Unemployment benefits: An inefficient model

One of the most striking examples of inefficiency in the government's income transfer model is unemployment benefits. A study by economist Mansueto Almeida found that spending on this benefit has increased in Brazil at the same growth rate as formal employment. "Since 2001, spending on unemployment benefits has not stopped growing," Almeida says. Although in low-growth years these costs increase more, the trend upward has not been interrupted when GDP grows faster.

"Today, more than 80% of hired workers in Brazil earn up to double the minimum wage, with almost no training. Under these conditions, they do not see themselves spending 30 years in one company," Almeida says. "When the job market is buoyant, unskilled workers have numerous incentives to leave the market, collect unemployment, and work in the informal sector." In doing so, Almeida says, the worker may see higher income for three to five months as he collects unemployment, and when benefits run out he again seeks a formal job.

Unemployment insurance needs correction; Almeida argues that "Unemployment benefits increased by 80% in 2011 compared with the first half of 2008, before the crisis. That does not make sense, since we have had record low unemployment since 2002," he adds. He believes it is necessary to tighten the requirements for applying for unemployment benefits, which currently are a minimum time of formal employment and a grace period between each application: "In Germany, for example, the benefit



period is greater than ours, one year for someone under 45, but the worker must prove that he is actively looking for work." He also cites the United States, where the benefit period is up to 26 weeks, with the condition that the unemployed report periodically on income received and on job applications. Those unemployed are also referred to jobs available locally and to courses and training that will allow them to apply for better jobs.