

MINIMUM WAGE AND DEVELOPMENT: EFFECTS AND RESULTS OF REAL MINIMUM WAGE GROWTH POLICY IN BRAZIL

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ABSTRACT

The objective of this paper is to discuss beneficial effects from recent real annual valorization of minimum wage (mw from now on) have– and may continue having - on Brazilian society, based on current debate about mw and Brazilian labor market. Pointed out arguments are backed in Brazilian experience of recent years, foreseeing for next - everything being a constant –the repetition of same conditions. It is relevant that macroeconomic environment having been relatively stable and, in view of entrepreneurs with a sustained growth prospect, real rates of increase in mw observed in the decade 2003/2013, could be absorbed by the economic system. This comes together with the increase in jobs and registered employment contracts, real rise of wages, increase of total volume of wages, thus partially reducing income inequalities (originated since 2005 from more than proportional income increases in deciles of distribution), a drop in absolute and relative poverty and –a crucial detail - with an increase in tax burden related to social projects exceeding social federal expenses. Therefore, we have a combination of factors happening in pro-cyclical way to a more general economic behavior, and not in contradiction with it, as unfortunately continue to assume some analyzes more conservative or ideologically oriented on this subject.

Keywords: minimum wage, labor market, income distribution, development, Brazil

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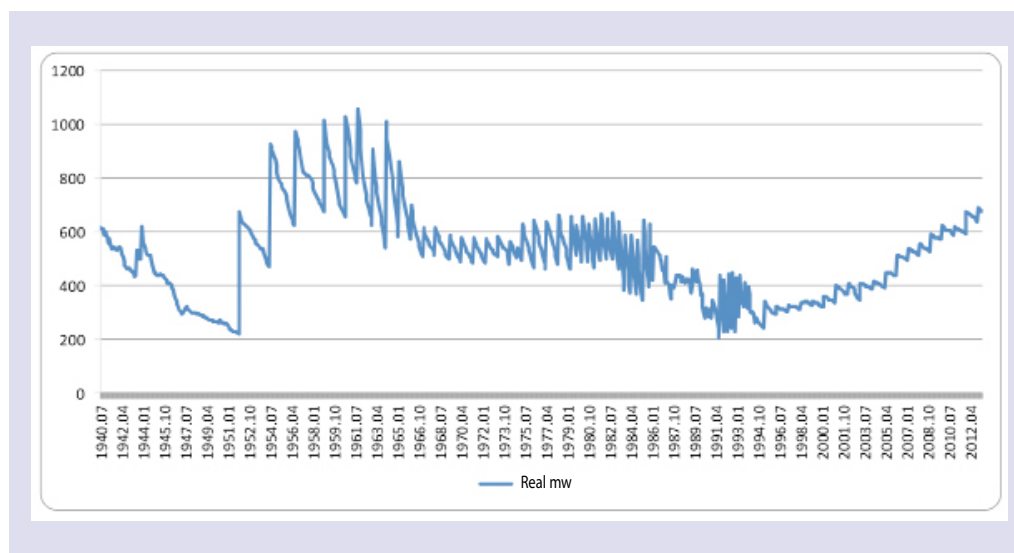
Introduction

Every year end, debate regarding a raise of mw returns to the stage, being general questioned by some people, due to need of a higher value for the wage floor, and by others due to the impact of such raise in public accounts.

From 2003, Government has made a positive move regarding mw. This shift started within social segments, and always advocated the position that mw should have to be explicit and active object of the public policy, therefore running counter an extended lack of government concern regarding this issue. This is perfectly understandable when seeing downward systematic trajectory of its real purchasing power over the years; coming from start of military regime, and only eased from monetary stabilization reached in middle of 90's, but still far away of matching with its highest historical levels, noted between decades of 50 and 60, as may be seen down here in Chart 1.

CHART 1

Monthly real evolution of mw since its creation (in R\$ of 2012)



Source: Ipeadata. Index values corrected by National Consumer Price Index (INPC) April 2012
Elaborated by authors

This change brought not only aggravation in public debate regarding this issue, but also from the Quadripartite Commission – created through Presidential Decree of April 20, 2005 – an advisory nature body, a stance of Ministry of Labor and Employment, composed by representatives of: government, entrepreneurs, workers, retirees and pensioners, to propose a National Program to Strengthen mw.

However, in spite of intense theoretical and political debate held in this Commission (which to some extent was positive to improve level of public discussion) only one practical resolution arose in relation to mw– up to that moment – the fixing of new national reference indexes increasing real gains of around 7.9% in 2005 and 13% in 2006.

Among other barriers, there was one – and still is – current basing its arguments in a fiscal point of view, predominant in cross-government debate and broadly disclosed at media. Debate was so distorted that considers social security one of main factors of stress on public accounts, being sometimes considered the obstacle to higher increases of mw and its raise to dignity standards constitutionally established.

From this analytical perspective, mw discussion in Brazilian society, marked by high levels of social, regional and salary inequalities, is supported in main features exceeding the mere budgetary issue. At the bottom, we have to know if it is justified in government environment to establish active policies regulating not only conditions of use and social protection of workforce, but also pay conditions of an expressive part of workers, and economically inactive population, holder of social security and assistential benefits granted by constitutional rights¹.

In other words, the construction of a policy of real valorization of mw is worthy since involves at least five dimensions directly coupled to national development standards, providing them with a structuring profile in the role of federal public policies. They are: (i) mw, employment rate and income distribution; (ii) mw and general level of prices; (iii) mw, measures to fight poverty and promotion of social welfare; (iv) mw and Social Security as reducing agents of income inequalities and promoters of municipal development; and (v)mw and public finances.

1. Minimum wage, employment rate and income distribution

First and clearer approach of this analysis is searching to relate impact that possible real increases of mw would have on labor market, regarding both aggregate level of work and determination of level and distribution of wages. Beforehand, we must stress that any effect of real increases of mw (and other wages) on any economic variable of the system, should never be untied to the general environment where they occur, particularly within the macroeconomic context that will sanction or not movements triggered by a settled real increases of mw.² For instance: it is expected that in a context of growth of the aggregate product - or even better, of the expectation of future growth in income, real wage increases could be more easily added to cost structures in companies and families, than in contexts of contraction of economic activities.³

1. Estimates made by Montagner (2005) based in information of National Household Sample Survey/2003 (Pnad) showed that around 30% of Brazilian population was in some way affected by decisions regarding mw, since workers' families (registered, informal, self employed people and domestic workers) retirees, pensioners, unemployed receiving unemployment benefits and people living in extreme poverty sheltered by the Continuing Benefit Conveyance program (BPC/LOAS) would be affected by resolutions regarding official mw. After ten years policy of real annual valorization of mw, it is true that this rate must currently be quite higher.

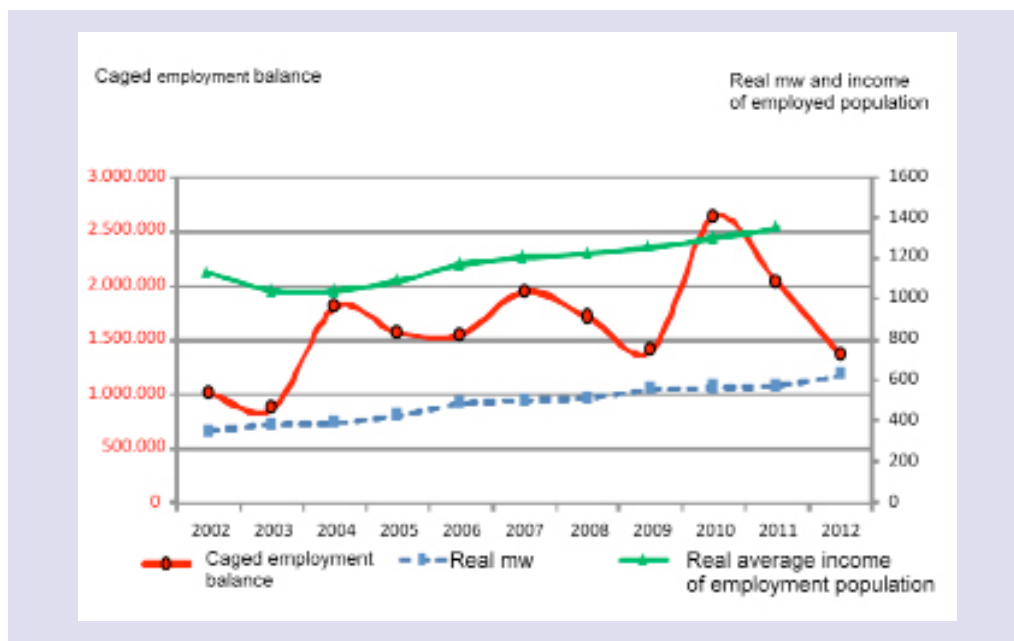
2. This methodological warning is relevant since many empirical studies regarding this question simply forget this detail, then arriving to general conclusions of quite particular contexts.

3. It is also important mentioning families, because most of women workers receiving nearly one mw are housekeepers in private homes.

Therefore, real increases of mw could have a positive impact on labor market, regarding both employment and wage rates, if expected behavior of trajectories of key economic variables – such as investment, product, income and profits – would be in uptrend. In such conditions, general level of employment would rise, and there are indications that real increases of mw would not informalize working relations.

Chart 2 gives us a clue regarding what we just said. There you can see that real increases of mw and real average earnings of all workers is perfectly compatible - for the studied period – with positive balances (hired less dismissed) of General Registry for Employed and Unemployed (Caged). Besides, regarding wage rates and its distribution, it is expected that this will affect labor market basis wages and informal labor market basis wages. In both cases, even if this will not have a direct and immediate (automatic on lendings) influence, it will work in an indirect and differed way, as a sort of lighthouse or reference guide for future negotiations. Obviously, Trade union's bargaining power in each professional category will define chances of success in the undertaking. But independently from this, it is possible that in both cases, by increasing base of pyramid distribution wage rates, some reduction could occur in the enormous heterogeneity of wages.⁴

CHART 2
Evolution of employment balance of General Registry for Employed and Unemployed (Caged), of employment population average income and real mw - 2005 to 2012



Source: Caged (employment balance); Ipeadata: real mw

Elaborated by authors

Notice: Employment balance data with seasonally adjusted series

Obs.: Real increase of mw and of employment population did not prevent formal employment growth. Formal employment drop in 2008/2009 and 2011 is due to global financial crisis and low economic growth.

4. Corseuil & Servo (2001) made a large compilation of studies on this issue and, in fact, they accounted many evidences of positive determination between mw and other wages, as also between mw and improvement of income distribution.

This favorable conjunction of factors seems to have occurred particularly along the studied period. In spite of GNP oscillating behavior and countless sectorial specificities, entrepreneurial prospects were largely positive regarding economic growth perspectives and its maintenance in the near future. This seems to be a reality, especially for export-related economic sectors and those sensitive to the expansion of personal credit expansion verified in the period (consumer durables production sectors, such as automotive, electro-electronic and furniture; and non durable goods production sectors, such as textiles, shoes, beverages and foods). This made real increases of mw to be absorbed by the economic system simultaneously with increases in general employment rates, formalization of labor contracts and reduction in income inequality, showing flexibility of theories pleading in favor of an inevitable trade-off among real wage increases and drop of employment rates or informalization of labor contracts.

2. MW and general level of prices

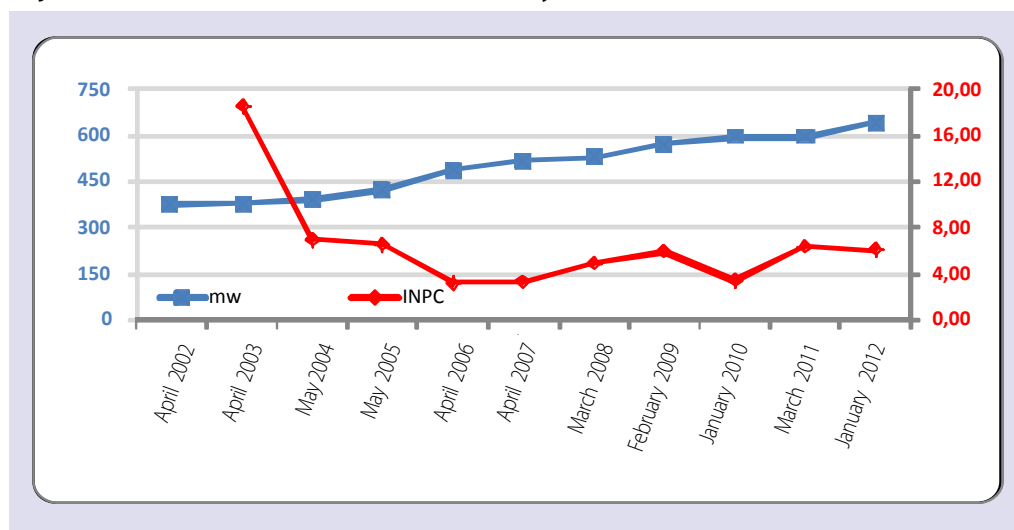
This second important dimensional analysis refers to impacts arising from real increases of mw on general level of prices in the economy. Also in this case, it is worth mentioning a previous methodological warning: any resulting arising impact will be context-dependent. In other words, areal increase of mw will only turn into inflation if economic sectors affected by readjustment would be operating with full installed capacity or almost complete installed capacity. In the contrary, forced by competition, both competitive (flex price) and oligopolized markets (fix price, but contestable in an environment of external trade openness and devaluated US dollar) must have some difficulties in passing on, immediately and automatically its cost increases to final prices. Besides, as above mentioned, if prospects of these economic sectors would be optimistic regarding future evolution of such variables as investment, product, income and profits, cost increases could be absorbed to a certain degree, without sacrificing expected profit margins.

This combination of virtuous phenomenon also seems to have occurred in Brazilian recent experience, since real increases of mw happened simultaneously to decline in inflation (Chart 3) and increase in general economic profitability, even if both events were favored by high interest rate policy during majority of time⁵. To ratify this, down here is record of adjustment of mw and also of inflation rates:

5. Regarding relation between mw and inflation, it must be stressed that following price indexes average: INPC, IGP-DI, IGP-M e INPC-Fipe dropped along duration period of real increases of mw, according to information from Brazilian Central Bank – BCB - (for inflation) and Ministry of Labor and Employment for mw. Regarding relation between mw and entrepreneurial performance, we see that real increases of mw happened in a macroeconomic environment where “except some segments, there was an improvement in financial conditions - in a general certain way – of large industrial companies” (Jacob & Almeida, 2005). Also based in same study “considering five financial institutions (Banco do Brasil, Bradesco, Itaú, Unibanco and Banespa) classified among top ten in BCB ranking, return on equity in third quarter of 2005 was 31.4%, a sharp price increase compared to same period of 2004 (23.1%) (Jacob & Almeida, 2005).

“In 2002, mw was established in R\$ 200. In 2003, there was an adjustment of 20%, for an accumulated inflation of 18.54%. This meant a real increase of 31.23% in mw policy of valorization. Next year, rise was of 8.33%, while increase of National Consumer Price Index(INPC)was 7.06%. In 2005, mw was adjusted in 15.38%, and inflation was 6.61%. In 2006, inflation was 3.21% and adjust was 16.67%, with a real increase of 13.04%. In April 2007, INPC increase between May/2006 and March/2007 was 3.30%, while nominal wage increased 8.57% and real increase in mw was 5.1%. In 2008, mw was adjusted in February by 9.21%, while inflation grew 4.98% Therefore real increase was 4.03%. The 1st of February2009, value went to R\$ 465.00, thus making a real increase between 2008 and 2009 of 5.79%. In 2010, with new value of R\$ 510.00, accumulated real gain for the period was 6.02%, result of nominal variation of 9.68%, against inflation of 3.45%. In 2011, nevertheless 2009 GNP growth rate was negative, wage floor had a real increase of 0.37% and finally in 2012, by including 2010GNP growth of 7.5% and rounding of value, mw was fixed in R\$ 622.00. With a value of R\$ 678.00 (Jan/2013), wage floor has an accumulated real increase, from 2002, of 70.49%”. (DIEESE)⁶

CHART 3
Adjustment of real mw and inflation measured by INPC 2002/2012



Source: DIEESE 2012

3. MW, measures to fight poverty and promotion of social welfare

The third axis to be analyzed refers to social impact arising from real increases of mw. As previously mentioned, if macro-economic context would be promising, real increases of mw should not compromise general level of employment or formal work level, neither the wage floor nor real market remuneration purchasing power. It is evident that in this optimistic hypothesis,

6. Minimum Wage Valorization Policy. DIEESE, Technical note 118, Dec/2012.

increases of mw would improve social welfare for employed workers (civil servants, workers with and without Labor card, self-employed and housekeepers) affected by this policy of valorization. Besides these, social welfare earnings would also benefit retirees, pensioners, unemployed receiving unemployment insurance and extremely poor persons sheltered by Continuing Benefit Conveyance program (BPC/LOAS). For all these categories it is worth the constitutional right establishing mw as a wage floor linked to (same value in the whole country) Social Security benefits.

In Brazilian papers regarding this issue, references showing positive correlation between real increases of mw⁷ and drop of absolute and relative levels of poverty are widely spread, not only among workers, but mainly at homes where there is at least one person receiving Social Security benefits bound to mw and to confirm this, the own Ministry of Social Security ratifies the statement.

Advances obtained, especially after 2005, are important for the country since represent a drop in percentage of Brazilian people living in poverty, fact that besides improving economic activity and trade in municipalities (mainly in small ones) reduces internal migrations and slum growth in big cities.

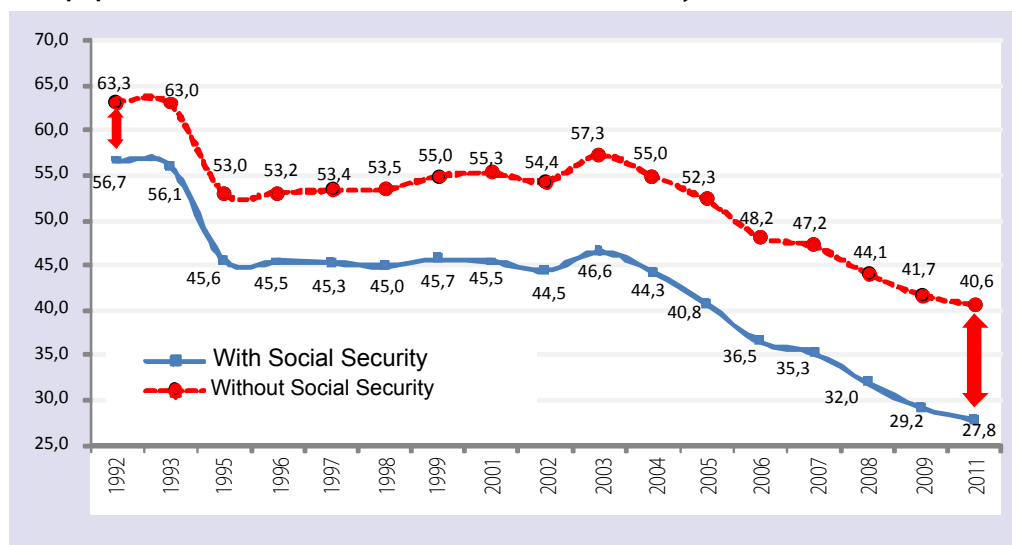
However and after seeing progress in last 10 years, we still have a long way to go. During last three governments, poverty had two considerable reduction periods, down here shown in Chart 4 elaborated by Ministry of Social Security (based in Pnad - National Household Sample Survey from IBGE), mainly because of following measures coupled to mw and the Social Security: (i) monetary stabilization after 1994; (ii) implementation of Laws 8.212/91 (Costing plan) and 8.213/91 (Benefit Plan); (iii) real increase in mw, particularly after 2005, that raised Social Security floor benefits and Continuing Benefit Conveyance program – BPCs (Social assistance); (iv) improve of access to primary education through income increase of poorer; and (v) income transfer programs, especially Bolsa Família, a program to grant poorest families access to food, healthcare and education, launched in 2003 (CHART 4).

Taking as reference a home income per capita inferior to half mw, payment of social security and assistential benefits could lift out 23.7 million people from poverty line in 2011⁸. Then percentage of poor without social security transfers, as seen in Chart 4, would be 40.6%. When receiving social security transfers, this rate was reduced to 27.8%, representing 12.8% of total reference population in that year. Looking to the beginning of decade of 90, we see how reduced was that difference and the time poverty was unchanged, from middle to the end of decade of 90, with or without social security transfers.

7. Federal Deputy Eduardo Paes made a report at the Chamber of Deputies at the beginning of 2000, compiling many technical studies regarding social impact of real increases of mw. Based in these papers, he concluded that "current Brazilian social security system, based in simple distribution system, allows using the State as most important instance of income distribution and fights against poverty (...). In this sense, it may be affirmed that currently the Social Security on the threshold of the 21st century, is a real fund to struggle against poverty for almost 65% of its beneficiaries and family members" (page 105). For further details see Paes 2002. These same results have been subsequently verified in other studies. It is worth mentioning some of them: Anfip (2007); Barros et alli (2000d e 2000e); Camarano (2004); Dain & Lavinias (2005) and Delgado & Theodoro (2005).

8. The Ministry of Social Security, considers - for calculation - line of poverty equivalent to half mw.

CHART 4
Poor population rate in Brazil, with and without Social Security transfers



Source: IBGE/Pnad harmonized, excluding rural areas of Northern region, except state of Tocantins. Elaborated by SPSMPS
Remarks: a) Only considered inhabitants of homes where every resident declared full income; b) For calculation mw adjusted at prices of Sept 2011; c) Line of poverty: one half of mw

4. MW and Social Security as reducing agents of income inequalities and promoters of municipal development

Associated to above mentioned social impacts, there is a fourth dimension to be analyzed, linked to regional impacts of order (state and municipal), arising from real increases of mw. There is a concordance of this dimension - of main importance in the Brazilian case; since mw is constitutionally linked to wage floor for social security, assistance and unemployment insurance benefits, then it is fundamental part of an efficient strategy heading to fight income territorial inequalities. Manifestly to this should put together other local development policies, in fact to guarantee that territorial impacts arising from real increases of mw could also be absorbed by local work markets.

But in absence of territorial-local development explicit policies, Social Security benefits directly transferred to individuals living in regions where per capita income is less than national average, have achieved an extremely important role to support income and municipal consumption levels. To have an idea of this volume, in 3,875 municipalities of the total 5,566 existing in Brazil in 2010 (69.6% of total),⁹ monetary transfers made in name of the Social Security (benefits paid by Social Security – nearly 70% accounting for one mw) were higher than the amount transferred in name of Municipal Participation Fund (FPM) thus showing Social Security power (and the constitutional precept linking its benefits to mw) to transfer income into poorer regions, to stimulate local development.

9. See França (2011).

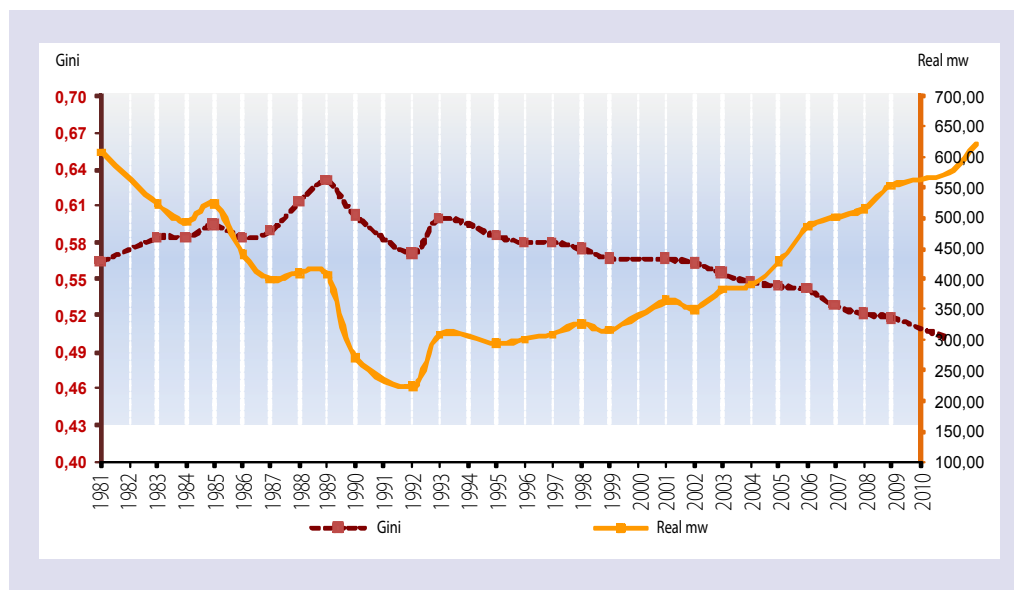
A remarkable thing of above mentioned study, even if based in a small sample, is the existence of a positive relation between number of benefits given by Social Security and municipal development. Considering 100 best municipalities in the municipal development ranking of the Federation of Industries of the state of Rio de Janeiro (Firjan¹⁰), in 98 of these industries, benefits exceed the FPM. On the contrary, considering 100 worst indexes, benefits exceed the FPM in only 47. Not having stronger correlations and other considerations to provide a better diagnosis of importance of Social Security for municipal economies, I consider this a relevant sign of the large Social Security redistributive capacity and its influence to reduce regional inequalities and promotion of local development.

As a concrete example: the municipality of Formosa, state of Goiania, in the region surrounding Brasília, where income generated by Social Security benefits are three times higher than FPM on lendings. In 2011, FPM transferred R\$ 21.7 million to Formosa, while Social Security issued R\$ 75.7 million in benefits. Besides having a higher value, these benefits are almost all converted into consumption, therefore contributing to municipal development municipal through its multiplying effects. This differs from FPM, for example, depending of a good municipal direction of resources to achieve its role in an efficient way. This strengthens role of Social Security as crucial income generator and redistributors', and as stimulator of local economy.

A series of factors are responsible for reduction of income inequality. Minimum wage is an important tool, and particularly when combined with GNP increase per capita, we have the mw. Chart 5 shows real increases granted to mw from 1981, and reduction of labor income inequality, here discharged by Gini index, showing an inverse relation between both of them. The index shows that from 1993, but more intensely from 2005, there was a more significant improvement in labor income distribution, in large measure due to virtuous circle established among employment growth, formal labor contracts, real annual increase of mw and increase of social expenditure linked to mw.

10. Firjan adopted its own methodology for the Municipal Development Firjan Index (IFDM), different from methodology adopted by UNDP with HDI.

CHART 5
Gini index of average monthly income of all employed population and real mw from 1981 to 2011



Source: IBGE/Pnad harmonized - Gini index - Ipeadata - Real mw (INPC) prices Dec/ 2012
Remarks: a) In 1991, 2000 and 2010 Pnad index data was not collected; b) Gini index of 1982 not available
Elaborated by authors

On the other way, if we analyze the military regime period, nevertheless it was not considered in the Chart, inverse relation thesis between mw and inequality is ratified. During this period there was an evident wage squeeze policy imposing a strong cut back on mw, coincidentally to the expansion of income inequalities.

5. MW and Public Finances

To conclude, fifth dimension of this analysis takes into account double effect of real increases of mw on public finances. From one side, fiscal impact arising from an increase in public expenditure; and in the other, tax impact arising from increase in tax revenue and social contributions. These two questions go hand by hand and have to be simultaneously treated to make an exempt and precise analysis of this matter¹¹.

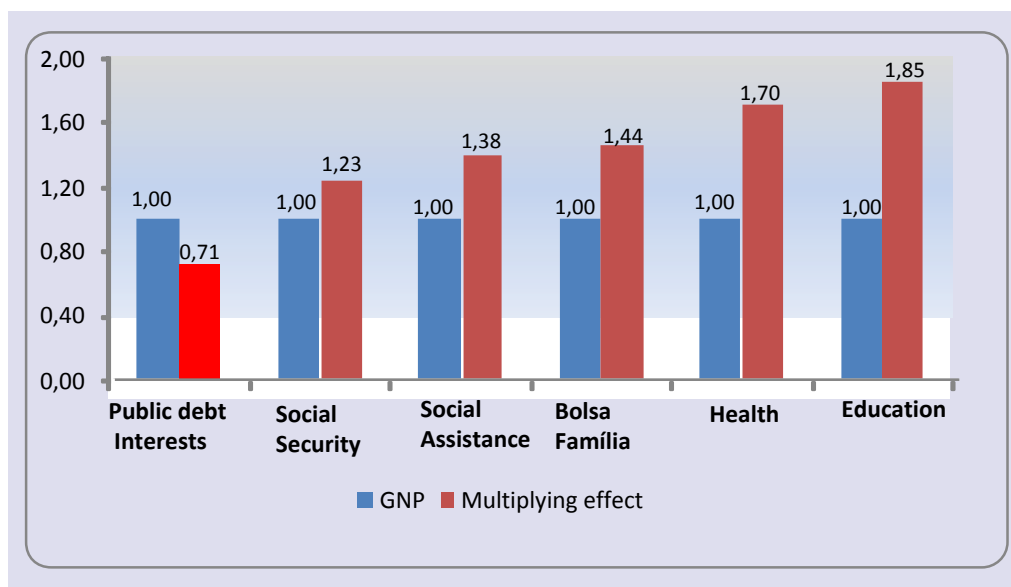
From fiscal impact side (practically the only one considered in most of current analysis), it should have to be studied not only burden of real increases of mw into social accounts (Social Security, social assistance, unemployment-insurance), but also influence of these increases not only in public budget as a whole, to evaluate properly priorities of ongoing economic expenditures (social expenditure, public debt, interests, investments, personnel expenses, etc) and its respective movements being continuously processed in public budget. Besides, it would be necessary to consider redistribution effects of such expenditures associated to real increases of mw, its multiplying effect, and confront them with

11. Some recent studies from pea seek to address both questions. In particular, see Ipea (2010) and Campos (2011).

social objectives of government and society. An example to better illustrate this, is the importance of expenditures allocated to payment of benefits and provision of goods and services, and how they rapidly turn into food consumption, services and basic industrial that make production dynamic, stimulate employment, multiply income and reduce poverty and extreme misery. Benefits of the social system had a strategic role as drivers of national economy, particularly during global financial crisis of 2008, when value and amount of benefits grew. Due to its expressive economic and social results, social policy then became indispensable and strategic not only to face current adverse situations, but also to establish foundation of a most economically strong country with increased fairness.

A recent paper from Ipea studying social policy expenditures¹², here illustrated in Chart 6, shows importance of expenditures and its multiplying effect within the economy, most of times in direct relation with mw, as is the case of Social Security and Social Assistance. As an example, Social Security transfers for retirement, pensions and welfare, have a multiplying effect on GNP of 1.23%. In other words, for each R\$1.00 spent with Social Security, GNP would increase in R\$1.23. Same thought goes for Social Assistance, the Bolsa Família Program (to grant poorest families access to food, healthcare and education), Health and Education. In these programs where there is less “leakage” multiplying effect is higher¹³. Such is the case of Bolsa Família, where almost all its expenditure goes to essentials. On the other side, expenditure of R\$1.00 with public debt interests, becomes negative in R\$0.71 of GNP. Therefore, in terms of GNP creation, payment of interests results in more costs than benefits.

CHART 6
Social expenditure multiplying effect on GNP (in %)



Source: Ipea Communiqué nº 75, Feb/2011

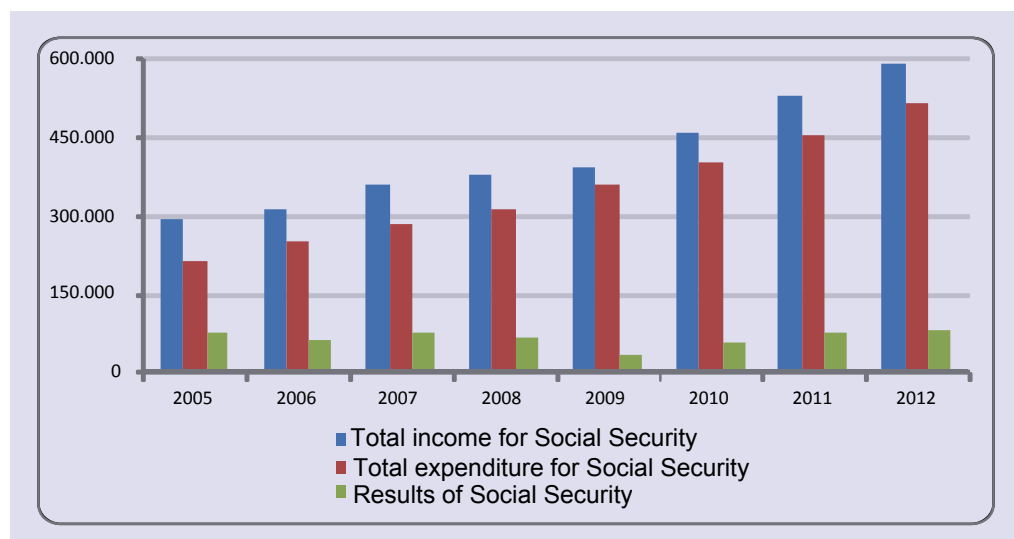
12. Social Policies Expenditures: lever for development with income distribution. Ipea Communiqué nº 75, Feb/2011.

13. This leakage must be understood as flow of expenditure of endogenous variables to the exogenous, it is to say allocation of resources going out along the income multiplication process, to form savings, net income transfers to abroad (most of them through payment of imports and remittances) and taxes and contributions returning into state treasury.

From tax impact side (an almost ignored aspect on current debate), we must analyze effects potentially virtuous effects on the economy and tax and social contributions from real increases of mw that, incorporated to companies cost structures, are gradually converted into increase of total taxable wage sand in expansion of current consumption, also taxable. In both cases, in spite of gradual reduction of our tax system, they are mainly financing sources constitutionally created and linked to social expenditures with the impact of real increases of mw, for example minimum benefits from Social Security, social assistance and unemployment insurance.¹⁴

Two crucial aspects must be stressed from remarks related to this dimension of analysis. The first one is that these observations relativize vision about “Social Security deficit”, myth, since constitutionally Social Security, social assistance and unemployment insurance expenditures, all them have explicit sources of financing (article 195 of the Federal Constitution) and in fact are covered by combined resources designed for them, with emphasis in Employers and Workers Social Contribution for INSS, PIS/Pasep/FAT - Workers Support Fund -, Cofins, CSLL, own income resources from Ministries and Revenues of lotteries among others.¹⁵ This corroborates thesis stating that methodology adopted by National association of fiscal auditors of Brazil’s federal internal revenue service (Anfip) that there is no Social Security deficit. On the contrary, as Chart 7

CHART 7
Income, expenditures and results of Social Security budget – 2005 to 2012



Source: Anfip (Siafi extracted from Follow Brazil (SigaBrasil) and for General Social Welfare Policy (RGPS) data: the Ministry of Social Security cash flow. Elaborated by authors. Notes: As per Anfip methodology, following entries are income: Social Security net income, Cofins, CMPF (up to 2007), CSLL, PIS/PASEP, Revenues of Lotteries, own income from Ministries (MDS, MPS and MS) FAT resources, EPU's fiscal counterpart, besides rates, interests and inspection fines. Expenditures refer to Urban and Rural Social Security benefits, Assistential benefits (LOAS and RMV) PBF, EPU, Ministries expenditures (MDS, MPS and MS) Social Security actions, benefits and other FAT actions.

14. Such sources are part of the neglected Social Security budget, that among other taxes, collects exclusively for its own the Employers and Workers Contribution for INSS (deducted transfers for third parties) the o PIS/Pasep (FAT), Cofins, CSLL, own income resources from Ministries, Revenues of lotteries, etc. Except first one, all other social contributions have lost around 20% of their total volume, because of transfers to the National Treasure Cashier through the Untying of Union Resources (DRU) to achieve fiscal surplus annual targets.

15. For a systematic follow up regarding these issues, see Ipea - Social Policies Report: follow up and analysis, several issues, especially the chapters referring to Social Security and Social Welfare.

shows, we have budget surplus in Social Security accounts since some years ago. Even in atypical years such as 2009 (due to the global financial crisis) and in 2012 (low rate of growth and exemption of payroll), there was a surplus in the Social Security consolidated budget, according to constitutional precepts.

The second aspect - after a careful look to data related with current performance of federal social finances, is that it becomes clear federal public budget distributive dispute ordinarily arises in favor of public debt burdens, to the detriment of all other expenditure categories, especially investments (compromising product, income and employment) and social ones, since Social Security budget systematically increases due to Social Federal expenditures linked increase of mw¹⁶.

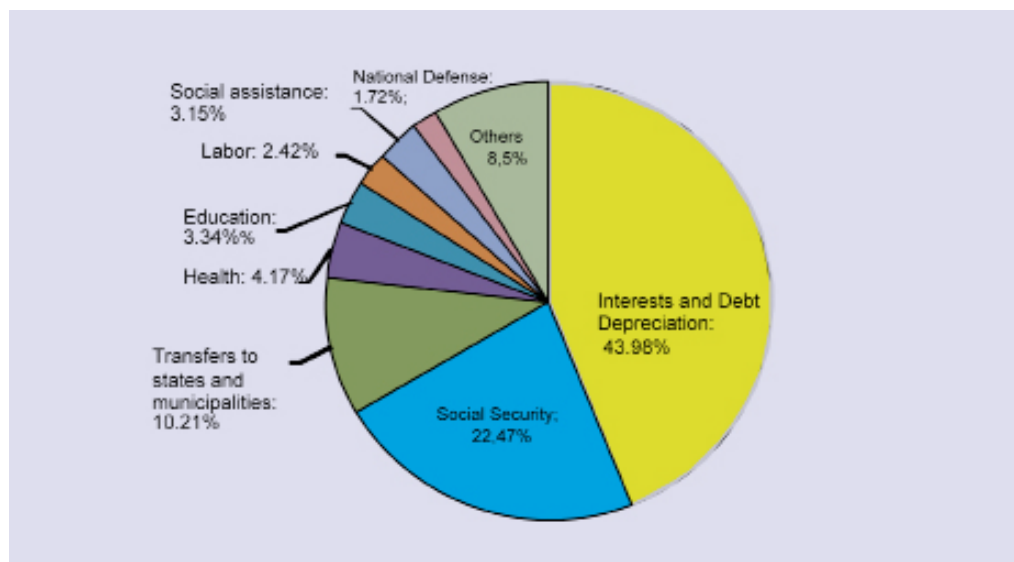
Chart 8 shows weight of debt interests in Union General budget. While 44% of federal resources are oriented for payment of interests and debt depreciation, Social Security which is greatest instrument of virtuous income redistribution of the country, got 22.5%. Health system only got 4.2% and education, safety and transport, respectively got 3.3%, 0.4% and 0.7%.

Final Considerations: Minimum wage current policy and its political meaning for the future of the Nation

Along recent years, search for a more dignified and suitable mw to support Brazilian families real needs, stated in Magna Carta of 1988, has achieved improvements, many of them based on social struggle willing to instigate opinion of Executive and Legislative powers regarding social and economic importance of a real annual increase valorization of mw public policy.

16. Empirical verification of this argument can be seen in following papers: Araújo (2005) and Cardoso Jr. & Castro (2005, 2006a and 2006b).

CHART 8
General Budget of the Union for financial year Of 2012. Total: R\$ 1.7 trillion



Source: Federal Senate SigaBrasil system. Elaborated by: Citizens' Audit on Public Debt.
Note: Others represent the sum of Energy, Sports and Leisure, Communications, Transport, Other Special Charges, Legislative, Judiciary, Essential to Justice, Public Safety, Administration, Foreign Affairs, Trade and Services, Industry, Agrarian Organization, Agriculture, Science and Technology, Environmental management, Sanitation, Social Housing, Urbanism, Culture and Citizenship Rights

A policy was established in 2007 to protect mw buying power, with permanent valorization up to 2015. This policy had as criteria adjustments referring to inflation period, plus a real growth GNP rate of 2 years before the year of current adjustment, besides annual anticipation of review base date before being fixed in January, as it happened in 2010. This allowed a real increase beyond rate of inflation and maintenance of purchasing power, especially with more robust GNP increases.

Impact of rise of mw has very important economic and social impacts, as already demonstrated along this paper. Increase of January 2013, for example, nevertheless not so forceful (real increase of 2.73% compared to 2012) had an impact on economy, according to DIEESE,¹⁷ of R\$ 32.7 billion. If we consider that currently at least 45.5 million people have their wages linked to mw value, apart from people indirectly benefiting from this, we can imagine importance of having a real annual valorization policy.

Therefore, for people considering mw and its real adjustments as a burden for public accounts, we must remember unfair Brazilian tax structure, having a huge number of taxes affecting consumption. And precisely because of this excessive burden on consumption, poorest are punished; because in spite of their inferior income, they pay same taxes imbedded in the price of products they buy. Zockun (2007) states how severe are taxes for those with low pay. At the time of writing this paper, people winning up to two mw, had to pay around 70% more taxes than 12 years before. A family making up to two mw in 2004 had 45.8% of its income eroded by indirect taxes. In 1996, this expenditure was of only 28%, an expressive difference in only eight years.

17. Minimum wage valorization policy. DIEESE. Technical Note 118, Dec/2012.

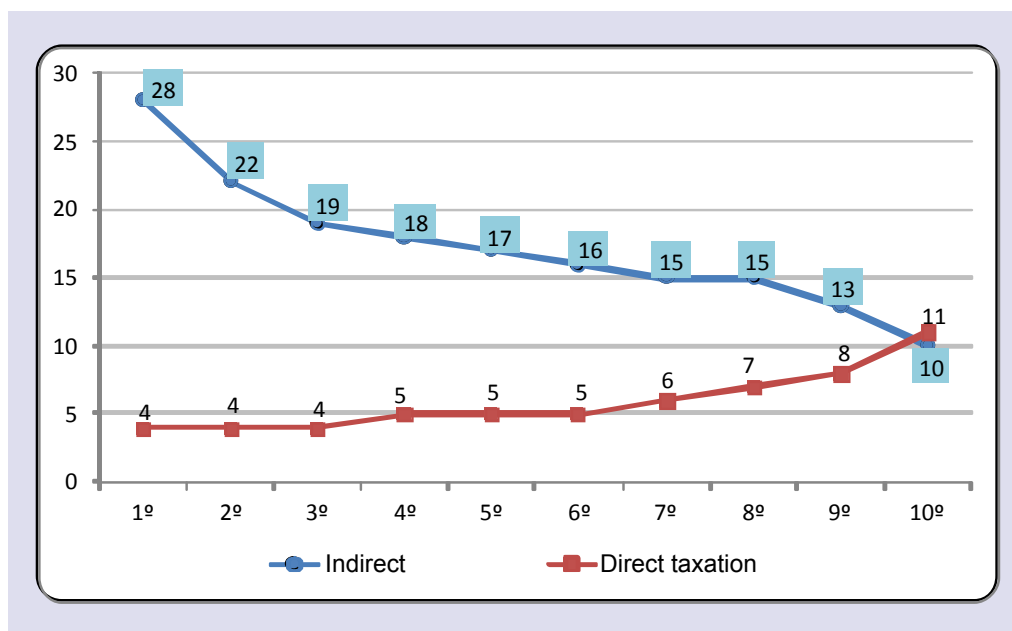
Based in results of last Family Budget Survey (POF) made in 2008/2009, we can see that indirect tax burden reached 28% of total income in 10% of poorest families; this showing how regressive the Brazilian tax system is, as shown on Chart 9. For 10% of wealthiest families, indirect burden only took 10% of income.

Besides regressiveness, another problem was verified in indirect taxes impact, reaching the whole population through consumption. It is the feeling they are not paying taxes, since they are embedded (and not informed) on prices of products. Definitely, it must be compulsory in the whole country to obey Law 12.741/12 compelling shops to display boards informing values or tax percentages, although it is known how difficult it would be (not to say almost impossible) precise, tax burden for each product, due to complexity of the system and different effective tax rates of each state.

To summarize, from recurrent conjectural debate on mw and work market, in this paper we have discussed about possible beneficial effects that a policy of real valorization and institutional strengthening of mw could have on the Brazilian society. Entire set of above mentioned arguments was backed by Brazilian experience of recent years (mainly after 2004) and we foresee for coming – everything being constant – repetition of same conditions.

However, it is clear that such a policy must search, in first place, ends of erratic annual adjustments, because they boost increase economic environment economic uncertainty and may compromise fiscal sustainability of other policies. Also providing economic system a higher dose of predictability and sustainability along the time, it would be meritorious that current national policy of real recuperation of mw be coupled to evolution of real GDP, according to allocated since 2007.

CHART 9
Impact (in %) of direct and indirect taxes on total family income in Brazil
In deciles of available income - 2008 to 2009



Source: Ipea. Fiscal equity in Brazil. Tax and social expenditure distributive impact. Ipea communiqué n° 92 - May 2011.

Anyway, relevant fact is that with a macroeconomic environment relatively stabilized and as entrepreneurs see, with a perspective of sustained growth, real increases of mw observed during this recent period could be absorbed by economic system simultaneously to work increase and formalization of labor contracts, real recuperation of income from work, increase of total wages, with some reduction of income inequalities (coming since 2005 from, from increases with a higher income rate of deciles inferior to distribution), drop in absolute and relative poverty – a crucial detail – with a social tax burden connection growing over federal social expenditures. Therefore a set of factors is happening in a pro-cyclic mode with general economic behavior, and not in contradiction with it, as unhappily some more conservative or ideologically oriented analysis regarding this matter yet suppose.

Today, with all these elements new issues integrate political debate and contribute to demystify certain “dogma” always present in wage, income and distribution discussions. Following recent facts of the Brazilian experience contradict everyone that always defended (and still defend) these false arguments:

- It is possible valorizing the mw and increase families consumption, without compulsorily go back to high inflation rates;
- It is possible valorizing the mw and nevertheless see growth in general employment, including formalizing employment relationships;
- It is possible valorizing the mw and keep surplus in Social Security accounts, because there is no foreseen deficit within budget constitutional logic;
- families consumption is an important vector to enlarge local production capacities and for aggregate economic growth;
- that followed by economic growth, even if low as the one we have in this three-year period of 2011-2013, will avoid a calamity in Social Security accounts and most of Brazilian municipalities.

Therefore, defending mw and workers is fundamental for the construction of a National identity searching to improve living conditions, the welfare, the development and eradication of poverty. The valorization of mw was, and will continue being an important instrument in the struggle for better working conditions and will keep playing a capital role in the construction of a more civilized standard of living in Brazil.

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