum wage, arguing that it does not benefit the poorest individuals or deprived families in Brazil and that the state spends too much on social security. Therefore, the critics propose that the government should privilege other policies like *Bolsa Família*. While the *Bolsa Família* programme protects those at the very bottom of the social hierarchy (in the first or second decile of the *per capita* household income distribution), the minimum wage reaches workers with families that tend to be classified in or above the third decile.⁶ One must keep in mind, however, that the income distribution in Brazil is highly concentrated in the last decile and, even worse, in the richest 5%. It is true that, regarding the labour market, certain groups of workers are out of the reach of the minimum wage. That is the case for those outside capitalist relations (like those who work for their own consumption, e.g. agriculture, or without remuneration), those not covered by the institution of the minimum wage (such as self-employed workers), and unemployed workers who do not qualify to receive unemployment insurance. The experience in Brazil during the first decade of the 2000s showed that a process of sustained economic growth can reduce the fraction of unregistered employees (known in Brazil as ‘workers without a signed labour card’) and self-employed persons, who usually have fewer rights than ‘formal workers’ (‘employees with a signed labour card’ and ‘public sector servants’). To guarantee the minimum standards for a decent life, workers not covered by the minimum wage legislation and their families need other instruments and measures, whether it be welfare policies, market supervision, or labour market policies (such as unemployment insurance, work fronts, or qualification grants). Programmes like *Bolsa Família* and legal institutions like the minimum wage do not compete with each other, and both should be articulated in order to combat poverty and inequality.

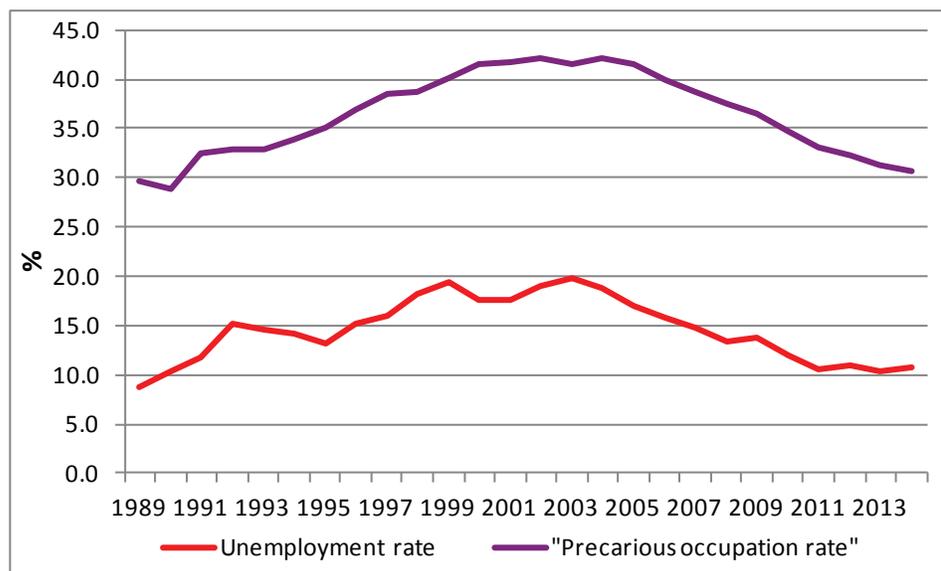
Despite the role of the minimum wage in Brazilian public policies, especially the social security system, it must be viewed as one of the institutions that regulate the labour market and the working conditions in a region. In other words, the minimum wage is as much a labour market institution as are limitations on working hours, conditions and age; hiring and termination conditions; the rights to unionise, collectively bargain and strike; conflict resolution methods; and benefits and other items of remuneration.

The Minimum Wage Campaign

Traditionally, the minimum wage used to be raised yearly on May 1, the date of Workers’ Day in Brazil. Since 1995, it has been raised approximately every twelve months; Table 2 shows the dates that the minimum wage was adjusted from 1995 onward. The lowest real minimum wage value in Brazil was seen in 1995. At that time, there were political promises to double its value or to increase it to US\$100.⁷ The minimum wage recovered very slowly (Figure 1). Luiz Inácio Lula da Silva, a

former trade union leader, was elected as the President of Brazil in 2002 and took office on 1 January 2003. The context was one of intense economic disturbances, with rising inflation and an explosion of the exchange rate. Both in 2003 and 2004, the increases in the real minimum wage (i.e., a rise above the inflation rate) were marginal, given that one of the fiscal compromises of the government to stabilise the economy was to contain the minimum wage. Therefore, the trade union centrals, supported by DIEESE, decided to start a movement to fight for a minimum wage with a value more adjusted to its constitutional precept, and to force Lula to uphold his campaign promise of increasing the real minimum wage. As a result, in each year from 2004 to 2006, the union centrals mobilised their members and promoted marches to and in Brasilia.⁸

Around 2003, the unemployment rate reached its peak in Brazil. Since then, unemployment has decreased and ‘formal employment’ has grown. As a consequence, the rate of ‘unprotected labour occupation’ dropped.⁹ In Sao Paulo, the largest metropolitan area in Brazil, with approximately 20 million people (about 10% of the Brazilian population) and 18% of the national GDP) the unemployment rate fell from its peak of 20% in 2003 to something under 10% in 2014. Despite being cut by half in this recent period, it is still somewhat higher than in 1989 (Figure 2).



Source: PED-DIEESE. Computations by DIEESE.

Note: 'Precarious occupation rate' corresponds to the set of 'employment without a signed labour card' (illegal employment), self-employment and domestic workers' employment, related to the total of workers.

Figure 2
Evolution of the annual unemployment rate and of the 'precarious occupation rate',
Sao Paulo Metropolitan Area, 1989–2014

A similar downtrend also occurred for the less-protected forms of labour relations, here considered as the set of illegal employment ('employment without a signed labour card'), self-employment and domestic workers. From 42% in the 2002–2004 period, the rate sank to 31% in 2014. In spite of an increasing trend of 'self-employment' and a decrease of 'employment without signed card' since 2008, throughout the 1989–2014 period illegal employment represented circa 30%

of the precarious labour set, self-employment represented 50% and domestic workers represented 20%.

In this scenario, the trade union movement launched and developed the campaigns to raise the real value of the minimum wage.

Following the first march, which took place in Brasilia in December 2004, the movement managed to raise the value of the minimum wage by 8.23% in real terms. The document submitted by presidents of the labour union centrals to the country's President pointed out:

However, as important as its rise is the development of a long-term policy of permanent recovery for the minimum wage. We believe that, in order to get to this policy, the President should institute, by law, a Minimum Wage Commission, comprising four parts – the executive power, the legislative power, labor unions, and employers – whose main purpose should be to elaborate, by the beginning of April 2005, a long-term policy for the recovery of the minimum wage. The intention is for Your Excellency to launch this policy on May 1st. This Commission would discuss items such as the 'necessary minimum wage',¹⁰ the relationship between the minimum wage and GDP growth, the additional percentage to be applied to the minimum wage for its recovery, mechanisms to counterbalance the impact of minimum wage adjustments on Social Security and the budgets of municipalities and states. Our final words are ones of hope. That your mandate shall not pass without leaving a clear and historical legacy regarding the minimum wage (quoted in DIEESE, 2010: 14, *our own translation*).

On 20 April 2005, the progress of the campaign was marked by a Presidential decree instituting the Four Parts Commission on the Minimum Wage. The social actors who took part in the commission were the federal government (executive power), the labour union centrals (representing active workers), associations of retired workers, and associations of employers.¹¹ The legislative power was not represented.

The first article of the decree defined the purpose of the Commission:

1st Article. It is hereby established, within the Ministry of Labor and Employment, the Four Parts Commission, as an advisory committee, with the aim of proposing a program to strengthen the minimum wage and analyze its impact on the labor market, social security and assistance, considering the Federal Government and other federal entities (Brasil, 2005).¹²

At the end of April 2005, a conference took place at the University of Campinas on the topic of 'Minimum Wage and Development'. At this meeting, professors from several universities, union advisers and professionals of the ministries discussed various issues and challenges related to the minimum wage, particularly the risks, opportunities and difficulties involved in raising it. At this meeting, Luiz Marinho, then president of Central Única dos Trabalhadores (Unified Workers Central, CUT), the biggest labour union central in Brazil, outlined a proposal for a policy to strengthen the minimum wage (Baltar, Dedecca and Krein, 2005). In July 2005, Marinho became the Minister of Labour and Employment, and was in charge during the negotiations to define the minimum wage policy. In March 2007 he became the Minister of Social Welfare.

The second march for the minimum wage occurred at the end of 2005. As a result of the subsequent negotiations, in April 2006 a proposed increase to the minimum wage was sent to Congress. A Memorandum of Understanding was signed to ensure that the Commission could resume its activities to raise the minimum wage.

In addition to a march in late 2006, the unions sent another proposal to the federal

government in 2007. The negotiations resulted in a revised value, and Lula's government agreed to establish an explicit long-term policy to increase the minimum wage. This meant that adjustments and raises no longer had to be negotiated according to circumstances, and that a long-term norm was established to increase it. So, as a consequence of this mobilisation process, the government negotiated with union centrals and finally established a procedure for increasing the minimum wage with explicit rules as a tool of socio-economic policy.

Pursuant to the agreement, the minimum wage was to be revised once per year. The policy corrected its value by the inflation rate. In addition, the policy also determined that the purchasing power of the minimum wage should be increased by the growth rate of gross domestic product (GDP) in the year before the last increase – that is, two years before. In addition to this, the adjustment date was moved forward by one month each year until it was set on January 1, which occurred in 2010.

This policy intends to increase the value of the minimum wage until 2023, twenty years after 2003, when Lula's term began, although the initial specific adjustment criterion was negotiated to last from 2008 to 2011. From 2007 to 2011, the agreement was carried out only on a trust basis, given that the value of the minimum wage must be established by law and the Congress did not vote the bill. Thus, there was no binding official document resulting from the negotiations until 2011. In February 2011, the valorisation rules for the minimum wage were inscribed into law. The current Act no. 12382/2011, proposed by the executive power at the beginning of the current presidential term under Dilma Rousseff, regulates the process and crystallises the mechanism governing raises until January 2015, despite the fact that the process shall continue up to 2023. Consequently, the process of increasing the value of the minimum wage needs to be discussed, negotiated and revised sometime in 2015.

The Recent Evolution of the Minimum Wage and its Impacts

The minimum wage has experienced positive growth in Brazil since the mid-1990s (Table 2). Based on the value first set after the creation of the new Brazilian currency, the real (R\$70 in September 1994), and its value in January 2015 (R\$788), it is now 1 125% higher in nominal terms. This percentage greatly surpasses the growth of consumer price indexes over the period, which was about 342% according to INPC-IBGE (the National Consumer Price Index, from the Brazilian Geography and Statistics Institute, the official statistical bureau). This difference between the nominal variation of the minimum wage and the inflation rate resulted in a significant rise in purchasing power. Using September 1994 as the basis for comparison, the evolution of the 'minimum wage purchasing power', – that is, the 'real minimum wage' – shows important rises in 1995 and 2001, a steady growth from 2004 onwards, and a stabilisation in January 2011. The 'real MW' increases in 2005 and 2006 were noteworthy, but afterwards, since the minimum wage policy negotiation, its rise has decelerated. One might say that a stronger push was necessary during the first adjustments, because its real value was too low when negotiations began between the government and the labour unions. One might also consider that a bargain was struck: the policy brought low increases every year, but a long-term sequence of annual increases.

The purchasing power of the minimum wage on 1 January 2015 was 155% higher than on 1 September 1994. Over a longer period, however, the rise of the minimum wage since 1994 appears to be a relative phenomenon (Figure 1). In relation to the real minimum wage in Sao Paulo, the national average in 1995 (as well as those in 1994 and 1996) corresponded to 25% of its initial real value (that is, the value of 1 July 1940). This means that the growth in purchasing power of the minimum wage since 1995 constitutes a gradual recovery from the depths of its original real value. In December 2014, the real minimum wage amounted to little less than half (48.2% to be exact) of

its real value in July 1940 (Figure 1). Currently, the real minimum wage has slowed its growth rate. It has had a relatively low percentage increase in the last three years, especially considering that the increase rates are quickly absorbed by the higher pace of inflation. The real value of the minimum wage will not increase in the next two years, inasmuch as the expectations for GDP growth in 2014 and 2015 vary between 0% and -1%.

Table 2: Evolution of the minimum wage on each adjustment date (based on the INPC-IBGE as the index for the variation in consumer prices), Brazil, 1994–2015

Adjustment date	MW value (R\$)	MW adjustment (%)	MW nominal evolution (1-Sep-94=100)	Accumulated inflation (INPC-IBGE)		MW real increase by INPC-IBGE (%)	
				since last adjustment (%)	Index (1-Sep-94=100)	since last adjustment	since 1-Sep-94
01-Sep-94	70.00	-----	100.00	-----	100.00	-----	-----
01-May-95	100.00	42.86	142.86	16.51	116.51	22.62	22.62
01-May-96	112.00	12.00	160.00	18.22	137.74	-5.26	16.16
01-May-97	120.00	7.14	171.43	8.20	149.04	-0.98	15.03
01-May-98	130.00	8.33	185.71	4.12	155.18	4.05	19.68
01-May-99	136.00	4.62	194.29	3.88	161.20	0.71	20.53
03-Apr-00	151.00	11.03	215.71	5.35	169.82	5.39	27.03
01-Apr-01	180.00	19.21	257.14	6.27	180.47	12.17	42.48
01-Apr-02	200.00	11.11	285.71	9.72	198.02	1.27	44.29
01-Apr-03	240.00	20.00	342.86	18.54	234.73	1.23	46.06
01-May-04	260.00	8.33	371.43	7.06	251.31	1.19	47.80
01-May-05	300.00	15.38	428.57	6.61	267.91	8.23	59.97
01-Apr-06	350.00	16.67	500.00	3.21	276.52	13.04	80.82
01-Apr-07	380.00	8.57	542.86	3.30	285.63	5.11	90.05
01-Mar-08	415.00	9.21	592.86	4.97	299.82	4.04	97.74
01-Feb-09	465.00	12.05	664.29	5.92	317.56	5.79	109.18
01-Jan-10	510.00	9.68	728.57	3.45	328.53	6.02	121.77
01-Jan-11	545.00	6.86	778.57	6.47	349.77	0.37	122.60
01-Jan-12	622.00	14.13	888.57	6.08	371.03	7.59	139.49
01-Jan-13	678.00	9.00	968.57	6.20	394.03	2.64	145.81
01-Jan-14	724.00	6.78	1034.29	5.56	415.94	1.16	148.66
01-Jan-15	788.00	8.84	1125.71	6.23	441.85	2.46	154.77

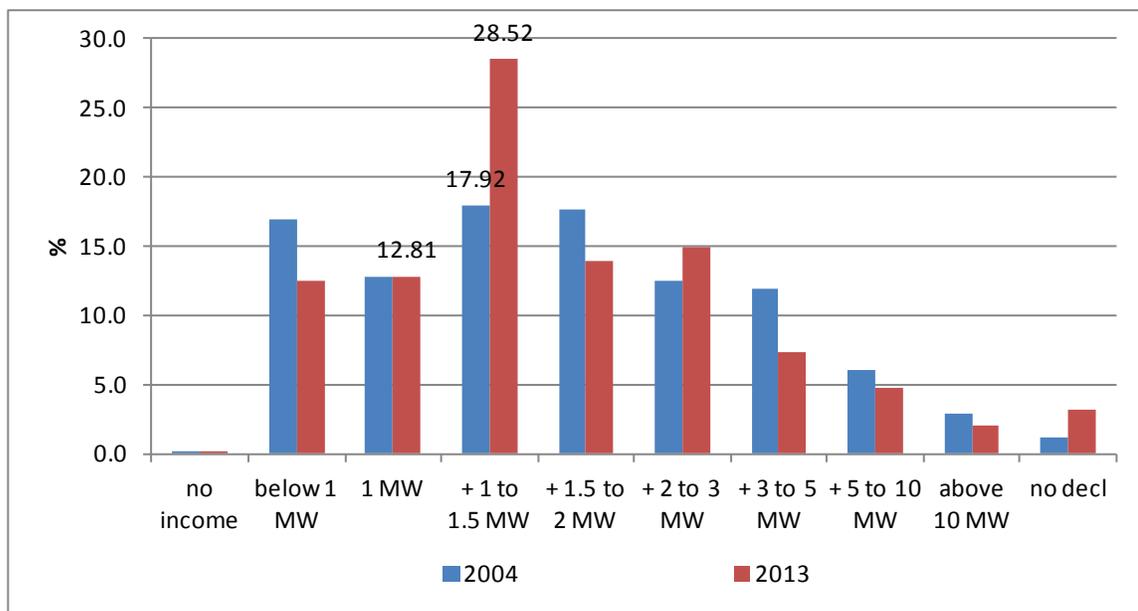
Source: IBGE

Note: 'MW real evolution' and 'MW real increase' refer to the rise of the purchase power.

Due to its recovery policy, the purchasing power of the minimum wage has increased more than that of the other salaries in the economy. The upward movement of the minimum wage coincided with union struggles for the establishment and rise of wage floors in the states (that is, the units of the Brazilian Federation) and the efforts of workers' categories to raise the basic wages in the Brazilian economy (DIEESE, 2010).¹³ As long as basic wages (the minimum wage, regional basic wages and worker category floors) are rising faster than the other salaries in a process pushed forward by the minimum wage, a concentration around lower classes of income, measured in MW units, has taken place and will continue to occur. From 2004 to 2013, the proportion of employees who received a wage ranging between 1.0 and 1.5 MW grew from 18% to 28.5%, and the proportion of employees who received a wage of exactly 1.0 MW stayed at 12.8% (Figure 3).

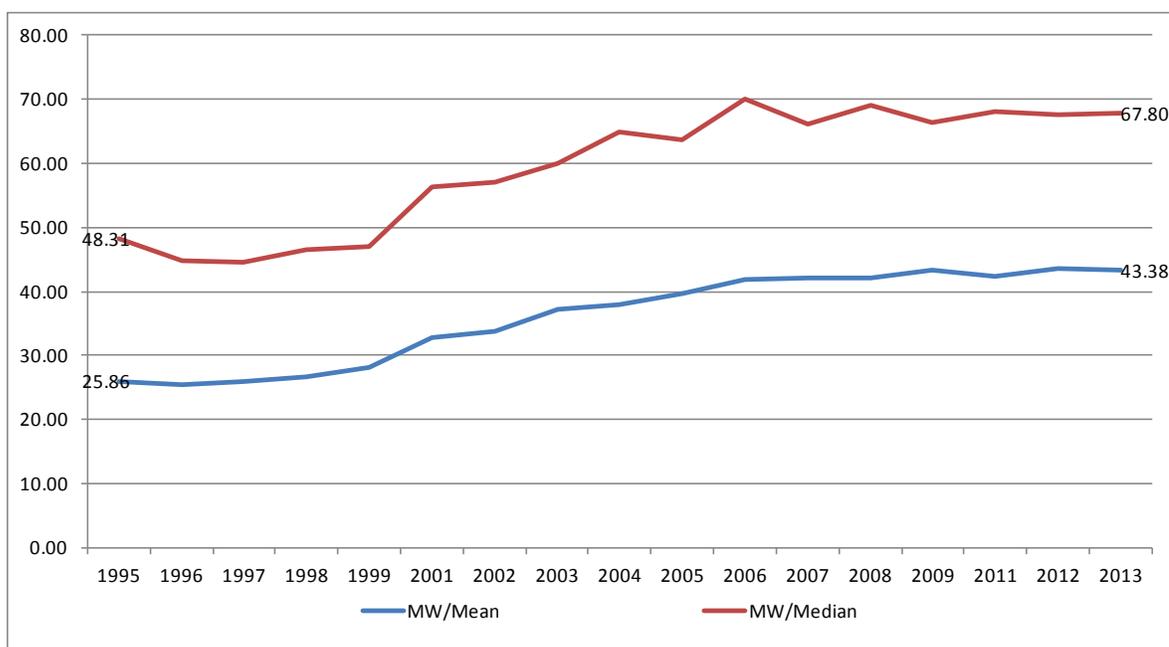
The fraction of those who earn less than 1.0 MW and those whose salary surpasses 1.5 MW grew smaller, except for the group with a wage value between 2 and 3 MW. That means wages are concentrating between 1.0 and 2.0 MW. This points to an alleviation in the inequality of wage distribution. Nevertheless, it is still astonishing that 67.8% of the employees in Brazil earn at most 2.0 MW. Thus, Brazil is simultaneously an economy with low wages and high inequality, even if considering only the wage distribution.

This redistribution in the salary scale can be also seen when investigating the evolution of the mean and the median wage in relation to the MW (Figure 4).¹⁴ The data includes only the earnings of those who work for at least forty hours during the referenced week, given that those who work fewer hours tend to earn a lower monthly salary.¹⁵



Source: PNAD-IBGE. Computations by DIEESE.

Figure 3
Distribution of employees according to the value of their wages,
Brazil, September 2004 and September 2013



Source: PNAD-IBGE. Computations by DIEESE.

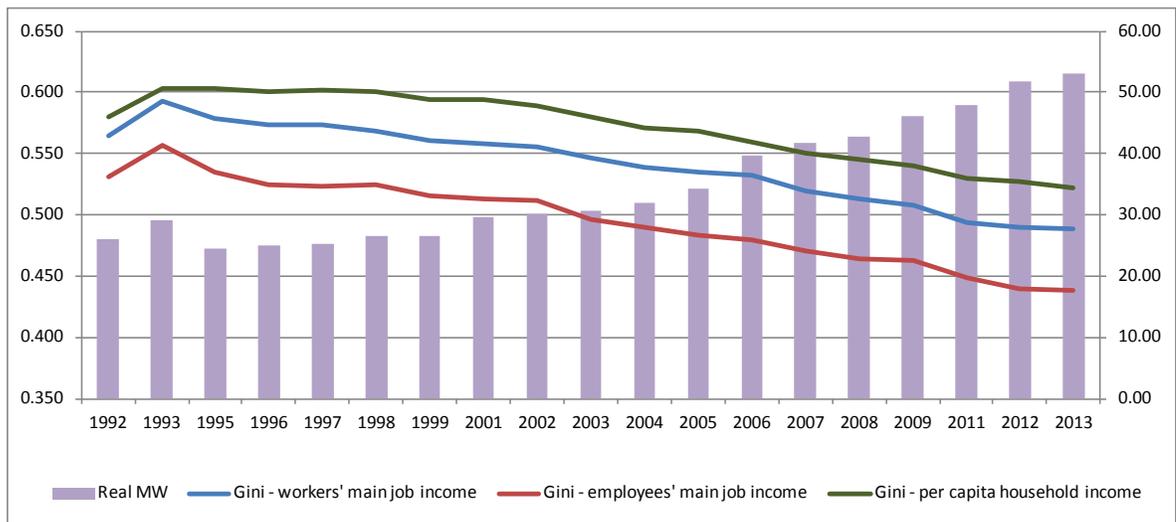
Notes: 1) Workers with no income are not considered in this data. 2) Only employees who worked 40 hours or more per week are considered in this data. 3) Until 2003, the rural areas of six Brazilian states in the Amazon were not covered by PNAD. 4) PNAD did not exist in 1994 and is not carried out in Census years (2000 and 2010).

Figure 4
Evolution of the monthly minimum wage compared to the mean monthly wage and the median monthly wage, Brazil, 1995–2013

Over the long term, the minimum wage has been increasing since 1995 if compared to mean and median wages. In 2013, it corresponded to 43.4% of the mean wage of full-time workers. Due to the high level of inequality in Brazil (even in the wage structure), the line depicting the mean wage is much lower than that for the median wage. The minimum wage was 67.8% of the median wage in 2013.

Another way to look at inequality is to investigate the Gini coefficient of the distribution.¹⁶ The inequality in the distribution of monthly labour earnings for the main jobs in Brazil remains high, but it has been falling since 1993 (Figure 5). This is true for both the distribution of salaries and the distribution of labour income.

These changes in the purchasing power of the minimum wage and the wage scale have, together with other improvements in the labour market, reduced socio-economic inequality. In the first decade of the 2000s, the unemployment rate fell while ‘formal employment’¹⁷ rose and, as a consequence, the proportion of unprotected labour decreased. A similar downtrend is also observable in the less protected types of labour relations, such as illegal employment (‘employment without signed card’), self-employment or domestic servants (DIEESE, 2012). The increase in the purchasing power of the minimum wage, which benefits currently active workers and social security recipients, together with improvements in the labour market and the enlargement of social policies (such as *Bolsa Família* and extending financial credit to small landowners) lowered the inequality of per capita household income.

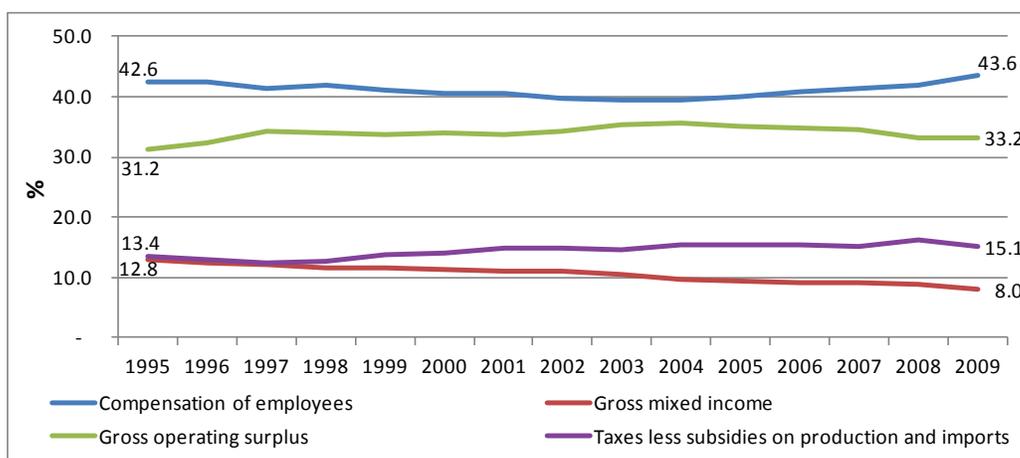


Source: PNAD-IBGE. Computations by DIEESE.

Notes: 1) The category 'workers' encompasses labourers under all labour relations. In addition to employees, it includes self-employed workers, employers and workers without remuneration (the latter were not considered in this figure – see note 2). 'Employees' comprises workers hired by private-sector firms, state-owned firms (civil and military servants), and households (domestic servants). 2) Only workers with positive remuneration (higher than zero and declared) were included. 3) Until 2003, the rural areas of six Brazilian states in the Amazon were not covered by PNAD. 4) PNAD did not exist in 1994 and is not carried out in Census years (2000 and 2010). 5) 'Salary' refers to compensation of employees employed on a more permanent basis and 'labour income' means the compensation of all those who work, regardless of the labour relations.

Figure 5
Evolution of the Gini coefficients for monthly labour income of the main jobs of workers and employees and for per capita household income (left axis), and evolution of the minimum wage in real purchasing power (July 1940 index = 100 [right axis]), Brazil, 1992–2013

Considering the income distribution of GDP as an indicator of the functional distribution of income, the data revealed that the labour share of output has been increasing since 2003, while that of enterprises shows the opposite (Figure 6). This means that the income distribution is also improving from a functional perspective – that is, when considering the income shares accruing to different agents in the productive process.



Source: National Accounts, IBGE. Computations by DIEESE.

Figure 6
Evolution of the distribution of gross domestic product (from the income approach),
Brazil, 1995–2009

Lessons from the Past and Challenges Ahead

The belief that restraining the minimum wage could combat inflation has supported political measures that resulted in a significant reduction in its purchasing power in Brazil. This practice has maintained wage and income inequality and, on some occasions, exacerbated them. A minimum wage with low purchasing power can keep a society trapped in an economy with low salaries and low productivity (Dedecca, 2005). Contrary to the usual historical practice in Brazil, the experience since 2004 has shown that the minimum wage can be used as an instrument to liberate an economy stuck in the ‘low-wage trap’, as proposed by Medeiros (2005). Thus, despite essentially being a labour market institution, the minimum wage may also be used as a positive macroeconomic policy tool aiming at a more civilised social project.

It has been frequently argued that raising the minimum wage brings about higher inflation. However, as reported by the ILO (2008: 50), the minimum wage has a modest impact on inflation, if any, and the fear that such a process may trigger a generalised increase in prices is often exaggerated. Moreover, the recent upward trajectory of the minimum wage in Brazil did not raise inflation, unemployment, or undeclared or illegal labour employment. On the contrary, unemployment fell, formal employment grew, inflation remained stable, and the concentration of income has started to progressively and noticeably decrease. Nonetheless, the fact that the Brazilian economy benefited from a very favourable international trend pulled by China is not to be disregarded. Rising commodity prices boosted the domestic economy and made it possible to simultaneously increase imports and control internal prices. The novelty was that this positive external influence was combined with internal decisions to privilege the struggle against inequality and poverty.

For the Brazilian labour movement, the ‘minimum wage improvement policy’ was perhaps the most important decision of Lula’s terms of office. For the poorest families, which stay outside the capitalist labour market and, therefore, out of the reach of the minimum wage, Lula’s main measure was to extend the coverage and benefits of the *Bolsa Família*. Other important measures of Lula’s government toward the labour movement included:

- the legal acknowledgment of the union centrals and their official participation in many public forums;¹⁸
- the ratification of ILO Convention 151 which gave the collective bargaining right to civil servant representatives;¹⁹
- the extension of means of contribution to the social security system, which made it easier for self-employed and small business workers to affiliate themselves to it;
- land reform to grant land ownership to the couple or to the single female head of the household, and no longer only to the male head of the household; and
- the establishment of several councils and conferences for public policies (education, health, the elderly, children, communication, and disabled people, among others) where the social actors have representatives to engage in discussion and reach consensus.

Nevertheless, during Lula's first term, the government unsuccessfully tried to accomplish a major reform of union structure and the labour laws in Brazil. Overall, Lula's main measure regarding the labour movement was in fact the minimum wage increase process and the recognition of union centrals. It seems as though Lula understood that by improving the situation for the labour movement – for example, lowering the unemployment rate, stimulating the domestic consumption market, raising bottom wages, enforcing the union structure – the unions could gain strength and fight on their own. Nevertheless, the fact that Lula, an important former trade union leader, was the head of the government, and that Marinho, another important union leader, was the Minister of Labour and Employment, contributed enormously to the institution of the real minimum wage increase process. Additionally, Lula made efforts to gather more support following a financial scandal that erupted in mid-2005 concerning the government's attempt to build a political majority in the Parliament.

In 2003 and 2004, the initial two years of Lula's mandate, the purchasing power of the minimum wage did not rise. Resistance to a major increase was rooted in its possible impact on public finances, especially on the pension system. As a result, the labour union movement first had to challenge and overcome resistance in government sectors against the improvement of the minimum wage. Following the first two unified marches of the union centrals in Brasília and the consequent upward drift of the minimum wage, the third march secured the 'minimum wage improvement policy'. With this, the larger increases eventually obtained at each annual negotiation were traded for a long-term process of gradually raising the minimum wage purchasing power. In addition to this, securing the MW improvement policy displaced the main demand of the unions since the beginning of the 2000s, which was to reduce the limit on working hours. The trade union movement still demands a shorter workweek of forty hours, compared to the constitutional precept of forty-four hours, but the government and its coalition partners never really supported it.

The real value of the minimum wage has risen 68% since the first march of the unified campaign of the union centrals in 2004. From a longer historical perspective, the gradual rise in the minimum wage in Brazil has now lasted twenty years, given that its purchasing power reached its lowest point in 1995. As a result, there was a significant 155% increase of the minimum wage above the inflation rate, comparing the value on its adjustment dates in 1995 and 2015 (Table 2).²⁰ Due to that, many analysts have warned about the possible limits to the increase process. Some critics of the minimum wage itself and of the increase process argue that this tool is not the most efficient to combat poverty because it does not affect the poorest people (see, for example, Giambiagi and Franco, 2007). There is no doubt that the minimum wage reduces poverty among families of employed workers and of individuals who are covered by the social security system. The poorest households include those whose members are either unemployed workers (without access to the

unemployment insurance) or outside the capitalist labour market, and who engage in agricultural activities for their own consumption. This population segment requires the strengthening of specific social policies. The minimum wage increase is not opposed to these social policies; both measures can combine in the effort to reduce economic disparities in Brazil.

Brazilian inequality is known to be one of the most severe in the world. One dimension of inequality refers to income concentration. To combat this grievous inequality, all instruments are needed and must be used.

Comparing the recent Brazilian experience in mitigating income inequality with similar processes in other countries, it is clear that the degree of income concentration in Brazil is diminishing at a relatively rapid pace (Soares, 2008). The problem is that the point of departure of inequality in Brazil is a very high one. Combined with other factors (such as the widening of coverage and value in welfare benefits including the *Bolsa Família* programme), the real minimum wage increase process has triggered a reduction in labour income inequality and general income concentration (Saboia, 2007). As the minimum wage establishes a floor for pension benefits and the Continuous Cash Benefit Program (BPC) for social welfare, its power to promote equity is enhanced and reaches beyond the labour market.

The purpose of raising the purchasing power of the minimum wage every year is to fight inequality and poverty, as well as to stimulate economic growth by increasing income and the domestic market. By making the process of real minimum wage growth foreseeable (through explicit rules and a long-term view), it is possible for economic agents to plan measures and investments to cope with the resultant changes in the economy and society. The minimum wage policy, together with better welfare assistance, and the growth of consumer credit and of formal employment, greatly energised economic growth and helped to overcome the impact of the 2008 financial crisis.

The agreement involving the federal government and labour unions about a long-term increase process for the minimum wage was, without a doubt, a great achievement of the Brazilian trade union centrals. A rising minimum wage has had positive effects as it reduced social inequality, lowered poverty levels, improved the life of the elderly, stimulated the domestic consumer market and reduced regional inequalities. As economic activity slows down, however, the mechanism of raising purchasing power based on GDP growth means that the minimum wage will not increase much. For instance, in January 2014, it rose by only 1% (the Brazilian GDP variation in 2012). The translation of the agreement into law has guaranteed its validity but, at the same time, undermined the flexibility and the possibility of negotiations that could be necessary in adverse economic circumstances. Nevertheless, the increase process for the minimum wage purchasing power faces many enemies, like those who above all worry about the fiscal balance of the state.

There are some risks ahead. The law-inscribed policy of increasing the minimum wage will last until January 2015, and what will take place thereafter remains undefined. At present, the most serious reason raised to stop the upward movement of the minimum wage is its impact on the long-term expenditures of the welfare system, through the pension and assistance benefits, although recent improvements in the labour market have guaranteed good financial results to the system. Taking into the account the ageing population, combined with the impact of a rising minimum wage, it is necessary to analyse the pension system and seek resources to assure its financial balance. For now, the opposite is happening; the government has cut certain financial sources of the social security system by reducing the payroll contributions of companies.

The private sector may also resist because a higher minimum wage negatively influences its labour costs. Finally, Brazilian society has been said to be addicted to inequality; therefore, part of it will resist increasing equality. Several signs of non-acceptance can be seen in day-to-day Brazilian life. The harsh complaints about the difficulty of hiring domestic servants and construction workers, the resistance to affirmative action and to the poor students in the university, the expression

'airports turned out to be bus stations' and the political engagement of the middle class against *Bolsa Família*, affirmative action and health programmes to the poor families are examples of that.

Given that Brazil is an extraordinarily unequal country, the struggle against all forms of inequality and inequity should be set as the first priority. Brazilian society, therefore, ought to undertake the effort to continue the minimum wage improvement process and combine it to enhance other existing policies and to develop new measures to promote equity.

NOTES

¹ In March 2013 and April 2014, the seventh and eighth demonstrations took place in Brasília and São Paulo, respectively. Some authors, referring to the Brazilian labour movement, use the term 'confederation' instead of 'central' but, in Brazilian institutional structure, the 'confederations' aggregate the workers of a specific economic sector at the national level while the 'centrals' represent workers of all, or at least different, economic sectors at the local level as much as at the state and national level. We shall herein use, therefore, the term central to refer to the institutions that represent workers of different sectors.

² The Continuous Cash Benefit Programme (*Benefício de Prestação Continuada*, BPC) is oriented towards two specific sectors of the population: people with disabilities who cannot manage an autonomous working life and people who are aged 65 or older. To access the benefit, the groups must have neither the means of life nor family to support them. These conditions are determined by whether *per capita* monthly family income is equal to or less than one-fourth of the minimum wage (Act nº 8.742, 1993).

³ There might be double-counting in Table 1 because, for example, a retired worker who receives the minimum wage as a pension benefit may work again and thus earn the minimum wage as a formal or informal worker.

⁴ The value of the official pension system in Brazil for workers in the private sector tends to reflect the salary flow the individual received. However, it has a 'ceiling' and a 'floor'. In other words, the benefit lies between two limits: a lower one (corresponding to the MW) and an upper one. Thus, almost all the pension beneficiaries who worked in rural areas received the floor amount. Old benefits still exist with values below the MW.

⁵ About 95% of domestic servants in Brazil are women.

⁶ When the evolution of income inequality is measured by the Gini Index, the minimum wage appears to be more effective in reducing it. When the indicator is a L Theil Index, *Bolsa Família* looks to be more capable to narrow the disparity.

⁷ In July 1995, the minimum wage was equivalent to US\$65. In December 2002, during intense economic distress just before Lula's first term began, it fell to US\$55. In December 2004, when the first march took place, it reached US\$95. By January 2015, it was equivalent to US\$331.

⁸ In December 2004, more than 3 000 workers walked 40 km to demonstrate in Brasília. In November 2005, 15 000 workers held a vigil and a walk in Brasília. In December of the following year, 20 000 workers marched on the Esplanade of Ministries in Brasília. Similar acts occurred in the months of December 2007, 2008 and 2009, with 40 000, 35 000 and 50 000 workers, respectively. The seventh march also took place in Brasília, but only in March 2013, with 50 000 workers. Finally, the eighth march took place in São Paulo in April 2014, with 40 000 workers participating (http://www.diap.org.br/index.php?option=com_content&view=article&id=22397:marchas-da-classe-trabalhadora-na-decada-2000&catid=47:integras&Itemid=208).

⁹ ‘Formal employment’ is considered to be the sum of registered employment in the private sector (that is, ‘employment with a signed labour card’) and the employment in the public sector, since in general both kinds bring more security and rights to the worker. Besides the category precisely defined as ‘employment’, there are other relevant types of labour relations in Brazil, such as self-employed workers and family workers. In Brazil the whole set of current jobs is usually referred to as ‘economic occupation’.

¹⁰ The ‘necessary minimum wage’ results from calculating a value for the minimum wage that reflects all expenditure items of the worker’s family listed in the Constitution. DIEESE recalculates it monthly, based upon a family budget survey and an investigation of food prices.

¹¹ Six trade union centrals took part in the commission: the still existing *Central Única dos Trabalhadores* (CUT), *Central Geral dos Trabalhadores do Brasil* (CGTB), and *Força Sindical*, as well as the now defunct *Central Geral dos Trabalhadores* (CGT), *Social Democracia Social* (SDS), and *Central Autônoma dos Trabalhadores* (CAT). Today, there are eight labour union centrals in Brazil.

¹² Surprisingly, the decree has no identifying number. It was published on 20 April 2005.

¹³ Complementary Act no. 103 of 2000 created the possibility for each unit of the Federation (states and the Federal District) to determine the wage floor for professional categories that do not have floors defined by instruments of collective bargaining. In January 2015, five states in Brazil had wage floors that were defined by state acts. The three ‘basic salaries’ referenced above that are in force in Brazil – that is, the minimum wage, the state floors and the category floors (established by collective bargaining or agreements) – have jointly spurred an increase of the lowest salaries paid in the country (DIEESE, 2010). In Brazil, collective bargaining is governed by the principle of ‘worker categories’, which could be roughly translated as a ‘profession’ or ‘occupation’.

¹⁴ A median value halves a distribution: 50% of the elements in the distribution are lower than the median value and 50% of them are higher.

¹⁵ The legal limitation to work-time duration in Brazil is forty-four hours per week. A worker can be paid according to the hourly minimum wage, but if the employee works less than forty-four hours per week his or her salary may not reach the monthly value of the minimum wage.

¹⁶ The indicator of the Gini coefficient varies between 0 (no inequality) and 1 (maximum inequality).

¹⁷ ‘Formal employment’ is taken to mean the aggregate of registered employment in the private and the public sectors, which in general provides more guarantees to the worker.

¹⁸ Till then, according to the law, the representative structure of the unions had to take into account worker categories. The representation of workers from different economic sectors by a labor union was prohibited.

¹⁹ The civil servant unions used to negotiate informally or in a not entirely legal manner.

²⁰ On an annual average, the minimum wage purchasing power increased about 118% from 1995 to 2014.

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BIOGRAPHICAL NOTE

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