

Simulating the impact on labour earnings and per capita household income of a Brazilian government programme to protect jobs from the COVID-19 pandemic

Joana Costa and Mauricio Cortez Reis, Institute for Applied Economic Research (Ipea)

Social distancing strategies to control the spread of COVID-19 are necessary to save lives but may have severe consequences for livelihoods. Many jobs are at risk either because they are not compatible with remote work or because they are directly affected by negative demand shocks. To protect jobs and incomes, countries are implementing wage subsidies and/or facilitating access to unemployment benefits.

To avoid the widespread destruction of jobs in the formal sector during the pandemic, the Brazilian government has introduced the Emergency Income and Jobs Maintenance Programme. It allows for individual agreements between employers and employees to temporarily reduce contractual working hours by 25 per cent, 50 per cent or 70 per cent or institute a furlough (temporary layoff). For workers who earn over three and under 11 minimum wages, individual agreements are limited to a 25 per cent reduction in working hours. Other arrangements are subject to a collective contract or convention.

In all cases, the government partially replaces the forgone monthly earnings. For reduced working hours, the employee receives a wage proportional to their working hours from the employer, plus a benefit from the government corresponding to an unemployment benefit proportional to the reduction in working hours. Furloughed workers receive the full unemployment benefit, regardless of fulfilling the usual eligibility criteria.

Reduced working hours can be adopted for two months, while furloughing can be adopted for three. After this period, the employer must retain the employee for the same time as the scheme lasted or pay a fine. One of the advantages of preserving jobs during a crisis is to avoid the costs of job-seeking and hiring and training new staff, so that the retention of existing matches and preservation of specific human capital can help accelerate economic and productivity recovery.

The programme is also important for preserving employees' monthly earnings during the pandemic. The eligibility criteria of the emergency programme are quite flexible, allowing some workers currently ineligible for regular unemployment insurance to have access to unemployment benefit in case of dismissal. Thus, the programme preserves not only jobs but also earnings. As the capped unemployment benefit is used to determine the benefit level, the share of forgone wages that is replaced is lower for those with higher wages, as illustrated in Figure 1.

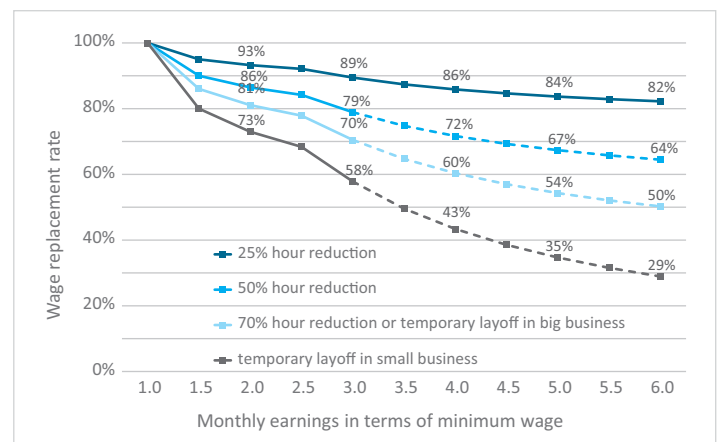
Protecting more low-wage employees is important to guarantee resources to those in most need. Workers with higher wages will have to rely on other incomes and might be less likely to keep their job. About 70 per cent of formal employees earn two minimum wages or less. For these workers,

Figure 1 shows that the wage replacement is always above 70 per cent in any scenario. However, for employees earning three minimum wages, the replacement rate might be as low as 58 per cent. Even lower replacement rates are possible above three minimum wages, although these scenarios would only happen under collective agreements, which might require an additional payment from the employer.

To assess the impact of the programme on household income, Costa and Reis (2020) simulate counterfactual household incomes considering that only formal wages change. As expected, the affected household incomes in the lowest quintile are maintained the most in any scenario. The largest decline among affected households is around 32 per cent and is observed in the richest quintile, in the most extreme scenario (temporary layoff from small firms). Changes in household income are not so pronounced among those at the bottom and the middle of the income distribution, because 70 per cent of formal employees receive less than two minimum wages, and the replacement rate is higher for them. For households in the top quintile, other incomes play an important role in the simulations. Nevertheless, these incomes might also be volatile during the crisis.

Thus, the Brazilian Emergency Income and Jobs Maintenance Programme is an important tool to preserve jobs, wages and household incomes, especially for low-wage employees.

FIGURE 1



Note: Solid lines represent schemes that might be established through individual agreements. Dashed lines represent situations that might be established through collective bargaining, with the participation of unions.

Source: Author's elaboration.

Reference:

Costa, J., and M. Reis. 2020 (forthcoming). "Uma análise da MP 936 sobre os rendimentos dos trabalhadores e a renda domiciliar per capita." Nota Técnica. Brasília: Institute for Applied Economic Research.