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Minimum Wage, Income Distribution and Poverty in Brazil



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nopoor
Enhancing Knowledge for
Renewed Policies against Poverty

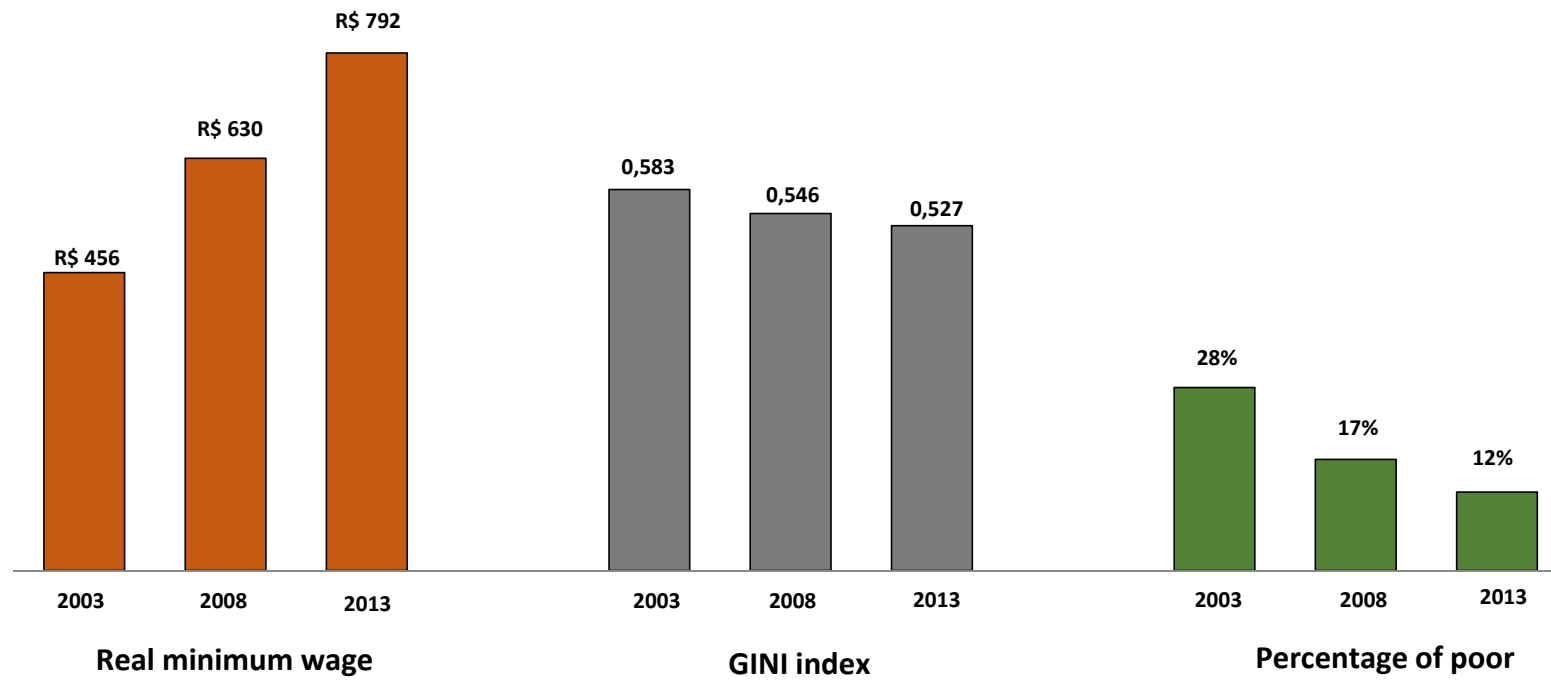


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Motivation

- Minimum wage doubled in real terms in the period 2000/2016
- Poverty rate decreased strongly in the same period;
- Income distribution, although very unequal, improved a lot during this period;
- What was the contribution of MW for the improvement of income distribution and decrease of poverty rates in Brazil?
- Which policy recommendations could be suggested to other less developed countries from the Brazilian experience?

Minimum Wage (R\$ of 2013), GINI Index and Poverty Rate - 2003/2008/2013



Source: IPEADATA

Current Policy for Minimum Wage

- Current MW policy is the result of negotiations conducted by Brazilian Congress with the participation of different agents of the society (employers and employees)
- Correction by inflation rate once a year according to the national index of consumer prices (INPC);
- Real increase according to Gross Domestic Product (GDP) growth rate recorded two years earlier;
- This policy was created in 2011 through Law 12,382, was renewed in 2015 and should remain valid until 2019;

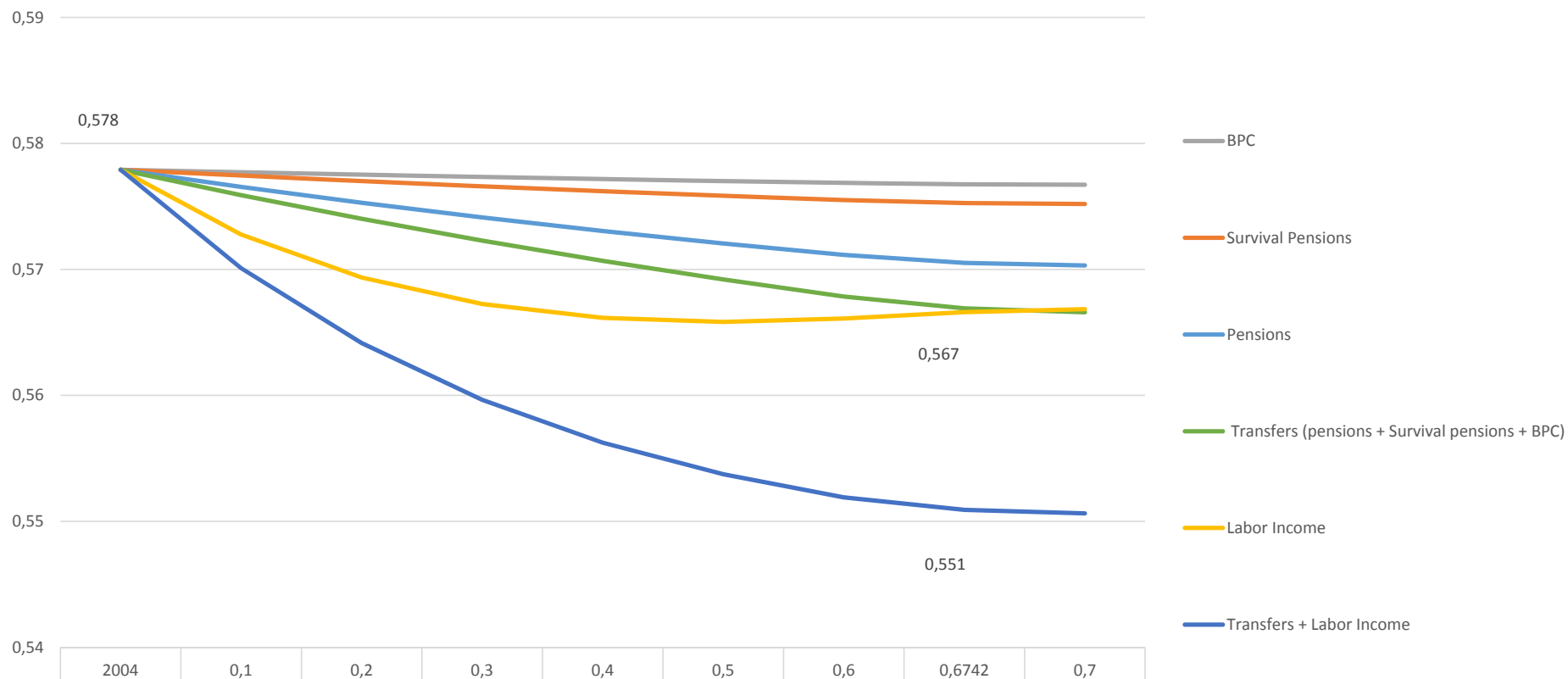
Role of Minimum Wage in Brazil

- Minimum payment for a worker in the formal labor market for a regular labor journey of 44 hours weekly;
- It represents the minimum value for the pensions in the contributory official social security system (15 million people);
- It is the value of the continuous cash benefit (BPC) paid to 4,5 million people in the social assistance system (non-contributory);
- It also represents a reference for the informal labor market;
- Therefore, its potential for improving income distribution and reducing poverty is very large.

Results of simulation models for income inequality

- The increase of minimum wage in last decade contributed to the reduction of income inequality in Brazil;
- Its contribution was obtained through various channels: labor market; pension system; social assistance system;
- It was estimated that approximately half of the decrease of income inequality measured by the Gini index could be attributed to the increase of minimum wage.

Simulation results of the evolution of Gini index of per capita household income distribution from 2004 on according to the real growth rate of minimum wage



Most Recent Experience in Brazil

The Crisis of 2014/2017

- Brazil plunged into a strong recession from 2014 on;
- The current MW policy helped to protect its real value in this period;
- At the same time income distribution remained relatively stable;
- Thus it could be argued that MW has contributed favorably not to increase income inequalities that is a common result in periods of economic crisis.

Policy Implications

- MW growth has a great potential to improve income distribution. Thus, a policy to increase MW can benefit income distribution reducing income inequalities in the country;
- To achieve better results in terms of combating poverty the MW policy should be complemented with targeted income transfer programs such as Brazilian Bolsa Família to benefit the poorest population;
- A MW policy has to be adequate to the labor productivity level of the country in order to avoid inflation, informality and unemployment. Thus, better economic and social results could be obtained if simultaneously measures to increase labor productivity are taken.

Thank you