

# The Welfare Impacts of Changes in the Brazilian Domestic Work Market

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**Domestic workers**, who are mostly women, are among those who have benefited most from increases in real wages in Brazil. However, despite their salaries having risen more than those of other work categories, they are still far lower than those of other occupations. In this context, Domingues and Souza (2012) investigate the economic consequences of the changes that took place in the domestic services market between 2005 and 2011.

To do so, the study uses a recursive dynamic computable general equilibrium model, encompassing 117 products, 60 sectors and 10 representative families defined by income deciles. The model was developed by Cedeplar (Domingues et al., 2011; 2012). It was adapted to include specific data about the consumption of domestic services, thus enabling us to map both the distribution of the demand and the distribution of domestic workers by income decile. This allowed us to identify the effects of the higher incomes received by domestic workers on families under different economic conditions.

A simulation was carried out under the framework of general equilibrium models and based on the macroeconomic scenario observed from 2005 to 2011, using three components: i) the number of domestic workers, which remained fixed; ii) the rise of domestic labour prices, set at 10.95 per cent per year; and iii) the increase in domestic workers' income, set at 10.95 per cent per year, distributed according to the participation of these workers in each income decile.<sup>1</sup>

The simulations allowed us to calculate the effects that these changes in domestic services had on production, employment, wages and consumption in the Brazilian economy. The results obtained show that 0.58 per cent of the cumulative growth in gross domestic product (GDP) observed between 2006 and 2011 (baseline scenario)—or about US\$19 billion at 2011 prices—can be attributed to the rising incomes of domestic workers, despite the rise in the costs of these services. The effect on aggregate employment was 0.77 per cent—or about 630,000 jobs.

The increase in the income of domestic workers and the real income increases in the economy as a whole are reflected in the 1.9 per cent increase in household consumption, benefiting mainly the lower income deciles, as they receive most of the earnings generated by domestic work. Around 6.61 per cent of the increase in real consumption in the first decile between 2006 and 2011 can be attributed to the effects triggered by the rise in income for domestic work, despite the higher prices of these services. This figure goes down as we move through the deciles, reaching 0.13 per cent in the richest decile.

**Monetary Welfare Gains per Household**, resulting from changes in the incomes of domestic workers and in the price of domestic services, and the average monthly income per household, for each income decile in Brazil's economy—simulated results (in R\$ at 2005 prices)

Decile	Average Income per Household, in R\$ (1)	Average Gains in Welfare per Household, from 2006 to 2011, in R\$ (2)	Welfare Gain in Proportion to Average Income (2) / (1)
1	210.71	469.71	2.23
2	379.11	550.86	1.45
3	523.81	641.49	1.22
4	674.80	630.84	0.93
5	859.31	704.21	0.82
6	1103.00	556.86	0.50
7	1431.09	714.14	0.50
8	1954.89	375.88	0.19
9	3000.83	325.53	0.11
10	8000.76	169.14	0.02

Source: In-house creation.

As a result of rising incomes and consumption, as well as their multiplier effects on the economy, there has been an increase in production—mainly of durable consumer goods and services, such as home appliances and health services. Monetary gains from welfare payments amounted to US\$25 billion between 2006 and 2011 and were distributed progressively through income deciles. According to the table, in the first decile, those monetary gains from welfare payments represent more than twice the monthly income earned by these families.

Thus, the economic impact of the increased income of domestic workers, a group consisting predominantly of women, suggests a path forward for public policies. The value added to job categories traditionally relegated to the margins of the Brazilian economy improves the living conditions not only of the low-income population but of the economy as a whole and contributes to improving income distribution.

#### References:

- Domingues, E.P. and Souza, K.B. (2012). 'The Welfare Impacts of Changes in the Brazilian Domestic Work Market', *IPC-IG Working Paper No. 96*. Brasília, IPC-IG.
- Domingues, E.P., Cardoso, D.F., Souza, K.B., Motta, G.P., Carvalho, T.C., Santiago, F.S., Magalhães, A.S. and Betarelli Junior, A.A. (2012). 'Crescimento, emprego e produção setorial: efeitos da desoneração de tributos sobre a folha de salários no Brasil', *Texto para discussão*, No. 456. Belo Horizonte, CEDEPLAR, 30 p.

#### Note:

1. The values used in the simulation were taken from data observed in the Monthly Employment Surveys from 2005 to 2011.

