

Employment Policies in Brazil: History, Scope and Limitations

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Although Brazil has had consolidated labour-market institutions since the 1940s, policies to help unemployed workers find a job only began in the 1970s. This was made possible by the creation of the National Employment System (*Sistema Nacional de Emprego*, SINE). Before that there was only one compensation mechanism for workers who lost their jobs, the Severance Pay Indemnity Fund (*Fundo de Garantia por Tempo de Serviço*, FGTS), as well as some assistance of very limited scope for the unemployed.

The establishment of SINE sought to conform to the principles of Convention 88 of the International Labour Organisation (ILO) and to provide a wide range of services such as job placement, vocational guidance, vocational training and a database of labour-market indicators. SINE agencies, however, have basically become job-placement centres, and until 1993 the number of workers placed through them was quite small. Unemployment insurance was introduced in 1986 as a benefit for workers who had been dismissed from their jobs without due cause. Its coverage was to be much wider than the previous assistance to the unemployed.

Unemployment insurance and SINE, however, both lacked the funds necessary to deal with the scale of unemployment, thereby limiting the scope of the potential beneficiaries—the involuntarily unemployed. Moreover, there was no coordination between unemployment insurance, the placement services offered by SINE, and vocational/professional training services. Hence it cannot be said that Brazil had a public employment system in the late 1980s, despite the existence of a number of services and benefits.

Since 1990, two important changes have favoured the consolidation of a public employment system in Brazil: the creation of a financing scheme through the Fund for Workers' Assistance (*Fundo de Amparo ao Trabalhador*, FAT) and the consequent expansion of the coverage of benefits and services.

FAT created a primary source of revenue: tax contributions from the Social Integration Programme (*Programa de Integração Social*, PIS) and from the Public Servants' Social Integration Programme (*Programa de Formação do Patrimônio do Servidor Público*, PASEP). It also created a secondary source: the interest on invested equity loans. Although part of the revenue was untied from 1994 onwards in an effort to reduce the government's nominal deficit, these sources not only allowed the coverage of unemployment insurance to expand, but also financed the expansion of the SINE and the supply of vocational training and skill-development courses.

In 2009, the Ministry of Labour reported 7.39 million individuals covered by unemployment insurance and about 6 million workers registered in SINE. But only a little more than 1 million people found a job through this system. As for training courses,

the FAT financed 3.6 million courses for trainees in 2001, but the courses were too short and there was no quality control of their content. This led to a reformulation of the programme, which resumed in 2007 with far fewer resources and which had only 118,000 graduates by the end of the year.

The Employment and Income Generation Programme (*Programa de Geração de Emprego e Renda*, PROGER) was a new approach created by FAT that aimed to support microenterprises through special credits. It was expected that PROGER would simultaneously allow new jobs to be created in small enterprises and boost the income of small-scale entrepreneurs. It began with 92,000 credit transactions in 1996 and reached almost 1.66 million transactions by 2008. Impact evaluations have shown that the credit line for investment had positive impacts on employment, though mostly in the short run. But the credit line for floating capital, a credit mechanism whose share of PROGER's total disbursement has grown in recent years, has had no such effect.

A possible explanation for this is that one of programme's design features was not implemented. The granting of credit should have been linked to technical assistance and training, and in most cases this did not happen. In practice, therefore, PROGER was never really integrated with the other components of the public employment system and basically remained a traditional, stand-alone credit programme for small enterprises.

Brazil's public employment system still faces two problems that have existed since it was created. The first is *integration*, stemming from the difficulty of linking benefits and services (job placement, skill s-building/vocational training, and special credit lines), on one hand, and on the other hand linking the different services provided by the system. The second is *coverage*, since the programme is more effective in reaching formal-sector employees than employees with insecure employment, no-wage workers and the self-employed.

The research in Gonzalez (2010) poses three challenges for the future of the public employment system: (i) how to overcome the reactive nature of employment policies regarding the economic cycle, given the predominance of passive policies focused on the labour supply; (ii) how to offer more protection and services to the most vulnerable segments of the working-age population (among which women and young people are overrepresented); and (iii) how to deal with coordination problems that tend to become even more serious as new programmes are created outside the scope of the FAT.

Reference:

Gonzalez, Roberto (2010). "Employment Policies in Brazil: History, Scope and Limitations", *IPC-IG Working Paper*. Brasilia, International Policy Centre for Inclusive Growth.

