

A COMPARATIVE OVERVIEW OF THE LABOUR MARKETS CHALLENGES IN ROMANIA AND BRAZIL

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Abstract: This paper tries to make a comparison between the labour markets in Romania and Brazil, in order to identify useful features that could help to increase our performances as an emerging country. We have chosen Brazil because it is the most powerful Latin economy which managed to occupy a place in the first five emerging economies of the world. What makes the study relevant is that, coincidentally, both countries have started to massively change their economic structure in 1990. Of course, this fact has significantly affected their labour markets, which have had to become more competitive.

1. INTRODUCTION

The choice of this research topic is justified by the fact that between the two countries exist some features that make them interesting to study from the employment point of view. Thus, both countries are Latin ones, and because of this we consider they are comparable, since employment means people, more precisely mentalities and attitudes towards work.

On the other hand, it will be interesting to see how labour market has developed in the most powerful emerging economy, Brazil, and how it looks like in Romania, the poorest Latin emerging country from the European Union. From this point of view, we consider that the paper can bring an expertise exchange from the labour market perspective, useful to update or design new measures that can help Romania to follow its Latin sister.

Related to Brazil, it has to be noticed that, from the economic perspective it is included in BRICS (Brazil, Russian Federation, India, China and South Africa), the most powerful emerging countries group.

Some of its problems recorded on the labour market are common with the Romania's: how to decrease youth unemployment rates, how to stimulate formal employment, how to deal with rural and unskilled labour force.

One of the main advantages of the Brazilian labour market is represented by the fact that the problem of aging is not as keen as it have started to become for the Romanian market.

At the same time, a common point with the Romanian economy is represented by the fact that starting with 1990 in the both countries has begun a process of opening the economy to foreign investment and large privatisations in the states owned sectors. After a period of instability, around 2000 year, in both countries has been recorded a certain equilibrium level.

It worth to notice that, for Brazil, this transition has brought an increase of flexibility on the labour market.

According to Global Competitiveness Report 2010-2011 (World Economic Forum, 2011) in the last 20 years, Brazil's economy has made significant progress toward macroeconomic stability, liberalization and opening and last but not least reducing income inequality. One of the main strengths that allowed Brazil to face the economic crisis challenges was its business environment characterised by efficiency and dynamism.

After 20 years of transition, nowadays the labour market in Brazil is characterised by a labour participation rate of 70.7% (in 2009), 6 percentage points higher than in 1990 and an employment rate of 63.9% (in 2008), almost 15% above the rate of the year 1990. At the same time, unemployment has remained relatively stable, below 10%, the highest

values being recorded during the period 1998-2003. However, youth unemployment became an important problem, as it was two times higher than the overall unemployment rate in 2009.

For Romania, after the same period of time, the labour market main indicators reveal a much weaker capacity to efficiently use available human capital. Thus, in 2009 labour force participation rate was only 52.4%, while employment rate (employment to population ratio, 15+) was 48.1%, almost 25% lower than in Brazil even though unemployment rates were almost the same in the two countries.

Taking into account the similarities as well as differences between the two countries, Romania and Brazil, it can be of great interest for the former to learn from Brazil a country that is expected to become soon one of the engines of global economy how to become competitive on the global market.

2. GENERAL OVERVIEW ON THE BRAZILIAN ECONOMY

According to the classification system of the Global Competitiveness Index, which ranks the countries in three categories (factor, efficiency and innovation driven), Brazil is included in the efficiency driven segment. The most challenging criteria that have to be improved in the Brazilian economy are related to the macroeconomic stability, goods market efficiency, labour market efficiency and institutions functioning. Also, among other sectors which need to be improved education is also included.

Brazilian economy competitiveness is also affected by two major shortcomings: infrastructure and institutional environment.

What is interesting to notice about Brazilian economy is that it uses the environment as a competitive advantage, the companies trying to adopt a pro-active approach of the environmental issues and being opened to implement clean technologies, even if it didn't bring large incomes.

Also, a key element for the Brazil development is the fact that it occupies the first position in Latin America from the foreign direct investment point of view, due to the attractiveness caused by the natural resources, market potential and the business friendly environment.

Another strong point of this economy is represented by the agribusiness and innovations, Brazil becoming one of the most important agricultural products exporters.

3. BRAZILIAN LABOUR MARKET PARTICULARITIES

What characterise Brazil's economy and, of course, its labour market is the dualism, more precisely a modern, competitive, skilled labour segment coexist with a traditional, uncompetitive and non-formal workers area.

These kinds of particularities has been analysed by Christoph Ernst in the paper *Recent dynamics in Brazil's labour market* (International Labour Organization, 2008) where he analysed the labour market dualism from productivity, employment status and firm size criteria. Also, an interesting particularity of the Brazilian labour market is represented by the fact that the highest unemployment rate is recorded among the high educated people, while the other categories can find jobs much easier, even though they are temporary ones. Also, the same study shows that in 2004, Brazil was recorded an interesting situation: women average level of education was higher than men's (8 years of study instead of 7) and there where coming up some worrying signs of working population aging.

A key role on the labour market in Brazil is played by the trade unions, subject presented by Jorge Saba Arbache in his paper *Unions and the Labour Market in Brazil* (2001). This study led to interesting conclusions that can help us to build a profile for the workers who act as union's members: preponderantly head of household (62% from the members compared to 52% from the non-union), white people (61% of the union members compared with 52% from non-union ones), better educated (at least 50% of them are in the last three higher education levels – for the union ones, while for the non-union workers this percentage barely reach 40%) and leaving in the metropolitan areas. But this profile is very different compared to the common Brazilian worker, who is characterised by a low skill level.

We can't go further without noticing that an important feature of the Brazilian labour market is represented by the fact that even if the high educated people can harder find a job, they manage to organise better, fact which, on long term, in our opinion will improve the chances of this category to avoid unemployment.

One of the most important changes of Brazilian labour market have been recorded between 1995 – 2005, as Carlos Henrique Corseuil and Lauro Ramos detailed in their paper *Brazilian labour market performance 1995 - 2005*, (2007). They paid attention not only to the quantity of the jobs (easily to count by the employment rate) but also to the quality of jobs offered, where they have taken account of the legal status (formal/informal), industry category and skill level of the workers (as years of schooling). From the second criterion point of view, the Brazilian market can be characterised as recording an average informality rate of 50%, increasing rates in the manufacturing industry (area known for its lower turnover rates), but with a promising increase of the worker's rate who manage to graduate high school courses, but this has no significant effect on the employed people earnings.

Talking about future tendencies, we'd like to mention Michael Forster and Elena Arnal's paper *Key trends in growth, labour market outcomes and inequality: Brazil, China, India and South Africa*, OECD, 2010, where it is expected to continue the process of recording high levels of real GDP growth in the countries mentioned above for the next year. Also, the main challenge for a country as Brazil will remain the informal employment, even if it is lower than in 1990's. For this country it is also expected to continue a decreasing trend for the income inequalities. An aspect which worth to be noticed is the poverty (computed as proportion of people below 2 USD/day) decreasing trend for Brazil, which unfortunately remains quite higher among children.

4. ROMANIA-BRAZIL – A COMPARATIVE ANALYSIS OF THE TWO LABOUR MARKETS

As mentioned before, many of the Brazilian labour market's features can be also found in the case of Romania. Even though in Romania total unemployment rates are quite low compared to other European countries and about the same as in Brazil, employment rates remain well below these countries' averages. This fact could be explained on the one hand by the large share of people in the rural areas that are still involved in subsistence agriculture and on the other hand, as in Brazil's case, by the proportion of working force employed in the informal economy.

But the differences between the two countries regarding the manner in which they exploit the existing work force are obvious when regarding statistical figures. In Brazil, during the period 1990-2009 labour force participation rates have steadily increased from an average of 64.7% in 1990 to 70.7% in 2009, while in Romania they continued to decrease from 66.3% in 1990 to 52.4% in 2009 (Figure 1).

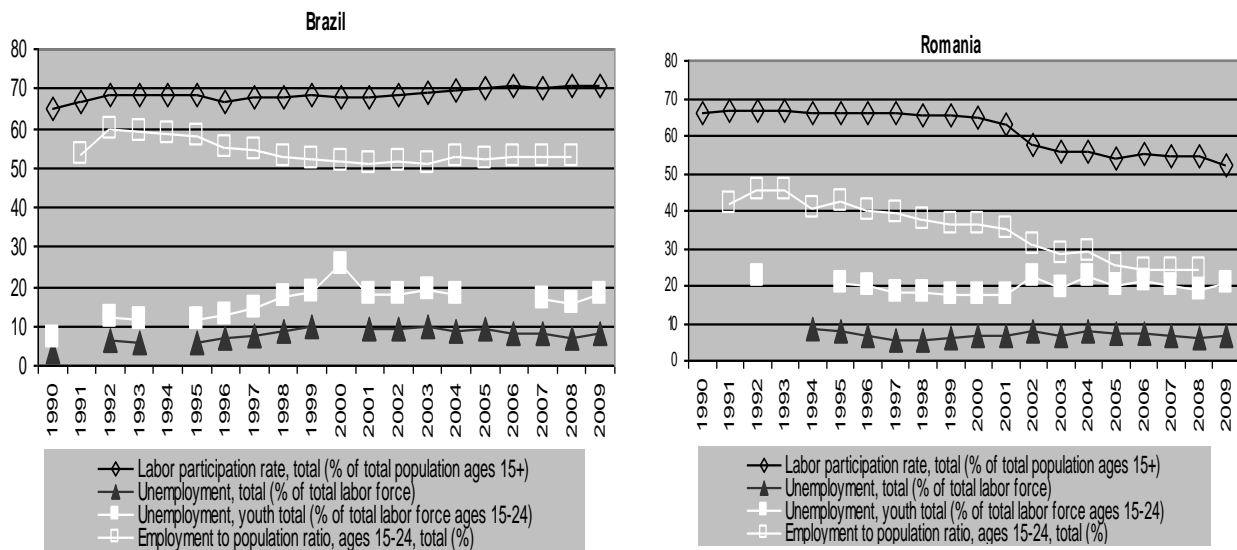


Figure 1. Labour market situation in Brazil and Romania

Source: Authors processing based on World Development Indicators & Global Development Finance

The fact that both in Romania and Brazil labour market conditions don't offer enough opportunities to find a job and that labour market policies don't encourage employment is reflected by the high rates of unemployment among young people. In 2009, in Brazil youth unemployment rate was two times higher than total unemployment rate (17.8% compared to 8.3%) while in Romania this difference was even larger, youth unemployment being three times higher than total unemployment in the same year (Figure 1).

It is interesting to notice that the labour market in Brazil seems to function much better than in Romania, even if our country's workforce is better qualified (Figure 2).

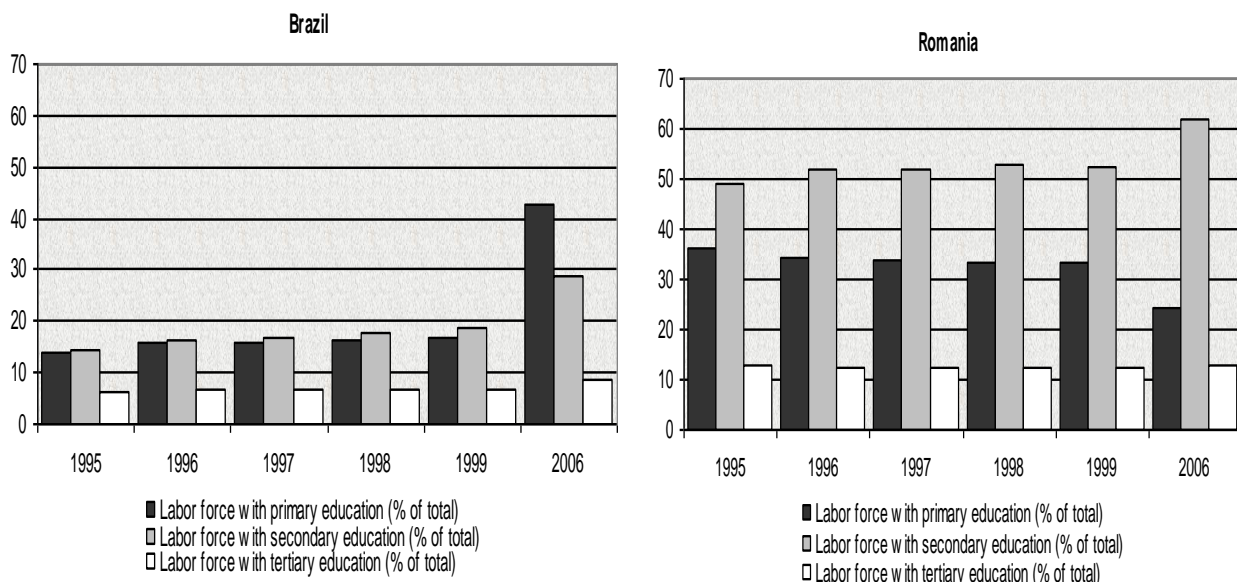


Figure 2. The level of education of the labour force in Brazil and Romania

Source: Authors processing based on World Development Indicators & Global Development Finance

Thus, in Romania the largest share of labour force have completed secondary education and this share has increased over time from 48.9% in 1995 to 62.1% in 2006. In Brazil during the period 1995-2006 the proportion of labour force having completed

primary education was almost the same with that of secondary education. In 2006, the labour force with primary education exceeded that with secondary education (42.9% compared to 28.9% for the labour force with secondary education) (Figure 2).

Regarding tertiary education, in Romania the share of labour force with the highest level of education is well above of the share in Brazil: 13% compared to 8.6 in Brazil in 2006 (Figure 2).

In these circumstances it can be hard to explain why the labour productivity in Brazil is higher than in Romania as from the education point of view Romanian labour force is more qualified (Annexes 1 and 2).

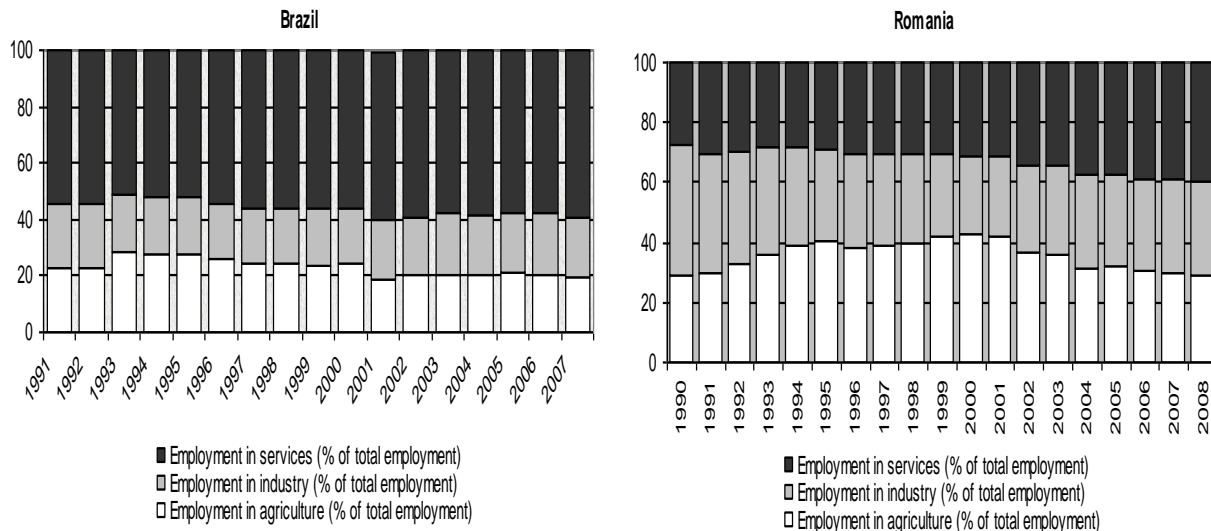


Figure 3. Employment structure in Brazil and Romania

Source: Authors processing based on World Development Indicators & Global Development Finance

One explanation of the current situation of the labour productivity in Romania is its employment structure. The share of people employed in agriculture remains very high whereas tertiary sector is not enough represented. In Brazil, even though employment in agriculture is low this is compensated by a large proportion of people employed in services sector (almost 60% in 2008 compared to 40% in Romania).

These comparisons based on statistical data between the two countries may raise some questions related to Romania's potential to capitalize on emerging opportunities:

- why increasing the share of educated people has not changed more drastically the Romanian labour market structure towards better jobs i.e. with a higher potential for creating added value.

- why even if for a long period of time our country has experienced a significant growth rate of the investments it hasn't been able to use this opportunity in an efficient mode so that the effects to be sustainable as it happened in Brazil's case.

Thus, during the period 1990-2009, Brazil has succeeded to exploit all the opportunities provided by opening its economy so it has grown in a consistent manner. GDP per capita for the whole period has been very close to the potential one, with a relatively small output gap of no more than 351 \$ (PPP, constant 2005) in 2008 (Figure 4).

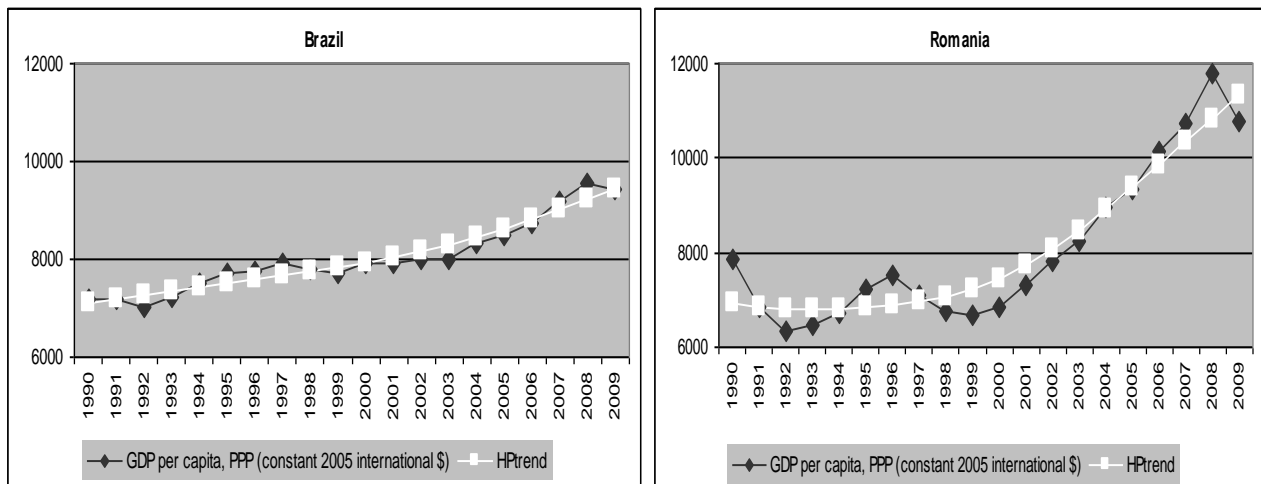


Figure 4. Output gap in Brazil and Romania

Source: Authors processing based on World Development Indicators & Global Development Finance

Instead, Romania has experienced both periods of significant GDP per capita growth (with a maximum output gap of \$ 953, in 2008), and periods of strong negative output gap, which proves the relative lack of consistency in decisions and actions and the fact that economic growth has been unsustainable.

5. CONCLUSIONS

This paper tries to make a comparison between Romanian and Brazilian labour markets, in order to identify useful features that could help us to increase our performances as an emerging country.

We have chosen Brazil because it is the most powerful Latin economy which managed to occupy a place in the first five world emerging economies.

What makes the study more relevant is the fact that, coincidentally, both countries have started to massively change their economic structure in 1990. Of course, this fact fully affected the labour markets, which have to become more competitive.

But after 20 years of transformations, we can notice that some major problems on both labour markets remain comparable: a large number of informal workers, vulnerability to foreign investment policies, income inequalities, poverty, labour opportunities mainly in urban/metropolitan areas.

Related to education level, we can easily observe that if in Brazil it is recorded an increasing tendency of people who manage to graduate high school, in our county the scholar abandon rate has increased and the quality of the educational training is lower year after year.

More than that, the global crisis which affect nowadays each country, put Romania in a difficult position by GDP decrease in 2010, but it didn't affect in a similar manner Brazil, country that managed to maintain its position in BRICS.

On medium term it will bring important changes on the labour markets from the two countries. One of the most important in our opinion will be represented by the fact that Brazil will be able to absorb easily the needed labour force, while in Romania, especially young people, will be forced to continue migration tendency to other EU countries.

The manner in which Brazil has fight against the crisis is going to create new opportunities for the high educated people, and taking account of the fact that they do not act on a common market as EU, both Brazilian labour market and the economy as a whole, will improve their performances.

From the labour market point of view, we can learn from Brazilian experience how to pay more attention to the quality of the jobs. As an emerging country, Brazil has been attractive for foreign investors who tried to develop manufacture industries, the competitive advantage offered by this Latin economy being the low level of payments for the workforce. But, they have quickly realised that a long term development can't be sustained in this manner, and have progressively placed emphasis on education (especially for women and young people). After a certain period of time, these people will be able to play a key role in South and Central America's economy, because they are actually preparing to be capable to assimilate and create new technologies.

Until a certain point Romania has followed the same pattern in order to attract foreign capital. But, instead of improving the quality of the workforce in order to become competitive by productivity on the European market, our country has been attracted by a development model based too much on consume sustained by credit and its results have been seen during the recession years.

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Annexes

Annexe 1.

Key Economic Indicators of Brazil's economy during the period 1990-2009

Brazil	GDP per capita, PPP (constant 2005 international \$)	GDP per person employed (constant 1990 PPP \$)	Population growth (annual %)	GDP per capita growth (annual %)	Gross fixed capital formation (annual % growth)
1990	7179	10474	1.726	-5.938	-8.097
1991	7168	10501	1.651	-0.150	-4.123
1992	7022	10406	1.582	-2.029	-6.621
1993	7238	10849	1.534	3.071	6.328
1994	7510	11336	1.514	3.752	14.253
1995	7724	11656	1.511	2.850	7.290
1996	7771	12204	1.513	0.616	1.503
1997	7913	12543	1.507	1.828	8.731
1998	7799	12410	1.496	-1.448	-0.342
1999	7704	12278	1.475	-1.217	-8.196
2000	7921	12109	1.445	2.812	5.034
2001	7911	12180	1.416	-0.115	0.436
2002	8010	12037	1.385	1.246	-5.232
2003	7994	11971	1.339	-0.196	-4.594
2004	8344	12050	1.273	4.375	9.122
2005	8505	12068	1.195	1.934	3.628
2006	8744	12249	1.114	2.804	9.768
2007	9181	12733	1.037	4.997	13.853
2008	9562	13230	0.969	4.150	13.574
2009	9414	10474	0.914	-1.548	-10.297

Source: World Bank, World Development Indicators & Global Development Finance

Annexe 2.

Key Indicators of Romanian economy during the period 1990-2009

Romania	GDP per capita, PPP (constant 2005 international \$)	GDP per person employed (constant 1990 PPP \$)	Population growth (annual %)	GDP per capita growth (annual %)	Gross fixed capital formation (annual % growth)
1990	7849	5852	0.237	-5.824	-31.615
1991	6843	5122	-0.095	-12.817	10.986
1992	6347	4818	-1.723	-7.256	8.320
1993	6452	5083	-0.149	1.663	20.699
1994	6715	5308	-0.106	4.080	6.911
1995	7212	5995	-0.220	7.396	5.670
1996	7526	6305	-0.322	4.345	1.745
1997	7083	6154	-0.239	-5.878	-5.961
1998	6759	5998	-0.226	-4.573	-4.835
1999	6691	6202	-0.200	-1.002	5.494
2000	6837	6182	-0.067	2.168	9.147
2001	7328	6584	-1.395	7.185	8.306
2002	7818	7830	-1.497	6.685	9.200
2003	8247	8245	-0.281	5.496	10.000
2004	8964	9096	-0.263	8.686	2.601
2005	9359	9620	-0.233	4.416	9.623
2006	10121	10306	-0.216	8.133	30.300
2007	10748	10902	-0.189	6.201	19.300
2008	11780	11644	-0.154	9.595	-11.178
2009	10794	5852	-0.145	-8.367	-31.615

Source: World Bank, World Development Indicators & Global Development Finance