

Interventionism in the labor market: The real effects of the FGTS

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Abstract: The Fund for Employees (FGTS) was created by the Federal Government of Brazil to “protect” the worker fired without just cause. According to the rules, the account balance of FGTS is formed by monthly and mandatory deposits made by the employer. Employees can withdraw their money at particular moments, as defined by the government. This article aims to analyze the real effects of this regulation in Brazil and evaluate the benefits of extinguishing this fund. This government intervention interferes in the environment of voluntary exchanges between employees and employers, increasing the cost of the worker. It also creates the adverse effect of increasing turnover in the labor market because it encourages the worker to act in a way that motivates a dismissal to gain access to this resource. The preference for resources at present is observed when analyzing the results of the resource flexibility measure that took place in 2019. More than 12 million workers chose to anticipate receiving their resources. In addition, the financial return of the FGTS is very low for its shareholders. The data show that the money stuck in the FGTS yields below the average returns of similar risky applications. Who gains from this is the government, which can use the cheap resources of this fund. This way, the end of the FGTS in Brazil would significantly improve productivity and allocations in the Brazilian labor market.

Keywords: Interventionis; regulation, FGTS.

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Intervencionismo en el mercado de trabajo: Los efectos reales del FGTS

Resumen: El Fondo de los Empleados (FGTS) fue creado por el Gobierno Federal de Brasil para “proteger” al trabajador despedido sin justa causa. De acuerdo con sus reglas, el saldo de la cuenta del FGTS está formado por depósitos mensuales y obligatorios realizados por el empleador. Los empleados pueden retirar su dinero en momentos especiales, definidos por el gobierno. Este artículo tiene como objetivo analizar los efectos reales de esta regulación en Brasil, así como evaluar los beneficios de la extinción del fondo. Es claro que esta intervención del gobierno interfiere en el ambiente de intercambios voluntarios entre empleados y empleadores, aumentando el costo del trabajador. También provoca el efecto adverso de aumentar la rotación en el mercado de trabajo porque incita al trabajador a actuar de forma que provoca un despido para acceder a este recurso. Además, la preferencia por los recursos en la actualidad se observa al analizar los resultados de la medida de flexibilización de recursos que se llevó a cabo en 2019. Más de 12 millones de trabajadores optaron por recibir anticipadamente sus recursos. Además, el retorno financiero del FGTS es muy bajo para sus accionistas. Los datos muestran que el dinero que está estancado en el FGTS rinde por debajo de los niveles promedio de ingresos en aplicaciones riesgosas similares. Quien gana con esto es el gobierno, que puede utilizar los recursos baratos de este fondo. De esta manera, el fin del FGTS en Brasil traería mejoras significativas en la productividad y las asignaciones en el mercado laboral brasileño.

Palabras clave: Intervencionismo, regulación, FGTS.

Intervencionismo no mercado de trabalho: os efeitos reais do FGTS

Resumo: O Fundo de Garantia do Tempo de Serviço (FGTS) foi criado pelo governo federal brasileiro para “proteger” o trabalhador demitido sem justa causa. Segundo suas regras, o saldo da conta do FGTS é formado por depósitos mensais e obrigatórios feitos pelo empregador. Os trabalhadores podem retirar seu dinheiro em momentos específicos, definidos pelo governo. Esse artigo busca analisar os efeitos reais dessa regulação no Brasil, bem como avaliar os benefícios da extinção deste fundo. É evidente que essa intervenção governamental interfere no ambiente de trocas voluntárias entre trabalhadores e empregadores, aumentando o seu custo. Também gera o efeito adverso de aumentar a rotatividade no mercado de trabalho, pois incentiva o trabalhador a provocar uma demissão para ter acesso a esse recurso. Além disso, a preferência por recursos no presente é observada pela análise dos resultados da medida de liberação de recursos que foi implementada em 2019. Mais de 12 milhões de trabalhadores optaram por receber seus recursos mais cedo. O fato é que o retorno financeiro do FGTS é muito baixo para seus acionistas. Os dados mostram que o dinheiro que está retido no FGTS rende menos que as aplicações de mercado com riscos similares. Quem ganha com isso é o governo, o qual pode utilizar os recursos baratos desse fundo. Assim, o fim do FGTS no Brasil traria melhorias significativas em produtividade e alocações no mercado de trabalho brasileiro.

Palavras-chave: Intervenção, regulação, FGTS.

Introduction

According to the Brazilian government², the Fund for Employees (FGTS) was created to protect the worker dismissed without just cause, by opening an account linked to the employment contract. They say it is a worker's right, but is it true? In practice, it works as a mandatory saving for formal Brazilian workers that, historically, has worse yields than other available investments with a similar level of risk.

Besides taking away the freedom of each individual to choose what they want with their own money, the FGTS generates other adverse effects: it increases the cost of formal employment and the turnover in the Brazilian labor market, discourages investment in training and qualification by companies and a drop in worker productivity.

However, what does the government gain from this paternalistic stance? We can say that this "poor remuneration" of FGTS resources has advantages for those who use the fund's resources through loans: the stock of resources deposited in the Fund is used to finance public works, which benefit from the low cost of money. Fortunately, since 2019, some measures have been taken to facilitate the withdrawal of FGTS resources by the workers.

In this context, the objective of this work will be to answer the following questions: what are the real effects of the FGTS on the Brazilian labor market? Should the FGTS be extinguished?

The research object

The FGTS was established by [Law nº 5.107/1966](#), with the reported objective of protecting the worker dismissed without just cause, by opening an account linked to the employment contract. At the beginning of each month, employers are required to deposit the amount corresponding to 8% of each employee's salary on behalf of employees.

The total of these deposits constitutes the FGTS. Its full amount belongs to the employees who can withdraw these funds in some situations determined by the government. While the resources are not withdrawn, they are used for housing financing, and sanitation and infrastructure works.

Until 2019, FGTS accounts could be operated only in specific cases provided for in art. 20 of [Law No. 8036](#), of May 11, 1990, especially in cases of dismissal, in the acquisition or payment of a residential property, and in case of some serious illnesses. As of 2019, some measures have been implemented to make access to FGTS resources more flexible for workers.

Despite being reported as a worker's right, it is an obligation, because the formal market worker does not adhere to it spontaneously. Besides, FGTS can be considered as a labor charge: the employer needs to direct 8% of the employee's salary to the fund, which encumbers formal employment. It also reduces productivity in Brazil, being one of the causes of the high turnover of work in the country. The need for access to FGTS resources often encourages

² Available at: www.fgts.gov.br/Pages/sou-empregador/o-que.aspx. Accessed: Jan 10 2022.

workers to act to provoke a dismissal, looking for quick access to the resources. It generates a negative structural effect on the Brazilian labor market.

In addition, the financial return of the FGTS is very low for its shareholders. As exposed by Ellery (2019) and Nishi, Stampe e Nunes (2018), the money stuck in the FGTS yields little³, even less than “poupança,” which are considered low-risk and low-return investments in Brazil. On the other hand, the interest paid at market rates by workers in debt is very high.

For example, to understand whether it would be in the worker’s interest to access their resources more quickly, we can analyze one of the measures to make them more flexible implemented in 2019 with [Law nº 13.932/2019](#). It brought changes in the FGTS withdrawal system, instituting a new cashout possibility, called “anniversary withdrawal” (Saque aniversário⁴), which allows anticipating part of the fund account balance. However, in this modality, if the worker is fired, he cannot have access to his totality of resources.

As a result of this measure, it is possible to observe a high number of adhesions (more than 12 million)⁵ to the systematic “anniversary withdrawal,” demonstrating the preference of the worker for the immediate withdrawal of their resources, instead of the paternalistic State proposal to release the resources only after the dismissal. In other words, many workers prefer to use this money in the present rather than waiting for their dismissal.

Theoretical foundation

According to Austrian economists, state intervention, even when its goal is to correct a market failure or improve the social welfare of a population, ends up bringing harmful results to society (Mises (1929), Mises (2017) Hayek (1987), Rothbard (1962)).

Mises (1929) defines interventionism as a restrictive norm imposed by a governmental body, which forces owners of the means of production and entrepreneurs to employ these means differently than they otherwise would.

In the FGTS situation, employers must deposit 8% of the employee’s salary into the fund. Despite its “good intentions,” this measure has adverse effects. As Iorio (1997) exposed, defenders of state intervention believe that government actions can correct existing market failures. However, they generally do not consider the unpredictability of results and the possibility of political interference, which raises the costs of possible solutions to problems.

In this context, when we deal with the labor market, an employee’s salary can be considered the price of his labor, and it tends to be equal to the worker’s productivity. Thus, when the government imposes mandatory FGTS, it interferes with the price of labor, being an additional cost to hiring in the formal market.

³ It is worth to note that, since 2019, the return of FGTS became less attractive than before given the new rules of distribution of profits.

⁴ To understand this law, please check the following link - www.in.gov.br/web/dou/-/lei-n-13.932-de-11-de-dezembro-de-2019-232942355

⁵ These information can be found in www.gov.br/economia/pt-br/centrais-de-conteudo/publicacoes/notas-informativas/2021/agosto/ni-novo-fgts-saque-aniversario-e-garantias.pdf

We cannot fail to consider that when the government takes over the administration of a public fund, there is a high chance of conflicts of interests and even corruption. According to Buchanan (1993), we should not believe in the State's ability to act in the best public interest, since the private interests of rulers tend to prevail. The observed low remuneration of FGTS resources is an excellent example of this. According to Mackintosh (2016), this conflict of interests regarding the use of public money is a major challenge to be faced.

In addition, as Fried (2019) discussed, the systematic applicable to remunerating the FGTS deposits is a flagrant violation of the worker's constitutional rights, and the State's use of such resources to finance government programs violates the principle of administrative morality.

Analysis

The FGTS, created to improve the social welfare of the Brazilian population by "protecting" the worker dismissed without just cause, is a clear case of how government intervention, even when it has the goal of improving the social welfare of a population, ends up bringing harmful results to society. In this way, the extinction of the FGTS would bring significant benefits to Brazil.

Firstly, ending the FGTS would reduce the cost of the formal worker, as it would eliminate the fees that employers have to pay periodically. This would have several positive effects, such as an increase in the efficiency of Brazilian companies, new hires, and better productivity of workers.

In addition, we can observe benefits when comparing the profitability of FGTS resources with that of the same risk level investments available in the economy. As mentioned earlier, the historical profitability of the FGTS was lower than that of other similar investments in the Brazilian economy. By extinguishing the FGTS and allowing workers to have free access to their resources, they can enjoy a better return on their saved resources, even in the situation in which the goal is the same as the FGTS: saving resources for a situation of dismissal.

The preference for access to the fund's resources in the present is evident when analyzing the measures for the partial release of FGTS resources, implemented through [Law No 13.932/2019](#). Workers opted for immediate access to part of the FGTS resources. So, why not release all the resources?

Other benefits that would be possible with the end of the FGTS are greater productivity and better allocations in the Brazilian labor market. This measure could reduce turnover in the labor market since the need to access FGTS resources more quickly often encourages workers to act to provoke a dismissal. A lower turnover in the Brazilian labor market would generate incentives for employers to invest in their employees, resulting in longer job retention and increased learning through learning by doing.

Conclusion

This article sought to evaluate the real effects of the FGTS on the Brazilian labor market and the potential results of its extinction. Despite being “sold” as protection for Brazilian formal workers against dismissal without just cause, it works as a mandatory saving account for formal Brazilian workers that yields little and harms the labor market in the country. Brazil. Thus, the end of FGTS would bring more freedom to the labor market, in addition to advantages such as an increase in workers’ remuneration or a reduction in company costs, an increase in the country’s productivity, and, finally, the return to the worker of a resource that is his, so that he can find better remuneration or use it in the way he deems most appropriate.

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