

GROWTH, EQUITY, AND THE LABOR MARKET: NORDIC LESSONS FOR BRAZIL¹

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Brazil has been facing serious employment and income distribution problems and its economy has grown at an anemic pace for a considerable period of time. This article argues for a reinvigorated policy discussion in Brazil around issues of labor market reforms and those social benefit programs most closely linked to labor demand and supply. It does so by bringing to bear on the Brazilian case the successful experience of the Nordic economies in balancing policies to provide labor flexibility to firms while extending security to workers, a system often referred to as “flexicurity”. While cautioning against a simplistic “copy and paste” approach, the underlying principles of flexicurity are used to evaluate potential reforms in Brazil labor law and regulation.

Keywords: Nordic economic model; comparative country studies; national labor policy; Brazilian labor market; OECD members countries labor market.

CRESCIMENTO, EQUIDADE E O MERCADO DE TRABALHO: LIÇÕES NÓRDICAS PARA O BRASIL

O Brasil tem enfrentado sérios problemas de empregabilidade e de distribuição de renda. Adicionalmente sua economia tem crescido a um ritmo anêmico por um período considerável de tempo. Este artigo defende uma discussão política revigorada no Brasil em torno de questões de reformas do mercado de trabalho e dos programas de benefícios sociais mais estreitamente ligados à demanda e à oferta de mão de obra. Ele o faz ao trazer para o caso brasileiro a experiência bem-sucedida das economias nórdicas em equilibrar políticas para proporcionar flexibilidade trabalhista às empresas enquanto estende a segurança aos trabalhadores, um sistema frequentemente referido como “flexigurança”. Embora advertindo contra uma abordagem simplista de “copiar e colar”, os princípios subjacentes da flexigurança são usados para avaliar reformas potenciais na legislação e regulamentação trabalhista brasileira.

Palavras-chave: modelo econômico nórdico; estudos comparativos dos países; política de trabalho nacional; mercado de trabalho brasileiro; mercado de trabalho dos países-membros da OCDE.

CRECIMIENTO, EQUIDAD Y EL MERCADO LABORAL: LECCIONES NÓRDICAS PARA BRASIL

Brasil se enfrenta a graves problemas de empleo y de distribución del ingreso. Adicionalmente su economía ha crecido a un ritmo anémico durante un periodo de tiempo considerable. Este artículo aboga por un renovado debate político en Brasil en torno a las reformas del mercado laboral y a los programas de prestaciones sociales más estrechamente relacionados con la oferta y la demanda de

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trabajo. Para ello, se hace referencia a la experiencia exitosa de las economías nórdicas en cuanto a equilibrar las políticas para proporcionar flexibilidad laboral a las empresas y, al mismo tiempo, ampliar la seguridad de los trabajadores, un sistema que suele denominarse “flexicurity”. Aunque se advierte del peligro de un enfoque simplista de “copiar y pegar”, los principios subyacentes de la flexicurity se utilizan para evaluar las posibles reformas de la legislación y la reglamentación laboral de Brasil.

Palabras clave: modelo económico nórdico; estudios comparativos de países; política laboral nacional; mercado laboral brasileño; mercado laboral de los países miembros de la OCDE.

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1 INTRODUCTION

This much is clear Brazil is facing serious employment and income distribution problems and its economy is growing at an anemic pace. In part, this is due to historical factors, such as the migration of unskilled labor from rural areas to poorly prepared urban centers. The problem has been exacerbated by globalization, the stubborn persistence of informality in the workplace, a fall in demand for uneducated workers, and weak public finances. Political and ideological divisions in Brazil, which have grown in recent decades, have prevented sustained policy discussion on labor market reforms and social benefit programs related to labor demand and supply. To be fair, Brazil faces many policy issues which demand attention simultaneously, pension and tax reform, for example, and measures to assure fiscal stability and to expand or contract social benefit programs. Yet the heated policy debates rarely draw attention to direct and indirect impacts of particular proposals on labor market performance.

The employment trends were worrisome in Brazil even before the Covid-19 pandemic of 2020 dealt a devastating blow to economic growth and employment and caused an uptick in informality (*i.e.*, “bad jobs”), as shown by data from the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística – IBGE), the most important official Brazilian source of economic statistics.³ Sources of household incomes for many millions of workers and their dependents have been made precarious and poverty is on the rise (IBGE, 2019). True, emergency social programs in 2020 have cushioned some of the blow. The impact of the Covid-19 crisis on household incomes would have been far worse without income support payments from the federal government in 2020 (a program known as Auxílio Emergencial). However, Brazil’s fiscal finances are unable to continue these emergency support programs for any sustained period

3. For an evaluation of the data that attest to the worsening of Brazil’s social indicators after 2015, see, for example, IBGE (2019).

of time as the public debt to gross domestic product (GDP) ratio is already approaching 100%, according to IMF (2020) Fiscal Monitor data.

What to do? The central argument in this paper is that the perennial problem of growth and equity in Brazil calls out for a re-examination of the interrelationship between labor market policies and social insurance programs. If the major economic problem facing Brazil really is employment, this points to the centrality of reform in labor market institutions. In this respect, the prospect of Brazil becoming a member of the Organisation for Economic Cooperation and Development (OECD) provides a timely opportunity to reflect upon labor reforms and labor market performance in comparative perspective.

The approach here is rooted in the historical experience of the Nordic countries – Sweden, Denmark, Finland, and Norway, to be specific. Over decades and through many economic cycles, these economies have performed well with respect to the rest of the OECD in terms of growth and social wellbeing compared to the rest of the OECD. While these countries have important differences among themselves, together they present an economic model that combines efficiency (*i.e.*, relatively high economic growth rate and level of GDP *per capita* over time) and equity (reasonably egalitarian distributions of income and wealth). The Nordic economic model, in other words, stands in repudiation of common policy notions that countries must sacrifice economic growth for greater equity or, conversely, sacrifice egalitarianism in the name of economic growth. The Nordic countries seem to be able to pursue both objectives very successfully and have done so for a very long time. They are doing something right.

Appealing as the Nordic model of labor market institutions may seem, it has not made an impact on scholarly debate or on public policy reforms in Brazil or anywhere else in Latin America, with the possible (and only partial) exceptions of Costa Rica and Uruguay. This neglect could be due to an erroneous understanding of what the Nordic model is and its relevance for Brazil and Latin America which seem so vastly different in so many ways. A “copy and paste” approach to incorporating best practices from Nordic labor market policies would be absurd. At the same time, the Nordic experience should not be dismissed as irrelevant to Brazil because of preconceived ideas of “Nordic exceptionalism”. These four countries are not egalitarian because of some unique mutation of the human spirit that only appeared in Scandinavia; they are egalitarian because their labor market institutions and social programs are designed to produce greater equality and higher growth.

This paper is organized as follows. First, it is important to have the recent Brazilian context in mind. In section 2, Brazilian labor markets are described, emphasizing a “Golden Age” of labor market development from 2003-2014 as

well as the aftermath of this period. In section 3, the Nordic economic model is described in a general way, highlighting how these economies stand out from the rest of the OECD. Section 4 is a deeper dive into the Nordic flexicurity model to understand its labor market institutions and the design principles and policy mechanisms that account for its success and section 5 summarizes the main characteristics of the institutional design of the Nordic labor market. Section 6 returns to the contemporary debate in Brazil in the light of the Nordic model and offers suggestions of practical policy relevance for Brazil. Section 7 provides brief conclusions.

2 THE LABOR MARKET CONTEXT IN BRAZIL

In the decade following the democratic Constitution of 1988, which guaranteed essential social rights to all Brazilians, Brazil was buffeted by succession of economic crises.⁴ Its track record in terms of employment and equality in the 1990s was disappointing as the national focus turned to measures to subdue inflation and stabilize public finances.⁵ Informality, already entrenched in the labor market, rose during the 1990s and economic growth was anemic. Income distribution in Brazil remained highly unequal. By the early 2000s, however, with macroeconomic stability, economic growth in Brazil resumed and the economy was in a position to benefit greatly from more favorable global economic conditions, including a sustained rise in commodity prices and expanding world trade.⁶

It was in the period from 2003 to 2014, years in which the Brazilian Workers Party (Partido dos Trabalhadores – PT) held the presidency, that Brazil seemed to “turn a corner” in such labor market indicators as median real income, participation rates, and job creation (Kerstenetzky and Machado, 2018). In this so-called “golden age”, labor incomes rose, informality receded, and formal labor contracts became more widespread. New social benefit programs, especially the iconic conditional cash transfer program known as Bolsa Família, were strengthened through improved targeting and increased funding. Educational progress continued by numerous measures, including achieving near universal enrollments in primary grades and a vast expansion of higher education enrollments. New federal funding was dedicated to health to make it more accessible throughout the nation (Fishlow, 2011). It was particularly striking that Brazil finally recorded progress in reducing the Gini coefficient of income inequality and lifted millions above the poverty level.

4. Regarding the impact of the 1988 Brazilian Constitution on social protection legislation, for example, see Sátyro and Cunha (2014).

5. On Brazilian economic performance in the 1990s, see, for example, Antunes (2017).

6. On Brazilian economic performance in the 2000s, see, for example, Serrano and Summa (2012).

Granted these improvements occurred from the starting point of high inequality, the fact that there was any social progress at all was indeed noteworthy and fueled a generalized optimism in Brazil about the future based upon the emergence of a new middle class (Neri, 2008). Kerstenetzky and Machado (2018, p. 552), in a seminal review of labor markets in Brazil, summed up the quantitative indicators as follows: “In the wake of new labor market and social policies, economic growth boosted by favorable external conditions was finally reconciled with poverty reduction *and* a decline in economic inequality. Poverty dropped to 13% of the population in 2014, down from 36% in 1995; inequality, from a Gini Index of .60 in 1995 to .52 in 2014”. During this relatively recent period, Brazil was able to redistribute income in two ways: first, by wage compression and, thus, redistribution of labor incomes; second, through more effective use of taxes and transfers to increase household disposable incomes. Of the two, the redistribution of market incomes was the most important (López-Calva and Lustig, 2010).

The Brazilian labor market reform effort during the “Golden Age” was accomplished via measures to increase formal employment (*e.g.*, jobs with employment protections set forth in Brazilian labor law) and to diminish the widespread use of informal working arrangements for individuals and for entire companies. Informality is a structural feature of emerging economies, but perhaps nowhere more so than in Brazil and Latin America (Ulyseia, 2020). Across Latin America, informality in its various manifestations (*i.e.*, jobs variously referred to as “bad”, “insecure”, “unprotected”, “low paying”) typically affects one-half or more of the labor force. In this respect, the decline in informality in Brazil was notable as it indicated progress toward formalization. As of 2014, informality remained high in agriculture and in construction, but had declined to lower levels in industry and in services more concentrated in the urban areas (Kerstenetzky and Machado, 2018).

Changes in Brazilian labor market regulation contributed to extending employment protections to more workers. Factors such as a growth in the size of Brazilian firms played a role, as did increased enforcement of labor laws and simplifications in the tax code. Changes occurred as well in labor legislation. An important innovation was a sort of “light formalization” which provided some essential protections to previously informal workers, while stopping short of “full-blown” formalization. Contributions to the government pension system (administered in Brazil by the Instituto Nacional do Seguro Social – INSS) by previously informal workers, such as domestic workers, were facilitated as was access for these workers to old age pensions, maternity leave, and work accident and health insurance (Kerstenetzky and Machado, 2018). These workers also gained the ability to protest unfair working conditions in Brazil’s labor court system.

Other policy measures were at work during the period of “jobs-rich” growth prior to 2015. In particular, significant increases occurred in the real value of the national minimum wage and were important to increasing labor incomes. Brazil has no institution comparable to the centralized wage negotiations between employers and workers in the Nordic countries, but the minimum wage plays a somewhat analogous role. The minimum wage is set centrally by the federal government, taking into account cost-of-living considerations and productivity indicators and has a wide impact in the labor market and beyond.

The minimum wage level is influential in raising the wage floor and boosting a range of social benefit payments which are indexed to the national minimum wage. Saboia and Hallak Neto (2018) and Hoffman (2018) observe that the minimum wage in Brazil not only reduces wage inequality (*i.e.*, produces wage compression), but also raises household disposable income (*i.e.*, income after taxes and transfers). In short, “It [the minimum wage] also indexes basic pensions and constitutionally defined social benefits. It is through these non-labor market channels that the minimum wage affects the incomes of around 40% of the Brazilian population, most of whom live in households with *per capita* income below the median income” (Kerstenetzky and Machado, 2018, p. 556). In 2018, 57.6% of observed household income *per capita* was equal to or less than the value of the minimum wage in force in that year (IBGE, 2019, p. 49).

As Brazil’s minimum wage adjustment is somewhat analogous to the centralized wage-setting mechanism in the Nordic economies, its mechanism is worth a closer look. Between 1994 and 2006, adjustments in the minimum wage were made following political agreement between the Executive and Congress. Starting in 2007, the previous discretionary arrangement was replaced by a rule whereby the minimum wage was readjusted at the beginning of each year by the National Consumer Price Index (Índice Nacional de Preços ao Consumidor – INPC) in the previous year plus the GDP variation of the two previous years earlier, if GDP growth was positive. The rule was adopted informally at first and then, in 2011, codified in legislation for the period 2016-2019. There is currently no predefined rule for the readjustment of the minimum wage for future years.⁷

The changes produced in the real value of the minimum wage can be seen in the table 1 below. As Brazilian GDP grew on average 3.5% per annum between 2007 and 2014, the minimum wage grew markedly in real terms between 2003 and 2014. As Brazilian GDP reversed direction and declined in 2015 and 2016, the increase in the minimum wage in 2017-2019 has been limited to just the INPC of the previous year. As we can see in table 1, the minimum wage grew in

7. Regarding the evolution of the minimum wage adjustment rules, see, for example, Saboia and Hallak Neto (2018).

real terms between 2003 and 2016, but growth decelerated dramatically in the following period. For example, between January 2003 and December 2016, the monthly growth in purchasing power parity (PPP) terms was 0.56% and 0.39%, in terms of constant prices (deflated by INPC). These growth rates declined to just 0.13% and 0.09%, respectively, in the period from January 2015 to December 2019.

TABLE 1
Brazil: level and growth rate of the nominal and real minimum wage between 2003 and 2019 in selected periods

	Level			CAGR (% per yer)	
	Jan./2003	Jan./2014	Jan./2019	2003-2014	2015-2019
Nominal minimum wage (R\$)	200.00	724.00	998.00	12.41	4.84
Real minimum wage	Level (Jan./2003 = 100%)			CMGR (% per month)	
	Jan./2003	Dec./2014	Dec./2019	Jan./2003-Dec./2014	Jan./2015-Dec./2019
PPP (constant 2011 international US\$)	100.00	241.64	278.65	0.62	0.13
Constant prices (deflated by INPC)	100.00	186.98	197.03	0.44	0.09

Source: Ipea (2020).

Obs.: 1. CAGR – Compound Annual Growth Rate.

2. CMGR – Coumpound Monthly Growth Rate.

Looking back upon this period prior to 2015, it is possible to point to positive employment outcomes, although a change in data collection methodology in 2014 hinders analysis. The open unemployment rate declined from 9% in 2002 to 7% in 2014 (IETS *apud* Kerstenetzky and Machado, 2018, p. 555). Labor market participation rates seem to have declined somewhat before leveling off at about 65% of the population older than 15 years of age for reasons not completely clear (IBGE, 2020 *apud* Kerstenetzky and Machado, 2018, p. 555). The lower participation rate could be attributable to an exit by older workers, who were more able to rely on improved government social programs, pensions and old age support (Fagnani, 2017; Lavinias and Gentil, 2020). Certainly, the rise in household incomes (due to such programs as Bolsa Família) allowed families to be less reliant on income earned by their younger members entering the workforce prematurely. Youth participation rates declined from 63% to 59% (IETS *apud* Kerstenetzky and Machado, 2018, p. 555). Instead of prematurely entering the labor force, young people probably were able to continue for longer periods of time in school.

Evidence on the educational front points to a strong increase in average years of schooling attained by the Brazilian workforce (Fishlow, 2011). Increasing scholastic achievement also contributed to improved labor market performance. While only 32% of workers had reached 11 years of schooling in 2002, fully

52% had reached this level by 2014 (IETS *apud* Kerstenetzky and Machado, 2018, p. 556). Education premiums contracted at almost all levels and no acute shortage of high-skilled workers was evident.

Many of the improvements in labor market indicators appeared to reflect benefits obtained by youth and other excluded, hard-to-reach groups within the society. The percentage of those employed in domestic services, the epitome in Brazil and in Latin America of “bad jobs”, declined between 2003-2014. Maids, in particular, an occupation in which women account for almost 90% of employment, benefited from the “light formalization” regulations mentioned earlier (PNAD *apud* Kerstenetzky and Machado, 2018, p. 564-565).

As suggested in this review of the “Golden Age” of increased formalization in Brazilian labor markets, progress slowed considerably after 2014. This was a period in which Brazil was convulsed by a long-running political crisis, resulting in the impeachment of the president Dilma Rousseff in 2016. This trauma was followed by a interregnum under the weak interim government of president Michel Temer, between August 2016 and end of 2018. For other reasons as well, including the external sector, the period from 2015-2020 as a whole was one of low economic growth in Brazil. Preoccupied by fears of rising public deficits, public policy moved away from a focus on labor markets and social benefit programs which had been important to the employment and equity advances in the beginning of the century.

The available data on post-2014 trends goes to early 2020 and the eve of the damage caused to the broader economy by Covid-19 (see table 2 below). Open unemployment increased from 7.5% in 2014 to more than 12% in 2018 and has continued to rise in the aftermath. Youth (18-24) unemployment increased from 13% to 22% of the cohort. The average wage in real terms was almost stagnant from 2015 to 2019, indicating no increase whatsoever in household purchasing power arising from market incomes. All of these indicators presumably worsened during the 2020 pandemic. The Gini coefficient reversed direction following 2014, rising from 0.526 to 0.545 by 2018. Perhaps most emblematic of this post-2014 period of stagnation in the Brazilian labor market was the resurgence of informality from 39% in 2014 to 41% in 2019 (see graph 1 below).

TABLE 2
Brazil: selected labor market indicators between 2012 and 2018

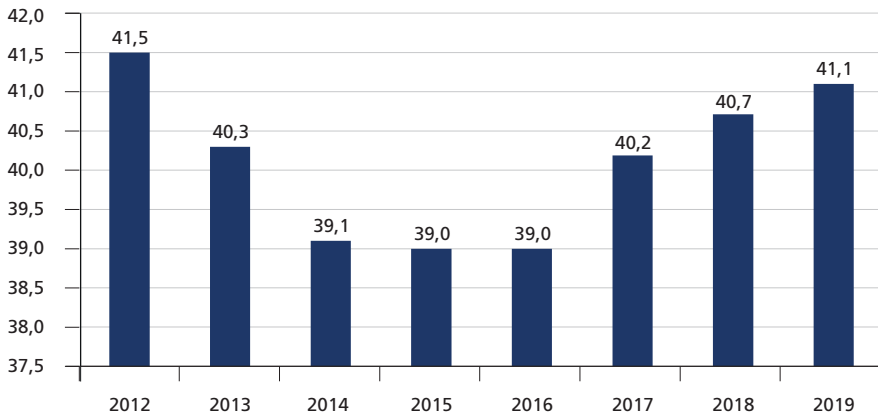
	2012	2013	2014	2015	2016	2017	2018
1. Participation rate (%)	61.5	61.7	61.2	61.8	61.8	62.2	62.0
1.1 Women	50.7	51.3	50.9	51.5	52.0	52.7	52.9
1.2 Men	73.2	73.2	72.5	73.0	72.5	72.5	72.0
1.3 White population	62.1	62.3	61.7	62.2	62.7	62.9	62.8
1.4 Black and brown population	61.0	61.2	60.8	61.5	61.1	61.6	61.4
1.5 Youth (14-29)	60.7	60.4	59.0	59.9	59.3	60.6	60.4
2. Unemployment rate (%)	7.3	7.2	6.9	8.8	11.5	12.5	13.0
2.1 Women	9.1	9.1	8.5	10.5	13.1	14.6	13.8
2.2 Men	6.0	5.8	5.7	7.5	10.2	10.9	10.6
2.3 White people	6.0	5.8	5.6	7.2	9.3	10.0	9.5
2.4 Black ou brown population	8.5	8.5	8.1	10.2	13.4	14.6	14.1
2.5 Youth (14-29)	13.2	13.2	13.0	16.3	21.6	22.6	22.3
3. Employment level (millions of persons)	89.2	90.7	91.9	92.2	90.8	91.1	92.3
3.1 Women	37.7	38.6	39.2	39.3	39.1	39.5	40.4
3.2 Men	51.5	52.1	52.7	52.9	51.7	51.6	51.9
3.3 White population	43.5	43.7	44.0	43.5	42.3	41.8	41.7
3.4 Black and brown population	45.1	46.4	47.2	48.0	47.6	48.4	49.6
3.5 Youth (14-29)	27.9	27.5	26.8	26.1	24	24.3	23.7
4. Average labor income (R\$ 2018)	2,065	2,137	2,218	2,124	2,134	2,114	2,163
4.1 Women	1,704	1,766	1,853	1,784	1,823	1,808	1,874
4.2 Men	2,323	2,406	2,483	2,371	2,364	2,343	2,382
4.3 White population	2,631	2,714	2,820	2,693	2,764	2,715	2,796
4.4 Black and brown population	1,504	1,567	1,621	1,579	1,545	1,566	1,608
4.5 Youth (14-29)	1,410	1,450	1,469	1,418	1,399	1,391	1,366
5. Gini Index (household income)	0.540	0.533	0.526	0.524	0.537	0.538	0.545
6. Poverty (%) ¹							
6.1 Less than US\$ 1.90 PPP/day (2011)	5.8	5.1	4.5	4.9	5.8	6.4	6.5
6.2 Less than US\$ 5.50 PPP/day (2011)	26.5	24.9	22.8	23.7	25.5	26.0	25.3

Sources: IBGE (2019; 2020).

Note: ¹ Percentage distribution of persons residing in private domiciles according to real household income *per capita*.

Obs.: All data are from IBGE (2020), except Gini Index and poverty data, which are from IBGE (2019), respectively p. 52 and p. 59.

GRAPH 1
Brazil: informality between 2012 and 2019
 (% of total employment)



Sources: IBGE (2020); IBGE (2019) *apud* Loschi (2020).

This period in the Brazilian economy following the accession of president Temer, in 31 August 2016, who was succeeded by president Jair Bolsonaro January 1, 2019, can be described in terms of the relative loss of focus on labor markets and social benefit programs, with some exceptions (see table 3 below for a list of the relevant legislation enacted or proposed). The major piece of legislation was a loosening in 2017 of employment protection legislation (EPL) codified in the Brazilian Code of Labor Legislation (*Consolidação das Leis Trabalhistas – CLT*). Funding shrank, or dried up altogether, for vocational training programs (such as *Programa Nacional de Acesso ao Ensino Técnico e Emprego – Pronatec*), programs aimed at unemployed youth (such as *Jovem Aprendiz*), ambitious programs (such as *Fundo de Financiamento Estudantil – Fies*) to fund higher education in the expanding university system, and so on. The Brazilian unemployment benefit programs, small in scale in any case, were not significantly expanded or updated. The other major piece of legislation (in addition to the Labor Code Reform of 2017) affecting the labor market was the *Auxílio Emergencial Program* enacted in early 2020 to counter the effects of the Covid-19 crisis.⁸ While means-tested to some extent, the program was clearly intended to be a temporary income support and not related to broader efforts to shore up the labor market.

8. For a survey of the social policies adopted in response to the Covid-19 crisis in Brazil in 2020, see, for example, Villela, Vaz and Bustamante (2020).

TABLE 3
Main changes in Brazilian labor market legislation between 2017 and 2020

Reform measure enacted or proposed	Date of enactment	Principal provisions
Reform of Brazilian Labor Code (CLT)	2017	Allows worker-management agreements to supersede labor legislation. Suspends obligatory union dues. Outsourcing made easier. Labor disputes more difficult to pursue.
Cartão Verde e Amarelo	2019	Extends "lighter formalization" for hiring of younger workers (ages 18-29).
Administrative reform in public sector	Proposed 2020	Reduces government expenses with public sector payroll. Makes employment stability more difficult. Executive gains power to extinguish jobs, functions, benefits.

Author's elaboration.

3 THE NORDIC MODEL AT A GLANCE

With this background on labor market developments in Brazil, attention is turned to a consideration of the "Nordic model" and, more specifically, labor market institutions in the Nordic countries. The "bottom line", as Andersen, Bergman and Jensen (2015b) remind us, is for us not to think that the Nordic model can be defined as a common set of policies that can be "copied and pasted" to Brazil or other countries. As we will see, the Nordic model is rooted in a centuries-long history of institutions that support consensus about social objectives. However, this should not discourage analysis. A re-examination of the Nordic model, particularly regarding the institutional design of its labor markets, may yield valuable insights for Brazil.

In an influential 2006 article, André Sapir (2006) underlined the complexity of integration in the European Union by calling attention to the multiplicity of economic "models" in Europe. In addition to the Nordic economy model, European models also include the economies of the Former Soviet Union, the Anglo-Saxon model, and a Mediterranean group comprised of the arc of nations in Southern Europe. Sapir (2006) used a simple methodology to classify these various European models, arraying them along two principal axes: an efficiency axis and an equity axis, measured, respectively, in terms of economic growth performance ("efficiency") and social performance ("equity"). At the time, the Nordic model stood out by comparison to the rest of Europe as being *both* "high-efficiency" and "high-equity".

The 2006 article is remembered because Sapir (2006) almost precisely identified those European economies that would be hardest hit by the Great Recession of 2008-2009, as analyzed by Svejnar (2019). The Nordic economies fared relatively well by comparison to the rest of Europe, demonstrating resiliency. With strong social safety nets in place, and a political tradition of

consensus-building, they were able to enact reforms more effectively than any other group of countries in the world.

The overall growth experience of the Nordic countries has generally been better over long periods of time than that of the European Union and the OECD. Table 4 provides a glimpse of growth and equity performance in the last two decades (2000–2019). The four Nordic countries (Sweden, Denmark, Norway, Finland) all have *per capita* income levels higher than the OECD average and as high or higher than the United States. Growth of GDP *per capita* in the last twenty years has been at or above the average of the OECD. The most striking feature of the data in table 4 is that the Gini coefficients of the Nordic countries are considerably lower (*i.e.*, show greater equality) than the rest of the OECD, including the United States and Germany. The United States is this classification is a “high-efficiency” model, but “low equity”, as it grows at a relatively fast rate, yet its institutions generate a higher degree of inequality. Brazil is also included in this comparative view of growth and equity performance. Roughly speaking, it could be classified as “low efficiency” *and* “low equity” as Brazil has been growing more slowly while generating far higher indices of inequality than would be the global norm.

TABLE 4
Growth and equality in selected countries: GDP *per capita* (2000–2019) and Gini Index (2000–2017)

	GDP <i>per capita</i> (constant 2010 US\$)			Gini Index (0–100)	
	CAGR (2000–2019, %)	2000	2019	2000	2017
Brazil	1.76	7,984	11,122	58.4 ¹	53.3
Denmark	2.02	44,569	65,147	23.8	28.7
Germany	2.04	32,427	47,628	28.8	31.9 ²
Finland	2.07	33,359	49,241	27.2	27.4
OECD ³	2.07	26,594	39,277	32.6	32.9
Sweden	2.28	37,786	57,975	27.2	28.8
Norway	2.29	60,227	92,556	27.4	27.0
United States	2.31	36,059	55,670	40.1	41.1 ³

Source: World Bank (2020).

Notes: ¹ Data from 2001.

² Data from 2016.

³ OECD (17 countries): Austria, Belgium, Canada, Denmark, Finland, France, Germany,² Greece, Ireland,² Italy, Luxembourg, Mexico,² Norway, Spain, Sweden, Switzerland and United States.²

The Nordic countries are societies that are characterized by high social spending and universal welfare protections (Svejnar, 2019). They are “protective societies”, but the protection provided is for *people* through collective risk-sharing arrangements; it is not protection for specific jobs and companies made unproductive by shifting

economic environments. The protection for people (workers) involves close coordination between providing citizens with the benefits of the social welfare system while providing assistance in finding employment. The Nordic countries have programs to retrain workers to move (including geographically) relatively quickly from less globally competitive areas of the Nordic economy to more productive sectors likely to grow more quickly in the future.

The model works through a high degree of social cohesion forged between potential adversaries. Strong Nordic labor unions (historically, the labor force has been highly unionized) back policies intended to adjust the economy to changing external conditions, and so, also, do employer associations which acquiesce in high taxation of corporations and of high-earning members of the workforce. Taxes as a percent of GDP are, in some cases, near 50% in Scandinavia countries. For instance, according to the IMF (2020), the share of public revenue (% of GDP) in 2019 is as follows: Denmark (53,5%), Finland (52,3%), Norway (58,6%), and Sweden (48,7%). More importantly, voters across the political spectrum back these active fiscal measures, convinced that the majority benefits, directly or indirectly, from such policies.

The Nordic economies are small, open economies highly dependent upon export growth. Natural resources were the original basis of their insertion into the global economy. Over time, and with robust public spending on research and development, they have found multiple paths to incorporate technology into the productive structure in order to stay competitive in a changing global economy (Andersen, Bergman and Jensen, 2015b). The historical context of being small and yet having to compete in a global economy predisposed policy makers against subsidizing inefficient firms or propping up jobs in declining sectors of the economy. Innovation through incorporation of new technologies has been the path to prosperity and, more than that, the best strategy for survival and social cohesion.

While the Nordic economic story is reasonably well known, and, therefore, no lengthy description is required, it is still well to reflect upon the successful economic performance of the Nordic countries, especially in the context of their most obvious peer group of economies – the rest of the OECD. We will see that Nordic economic performance tends to be better than that of Brazil and Latin America, but it also stands out among the peer group of nations in the OECD.

3.1 Economic growth and structure

In terms of economic structure, the Nordic economies are heavily service-based economies, even more so than is the productive norm in the rest of the OECD. Denmark, for example, produces 75% of value added through its service sector which, differently from the composition of service provision in Brazil, is concentrated in higher-wage subsectors, such as professional services and social services (OECD,

2019b, p. 6). At the other end of the spectrum, the contribution of the primary sector to Danish economic output is miniscule (OECD, 2019b, p. 6). A similar economic structure is to be found in the other Nordic economies. Exports and imports, for example, typically amount to about 50% of GDP across the region. Danish exports are a mix of primary products (including foodstuffs) and higher-value added manufactured products incorporating high degrees of technology (OECD, 2019b, p. 6).

3.2 Government finances

The Nordic states are high-tax, high-spend economies, built upon structures of stable fiscal finances. Government expenditures and revenues are high relative to GDP and by the standards of the OECD. Public budgets reflect the substantial role that the government plays in collecting taxes and in maintaining the social welfare state. Government tax and transfer programs redistribute labor market incomes and, in so doing, promote income equality. The sources of tax revenue differ from country to country, but the structure of government expenditure is similar across the Nordic region. Considerable sums are spent on health, education, and active labor market policies. About 25% of GDP is allocated to the main social expenditure categories of healthcare, pensions, and education. Corporate taxation is high (and dividends are taxed as ordinary income), but generous deductions for capital spending reduce the effective corporate tax rate. Government spending is very high on infrastructure and other investments that are growth-promoting. Spending on social and other government benefit programs are means-tested and take place within a framework of financial stability.

As we can see in table 5, which is based on the latest data available in the OECD database, the Nordic countries in 2018 have a higher tax rate than the OECD average. They also have higher public social spending *per capita*, as we can see in the examples of education and, above all, health. Brazil is also included in the table for comparative purposes, although much care is needed in interpretation. Although Brazil has a tax burden slightly above the OECD average, its GDP *per capita* is, obviously, much lower than the average for these countries. This implies that Brazil also has much lower social expenditures *per capita* in these social areas. So while the allocation of public resources to the social areas is comparable in terms proportional to GDP, Brazil's actual expenditures *per capita* in PPP terms is only around 40% of the OECD average and still lower as a percentage of social spending in the Nordic countries.

In turn, for Nordic countries, their gross public debt in relation to GDP is relatively low when compared to the average of the advanced economies, and also lower than that of Latin American countries, including Brazil. According to the IMF (2020), the gross debt position (% of GDP) of these countries in 2019 was as follows: Denmark (29%), Finland (59%), Norway (41%), Sweden (35%),

advanced economies (125 %), emerging and middle-income Latin America (71%), and Brazil (89%).

TABLE 5
Tax revenue and public spending on social areas¹ in selected countries

	GDP (%)				PPP per capita ² (OECD = 100%)		
	Tax revenue (2018)	Public spending ¹			Public spending ¹		
		1. Health (2018)	2. Education ³ (2017)	3. Pension (2015-2016)	Total (1+2+3)	Health (2018)	Education ³ (2017)
OECD (average)	34.3	3.2	4.1	8.8	16.1	100	100
Denmark	44.9	8.8	6.4	10.0	25.2	310	129
Finland	42.7	5.6	5.0	13.4	24.0	182	118
Norway	39.0	8.7	6.4	10.7	25.8	366	163
Sweden	43.9	9.3	5.2	8.8	23.3	318	140
Germany	38.2	0.7	3.6	10.1	14.4	25	n.a.
United States	24.3	4.4	4.2	4.9	13.5	191	135
Brazil	33.1	4.0	5.1	9.1	18.2	38	46

Sources: OECD (2019a; 2019d; 2020a; 2020c; 2020e).

Notes: ¹ In the case of health expenditure, the data are relevant to health expenditure financing through government programs. In the case of spending on education (primary through tertiary), data refer to total expenditure on educational institutions financed by public funds. The “compulsory health insurance” category was not included, although it is important for the cases of Germany and the United States, where it corresponds to, respectively, to 78% and 58% of the financing of health expenditure (OECD, 2020b).

² In USD equivalent converted using PPP.

³ Total expenditure on educational institutions per full-time equivalent student.

Obs.: Tax revenue (% of GDP) data were taken from OECD (2020c), except for Brazil, whose data was taken from OECD (2020e). Public spending data on health (% of GDP) were taken from OECD (2019a). Public spending data on education (% of GDP) were taken from OECD (2020a). Public spending data on pensions (% of GDP) were taken from OECD (2019d).

It can be said that the Nordic countries do not fit easily into common labels for economic systems such as “neoliberal” or “socialist” or even “welfare state”. They pursue liberal policies toward the private sector and direct state intervention in the economy (*e.g.*, state-owned enterprises) has never been an important characteristic. They might be best characterized, following Andersen, Bergman and Jensen (2015b), as “social-liberal” economic models in which extensive social objectives are met through the interaction of large government social programs, labor market institutions, and a market-oriented private sector. Government regulation of private enterprise and market intervention, for example, tends to be relatively light in the Nordic economies by comparison to the average for the OECD.

3.3 Social wellbeing

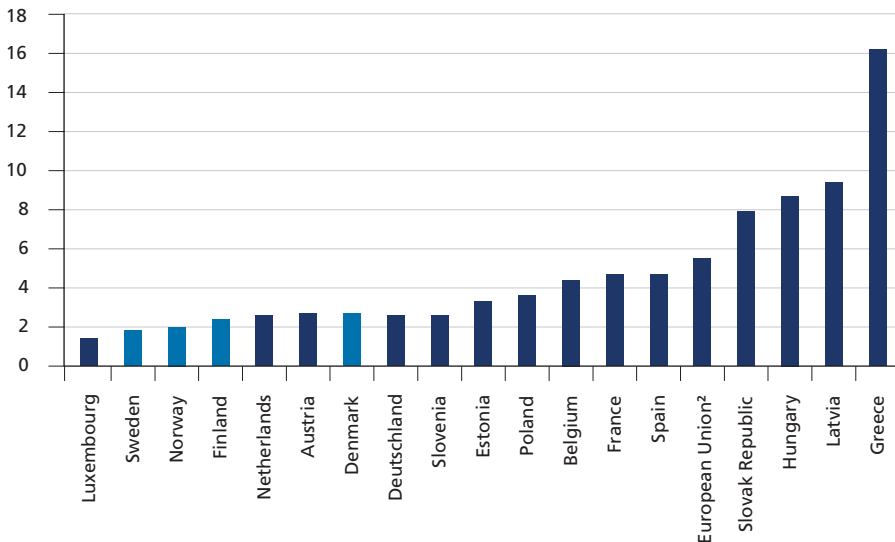
The vaunted social welfare protections in Sweden, Denmark, and elsewhere in the region arise not from inherent egalitarian impulses in Scandinavia nor from homogenous social and religious backgrounds. While Nordic “exceptionalism” is commonly attributed to these presumed cultural leanings, reality is different. The institutions that make the Nordic model successful stem from the economic imperative that goes as follows: national survival requires economic growth, economic growth requires

adaptability (willingness to take risks), and adaptability requires social support. The pillars of the Nordic economic system find broad support in society. Social programs support the poor, of course, but they are designed to support all sectors within society equally well with private services available for the very well-off. Since a broad swath of the middle class and upper-middle class also benefits from government services, this builds political support for the social welfare system. Public sector services are provided in the spirit of “the best is good enough for all” which assures a high level of public support for such services and for the taxes needed to sustain them.

This does not mean that poverty eradication is not an important national objective. As we have seen, income inequality measured by the Gini coefficient is lower than the average in the rest of the OECD, although some authors point to a creeping increase in inequality in recent decades (Pareliussen *et al.*, 2018). Further evidence of egalitarian outcomes is found in rates of “material deprivation” which are also notably lower in the Nordics than in the rest of Europe (see graph 2 below). By this multidimensional measure of poverty, only 2% of the population in Scandinavia is materially deprived, a deprivation rate only one-third of the average level in the European Union, for example.

GRAPH 2

Selected countries of Europe: share of population living in severe material deprivation, 2019 or latest data available¹
(% of total population)



Source: European Commission (2020).

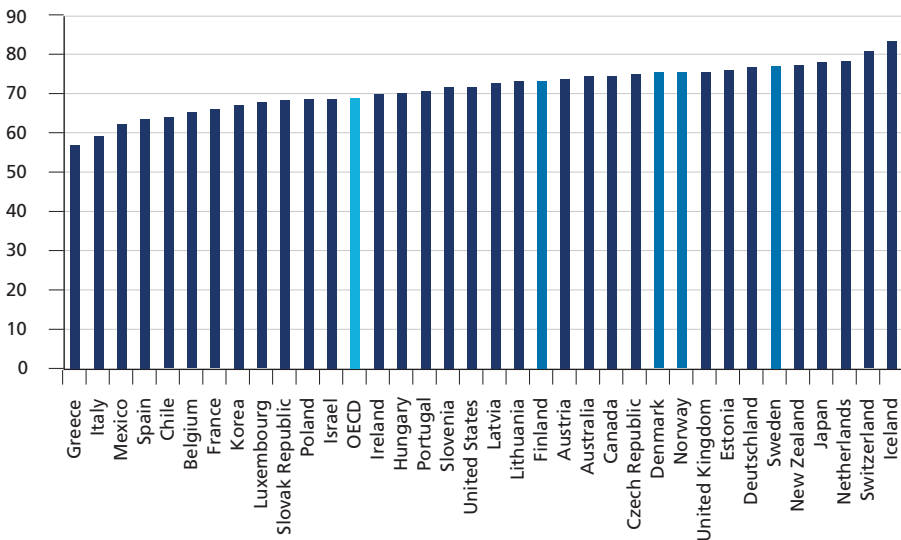
Notes: ¹ Severe material deprivation rate is defined as the enforced inability to pay for at least four of the following nine items: i) to pay their rent, mortgage or utility bills; ii) to keep their home adequately warm; iii) to face unexpected expenses; iv) to eat meat or proteins regularly; v) to go on holiday; vi) a television set; vii) a washing machine; viii) a car; and ix) a telephone.

² European Union includes 28 countries.

4 LABOR MARKET PERFORMANCE IN THE NORDIC ECONOMIES

The Nordic economies can be described as high-employment economies. Rates of employment and rates of labor force participation are high across the region (graph 3 below). The employment rate in Sweden, for example, among workers aged 18-64 is almost 80%, and only slightly lower than that in the other Nordic countries. On average, more people are employed in Scandinavia than in European countries which offer less generous social benefit programs. It can be said that the very viability of the Nordic model rests squarely upon high-employment being maintained. High employment generates for the government high tax revenues (including significant taxes on labor payrolls paid for by both employer and employee) which fund the social benefit programs.

GRAPH 3
OECD countries: employment rate in Q4 2019 or latest data available
 (% of population aged 16-64)



Source: OECD (2020c).

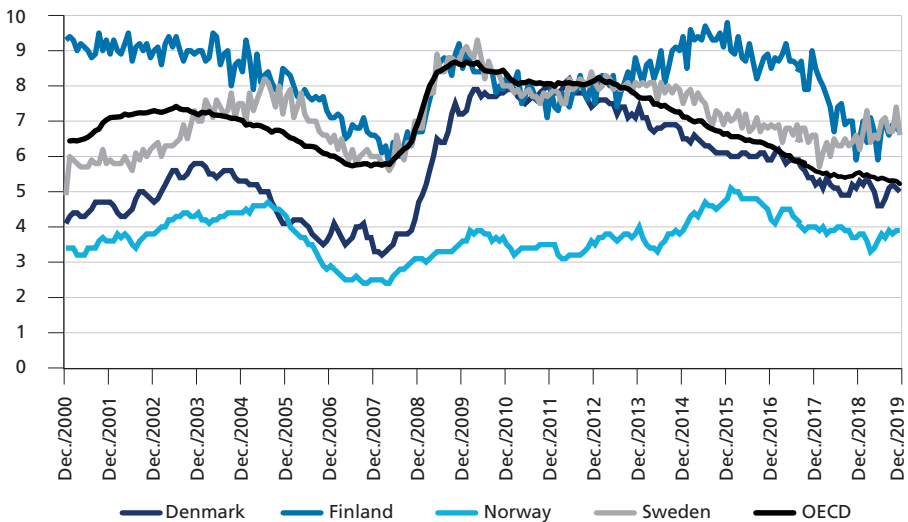
Early retirement is discouraged in the Nordic economies, for example, and a particular emphasis is placed on employment opportunities for women and seniors, on reducing youth unemployment and, more recently, on dealing with unemployment in immigrant communities.⁹ These economies are also global leaders in “active labor market policies” which facilitate a more rapid transition of workers from low-productivity sectors to high-productivity ones through

9. For more background see part I, entitled *Labor markets and the welfare state*, the first three chapters in Andersen, Bergman and Jensen (2015a).

re-education, allowances for job transfers, workforce relocation, and creation of temporary work. An integrated system of social insurance and active labor market policies exists to minimize dislocations due to structural change and enhance productivity, thus promoting growth. Importantly, the system is built in such a way as to increase political support, especially the support of labor unions, for reforms to respond to changes in the economic environment.

Comparative unemployment data for the Nordic countries depict a somewhat differentiated experience among them over the most recent two-decade period. Generally low rates of unemployment are common (graph 4). Denmark and Norway have consistently had rates of unemployment well below the average of the OECD. Sweden and Finland have been closer to or above the rest of the OECD. With the exception of Norway, unemployment rates spiked during the Great Recession of 2008-2009, but stayed well below peak levels reached in the United States. Denmark appeared to have recovered employment levels quite quickly, ahead of the United States and the rest of Europe.

GRAPH 4
Nordic countries: monthly unemployment rate between December 2000 and December 2019 (%)



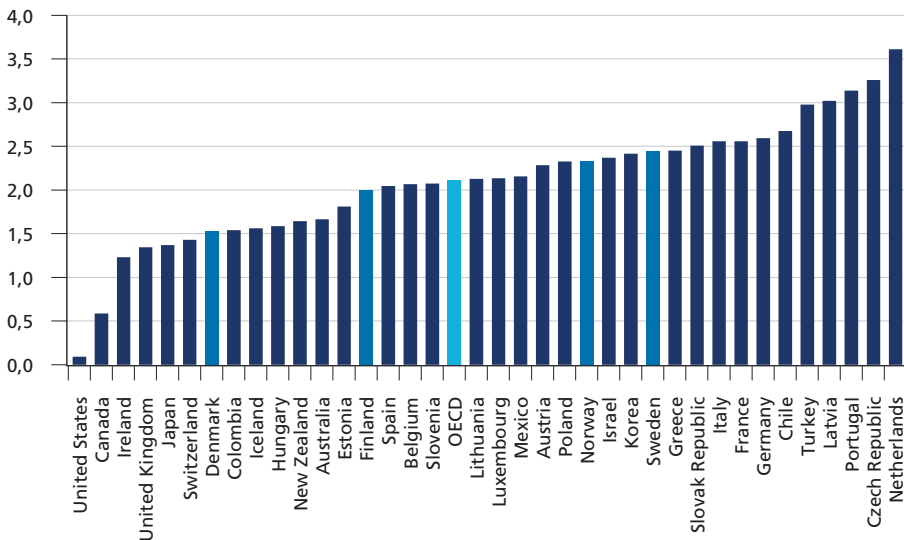
Source: OECD (2020c).

Any economic model involves a tradeoff between EPL to protect workers in their jobs from arbitrary dismissal and generous unemployment assistance to help those who do lose their jobs transition to new jobs. A generous unemployment insurance reduces the need for firing restrictions, and vice versa (OECD, 2020d).

The ease of dismissing workers is one indicator of the strictness of EPL in the Nordic countries. The OECD has recently updated its indicators used to measure EPL strictness in the cases of individual dismissals, collective (groups of workers), or “mass” (company closures) dismissals. Strictness indicators include such aspects as procedural requirements for dismissal, notice and severance pay, the regulatory framework for unfair dismissal, and the enforcement of regulation (see graph 5 below). Denmark and Finland are among the OECD countries with the least restrictive EPL while Norway and Sweden are somewhat above the average in the OECD. As a general characterization, EPL legislation in Scandinavia is far more restrictive than in the United States, or Canada, but considerably less restrictive than in the larger European Union economies, including France, Germany, and Italy. Together with the generosity of Nordic unemployment programs, these data suggest that the Nordic countries protect jobs relatively less, but are more generous in providing support to the unemployed, a finding consistent with their higher rates of employment in the region (graph 5).

GRAPH 5

OECD members countries: strictness of employment protection indicator – individual and collective dismissals (regular contracts) in 2019 (range score of 0-6)



Source: OECD (2020c).

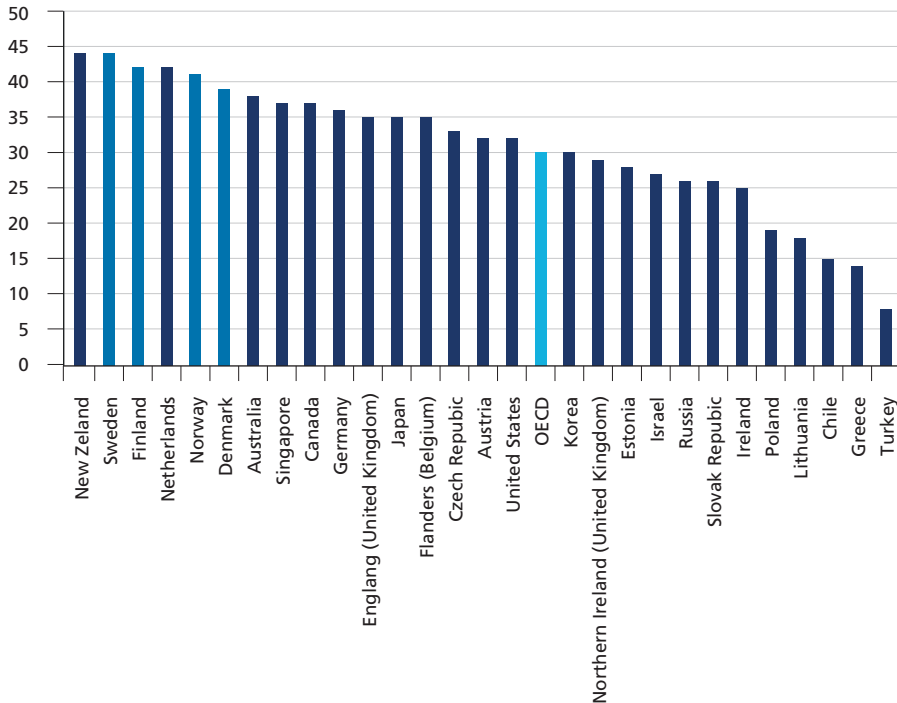
Education expenditure is a component of labor market policy. Public and private spending on education is generally higher than in the rest of the OECD. In terms of the results from investment in basic and secondary education, it is noteworthy that Programme for International Student Assessment (Pisa) scores (for fifteen-year-olds) in all four Nordic countries are above OECD averages in all

three subject areas: reading, mathematics, and science. Education is inspired by a “lifelong learning” approach which provides opportunities for adults to acquire or update “problem solving skills” to facilitate transition to new forms of employment as, for example, when automation eliminates more traditional occupations. The four Nordics are global leaders in the percentage of adults who possess what might be called “twenty-first century” occupational skills (see graph 6 below). In Sweden, for example, this category includes 45% of the adult population. Chile, one of the better performing Latin American economies, counts only 15% of its adults as well equipped with similar problem-solving skills.

GRAPH 6

OECD members countries: share of adult population (aged 14-65) with strong skills in problem solving (2013-2016)¹

(% of total adult population aged 14-65)



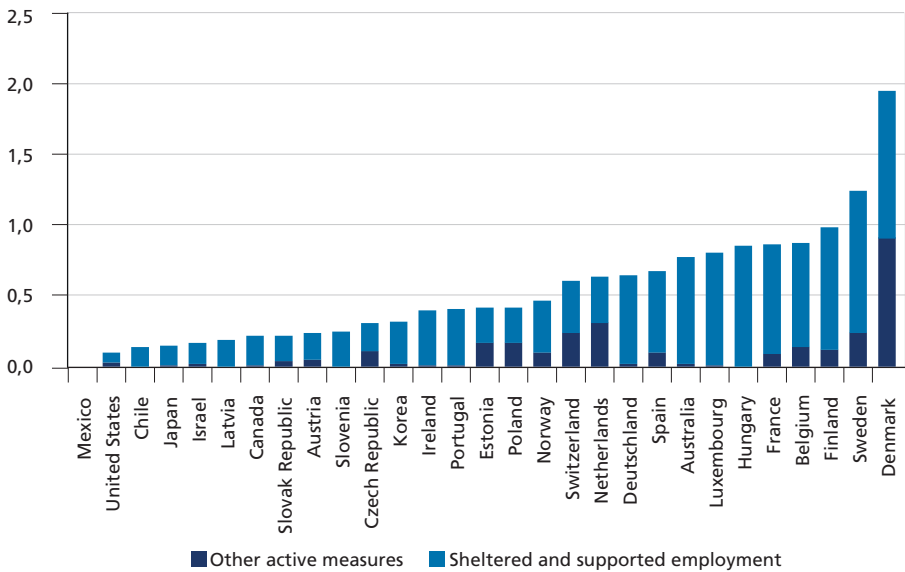
Source: OECD (2020c).

Note: ¹ Percentage of adults scoring at level 2 or 3 in the Programme for the International Assessment of Adult Competencies (PIAAC) test. Problem solving is the ability to use digital technology, communication tools and networks to acquire and evaluate information, communicate with others, and perform tasks.

Finally, with respect to education, it is important to call attention to how much the Nordic countries spend on programs focused on training and labor market services. These programs include temporary public employment, training

for new skill acquisition, wage subsidies, and job search, counseling and other labor market services. Denmark, in particular, is a world leader. Active Labor Market Policies (ALMP) expenditures are in excess of 2% of GDP, almost four times the average for the OECD (see graph 7 below). These policies are costly, but they permit remarkable flexibility in the workforce where the turnover rate is high. The programs facilitate new forms of work (OECD, 2019b). These expenditures in Denmark are high even with respect to the other Nordic economies. A recent OECD report explains: “The gap to other countries is largely driven by extensive use of sheltered and supported employment for people with reduced work capacities, especially flexi-jobs that are granted for five years at a time for people below age 40” (OECD, 2019b). Evaluation of all these ALMP programs is not lacking. Extensive use is made of randomized experiments to improve quality and guard against crowding-out effects.¹⁰

GRAPH 7
OECD members countries:¹ public spending on ALMPs in 2017 or latest available year
 (% of GDP)



Source: OECD (2020f).

Note: ¹ Due to the lack of available data, data does not include Greece, Italy, Iceland, Japan, New Zealand and the United Kingdom.

10. A particularly valuable source on randomized evaluations is provided by Svarer (2015).

5 SUMMING-UP: INSTITUTIONAL DESIGN OF THE NORDIC LABOR MARKETS

To summarize this overview of the Nordic model, four underlying principles of Nordic institutional design can be highlighted and then brought to bear on the Brazilian case.

- Principle 1: *welfare arrangements are a form of insurance*. In decisions involving labor supply, *i.e.*, individual decisions to enter or exit the labor market, risks involved in these decisions for these individuals loom large. In the absence of insurance (social “safety net”), incentives are diminished for individuals to upgrade their skills or to learn new ones, to move from one locality to another, or even to invest in the education of their children. Individuals need to be protected from arbitrary dismissal, for example, through moderately restrictive EPL coupled with robust unemployment benefits. Risk aversion increases if private markets offer insufficient insurance options to individuals, a clear instance of market failure. Extended social benefit arrangements correct for this market failure and reduce individual risk aversion. It follows that welfare gains can be obtained from the availability of public insurance (Andersen, Bergman and Jensen, 2015b).
- Principle 2: *centralized wage-setting promotes wage compression*. The basis for lower inequality is established in the distribution of market incomes. Wherever labor income is distributed more evenly, inequality will be lower. Prior to taxes and transfers, labor incomes are redistributed through a centralized wage setting mechanism reliant upon negotiations between unions and employer associations, a unique feature of the Nordic model. The dispersion of labor incomes around the median wage is generally less in these countries than in the rest of the OECD which is also an important factor in explaining why voters are willing to pay taxes for redistributive welfare services (Barth and Moene, 2015). Rapidly growing companies and sectors are constrained in their ability to raise wages. At the same time, less productive firms at the other end of the wage scale are placed under pressure to adapt or release labor to more productive uses. Thus, the compressed wage scale: “presupposes and reinforces a strong ability to make structural changes; that is, less productive firms and sectors must be phased out and labor must be willing to relocate (also geographically) to growing industries” (Andersen, Bergman and Jensen, 2015b, p. 2). Active labor market policies are critically important in “upskilling” workers for employment in more productive companies in faster-growing regions of the country.

- Principle 3: *governments must spend to improve the quantity and quality of labor supply*. The sustainability of the Nordic model is reliant upon keeping levels of employment very high, which they are by OECD standards. High-wage employment in efficient firms generates the tax revenues needed to pay for benefit programs. Therefore, basic education, vocational training, higher education, and acquisition of new workforce skills are the most critical government expenditures and one of the highest budget priorities. In general, recognizing that education is the single most important determinant of lifetime earnings, the governments spend heavily on all educational policies. In this sense, these labor market policies in the case of the Nordic countries create incentives to seek employment while at the same time enhancing employability (Andersen, Bergman and Jensen, 2015b).
- Principle 4: *the design of the social safety net is important*. In Brazil, it is common to hear complaints about the excess burden of taxation which is on the order of 33% of GDP (see table 5). In Scandinavia, the tax burden is around 50% of GDP and voters consistently support this level of taxation. It follows that the key to understanding the Nordic model is not how high is the tax burden, but rather what those taxes actually finance. The model is successful because it achieves a reasonable balance between concerns to care socially for the population with concerns to maintain a high level of employment. Access to social benefit programs passes through means-testing and continuing eligibility criteria more or less rigorously enforced. Positive incentives are provided as well through incentives for individuals to re-enter the labor market through participation in any of a number of job-retraining programs. Rigorous means-testing and abundant job-search incentives result from a societal consensus, forged over decades, that such policies are in the interests of all. In Denmark, for example, reference is made to a “right and a duty”: a right to benefit from public assistance programs when eligible, a duty to seek re-training and re-enter the job market as soon as possible.

6 NORDIC LESSONS FOR THE BRAZILIAN CASE

A case has been made that success of the Nordic model owes much to the centrality of labor market institutions and policies. What does this mean in the case of Brazilian labor markets?¹¹ These conclusions attempt to find the relevance for Brazil rooted in the four principles of labor market institutional design in the Nordic countries that were enumerated in the preceding section. Current topics

11. See also: OECD (2018).

in labor market policy are suggested in order to illustrate how these principles might be applicable in Brazil.

The first principle is to recognize that the broad use of unemployment benefits acts as an important form of insurance by correcting for uninsurable risk and market failure. This suggests for Brazil that social benefit programs that relate directly to unemployment should be re-examined and expanded. Unemployment insurance has been a relatively neglected topic in Brazil. For example, Brazil's two most important unemployment benefit programs, known as Seguro Desemprego and Guarantee Fund for Length of Service (Fundo de Garantia do Tempo de Serviço – FGTS), are poorly coordinated and underfunded programs (OECD, 2018). The benefits of these programs are limited to workers in the formal sector, so the programs completely miss those workers in the informal sectors who most need this support. Even for formal sector workers who can draw upon these funds, the Brazilian unemployment programs provide support for only brief (3-5 months) spells of unemployment.

In view of the relative lack of attention to unemployment insurance, the post-2014 emphasis of Brazilian labor reform proposals seems out of balance from this perspective. Policy has emphasized a reduction in EPL (*e.g.*, scaling back of certain worker rights in the Labor Code Reform of 2017), including by weakening collective bargaining arrangements, and even proposing to reduce the role of labor courts which are used for employment dispute settlement. The emphasis of the most recent reforms has been placed on making hiring and firing of workers more “flexible”. Missing in the discussion has been attention to the other side of the equation: how to strengthen unemployment programs and programs of new skill acquisition made more necessary by the easing in EPL restrictions. Recall that the Nordic economies, in general, do have less restrictive EPL than peer economies, but their social benefit programs act as insurance programs which facilitate job turnover.

The second Nordic principle recognizes that wage compression, *i.e.*, a more equal distribution of labor income prior to taxes and transfers, is critical to the final distribution of household income. In Brazil, the only private sector analogy that can be made to the centralized wage-setting mechanisms in the Nordic countries is the setting of the annual minimum wage. Properly designed and implemented, national minimum wage legislation can and should work to raise wages at the bottom of the labor income distribution, especially if minimum wage legislation is extended to more workers in the informal sector. Even if informality does not recede quickly, the minimum wage still provides an important “signaling effect” throughout the labor market (Saboia and Hallak Neto, 2018; Medeiros, 2015). However, its role as a redistributive mechanism in Brazil has been diminished

by the fact that so many workers earn less than the minimum wage and, also, that the minimum wage is used to index social benefit programs that favor groups earning above the minimum wage and even above the median wage. While these are important institutional constraints, properly designed minimum wage negotiations can help to establish a conversation about a national floor for wages, boosting the median wage, and reducing wage dispersion.

The third design principle addresses the role of government in education, broadly understood as the public education system, of course, but also encompassing the government's duty to spend on programs directly tied to labor market services, retraining, skills acquisition, and so on. These should be targeted specifically at adults and hard-to-reach groups, including women and youths. Brazil has widely recognized experience with active labor Market policies and spends a reasonable amount on such programs in terms of percent of GDP, but the results of these policies are not impressive (OECD, 2018). Brazil seems to focus ALMP on self-employment (*e.g.*, Microempreendedor Individual – MEI) and credit programs for small-scale entrepreneurs. A much broader, Nordic-style menu of options is needed so that ALMP also includes temporary public employment, training, labor market services, and employment subsidies. Emergency public employment initiatives are highly relevant in the post-Covid-19 period. One could imagine how the Auxílio Emergencial Program could become much more effective by transitioning from a low-conditionality program to one that would impose better-off recipients a duty to engage in job search or skill acquisition programs.¹²

ALMP in Brazil might well focus on youth unemployment. In Brazil, 22% of the age cohort, more than 7 million individuals, neither work nor study and, therefore, form a group gravely at risk of permanent exclusion from good jobs in the future (Shirasu and Arraes, 2018). Brazil has innovated in the last two decades with programs aimed at youth employment and unemployment. They include Jovem Aprendiz (remunerated internship programs), Programa Universidade para Todos (ProUni) and Fies (priority access to and financing for higher education studies), Pronatec (acquisition of technical skills), and still others. However, funding has diminished for these youth-centric initiatives, despite some promising early results, particularly in the case of Fies. As an illustration, federal public spending on Pronatec fell from R\$ 3.7 billion in 2014 to R\$ 1.3 billion in 2016, ultimately declining to R\$ 4.9 million in 2019, at which point the program was terminated.¹³ Similarly, enrollments of students whose university studies were financed via Fies dropped precipitously from 1.3 million students in

12. These policies could include emergency employment programs focused on public works as was implemented, with some success in Chile in the early 1980s.

13. Data on Pronatec taken from: <<http://www.portaltransparencia.gov.br/programas-de-governo/14-pronatec?ano=2018>>.

2015 to 571 thousand in 2019. In the case of ProUni, there was a slight increase in the same period, so that enrollments of students financed by this modality went from 483 thousand in 2015 to 615 thousand in 2019, an increase that did not compensate for the drop in students financed via Fies.¹⁴

The fourth principle relates to the core issue of the design of the social safety net, with the goal being to assure the broadest public support for generous benefits and the high taxes needed to pay for them. Here an insight based on the Nordic practice may be more valuable than specific policy recommendations. The Nordic experience could teach that social service provision must focus as well on improving services for all sectors of society beyond the poor. Social policy programs in Brazil have emphasized services for the poorest, although often failing to reach the intended clients.

Brazil's national health public service, known as the Unified Health System (Sistema Único de Saúde – SUS), could be a good example of the political economy dilemma that Brazil faces and how the dilemma might be surmounted. The Brazilian SUS is well known globally because it provides access to health care for 72% of the public who have no alternative sources of medical care.¹⁵ Most of the lowest-income users of SUS seem reasonably satisfied. Non-users, however, have a less positive view of the system, presumably because of a perceived inability of the system to provide quality healthcare services to middle and upper-income groups (Ipea, 2011, p. 10). It is difficult to build funding support for the SUS if a large and politically influential part of the Brazilian population does not perceive any benefit from the system. Without delving into the complexities of the topic of healthcare provision, it seems clear that Brazil must find a way over time to expand the SUS and devote greater resources to it. Doing so would build support for other social benefit programs and greater tolerance for the taxes needed to pay for them.

Also in terms of safety net design, it is important that social benefit programs in the future be truly means-tested and made available with conditionality requirements that facilitate re-entrance into the labor force. Brazil has made important gains in identifying those who most need public assistance of one sort or another through a national identification database known as Cadastro Único. Rather less progress has been made on how individuals can safely exit these programs. A next step is to assure that those who do benefit from social programs and social assistance are more carefully means-tested and provided with incentives and assistance to return to employment or to advance to better-paying positions. The political economy point at the heart of this principle is drawn directly from

14. Data on Fies and ProUni for 2015 from the Brasil (2018, p. 24) and, for 2019, from the Brasil (2020, p. 29).

15. For an assessment of the SUS evaluation, see, for example, Stopa *et al.* (2017) and Bahia (2018).

the Nordic experiences: voters will support an extensive role for the state, and the taxes needed to support it, provided that such support is means-tested and linked to the fullest extent possible to efficiency (“high growth”) needs of the economy.

7 A FINAL WORD

Informality and how to reduce it stands out as a particular challenge for Brazil, immeasurably more so than for the Nordic countries or other richer nations. Even while recognizing that informality in Brazil is entrenched and will only recede slowly over time, it is too much to accept that more than 40% of the workforce is still working informally, or not working at all, earning less than the minimum wage, and bereft of essential labor protections. Here Brazil’s own experience in the recent past in combating informality, rather than Scandinavia’s, may hold the best lessons for the future.

Brazil showed in the 2003-2014 period, the aforementioned “Golden Age” of formalization, that formalization could be consistent with labor market protections and expansion of social benefit programs, provided economic growth is relatively robust. Recall that this earlier era was also marked by unprecedented reductions in poverty and inequality. The more recent Brazilian experience, *e.g.*, since 2015, seems to represent the corollary: weakening labor protections and curbing social programs in the context of weak economic growth will not cause informality to decline. On the contrary, as we have seen, these kinds of policies can be counterproductive. Informality has ticked up again in Brazil, bringing in its wake a worsening in inequality and poverty, and growth has remained stagnant.¹⁶

Thus, what recent experience in the labor market seems to indicate, in line with what was observed in the Nordic countries, is that it is possible to reconcile GDP growth, formal employment, and improvement of social indicators with the preservation of legislation that protects workers and protects public spending in the social arena. Growth and equity objectives, in other words, can and should be pursued simultaneously. The Nordic experience provides a beacon and maybe a roadmap as to how this might be accomplished in the Brazilian case. It is worth a closer look.

16. For an analysis of the Brazilian labor market that contrasts these periods, 2003-2014 and 2015 onwards, see, for example, Baltar, Souen and Campos (2018) and Trovão and Araújo (2017).

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