Beyond Disguised Employment: Stagnation and Informal Employment in Brazil

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Brazil experienced a period of relatively higher economic growth from 2003 to 2014, when the labour market improved in terms of higher formalization and lower unemployment rate. After 2012, the country presented different growth patterns: a deceleration period (2012-2014), a recession (2015 and 2016), and stagnation from 2016 to 2019. The country has experienced a reform agenda centred on austerity measures and the reduction of state capacities since 2016, undermining economic policy instruments to stimulate economic growth, reduce unemployment and improve labour formalization and income distribution. The recession decreased employment, but the low economic growth rates during the stagnation period raised the level of employment, making employment in 2019 higher than the employment in 2014. Despite this, informal employment increased considerably from 2014 to 2019.

The aim of this paper is to investigate the Brazilian labour market from 2014 to 2019 and evaluate how changes in the Brazilian growth pattern contributed to increase informal employment. We classify workers according to their formalization status, sector of activity, occupation and income to understand the changes that occurred in the Brazilian labour market in the considered period. We, then, develop a structural decomposition analysis to measure the demand componentsâ€™ role in explaining the Brazilian labour marketâ€™s transformations based on an effective demand input-output model.

The results show that employment decreased from 2014 to 2016 and it increased from 2016 to 2019, achieving a different sectoral composition, with a reduction in Construction, Manufacturing industry and Agriculture, and an increase in Commerce, financial intermediation and service. The decrease in employment from 2014 to 2016 was associated with the decrease in investment and the employment coefficient indicated that formal employment was replaced by informal employment for the private sector and that there was a decrease in both formal and informal employment for the public sector. The crisis also increased the own-account employment, both formal and informal. Part of this employment reflect disguised employment, when the worker perform functions as an employee but he/she is not classified as one, as part reflect informal employment as a consequence of a job loss that made the person to find another way to receive an income to survive. Exports had an important role for the resumption of employment from 2016 to 2019, but the main change was associated with a change in the employment coefficient from formal to informal, indicating the precariousness of employment growth. In this last period, disguised employment becomes more prominent.