# Case Neg Brazil

## Pensions DA

### Piso Salarial Counterplan

#### The Superior Labour Court of Brazil ought to raise the *piso salarial* in all professional categories to a living wage, requiring all employers to pay a living wage.

#### The counterplan solves the aff with the net benefit of the Pensions disadvantage.

#### The counterplan also functions as a minimum wage law and solves the whole aff.

The Brazil Business 12 [(Community for Brazilian Business Experts) “Salary Negotiation in Brazil”] AT

The national minimum wage (salário mínimo, in Portuguese) is the lowest salary an employer can legally pay to his employees for a full-time job. It is also the lowest price a person can legally sell his workforce. The national minimum salary is annually adjusted by the government, following the inflation rises, and exists as a way to ensure no worker will receive less than the wage stipulated for that year, which, by the way, is widely disrespected throughout the country. For 2012, the national minimum salary was fixed in BRL 622, which is a very small value compared to Brazil’s cost of living. Just to give an idea, a recent study from Dieese (The Inter-union Department of Statistics and Socio-economic Studies) the minimum salary in Brazil should be BRL 2.617,33. This is commonly the salary that a just graduated earns in a capital city, for example. There’s also the regional minimum salary, which follows the cost of living of each region. It’s negotiated by each state’s Legislative Assembly and passes through the governor’s approval. In São Paulo state, for example, the regional minimum salary was fixed in BRL 690, BRL 700 and BRL 710, depending on the region (capital or countryside). Understanding the concept of Piso Salarial in Brazil In a few words, piso salarial is the minimum wage to be paid to a determined professional category. It exists as a way to orient the workers towards negotiating their salaries and avoid abuses from companies. This wage level is not established by the government like the national minimum salary. It can be determined in three ways: By an agreement through negotiations between the unions and the employers Through a collective agreement between a company and its workers (internal union) Through a ruling by the Labour Court The supervision of the wage level is performed by the Ministry of Labour, through its inspectors. A worker who receives a wage below the established floor can bring a lawsuit before the Labour Court.

### 2NR Piso CP

#### The CP is an alternative mechanism to increasing the minimum wage using Brazil’s piso salarial instead of raising its national minmum wage. This avoids the pension disad since pensions are set based on the national minimum wage, not the piso salarial.

#### More explanation

Apsis 12 [Apsis Consultoria Empresarial, M/Legate Contadores, Auditores e Consultores and Promissor Consultoria e Contabilidade – all independent members of Morison International “Brazil: 1st Edition”] AT

Under Brazilian law, wages are generally paid monthly and cannot be lower than the minimum wage established by the government or less than the floor wage level (piso salarial) for the specific professional category.

### 1NC Pension DA

#### Brazil calculates government payouts with the minimum wage

Moore 12 [(Susanne Moore, Guardian columnist) “Brazil’s Growing Labor Pains” Upenn Jul 11, 2012] AT

The minimum wage mechanism has a disproportionate effect on the economy, because it is widely used as a benchmark for a host of other payments. According to Marcelo Neri, professor atFundação Getúlio Vargas (FGV), the minimum wage greatly affects municipalities, where pay levels are low, and is used to calculate about 60% of social security and insurance and non-contributory pensions, including for the disabled and elderly poor.

#### Pensions impact

Economist 13 [“Land of the setting sun” Sep 28th 2013] AT

Brazil has wasted this one-off opportunity. Neither the general pension scheme for private-sector workers nor the special one for civil servants produces a surplus. Despite sky-high contribution rates—up to 33% of salary, two-thirds paid by the employer and one-third by the worker—both schemes need to be topped up from general taxation to pay current pensions. And in the next few years the demographic bonus will start to taper off. Brazil’s runaway pension spending has its roots in the idealism of the generation that fought against the military regime, says Marcelo Caetano of IPEA. Rather than work out what might be affordable, it tried to turn the social privileges of the few into the rights of all. For example, the 1988 constitution states that health care is the right of every citizen and that it is the duty of the state to provide it without charge. But services such as health and education require planning and organisation, and although they have improved since the return of democracy they still fall far short of that aspiration. Pensions simply need to be paid, and they have driven Brazil’s public spending ever since. Public spending as a share of GDP rose during both Mr Cardoso’s and Lula’s terms. If Ms Rousseff splurges next year, as both her predecessors did in election years, primary federal spending will have gone up by two percentage points during her term, but almost none of that extra money has been invested. Mansueto Almeida, an economist at IPEA, calculates that 25% of the increase in primary federal-government spending (that is, not counting debt interest) since 1999 went on programmes that support adults of working age and children, including unemployment benefit, a top-up for low-paid workers and the well-known Bolsa Família, which gives cash to very poor families in return for getting their children vaccinated and sending them to school. Pensions ate up an extraordinary 59% of the increase, leaving only 16% to be invested. Now and then, generally in post-election years, Brazilian governments decide they must rein in public spending. But almost nothing is easy to trim. Civil servants’ employment terms do not allow them to be made redundant or have their salaries cut. Pensions cannot be shrunk. So the axe falls on investments. Those under way are paused, those being planned are put off. Brazil’s gross public debt is nearly 60% of GDP (or nearly 70%, by the IMF’s more pessimistic definition), which is a lot for a middle-income country. If even some of the government’s ambitious infrastructure plans go ahead, that debt will rise further. Because of the scarcity of long-term credit in Brazil—a legacy of hyperinflation—as well as a politically driven desire to cap headline interest rates, the government has obliged public banks to help it out: they must lend the prospective winners of its auctions around two-thirds of their construction costs. But because pensions eat up so much of the tax revenue, the government has no money to channel to the banks, so the treasury will have to issue bonds. In June S&P, a ratings agency, downgraded the outlook for Brazil’s sovereign debt to negative because it thought a big increase in debt was likely in the next two years. To make matters worse, Brazil is already building up to an almighty pensions crunch. The bulge generation will start to retire soon and unless the rules change radically, by 2050 taxpayers will be propping up the private-sector scheme alone with a hefty 5.6% of GDP. But the necessary reforms are not even under discussion. Last year the government at last got around to ending the pension privileges of civil servants, but only for new entrants. By 2050 that will save a modest 0.5% of GDP. In July the pensions minister abandoned an attempt to trim survivors’ benefits, saying there was little chance of getting it through Congress after the protests. Brazil’s government spends 5.6% of GDP on education, more than the OECD average. That should be enough to give it good schools, but it doesn’t. Though the great achievement of the 1990s was getting most children into school, and the country does better than it did ten years ago in the OECD’s PISA studies, which test 15-year-olds’ literacy, numeracy and scientific understanding, it remains near the bottom of the pack. Half of all 15-year-olds are unable to interpret or draw conclusions from any but the simplest texts. Two-thirds can manage no more than basic arithmetic. In literacy, mathematics and science alike, only 1% rank as high performers; across the OECD, 9% do. Part of the problem is that the education budget is not well used. OECD governments on average spend 30% more on each university student than on each school pupil. Brazil’s spends five times more. Since wealthy students who went to private schools are much more likely to pass university entrance exams, that is shockingly regressive—and wasteful too, since the return to the taxpayer from a decent basic education for many would be much higher than from degrees for the few. But the most damaging practices have to do with pensions again. Teachers retire five years earlier than other workers, on the same terms. Since most are women, the typical teacher’s career looks something like this: graduate at 23; spend a couple of years preparing for the public-sector entrance exam; start teaching at 25; retire at 50 on close to full pay—and receive an index-linked pension until death at 79. Such early retirement takes experienced professionals out of classrooms that can ill afford to lose them. And it makes it harder to persuade the best young graduates to take up teaching in the first place. Pensions form such a large part of total compensation that they squeeze pay. State-school teachers’ salaries are among the lowest for graduate jobs in Brazil, so most high-flyers are not interested. Rio state spends as much on retired teachers as on working ones, says Wilson Risolia, its secretary of education. Since 1999 the state has dedicated every centavo of the royalties it receives for the oil off its coast to funding its employees’ pensions. It counts itself lucky to be able to draw on this revenue stream. But such windfalls should be used for the good of future generations, not past ones. Brazil’s federal government plans to increase public spending on education to 10% of GDP by 2020, which if it happens will be a world record. Some of the extra cash is meant to be generated by royalties from the country’s recently discovered vast reserves of deep-sea oil. But more money will not help unless it is tied to better teacher quality and progress towards well-designed education targets, says Mr Risolia. Rio has set a core curriculum for each subject, boosted in-service teacher training and has started to hold standardised state-wide tests for all pupils twice a year. Without changes of this sort, more money might even make things worse. “It’s like putting more water into a leaky pipe,” says Mr Risolia. “You just get more leakage—including probably more corruption.” More broadly, Brazil needs to reshape its public spending, not increase it. It needs to invest more and to stop bribing the middle-aged to leave the workforce, carrying their children’s inheritance with them. “People sometimes say to me that with growth at 5% we wouldn’t need pension reform,” says Fabio Giambiagi, a pensions expert. “But with workers retiring so young, how can we possibly grow at 5%?”

#### Pension-driven tax increases and the minimum wage itself destroy growth and make Brazilians poorer

Economist 13 [“The price is wrong: Why Brazil offers appalling value for money” Sep 28th 2013] AT

Compared with other middle-income countries, Brazil is astonishingly poor value for money. Large domestic appliances and cars cost at least 50% more than in most other countries. For everyday items such as toothbrushes and children’s toys the difference is often a lot more. Among the 48 countries tracked by the Big Mac index, The Economist’s lighthearted currency-comparison tool, a burger in Brazil costs more than in only a handful that are much richer (Norway, Sweden, Switzerland) and one that is dysfunctional (Venezuela). Burgers should be cheaper in poorer places because wages are lower: in Brazil, less than a quarter of European or North American levels. Allowing for that, a Brazilian Big Mac costs an indigestible 72% more than it should do, and the real remains one of the world’s more overvalued currencies. The IMF’s broader cost-of-living figures show that Brazil’s high prices are no mere quirk of burgernomics. In most less well-off countries people find their money goes further than market rates would suggest because non-tradable goods are cheaper. Averaged across all goods and services, a Mexican’s spending power, for example, is 45% higher at home than if he bought dollars and shopped across the border. But a Brazilian can buy little more at home than he can in the United States. The causes of Brazil’s cost problem are legion. Start with taxes. At 36% of GDP, the total tax burden is far heavier than in other developing countries. Payroll taxes, at 58% of salary, are higher than in any other big economy. Consumption, too, is heavily taxed, which explains why a Brazilian-made car costs up to 45% less in Mexico than it does in Brazil itself. High tariffs push up the price of imports even more. A smartphone costs about 50% more than in the United States. Most cars imported from outside the Mercosur trade block and Mexico attract not only a 35% tariff but an extra 30% on top of the normal sales tax.

continues

The story of the custo Brasil is decades old. Now soaring pay is adding a new chapter to it. Since 2003 the country’s unit labour costs have doubled, compared with inflation at 67%. In dollar terms they have trebled, thanks to currency appreciation. One reason is the scarcity of well-educated workers. Manpower Group, an employment agency, says Brazil is the world’s second-hardest place for firms to find the skills they need, behind only ageing Japan. At the top end, headhunters say multinationals often have to pay their Brazilian executives more than their bosses in London or New York earn. But the main reason is a decade of big increases in the minimum wage, which sets a trend for all pay negotiations. At the start of 2003 it was 200 reais a month; now it is 678 reais, almost twice as much in real terms (see chart 2). The government is committed to above-inflation increases until 2015. Raising the minimum wage had its merits at first, says Gray Newman of Morgan Stanley. In the years before Lula took office its value had eroded, creating room to shift profits from capital to labour. High interest rates kept inflation in check, and the weak currency ensured that exports remained competitive even if prices did rise a bit. Higher incomes, helped by somewhat more accessible consumer credit, boosted consumption, creating more jobs in a virtuous cycle. Large domestic appliances and cars cost at least 50% more than in most other countries But the policy has now pushed costs beyond what either the foreign or the domestic market is willing to bear. Household consumption, one of the economy’s few bright spots in the past two years, has levelled off. Consumers are overstretched, with 21.5% of household income going to service debts. Despite some of the world’s highest tariffs, imports are taking a bigger share of the manufactured products Brazilians buy. Exports of manufactured goods are slipping. After several years of price rises close to 10%, demand for services is losing steam. “After a long boom driven by credit and consumption, Brazil has ended up looking in some ways like southern Europe,” says Tony Volpon of Nomura Securities, a broker. Only the rising value of its commodity exports saved it from ballooning current-account deficits. In the short term a weaker currency will help, as long as tight fiscal and monetary policy prevent it from fuelling inflation. The real is now 11% lower than at the start of this year, having touched 20% in August, though after taking inflation into account it is still well above its long-run average. A cheaper real will make Brazilians poorer by lowering their wages in foreign-currency terms and do nothing to get to the roots of the custo Brasil. But it will protect jobs by making exports cheaper and imports pricier, and by reducing the price of services compared with tradable goods.

### Pensions DA Link Work

#### The wage hike COLLAPSES the pension system- this increases taxes, and doesn’t solve equality

Falcoff 97 [(Mark, American scholar and policy consultant who has worked with a number of important think tanks, such as the American Enterprise Institute, the Hoover Institution, and the Council on Foreign Relations) “Who’s Afraid of Big Bad Brazil?” American Enterprise Institute November 1, 1997] AT

Meanwhile, the Brazilian state awaits serious reorganization. Efforts earlier this year to reduce the size of the civil service were defeated in Congress: lower-paid government workers can be assured of maintaining their jobs and benefits, regardless of the actual labor demands of different departments. More serious still is Brazil’s social security system, which perpetually totters on the brink of bankruptcy. Because pensions are pegged to the minimum wage, every hike threatens to unravel the system as a whole. As if that were not enough, the 1988 Constitution enlarged the system to include nearly 5 million rural workers, regardless of their contribution to the system. Brazil’s social security system suffers from some of the same problems as its U.S. counterpart. In 1940, there were 30 Brazilian workers contributing for every retiree; today the ratio is 2.3 to 1. The resemblance does not end in demographics. In Brazil, like the United States, there is no trust fund; today’s pensioner is paid out of taxes levied on today’s work force. Further, politicians in both countries are reluctant to privatize social security because it threatens to deprive them of a potent weapon: the fear they can strike in the hearts of the elderly and the destitute. What makes social security reform in Brazil even more imperative than in the United States, however, is that the existing system actually perpetuates, rather than reduces, social inequality. Workers in the informal sector receive no benefits, even though they represent slightly more than half the work force. Retirement ages for recipients differ according to whether they have or have not made contributions to the fund.

#### More ev

SSA 11 [(US social security administration, office of retirement and disability policy) “Social Security Programs Throughout the World: The Americas, 2011”] AT

Insured person: 8% of covered earnings with total monthly earnings up to 1,107.52 reais; 9% with earnings from 1,107.53 reais to 1,845.87 reais; or 11% with earnings from 1,845.88 reais to 3,691.74 reais. Voluntarily insured contribute 20% of declared earnings or 11% of the legal monthly minimum wage (5% for small businesses with annual income up to 60,000 reais) for the age pension only. The minimum monthly earnings used to calculate contributions are the legal monthly minimum wage (545 reais). The maximum monthly earnings used to calculate contributions are 3,691.74 reais. The insured's contributions also finance sickness and maternity benefits and family allowances. Self-employed person: 20% of declared covered earnings; 11% of the legal monthly minimum wage for the age pension only. The minimum monthly earnings used to calculate contributions are the legal monthly minimum wage (545 reais). The maximum monthly earnings used to calculate contributions are 3,691.74 reais. The self-employed person's contributions also finance sickness and maternity benefits. Employer: 20% of covered payroll. The minimum monthly earnings used to calculate contributions are the legal monthly minimum wage (545 reais). The maximum monthly earnings used to calculate contributions are 3,691.74 reais. Small businesses with annual earnings greater than 60,000 reais but less than 3,600,000 reais contribute 2.75% to 7.83% of monthly declared earnings, depending on annual earnings declared in the last 12 months and the industry sector. The employer's contributions also finance sickness and maternity benefits and family allowances. Government: Earmarked taxes finance administrative costs and any deficit. Social assistance Insured person: None. Self-employed person: None. Employer: None. Government: The total cost. Qualifying Conditions Old-age pension Age pension (social insurance): Age 65 (men) or age 60 (women); age 60 (men) or age 55 (women) for rural workers. Retirement is not necessary. Persons who were first insured before July 25, 1991, must have 60 to 174 months of contributions, according to a schedule in law; persons first insured since July 25, 1991, must have at least 180 months of contributions. Rural workers who were first insured before July 25, 1991, must show proof of 60 to 174 months of work in the rural sector, according to a schedule in law; rural workers first insured since July 25, 1991, must show proof of 180 months of work in the rural sector. Contributory pension (social insurance): The insured must have at least 35 years of contributions (men) or 30 years of contributions (women); for arduous employment, 15 years to 25 years. Retirement is not necessary. Early contributory pension: Age 53 with at least 30 years of contributions (men) or age 48 with at least 25 years of contributions (women); for persons first insured before December 16, 1998, the insured must also contribute 40% of the difference between the required contribution years at age 53 (men) or age 48 (women) and the number of years actually paid as of December 16, 1998. The contributory pension is payable abroad under bilateral or multilateral agreement. Old-age assistance (social assistance): Age 65, without remunerated work, and with family monthly earnings less than 25% of the legal monthly minimum wage for each person (136.25 reais). Eligibility is reviewed every two years. Disability pension Disability pension (social insurance): The insured must be assessed with a permanent incapacity to work and have at least 12 months of contributions. The contribution period is waived if the disability is the result of an accident. Employment must cease. The National Social Security Institute assesses the degree of disability. The disability pension is payable abroad under bilateral or multilateral agreement. Disability benefit (social assistance): The insured must be assessed with a disability and have family monthly earnings less than 25% of the legal monthly minimum wage for each person (136.25 reais). Eligibility is reviewed every two years. Survivor pension (social insurance): The deceased was a pensioner or insured at the time of death. Eligible survivors include the widow(er) or partner and children younger than age 21 (no limit if disabled); in the absence of the above (in order of priority), parents and siblings younger than age 21 (no limit if disabled). The pension is split equally among eligible survivors. If one survivor ceases to be eligible, the pensions for the remaining survivors are recalculated. Prisoner's survivor pension (social insurance): The insured is imprisoned and had monthly income up to 862.60 reais immediately prior to imprisonment. Eligible survivors include the spouse or partner and children younger than age 21 (no limit if disabled); in the absence of the above (in order of priority), parents and siblings younger than age 21 (no limit if disabled). The pension is split equally among eligible family members. If one family member ceases to be eligible, the pensions for the remaining members are recalculated. The survivor pensions are payable abroad under bilateral or multilateral agreement. Old-Age Benefits Old-age pension Age pension (social insurance): The monthly benefit is 70% of the insured's average earnings plus 1% of average earnings for each year of contributions, up to 100%. For persons first insured before November 29, 1999, average earnings used to calculate benefits are based on the best 80% of monthly earnings since July 1994. For persons first insured after November 28, 1999, average earnings used to calculate benefits are based on the best 80% of total monthly earnings. Insured persons may opt for the pension to be calculated using the Factor Previdenciario method. The Factor Previdenciario is an actuarial coefficient based on the insured's contribution rate, contribution period, age, and life expectancy. The minimum monthly earnings used to calculate benefits are the legal monthly minimum wage (545 reais). The maximum monthly earnings used to calculate benefits are 3,691.74 reais. The minimum monthly age pension is the legal monthly minimum wage (545 reais). The maximum monthly age pension is 3,691.74 reais. Schedule of payments: Thirteen payments a year. Benefit adjustment: Benefits are adjusted annually according to changes in the consumer price index. Contributory pension (social insurance): 100% of the insured's average earnings is paid. For persons first insured on or before November 28, 1999, average earnings used to calculate benefits are based on the best 80% of monthly earnings since July 1994, multiplied by the Factor Previdenciario. For persons first insured after November 28, 1999, average earnings used to calculate benefits are based on the best 80% of total monthly earnings, multiplied by the Factor Previdenciario. The Factor Previdenciario is not applied to arduous work with 15, 20, or 25 years of contributions. The Factor Previdenciario is an actuarial coefficient based on the insured's contribution rate, contribution period, age, and life expectancy. The minimum monthly earnings used to calculate benefits are the legal monthly minimum wage (545 reais). The maximum monthly earnings used to calculate benefits are 3,691.74 reais. The minimum contributory pension is the legal monthly minimum wage (545 reais). Schedule of payments: Thirteen payments a year. Benefit adjustment: Benefits are adjusted annually according to changes in the consumer price index. Old-age assistance (social assistance): The monthly benefit is the legal monthly minimum wage (545 reais). Benefit adjustment: Benefits are adjusted annually according to changes in the minimum wage. Permanent Disability Benefits Disability pension Disability pension (social insurance): 100% of the insured's average earnings is paid; 100% of the minimum wage for rural workers. For persons first insured on or before November 28, 1999, average earnings used to calculate benefits are based on the best 80% of monthly earnings since July 1994. For persons first insured after November 28, 1999, average earnings used to calculate benefits are based on the best 80% of total monthly earnings. The minimum monthly earnings used to calculate benefits are the legal monthly minimum wage (545 reais). The maximum monthly earnings used to calculate benefits are 3,691.74 reais. The minimum monthly pension is the legal monthly minimum wage (545 reais). The maximum monthly pension is 3,691.74 reais. Schedule of payments: Thirteen payments a year. Benefit adjustment: Benefits are adjusted annually according to changes in the consumer price index. Disability assistance (social assistance): The monthly benefit is the legal monthly minimum wage (545 reais). Benefit adjustment: Benefits are adjusted annually according to changes in the minimum wage. Survivor Benefits Survivor pension (social insurance): 100% of the pension the deceased received or was eligible to receive is paid; 100% of the minimum wage for rural workers. The minimum monthly pension is the legal monthly minimum wage (545 reais). The maximum monthly pension is 3,691.74 reais. Schedule of payments: Thirteen payments a year. Benefit adjustment: Benefits are adjusted annually according to changes in the consumer price index or the minimum wage. Prisoner's survivor pension (social insurance): 100% of the disability pension the insured was eligible to receive is paid; 100% of the minimum wage for rural workers. The minimum monthly pension is legal monthly minimum wage (545 reais). The maximum monthly pension is 862.60 reais. Schedule of payments: Thirteen payments a year. Benefit adjustment: Benefits are adjusted annually according to changes in the consumer price index or the minimum wage.

#### Brazil legally indexes its public pensions to the minimum wage – raising the minimum wage raises pensions

Reuters 13 [(Reuters Brasilia) “Rousseff says Brazil raises 2014 minimum wage by 6.78 pct” Dec 23, 2013] AT

The minimum wage adjustments of recent years have been heavily criticized by many economists who believe the hikes have outpaced the levels of productivity and fueled inflation. Higher minimum wages also add pressure to Brazil's fiscal accounts since the government increases public pensions in tandem with the wage increases. The minimum wage is readjusted by a formula that sets the final number using the prior-year inflation plus the level of GDP growth from the last two years.

## Informal Sector DA

### 1NC Deforestation DA

#### Minimum wage increases push workers into the informal sector and incentivize law-breaking

Terrell 9 [(Katherine, Katherine Terrell Ford School of Public Policy Ross School of Business University of Michigan) “Minimum Wages, Enforcement and Informalization of the Labor Market: Evidence from Brazil”] AT

Furthermore, they show that formal employment is pro-cyclical, while informal employment is countercyclical. Positive elasticities of the nominal wage with respect to productivity, the tax wedge (a proxy for labor cost), and inflation are estimated, and a negative elasticity with respect to unemployment. Results were similar for both the formal and informal sectors. In the last decade, realizing that analyses of employment and unemployment levels may hide real effects of changes in minimum wages or other labor laws, studies have increasingly focused on individual employment transition probabilities. Fajnzylber’s (2001) analysis of the effects of minimum wages on transition probabilities from employment into unemployment or out of the labor market yielded employment elasticity estimates of approximately -0.1 for those low-wage workers who were originally in formal employment, and -0.25 for those who were in informal employment relationships. McIntyre (2004) finds that minimum wage increases raise informality rather than unemployment. He concludes: “Informal behavior is complementary so that violating the minimum wage encourages agents to violate other laws. This complementarity can be substantial among the poorly educated. Informal work carries a wage penalty of 23% of salary.” Finally, Bosch, Goni and Maloney (2007) have studied gross worker flows to explain the rising informality in Brazilian metropolitan labor markets from 1983 to 2002. The conclude that as in Bosch and Maloney’s (2006) study of Mexico, the informal sector absorbs more workers during cyclical downturns and hence the rise in informality is driven by a reduction in job finding rates in the formal sector which “seems to be driven” by the rising labor costs and reduce flexibility arising from the 1988 constitutional reform.

#### That increases deforestation

Fordaq 11 [(Source: ITTO's Tropical Timber Market Report) “Brazil: Much of Amazon harvested by informal sector” Dec 13] AT

Around three million trees are harvested every year in the Amazon says the Environmental Agency and the timber market based on this resource is estimated to be worth over R$ 4 billion. However, authorities estimate that only a small part of the overall harvest is undertaken by the timber industry. The timber industry generally has the necessary approvals for logging but the environmental agency says much of the Amazon harvest is done by the informal sector and much of the harvesting by this sector is without the necessary approvals and is therefore illegal.

#### Habitat loss in the Amazon causes extinction.

Howard 11 [(lead of Ecosystem Service and Poverty Alleviation Project, Wageningen Univ. Department of Social Sciences Faculty) “Tipping Points and Biodiversity Change: Consequences for Human Wellbeing and Challenges for Science and Policy” Draft Prepared for the Kavli Seminar“Addressing Global Tipping Points”13-15 March 2011] AT

In the 20 th century, we became aware that the fate of biodiversity and the fate of humans are intimately interconnected. Before this, only some religions (and a few philosophers) predicted the end of life onEarth or human extinction through different versions of Armageddon, which was generally caused by thedivine consequences of wayward human behaviour. Darwin’s theory of evolution provided the means to un-derstand continual species extinctions, and scientists began to unearth the evidence of previous mass extinc-tions. However, the idea that extinction might extend to the human species was not taken up until the 20 th century, when it was argued that all species invariably become extinct (Raup 1991). Scientists came to un-derstand that the human species could disappear through catastrophic natural events, much as the dinosaursdisappeared, as a result of bolide impacts or large-scale volcanism. A secular concept of self-annihilationemerged less than 50 years ago with the spectre of global nuclear holocaust, which would also render muchother life on Earth unviable (see e.g. Robock et al. 2007), and where the life that remained would be distinct-ly antithetical to humans. Many now argue that there are other catastrophic threats to the human species,some of which threaten life on Earth more generally (Rees 2003, Posner 2004, Bostrom & Cirkovic 2008,Al-Rodhan 2009). We can only speculate whether the sixth mass extinction of species that appears to be un-derway has implications for the continued evolution of the human species, but we do know that it is the syn-ergies and feedbacks between global environmental change and biodiversity change, combined with mala-daptive human responses to that change (e.g. global nuclear conflict; unintended effects of technological re-sponses), that leads to the most catastrophic scenarios.Critical questions that arise when considering biodiversity change, the threats that it poses to humanwellbeing, and the challenges that it presents for mitigation and human adaptation, are whether there are crit-ical thresholds or ‘tipping points’ related to biodiversity change, and whether such tipping points can lead or contribute, directly or indirectly to global tipping points or whether they ‘only’ have implications at local or regional scales. If there are such tipping points, what types of implications do they have for human wellbe-ing? For whom, where, and when? Further, can such tipping points be avoided, and are we prepared to dealwith (adapt to) them if they cannot?With biodiversity change, there are a number of vulnerabilities to which the majority of the globe’s human population are exposed not only because they are impacted by this change at local level, but also because even local changes can have global repercussions due of global interdependencies. One is the rapidemergence and transmission of new infectious diseases and pests that both threaten plants and animals (and thus the humans that depend upon them), as well as humans directly (e.g. Chivian & Bernstein 2008, Pong-siri et al. 2009, Keesing et al. 2010, Sharma 2010). A second is invasive species, where species disperse be-yond their ‘normal’ range, invade many different regions on different continents, affecting the invaded eco-systems in highly unpredictable ways (e.g. GISP n.d., Walther et al. 2009, Perrings et al. 2010). Both maycontribute strongly to a third such vulnerability, which is addressed here, presented by tipping points that may emerge at regional scale, such as the loss of the Amazon rainforest or the collapse of coral reefs, that can have extra-regional or even global repercussions not only due to the loss of species and ecosystems, but as well due to the loss of some of the ecosystem services that these provide e.g. as CO 2 sinks, which creates synergies with phenomena such as climate change and ocean acidification. Finally, the fourth vulnerability is posed by human maladaptation to any of these dynamics, where maladaptation can exacerbate biodiversity change and can lead to other negative effects for human welfare and ecosystems. Conflict over dwindling biological resources and ecosystem services is likely to become pervasive, and conflict over the understand-ing of the causes and effects of such change are likely to be just as serious. The global security implications of climate change are of great concern and are being assessed (e.g. GACGC 2007) but, to our knowledge, no such assessment exists for biodiversity change. Many of the global, regional, and national institutions that inthe past have evolved to manage human-biodiversity relations have so far been shown to be relatively inef-fective in stemming biodiversity loss (see e.g. CBD 2010) and thus they are likely to be even more ineffec-tive in dealing with surprises or with the large-scale repercussions of the loss of benefits, e.g. of food, andnew institutions will have to emerge if such threats are not to translate into local, regional, and even global,catastrophe. I argue that to successfully adapt to tipping points requires major changes in values, priorities, andinstitutions, particularly economic institutions: some of this change may be forthcoming but much is unlikelyto change quickly or profoundly enough to avoid such tipping points. A first step is to recognise the implica-tions of biodiversity change and potential tipping points for human wellbeing, which is currently impeded bycultural, cognitive and political barriers. A second is to prepare for such change, and a third is to prepare po-tential responses. II. Biodiversity Change and Tipping PointsA. Types, magnitudes and drivers of biodiversity change Aside from numerous potential sources of global catastrophe that could have such implications for life onEarth, we also find ourselves in a period when rates of species extinctions are estimated at 50-500 times background, which is the highest rate in the past 65 million years. The effects of ongoing rapid decline of biomes and homogenisation of biotas have been summarised as:changes in species geographic ranges, genetic risks of extinction, genetic assimilation, naturalselection, mutation rates, the shortening of food chains, the increase in nutrient-enriched nich-es permitting the ascendancy of microbes, and the differential survival of ecological general-ists. Rates of evolutionary processes will change in different groups, and speciation in thelarger vertebrates is essentially over…Whether the biota will continue to provide the dependa- ble ecological services humans take for granted is less clear…Our inability to make clearer predictions about the future of evolution has serious consequences for both biodiversity andhumanity (Woodruff 2001: 5471).The consequences for biodiversity and humanity depend in part on the timescale in reference. Some scien-tists argue that the Earth’s sixth extinction has already arrived, where an estimated loss of over 75% of spe-cies can be expected, possibly within 250 to 500 years (Barnosky et al. 2011), although others highlight thefact that projections of species extinction rates are controversial (Pereira et al. 2010). A mass extinction hardly bodes well for humans given the changes in the biosphere, in biomes and ecosystems, the associated pestand disease outbreaks, etc. that are associated with the different drivers of biodiversity change and the possi- ble critical thresholds or tipping points discussed below and in other papers presented here. Thus, the impli-cations of what is laid out below are magnified many fold and their effects become increasingly synergisticover time – 500 years is a very short period when we consider that Homininae appeared 8 million years ago, Homo sapiens 500,000 years ago, and modern humans 200,000 years ago – effectively, it constitutes only.25% of modern human history. Were humans to have a council of elders to deliberate the impact of our ac-tivities on future generations, it would certainly be extraordinarily alarmed and calling for radical transfor-mations as, indeed, are many scientists today.What is extraordinary about this possible 6 th extinction of species is that, since it is human-induced,it is not inevitable and depends, for example, on rates of climate and land-use change (Pereira et al. 2010).For the first time in the Earth’s history, a species is actually in a position to change the course of evolutionwrit large (Western 2001). This is reflected in the range of projected changes in biodiversity, which is very broad both because ‘there are major opportunities to intervene through better policies, but also because of large uncertainties in projections’ (Pereira et al. 2010: 1496). The possibilities and constraints to doing so arediscussed below and in other papers. Many scientists consider that the probability that we will change thecourse that evolution is currently on is low or very low without radical and immediate transformations invalues, knowledge, behaviour, markets, and governance. 3The causes of species extinctions and related change in biodiversity and ecosystem services can becharacterised as ‘synergistic stressors’ – climatic change coupled with ‘abnormally high ecological stressors’and ‘unusual interactions’ (e.g. between human-induced climate change, habitat fragmentation, pollution,over-harvesting, invasive species, pathogens and, some would add, the ‘expanding human biomass’ (Bar-nosky et al. 2011) although one could just as easilyadd ‘the expanding livestock biomass’ or ‘expanding biofuels production’)(Steinfeld et al. 2010, Wise et al.2009). Beyond this, humans have had a massive im- pact on the productivity, composition, and diversity of terrestrial ecosystems by changing the rates of supplyof major nutrients (nitrogen, phosphorus, and atmos- pheric CO 2 ), changing regional fire frequencies, [and]relaxing biogeographic barriers to species dispersal’(Tilman & Lehman 2001: 5433).Many human-dominated ecosystems are char-acterised by high natural resource extraction, shortfood chains, food web simplification, habitat and land-scape homogeneity, heavy use of petrochemicals andfossil fuels, convergent soil characteristics, modifiedhydrological cycles, reduced biotic and physical dis-turbance regimes, and global mobility of people, goodsand services (Western 2001) which give rise to theeffects in Box 1. In sum, humans are currently ‘appro- priating more than a third of all terrestrial primary production and, in so doing, have simplified or de-stroyed large portions of some types of ecosys-tems…many human environmental impacts are pro- jected to be two to three times stronger within 50years’ (Tilman & Lehman 2001: 5433). Notwithstand-ing their global significance, and not all human-dominated ecosystems are the same, not all humansare having the same impacts on biodiversity and eco-systems, which will also be taken up again below.According to the Millennium Ecosystem As-sessment (MEA) (Mace et al. 2005), at present habitatchange and fragmentation are the most important drivers of species extinctions, whereas invasive species andover-exploitation are the next most common, and disease, climate change, and pollution follow these in im- portance. Until recently, scientists generally agreed that species extinctions are principally due to habitat change and fragmentation, where it is human-induced land use changes such as agricultural expansion and especially tropical deforestation that have been the most important drivers, particularly since species richness is highest in tropical forests. As a result, most conservation activity has focused on reducing habitat loss andits impacts (Lewis 2006). Nevertheless, the major drivers of change in biodiversity vary per ecosystem type(Mace et al. 2005). For example, in tropical forests, habitat change has had a very high impact on biodiversi-ty over the past 100 years, followed by over-exploitation, whereas climate change, invasive species, and pol-lution have played minor roles. This is not the case in boreal forests, where nitrogen and phosphorus pollu-tion have been the major drivers.Since about the 1990s, however, there has been growing evidence that climate change is both interact-ing with these drivers and increasingly as a driver of biodiversity change in and of itself, to the point wheremost experts now agree that climate change will surpass habitat loss and fragmentation as the principle driv-er of species extinctions (Hannah et al. 2005, Thomas 2004, van Vuuren 2006). Climate change is not onlyincreasingly driving species extinctions: it also affects species composition in any given ecosystem throughchanges in range (distribution) of species, changes in timing of reproductions, and changes in the length of the growing season for plants (CBD 2007 and below). Today, scientists consider that it is the synergy be-tween habitat change and fragmentation and climate change that is the most threatening to biodiversity, giv-en that habitat loss and fragmentation can prohibit species from migrating and colonising new areas in re-sponse to climate change (Lovejoy & Hannah 2005).

### 2NR Link work

#### The link is linear – more regulations means a larger informal sector

Lemos 4 [(Sara, lecturer at University of Leicester and IZA Bonn) “The Effects of the Minimum Wage in the Formal and Informal Sectors in Brazil”] AT

The excess of regulations increase non-compliance, and non-compliance increases the de facto size of the informal sector (Ashenfelter and Smith, 1979). Neri (1997) argues that minimum wage increases are more likely to informalize than to destroy jobs. In a developing country, with very little social security, people cannot afford to stay out of work and will move into lower paid informal sector jobs (Macedo, 1981; Amadeo et al., 1995; Carneiro and Henley, 1998). McIntyre (2002) reported evidence confirming that the minimum wage increases the size of the informal sector in Brazil.

#### Empirical analysis confirms

Terrell 9 [(Katherine, Katherine Terrell Ford School of Public Policy Ross School of Business University of Michigan) “Minimum Wages, Enforcement and Informalization of the Labor Market: Evidence from Brazil”] AT

The findings from estimating these flow equations are presented in Table 5. The principal finding is that a one percent increase in the nominal minimum wage (holding inflation constant) increases the mean probability that a formal sector worker becomes either an informal or self-employed worker rather than stay in the formal sector (by 1 percentage point in both cases, as seen in the marginal analysis). In contrast, it lowers the probability that a formal worker becomes unemployed or leaves the labor force relative to staying in the formal sector. The latter finding is peculiar and will be explored further in the next version of this paper. As in earlier findings, there is no statistically significant impact of the enforcement variable on flows out of the formal sector. One might expect stronger enforcement to decrease the flows from formal into informal but it appears there not sufficient variation in this variable as it is not significant in any of the specifications. In future estimation I will examine the effect of changes in inspections on firms by the Ministry of Labor as a robustness check for enforcement. To test whether higher minimum wages dampens hiring in (flows into) the formal sector, I estimate the probability that a worker is hired in the formal sector (v. any other sector) in a given month and also examine where they are being hired from (i.e., the status of the worker in the previous month). I test for overall hiring by re-estimating equation (3) with a linear probability model, where the dependent variable is a dummy for new formal employment (NFE) = 1 if a person is hired in the formal sector at time t=1 and 0 otherwise, conditional on being hired into any sector in that month. I would expect new hires in the formal sector to be diminished relative to hires in other sectors (IE or SE) with higher MWs; on the other hand, I would expect new hires to be increased with higher enforcement, if most firms survive and conform to enforcement. The coefficient estimate on the minimum wage, in the first column of Table 6, indicates that a 1 percent increase in the minimum wage reduces hiring in the formal sector, relative to other sectors by 13.5 percentage points. The remaining columns in Table 6 indicate the probability that a new hire from a given state at t=0 is hired into formal employment v. another sector (IE or SE) at t=1. For example, the coefficient on the percent change in the MWs in the second column indicates how the probability that a worker in the informal sector at t=0 being hired into the formal sector at t=1 (v. self- employment) is affected by changes in the minimum wage. None of the coefficients on the minimum wage variable are significant in any of these columns, indicating that we cannot detect any effect. However, this may be due to the fact that the sample sizes are relatively small. Finally, we note that the estimates indicate that increases in enforcement have no significant effect on hires.This study presents estimates of the effects of increased enforcement of labor regulation and increased levels of minimum wages on the wages and labor market flows (separations and hires) of male employees in the formal sector. There is evidence that increases in minimum wages increase the wages of formal sector employees, especially those who are less educated (less than primary schooling) compared to those who are more educated. It is also found that increases in the new higher state minimum wages are not having as great of an impact on wages as the federal minimum. Whereas there is some support for the hypothesis that minimum wages increase informalization (outflows from the formal sector to the informal sector and to self- employment), there is also a puzzling finding that higher minimum wages may decrease outflows from the formal sector to unemployment and out of the labor force. Finally, there is some evidence that workers may reduce labor costs by decreasing hiring in the formal sector when minimum wages are raised. The results using this enforcement variable indicate there is no effect of enforcement on either wages or labor market flows out of or into the formal sector.

#### Prefer the evidence – it’s the only one studying an *enforced* minimum wage across markets using panel data

Terrell 9 [(Katherine, Katherine Terrell Ford School of Public Policy Ross School of Business University of Michigan) “Minimum Wages, Enforcement and Informalization of the Labor Market: Evidence from Brazil”] AT

The growth of informal employment around the world has been a concern of many economists and policy makers who are preoccupied with the loss of social protection and the riskier and less well paid working conditions that it implies. In the context of developing countries, several researchers have argued that the rise in informality is the result of the high labor costs and rigid labor legislation – for instance in the form of enforced high minimum wages -- that decrease formal sector demand (e.g., Heckman and Pagés, 2000). Yet, in some areas, the underlying analysis has not been as complete as would be desirable. For example, the literature has not estimated jointly the effects of minimum wage legislation and its enforcement, nor has it used panel data to estimate these effects on labor flows across several labor market states.1 This paper provides the first analysis of the joint effects of minimum wage legislation and its enforcement on the labor market in a developing country. In particular, I use panel data from the new methodology Brazilian Monthly Labor Force Survey (PME) for the years 2002-2008 to estimate the effects of (a) changes in federal and state minimum wages and (b) enforcement of labor legislation (proxied by new labor court data that vary over metropolitan areas and over time) on wages and labor market flows into and out of the formal sector. In doing so, I contribute to the literatures on the informality,2 the effect of labor regulations (specifically minimum wages) on the labor market,3 and the impact of enforcement of labor legislation on the labor market.4

#### Only panel data is accurate – 6 warrants – better inference, controls selection bias, solves missing variables and aggregate data, and solves measurement errors

Hsiao 6 [(Cheng, Department of Economics University of Southern California) “Panel Data Analysis – Advantages and Challenges” May 2006 IEPR WORKING PAPER 06.49] AT

Panel data, by blending the inter-individual differences and intra-individual dynamics have several advantages over cross-sectional or time-series data: (i) More accurate inference of model parameters. Panel data usually contain more degrees of freedom and more sample variability than cross-sectional data which may be viewed as a panel with T = 1, or time series data which is a panel with N = 1, hence improving the efficiency of econometric estimates (e.g. Hsiao, Mountain and Ho-Illman (1995). (ii) Greater capacity for capturing the complexity of human behavior than a single cross-section or time series data. These include: (ii.a) Constructing and testing more complicated behavioral hypotheses. For instance, consider the example of Ben-Porath (1973) that a cross-sectional sample of married women was found to have an average yearly labor-force participation rate of 50 percent. These could be the outcome of random draws from a homogeneous population or could be draws from heterogeneous populations in which 50% were from the population who always work and 50% never work. If the sample was from the former, each woman would be expected to spend half of her married life in the labor force and half out of the labor force. The job turnover rate would be expected to be frequent and 3 the average job duration would be about two years. If the sample was from the latter, there is no turnover. The current information about a woman’s work status is a perfect predictor of her future work status. A cross-sectional data is not able to distinguish between these two possibilities, but panel data can because the sequential observations for a number of women contain information about their labor participation in different subintervals of their life cycle. Another example is the evaluation of the effectiveness of social programs (e.g. Heckman, Ichimura, Smith and Toda (1998), Hsiao, Shen, Wang and Wang (2005), Rosenbaum and Rubin (1985). Evaluating the effectiveness of certain programs using cross-sectional sample typically suffers from the fact that those receiving treatment are different from those without. In other words, one does not simultaneously observe what happens to an individual when she receives the treatment or when she does not. An individual is observed as either receiving treatment or not receiving treatment. Using the difference between the treatment group and control group could suffer from two sources of biases, selection bias due to differences in observable factors between the treatment and control groups and selection bias due to endogeneity of participation in treatment. For instance, Northern Territory (NT) in Australia decriminalized possession of small amount of marijuana in 1996. Evaluating the effects of decriminalization on marijuana smoking behavior by comparing the differences between NT and other states that were still non-decriminalized could suffer from either or both sorts of bias. If panel data over this time period are available, it would allow the possibility of observing the before- and affect-effects on individuals of decriminalization as well as providing the possibility of isolating the effects of treatment from other factors affecting the outcome. 4 (ii.b) Controlling the impact of omitted variables. It is frequently argued that the real reason one finds (or does not find) certain effects is due to ignoring the effects of certain variables in one’s model specification which are correlated with the included explanatory variables. Panel data contain information on both the intertemporal dynamics and the individuality of the entities may allow one to control the effects of missing or unobserved variables. For instance, MaCurdy’s (1981) life-cycle labor supply model under certainty implies that because the logarithm of a worker’s hours worked is a linear function of the logarithm of her wage rate and the logarithm of worker’s marginal utility of initial wealth, leaving out the logarithm of the worker’s marginal utility of initial wealth from the regression of hours worked on wage rate because it is unobserved can lead to seriously biased inference on the wage elasticity on hours worked since initial wealth is likely to be correlated with wage rate. However, since a worker’s marginal utility of initial wealth stays constant over time, if time series observations of an individual are available, one can take the difference of a worker’s labor supply equation over time to eliminate the effect of marginal utility of initial wealth on hours worked. The rate of change of an individual’s hours worked now depends only on the rate of change of her wage rate. It no longer depends on her marginal utility of initial wealth. (ii.c) Uncovering dynamic relationships. “Economic behavior is inherently dynamic so that most econometrically interesting relationship are explicitly or implicitly dynamic”. (Nerlove (2002)). However, the estimation of time-adjustment pattern using time series data often has to rely on arbitrary prior restrictions such as Koyck or Almon dis- tributed lag models because time series observations of current and lagged variables are likely to be highly collinear (e.g. Griliches (1967)). With panel 5 data, we can rely on the inter-individual differences to reduce the collinearity between current and lag variables to estimate unrestricted time-adjustment patterns (e.g. Pakes and Griliches (1984)). (ii.d) Generating more accurate predictions for individual outcomes by pooling the data rather than generating predictions of individual outcomes using the data on the individual in question. If individual behaviors are similar conditional on certain variables, panel data provide the possibility of learning an individual’s behavior by observing the behavior of others. Thus, it is possible to obtain a more accurate description of an individual’s behavior by supplementing observations of the individual in question with data on other individuals (e.g. Hsiao, Appelbe and Dineen (1993), Hsiao, Chan, Mountain and Tsui (1989)). (ii.e) Providing micro foundations for aggregate data analysis. Aggregate data analysis often invokes the “representative agent” assumption. However, if micro units are heterogeneous, not only can the time series properties of aggregate data be very different from those of disaggregate data (e.g., Granger (1990); Lewbel (1992); Pesaran (2003)), but policy evaluation based on aggregate data may be grossly misleading. Furthermore, the prediction of aggregate outcomes using aggregate data can be less accurate than the prediction based on micro-equations (e.g., Hsiao, Shen and Fujiki (2005)). Panel data containing time series observations for a number of individuals is ideal for investigating the “homogeneity” versus “heterogeneity” issue. (iii) Simplifying computation and statistical inference. Panel data involve at least two dimensions, a cross-sectional dimension and a time series dimension. Under normal circumstances one would expect that the 6 computation of panel data estimator or inference would be more complicated than cross-sectional or time series data. However, in certain cases, the availability of panel data actually simplifies computation and inference. For instance: (iii.a) Analysis of nonstationary time series. When time series data are not stationary, the large sample approximation of the distributions of the least-squares or maximum likelihood estimators are no longer normally distributed, (e.g. Anderson (1959), Dickey and Fuller (1979,81), Phillips and Durlauf (1986)). But if panel data are available, and observations among cross-sectional units are independent, then one can invoke the central limit theorem across cross-sectional units to show that the limiting distributions of many estimators remain asymptotically normal (e.g. Binder, Hsiao and Pesaran (2005), Levin, Lin and Chu (2002), Im, Pesaran and Shin (2004), Phillips and Moon (1999)). (iii.b) Measurement errors. Measurement errors can lead to under-identification of an econometric model (e.g. Aigner, Hsiao, Kapteyn and Wansbeek (1985)). The availability of multiple observations for a given individual or at a given time may allow a researcher to make different transformations to induce different and deducible changes in the estimators, hence to identify an otherwise unidentified model (e.g. Biorn (1992), Griliches and Hausman (1986), Wansbeek and Koning (1989)). (iii.c) Dynamic Tobit models. When a variable is truncated or censored, the actual realized value is unobserved. If an outcome variable depends on previous realized value and the previous realized value are unobserved, one has to take integration over the truncated range to obtain the likelihood of observ- ables. In a dynamic framework with multiple missing values, the multiple 7 integration is computationally unfeasible. With panel data, the problem can be simplified by only focusing on the subsample in which previous realized values are observed (e.g. Arellano, Bover, and Labeager (1999)).

### Internal link

#### More ev

Colfer 5 [Carol, researcher at Consultative Group on International Agricultural Research, Center for International Forestry Research “The Complex Forest: "Communities, Uncertainty, and Adaptive Collaborative Management”] AT

Cameroon has also been marked by lax forestry regulations and a lack of enforcement of the regulations that do govern forestry operations. Auzel et al. (2001) note infractions ranging from logging outside the boundaries of mmtes dc coupe to “anarchic logging of forest management units.” They also note the approximately 700,000 ms of logs sold through the unregulated informal sector each year (see Fomété 2001, and Oyono et al. n.d.). Pacheco (2001) calls illegal logging a serious problem in Bolivia.The Bolivian government has attempted to deal with such illegality by basically legalizing it. The agmpacione sociale de lugar (local social association) was created to allow illegal loggers to organize and conduct their logging in a more sustainable fashion (Alvira 2002), but illegal logging apparently continues in Guarayos (Bolaﬁos 2001). In Cameroon, Indonesia, and Bolivia, powerful people are often involved in organizing illegal logging, making it diﬁicult to control (Etoungou 2002; Dudley 2002; Pacheco 2002). Adario (2002) maintains that 80 percent of the logging in Brazil is illegal, with the worst problems occurring in an “arc of deforestation,” especially Mato Grosso, Para, and Rondonia (see also Simula and Burger 2003). Pokorny et al. (2001b) reported illegal logging in all three Para areas where the ACM team worked. In other parts of Brazil, illegal logging is reportedly now being addressed (Adario 2002).

### Organized crime impact

#### Informal sector increases organized crime

Zaluar 4 [(Alba, professor of anthropology at the Institute of Social Medicine at the University of the State of Rio de Janeiro) “THE PARADOXES OF DEMOCRATIZATION AND VIOLENCE IN BRAZIL” Rio de Janeiro State University] AT

The existence of a new form of informal market is another element in the Brazilian paradox. Informal markets have always existed in Brazil and have been an important source of income for those with little qualification for work or no jobs. These informal markets have developed personal networks and rules for the occupation of the main streets in the urban centres. Yet, for the past decades, they have been joined by street vendors who sell several counterfeit products, some of which smuggled from other countries4 , and diverse types of goods which have been stolen from trucks, residences and pedestrians. Informal trade, which traditionally has been a way out of unemployment and an alternative for subaltern work, has hence become tied to organized crime. This becomes even clearer because of its connections with gold selling shops, car repair shops, wrecked cars lots, antique dealers, some of which have become collecting points for stolen goods. It has been discovered recently that even some legal truck transport businesses are part of the network for truck robbery. However, there has been little systematic investigation of these networks so far.

#### Organized crime causes global economic decline, WMD terrorism and conflicts

Wechsler 2 - William F. Wechsler (former Special Advisor to the Secretary of the Treasury, Director for Transnational Threats at the National Security Council and Special Assistant to the Chairman of the Joint Chiefs of Staff) Spring 2002 The National Interest, “Law in order: Reconstructing U.S. national security,” p17(12), infotrac

As technology advanced and borders became increasingly porous after the Cold War, it became increasingly evident that international crime in all of its various forms threatened U.S. national security interests. Sometimes the threats were direct. Terrorists groups like AlQaeda, no longer as dependent on state sponsorship, began targeting Americans at home and abroad. They also engaged in a host of criminal activities apart from terrorism, from arms trafficking to people smuggling to securities fraud. Vast networks of criminals based in Russia, Nigeria, Latin America, East Asia and elsewhere went global, infiltrating the United States as one of the world’s most lucrative targets. Hackers halfway around the world broke into U.S. computer systems, including sensitive systems belonging to the military and intelligence agencies. International crime also poses indirect threats to U.S. national security. Criminal syndicates have corrupted government officials, undermined democratic governance, and hindered economic development in many countries. This has been well documented in post-communist states like Russia, developing countries like Nigeria, post-conflict societies like Bosnia and countries of particular concern to the United States like Mexico. In Colombia, groups engaged in drug trafficking, terrorist activity and other serious crimes even challenge the government itself for control over territory and the population, just as typical communist insurgencies did a few decades ago. Criminal syndicates have also helped to undermine regional stability. In Sierra Leone, for instance, the illegal smuggling of “conflict” diamonds helped finance a brutal civil war. Elsewhere in Africa and around the world, arms trafficking by organized criminal networks has stoked regional conflicts that might otherwise have died down. Criminal syndicates have been instrumental in violating U.S. and international sanctions regimes in such places as Iraq and Serbia. Russian criminal organizations are reportedly involved in smuggling materials for weapons of mass destruction--chemical, biological and nuclear. In other places, such as in Albania, criminal organizations have driven regime change, as when the collapse of a pyramid scheme precipitated anarchy and flooded next-door Kosovo with small weapons. Financial crimes such as money laundering and counterfeiting have the potential to undermine national banking systems and thereby to destabalize the global financial system. Economic crimes such as piracy--both physical and intellectual--affect U.S. companies’ competitiveness in foreign markets.

### 2NR Deforestation = Disease

#### Biodiversity loss increases disease vulnerability

Matt and Gebser 11 – Florian and Ronny, citing Keesing et al. 2010, biologist at Bard College in Annandale, New York, “Biodiversity decline can increase the spread of infectious diseases like Hantavirus,” <http://www.eea.europa.eu/atlas/teeb/biodiversity-decline-can-increase-the/view>)//a-berg

What is the problem? Intuitively one might expect that higher overall biodiversity leads to greater diversity and abundance of pathogens and thus more incidences of the transmission of diseases. Therefore, species-rich environments might be seen to exhibit a higher infection risk than anthropogenic disturbed environments with a low biodiversity. However, research results show the opposite. Several studies suggest that with the loss of biodiversity the transmission of diseases increases (Keesing et al. 2010). Thus biodiversity loss causes the loss of an important ecosystem service: buffering the spreading of infectious diseases to humans, animals and plants (Pongsiri et al. 2009). The decline of biodiversity might lead to a faster rate of emergence and re-emergence of infectious diseases, such as the Hantavirus, and therefore the infection of a greater proportion of the human population (Keesing et al. 2010, Pongsiri et al. 2009, Suzan et al. 2008, Peixoto and Abramson 2006). Regionally different genotypes of Hantaviruses cause hemorrhagic fever with renal syndrome (HFRS) in Asia and Europe and the Hantavirus pulmonary syndrom (HPS) in the Americas (Pongsiri et al. 2009). Which ecosystem services were examined? And how? The examination of circumstances of recent Hantavirus outbreaks, transmitted from host animals to humans, so called zoonoses, showed that all outbreaks occurred in anthropogenic highly disturbed habitats with reduced biodiversity (Pongsiri et al. 2009, Suzan et al. 2008). Host species of Hantaviruses are rodents and the viruses are transmitted to humans by aerosolized rodent excreta or by direct contact with the animals. Among rodents, the virus spreads through physical contacts (aggressive encounters). In general, each Hantavirus genotype is associated with a certain rodent (host) species. Therefore, the probability that a certain Hantavirus genotype infects other rodent species successfully is very low. A study in Utah, USA, found a negative correlation between small-mammal diversity and Sin Nombre Hantavirus (SNV) infection prevalence in deer mice (Clay et al. 2009). High mammalian species diversity reduced the infection prevalence mainly by reducing the intraspecific encounters rather than by reducing host density. A result also supported by experiments. Deer mouse population density was not statistically associated with SNV infection prevalence. This suggests that high diversity reduced intraspecific encounters rather than host abundance (Clay et al. 2009). There seems to be evidence that in recent outbreaks the rodent species transmitting the virus was a generalist species (Suzan et al. 2008). Generalist species have a high adaptability to a wide range of habitats and can subsist on a variety of food sources. Keesing et al. (2010) speculate that species usually amplifying pathogens tend to invest less energy into immune defence and are more vulnerable to pathogens. In contrast, specialist species are highly adapted to a narrowly defined habitat and require one or a few specific food resources and may invest more into immune defence and hence buffering pathogens (Keesing et al. 2010). Anthropogenic disturbance to natural ecosystems frequently results in extensive simplification of the environment. Often, many specialist species become locally extinct whereas the population density of certain opportunistic species rises dramatically due to their better adaptability to a changing environment and the decrease of competitive pressure. Reduced diversity of rodent species subsequently means that the virus spreads most efficiently as there are fewer encounters with other species. Thus, it can be expected that Hantaviruses are transmitted and spread most efficiently within host communities of low diversity. Furthermore, the population of a generalist species tends to increase when species biodiversity decreases in highly disturbed regions, resulting in a higher risk of disease transmission to humans (Suzan et al. 2008). Hence, if biodiversity decreases, transmission events rise due to an increase in encounter rates among infected and between infected and susceptible hosts. Assuming that a rodent has a certain amount of aggressive encounters during its life, it transmits the virus in more cases if the small-mammal diversity is low, since aggressive encounters happen more often within the same species. A recent experimental field study conducted on wild rodent populations of different species in southwestern Panama backs this view. It showed that the relative abundance of Hantavirus hosts increases with a decrease in small-mammal species diversity (See figure below from Keesing et al. 2010). This in turn increases human infection risk (Pongsiri et al. 2009, Suzan et al. 2008). As a consequence of these findings Montira et al. (2009) suggest supporting policies that maintain or enhance biodiversity rather than trying to support or eliminate a certain species. Focusing on one species can have unexpected implications such as enhancing further biodiversity loss when eliminating a rodent species that might serve as food for others or as a buffer for diseases. Keesing et al. (2010) discuss that for certain diseases it can be considered to add a species (i.e. natural enemy or competitor) in order to control the host of the disease. It is also essential to reduce antibiotic overuse in order to avoid adaptation and resistance of pathogens. Further, it is important to identify potential emergence hotspots. The conservation of natural habitats can provide protection against emerging pathogens as it does not only foster biodiversity but also helps to reduce human-wildlife contact. It is also suggested to reduce contact between domestic animals and wildlife. However, the elimination of disease hotspots has the risk to “backfire” by resulting in pathogen transmission (Keesing et al. 2010).

#### Specifically, zoonotic diseases lead to extinction

Casadevall 12 – Prof @ Department of Microbiology and Immunology and the Division of Infectious Diseases of the Albert Einstein College of Medicine Arturo. (“The future of biological warfare,” Microbial Biotechnology, p. 584-5)

In considering the importance of biological warfare as a subject for concern it is worthwhile to review the known existential threats. At this time this writer can identify at three major existential threats to humanity: (i) large-scale thermonuclear war followed by a nuclear winter, (ii) a planet killing asteroid impact and (iii) infectious disease. To this trio might be added climate change making the planet uninhabitable. Of the three existential threats the first is deduced from the inferred cataclysmic effects of nuclear war. For the second there is geological evidence for the association of asteroid impacts with massive extinction (Alvarez, 1987). As to an existential threat from microbes recent decades have provided unequivocal evidence for the ability of certain pathogens to cause the extinction of entire species. Although infectious disease has traditionally not been associated with extinction this view has changed by the finding that a single chytrid fungus was responsible for the extinction of numerous amphibian species (Daszak et al., 1999; Mendelson et al., 2006). Previously, the view that infectious diseases were not a cause of extinction was predicated on the notion that many pathogens required their hosts and that some proportion of the host population was naturally resistant. However, that calculation does not apply to microbes that are acquired directly from the environment and have no need for a host, such as the majority of fungal pathogens. For those types of host–microbe interactions it is possible for the pathogen to kill off every last member of a species without harm to itself, since it would return to its natural habitat upon killing its last host. Hence, from the viewpoint of existential threats environmental microbes could potentially pose a much greater threat to humanity than the known pathogenic microbes, which number somewhere near 1500 species (Cleaveland et al., 2001; Tayloret al., 2001), especially if some of these species acquired the capacity for pathogenicity as a consequence of natural evolution or bioengineering.

## Econ DA

### Manufacturing PIC

#### The Government of Brazil should require that all employers except those in the manufacturing sector pay a living wage

#### The counterplan solves most of the aff while avoiding the econ disad.

#### The counterplan is key to growth – Brazil is headed on the right track now, but growth is tenuous – including the plan derails Brazil’s growth

WEF 12 [(World Economic Forum) “CEO Policy Recommendations for Emerging Economy Nations” from the Future of Manufacturing Report] AT

From a policy perspective, the country’s recently announced Brasil Maior (Bigger Brazil) industrial plan is expected to create favourable tax advantages for Brazilian manufacturers, as well as reduce lending and energy costs. Under the plan, the Brazilian government hopes to address a set of fiscal, legal, financial and infrastructure obstacles, commonly referred to as the “Brazil Cost”, that have undermined the competitiveness of Brazilian companies within the domestic market as well as the ability of importers and exporters to deal with international competition.12 12 The World Cup and Olympics are expected to accelerate the planned infrastructure improvements and bring in foreign investment, which will likely have a positive influence on improving the country’s manufacturing industry and competitive position.13 Brazil is one of the few countries with a sufficiently large natural resource base coupled with a relatively advanced research infrastructure. This places the country in a unique position to capture more profitable stages of the value chain through the use of alternative energies that are ecologically sustainable – something noted as critical by the executives participating in the interviews. 13 Many executives said the current administration in Brazil is headed in the right direction, noting specifically how policies are now creating an aura of competitiveness, improving the quality of basic infrastructure and working to face the high cost issue. This sequence, many said, generates a positive growth potential to enter into the global economy. They also mentioned that Brazil could not “walk alone” on this journey and needed to work closely with other nations, noting the potential negative impact on Brazil resulting from the crisis in the Eurozone and slower growth in China. Costs, however, were frequently cited by executives as a concern. Specifically, many executives said that labour costs pose a significant competitive disadvantage. Despite the tax improvements outlined in the Brasil Maior industrial plan, many also said that Brazil’s high corporate tax rate hampers the competitiveness of Brazilian companies and the country’s attractiveness for foreign investment coming from North America, China and South Korea.

continues

Simplify the tax system and reduce the tax burden on corporations Executives participating in the discussions almost unanimously expressed concern with the tax system in Brazil and the negative impact that both its complexity and costs have on competitiveness. While all applauded policy improvements over the past three years, many still considered the tax system as a critical area that needs additional focus. Executives broadly discussed challenges of interpreting and complying with Brazil’s complex tax structure. They also expressed concern with current labour policies that place a high tax burden on employers. Although many applauded the recent improvements in tax-related labour policies that provided an exoneration of payroll tax (and said the initiative was a step in the right direction), almost all believed that in the long term, current “archaic” legislation would also need to be addressed. Many executives said the ripple effect of current labour policies is perhaps the most negative consequence impacting competitiveness. Specifically, executives cited labour laws that require hiring and the resulting tax burden placed on employers in their efforts to comply with those labour policies. Executives outlined a number of recommendations they believe would improve Brazil’s tax system and lower the country’s high tax burden – thereby improving Brazil’s overall global competitiveness.

### 2NR A2 Solvency Deficit

#### The disad outweighs the solvency deficit. Manufacturing has a higher stake in the country’s economic GROWTH than in Brazil’s wage earners

Britannica No date [“Brazil”] AT

Manufacturing accounts for about one-fifth of the GDP and more than one-tenth of the labour force. With few exceptions, the Southeast contains the largest, most varied, and most efficient establishments in every sector of industry. It also employs three-fifths of the country’s industrial workers, who earn most of Brazil’s wages and produce the largest value of its goods. The South employs more than one-fifth of the country’s industrial workers, but the Northeast employs roughly half that number, and at lower wages than in the Southeast and South. Within the Southern and Southeastern states, the manufacturing sectors of Paraná, Minas Gerais, Rio de Janeiro, Rio Grande do Sul, and Espírito Santo are increasingly offsetting the industrial strength of São Paulo, which alone produces nearly two-fifths of Brazil’s manufactured goods. Generally speaking, Brazil’s factories are not large; only a few employ a hundred or more workers. As might be expected, the largest firms are in the Southeast, followed by the South.

### 1NC Econ DA

#### Plan tanks Brazil’s manufacturing sector and decreases foreign investment – this reduces Brazilian competitiveness

Moore 12 [(Susanne Moore, Guardian columnist) “Brazil’s Growing Labor Pains” Upenn Jul 11, 2012] AT

Brazil is facing a paradox. Rapid rises in wages and record low unemployment are boosting the country’s middle class and stimulating a consumer boom. But these same wage rises are a major factor in the damage being wrought to manufacturing. A shrinking industrial base has some analysts wondering if Brazil could face so-called “Dutch disease,” where an economy becomes lopsided with commodities exports driving up the currency and reducing overall competitiveness. According to Felipe Monteiro, a Wharton management professor, it’s much too early to draw that conclusion, but it is a possible outcome. Industry chiefs have been complaining vociferously. Benjamin Steinbruch, head of Brazilian steel group CSN, and former head of the powerful Federation of Industries of the State of São Paulo (FIESP), recently noted that it’s cheaper to make steel in high-cost Germany than in Brazil. Industry’s contribution to GDP has wilted. It has fallen to 14.6% of the economy, the lowest level since 1956, from a high of close to 30% in the mid 1980s, according to the Brazilian Institute of Geography and Statistics (IBGE), part of the Ministry of Planning, Budget and Management. That means Brazilian industry is failing to cash in on a consumer boom that is seeing spending rise across the board. There are a number of issues hurting industry, but wages is the one area over which industrialists have most control. FIESP also points to the high real, hefty interest rates, weak logistics and especially elevated taxes, particularly those imposed on labor, as bugbears. Its lobbying has paid off in the first two areas, and the government is trying to improve logistics, although this will take time. The Central Bank has slashed interest rates by 4% to 8.5% since August of last year and indicated more cuts are possible. Real rates are now coming down towards a reasonable 3%. Those interest rate cuts and a series of capital controls have helped dampen the Brazilian currency by discouraging investments in fixed-income markets. The real has fallen close to 30% against the US dollar in the last 12 months to 2.06 on June 22 from 1.60 one year before. President Dilma Rousseff is also increasingly using protectionist measures, such as renegotiating a deal with Mexico for free trade in cars and parts. Minimum Wage and Market Forces While these areas are being addressed, wages and the related costs continue to soar. Labor costs themselves are being driven by two factors: market forces and government policies. Brazilhas urgently needed higher minimum wages to correct wealth distribution in what is one of the world’s most unequal societies. The minimum wage has been raised some eightfold over the 16 years from 1994 to 2010, says José Márcio Camargo, professor at the Pontifical Catholic University in Rio de Janeiro. Increases are now mandated in a move introduced by former President Luiz Inácio Lula da Silva. The mechanism indexes the minimum wage at inflation, plus Brazilian GDP growth recorded two years previously, he notes. This locks in gains permanently and is irreversible, leaving little on the table for owners of capital, analysts note. The wage was raised again by a hefty 13% to R$622 at the start of this year, thanks to GDP growth of 7.5% in 2010. The minimum wage mechanism has a disproportionate effect on the economy, because it is widely used as a benchmark for a host of other payments. According to Marcelo Neri, professor atFundação Getúlio Vargas (FGV), the minimum wage greatly affects municipalities, where pay levels are low, and is used to calculate about 60% of social security and insurance and non-contributory pensions, including for the disabled and elderly poor. Rises in the minimum wage also have a cultural effect, as middle class Brazilians tend to measure their salary as a multiple of it and are trying to keep up with these rises. This year, average nominal salaries are expected to increase in Brazil 7.4%, 2.2% above the IMF’s predicted inflation rate of 5.2%, according to a survey undertaken by consultant ECA International. Higher wages are responsible for expanding Brazil’s C class, those earning between R$1,064 and R$4,561 per month, which now accounts for 105.5 million Brazilians, according to FGV, which compiles statistics on spending and produces the distinctions between spending ‘classes’. The average wage in Brazil was R$1,202 last year, according to the IBGE. In a couple of years, a further 13 million Brazilians are likely to join the C class, an increase of 12%. These are the very consumers that industry needs tosell to. Workers in this group are also increasingly seeking extra benefits such as health plans and payment towards education, say businessmen, creating further pressures. Meanwhile at the executive level, Brazil has become one of the most attractive places to be employed in the world. In Mercer’s widely used global remuneration comparison survey, which analyses salaries of 807 executives in 40 countries working for leading companies with sales of at least $1 billion, Brazil has the highest paid executives. Brazilian company heads working for top international firms earn an average of R$5.16 million, compared to the overall survey average of R$2.17 million. Heads of leading domestic Brazilian companies earn R$6.81 million against an average of R$5.18 million overall. The survey also found that Brazil has some of the most aggressive bonus practices in the world, which represent 68% of total remuneration compared to 55% for the world average. There are few signs that this era of higher wages is coming to an end, with continued wage pressure at both the top and bottom end. At middle and higher levels, a significant shortage of talent helps explain wage increases. According to the Organisation for Economic Co-operation and Development (OECD), Brazil has one of the lowest levels of higher education in the industrialized world: Just 11% of adults can boast tertiary-level qualifications. Not surprisingly, they find jobs easily, and in this group 85.6% are employed, a substantially higher figure than the OECD average. At the bottom, the mechanism to raise the minimum wage will not be altered through 2015, says Alessandra Ribeiro, head of economic analysis at consulting firm Tendências Consultoria in São Paulo. The Ministry of Planning is predicting further large wage increases: Its latest Budgetary Directive Law, which outlines estimated spending, predicts that the minimum wage will be up at R$803.93 by 2015, a rise of 29.4% from today. Meddling with the increases in minimum wage is political poison, and there is almost no political opposition to the increase mechanism, which has very positive effects, such as reducing inequality and stimulating consumption, says Camargo. Instead, there is pressure for flexibility to allow occasional top-ups, he notes. The labor market is tight, as evidenced by very low unemployment and very high levels of turnover, says Ribeiro. Over the longer-term, unemployment has been falling steadily and was at 5.6% in February of this year compared to 12.6% at the end of 2002, although it has ticked up slightly since the end of the year when it reached a record low of 4.7%. “Unemployment is close to its natural level. This is putting pressure on wages with companies having to pay to hire and pay to retain,” she notes. Another feature of this super-heated jobs market is high turnover. In construction, one of the most heated sectors in the economy, for example, there are stories of chaotic poaching, says Monteiro. Trucks from one company are going to rival’s sites to hire workers, offering an immediate raise and securing workers, he notes. High wages are compounded by excessive social costs and high taxes. Direct and indirect taxation, including social contributions as well as industrial taxes that can be levied all along the productive chain, make Brazil a complex market for business to negotiate. Depending on the industry and size of the company, benefits can nearly double the cost of each worker, says Luiz Claudio, a partner in the project finance area of Ernst & Young Terco in Rio de Janeiro. Monteiro, who meets many Brazilian CEOs and senior managers, says the issue of wages and shortage of talent has risen to the top of the agenda for these businessmen. “In the past, the questions used to be about the macroeconomic situation or inflation. Today, it’s all about wages and finding talent.” The cost of labor is a significant factor in the low levels of competitiveness of Brazilian manufacturing, adds Ribeiro. The large increase in salaries has not been accompanied by productivity gains, and industry can’t pass on cost increases to consumers, thanks to foreign competition. This exposure to competition from overseas products is peculiar to manufactured goods. The non-tradable service sector continues to grow fast, says Ribeiro. Indeed, the growing middle class is increasingly setting up business in service, which is growing rapidly as a proportion of the economy. Brazilians are starting up businesses in areas such as beauty (the country is the world’s third biggest spender on beauty products after the U.S. and Japan), fast food outlets and car maintenance to serve Brazil’s massively growing fleet. Brazilian auto sales rose 2.9% to a record 3.4 million units in 2011, according to Automotive Vehicles Distribution National Federation (Fenabrave). Equally, Brazil’s booming agrobusiness has ridden higher wages well. While wage costs have increased substantially, the industry has been able to compensate by increasing production rapidly, for example through mechanization of harvesting. That is enabling agribusiness to outpace the rise in wages, says Ribeiro. Manufacturing, however, is bearing the full weight of higher wages and a higher currency and is at the mercy of globalization. According to the Brazilian Institute of Applied Economic Research (IPEA), part of the Secretariat of Strategic Affairs of the President, Brazil’s manufacturing industry has substantially lost productivity, calculated by dividing the number of hours worked by the number of workers. Over the last 30 years, productivity in Brazil has fallen 15%. That compares to a gain of 808% in China over the same period. Already, close to 20% of industrial goods consumed in Brazil are produced outside the country, according to a study undertaken by the National Confederation of Industry (CNI). That is a record, as is the 21.7% of foreign inputs that went into Brazilian manufactured goods in 2010. Wages are going up even faster in U.S. dollar terms, thanks to the long-term appreciation of the real, which may be down over one year but is up over five- and 10-year periods, while Brazil also has higher inflation than most of the developed world. The Economist’sBig Mac index shows that a burger in Brazil costs $5.68 today — 32% higher than the U.S. average of $4.20. Foreign direct investment (FDI) remains strong and hit a record of $66.7 billion dollars in 2011, according to data from the Central Bank of Brazil, up from $48.5 billion the previous year. But some see it slowing. Ribeiro believes some overseas companies, particularly in manufacturing, are starting to think twice before jumping into Brazil. “A strong currency, high taxes, weak infrastructure and high wages and related labor costs are making it very expensive to produce in Brazil. This is leading foreigners to consider other countries in the region,” she says. Look Overseas In the absence of deep structural reform on taxation, labor practices and logistics, what can Brazil do to try and boost productivity? One way might be to alleviate the labor shortage by allowing in skilled migrant workers. Recruiters report that they are inundated with resumes from Spanish and Portuguese nationals, but rarely hire them thanks to visa restrictions. The government has contemplated issuing more temporary work visas for foreign nationals, but this is another political hot potato, and analysts are divided over whether it might really come to pass. “You could increase the supply of labor by allowing in more overseas workers from Europe and the U.S.; this would help the work shortage situation. But there is no political will for this,” says Ribeiro. Monteiro agrees that in the short term, it is hard to envisage flexibility from the government on this, but sees changes as inevitable in the longer term because the education system will take years to produce the needed engineers, IT professionals and administrative professionals. It’s not only the government that is to blame for the sorry state of industry. Brazilian companies have failed to look at and adopt best practices from overseas, and many are very behind on benchmarking, says Monteiro. Their Korean, Japanese and Chinese counterparts are very aware of international trends and strive to adopt them, whereas companies in São Paulotend to be very inward looking, he points out. Given the inflexibilities in Brazil and this tendency to naval gaze, Brazilian industry has reacted to its own demise by seeking protection and selected tax breaks, and has found a receptive ear. The further use of directed tax breaks for various sectors will continue, but the moves are likely to be piecemeal, predicts Ribeiro. “In our evaluation, there is no political will to carry out a more profound tax reform – this agenda does not exist. The policies are very specific,” she says. And there is only so much that can be done on interest rates without rekindling inflation. It’s too early to write off Brazilian industry, and the country remains one of the most feted investment destinations in emerging markets, analysts agree. But there are gnawing fears that a continued retreat of industry could lead to a lopsided economy — one that is dominated by minerals, oil and gas, and that imports consumer goods. “We’re not coming to Brazil to make losses,” said BMW’s manager for production in March, hinting that the company may not proceed with a new plant planned for Brazil. That reticence may be a sign of things to come.

#### Brazilian economy is key to its regional influence, which solves regional security and instability

Bethell 10 [(Leslie, senior scholar at the Woodrow Wilson Center)“Brazil as a regional power: views from the hemisphere” Latin America Program Brazil Institute] AT

Over the last decade, Brazil has played an increasingly prominent role in both hemispheric and global affairs. The examples abound: since 2004, Brazil has led the United Nations Mission in Haiti (MINUSTAH), played a central role in the 2009 Honduran crisis, and was instrumental in the creation of both the Union of South American Nations (UNASUR) and a new forum of Latin American and Caribbean countries. Brazil’s economic performance surely plays a role in the country’s enhanced regional and global quest for leadership. Now the 8th largest economy in the world, Brazil’s GDP has expanded at an average rate of 4.2 percent since 2003 and is expected to grow at an even higher rate over the next decade.1 By the end of 2009, Brazil’s economy represented 40 percent of the total Gross Domestic Product (GDP) of Latin America and the Caribbean, and 55 percent of the GDP of South America alone.2 Brazil’s rise is reflected in its involvement on critical issues of global governance such as climate change, reform of the international financial architecture, food security, commodities trading, and international security; in the latter category was the Brazilian government’s controversial attempt, along with Turkey, to broker a deal between Teheran and the five permanent members of the United Nations Security Council over Iran’s nuclear program.

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Andrew Hurrell, Montague Burton Professor of International Relations at Oxford University, looked at the more recent history of Brazil’s foreign relations; he argued that, beginning with Cardoso and quickening with Lula, the perception has grown that Brazil has finally assumed its place as global and regional leader. However, this rise to leadership was neither historically obvious, not is it unqualified. Unlike Zaluar and Spektor, Hurrell noted that, for a long time, it was not at all clear that Brazil would emerge as South America’s leader. Despite its internal unrest, Argentina remained an economic and military power throughout the 1970s. Up into the 1980s, Brazil accounted only for about one third of South America’s gross domestic product; it was not until later on that Brazil’s economy expanded to account for roughly 60 percent of the region’s GDP. Politically, the crucial change came with the political and strategic rapprochement with Argentina in the 1980s, which was reinforced and consolidated by the economic success of Mercosur in the 1990s. Hurrell pointed to important elements of continuity between the policies of the Cardoso and Lula administrations with respect to the region It was the Cardoso government that spoke of Mercosur as Brazil’s ‘destiny’; that increased Brazil’s involvement in regional support for democracy and conflict management (as with the Peru-Ecuador conflict); and that stressed the importance of South rather than Latin America. But the scope and intensity of Brazil’s regional involvement increased under Lula, alongside an increase in expectations over what Brazil could and should achieve. Mercosur was re-launched, the Union of South American Nations (UNASUR) was developed, and regional infrastructure activity increased—by 2008 there were over 500 infrastructure projects planned or in the works, totaling almost $70 billion. Alongside this greater dynamism have been signs of a growing awareness that, as a regional power, Brazil must pay greater attention to the needs and wants of its smaller neighbors; there has also been a historically significant shift in the country’s willingness to become more involved multilaterally in regional security issues (as with Haiti and the South American Defense Council). There are real limits to what Brazil has been able to achieve, however, noted Hurrell. The country lacks the economic resources to engage in the large-scale provision of regional public goods; its military power remains limited; domestic political opinion on whether the country should play a more assertive regional role is divided; and it has found it difficult to cultivate ‘followership’ in the region and a broad acceptance of its role on the part of other regional states. Brasília can only lead if and when its neighbors agree to follow. Brazil’s attitude toward regional institutions also remains ambivalent. On the one hand, institutions are potentially important for Brazilian leadership, by structuring interactions, setting agendas, and embedding its ideas within ￼regional institutions. On the other hand, regional institutions are weak: Mercosur is arguably less coherent and effective than it was in the 1990s and many of the new institutions are underdeveloped, in no small part due to Brazil’s continued reluctance to bind itself to international institutions that would restrict its autonomy. However, in contrast to earlier periods, Brazil cannot escape from deeper involvement in the region and its problems, above all because of the increased density of regional links and forms of interdependence. Thomaz Guedes da Costa, professor of Nation- al Security Affairs at the National Defense University, noted that whether Brazil’s perception of itself within the Western hemisphere will be characterized by continuity or change does not necessarily depend on who wins the October 2010 presidential election. Much will depend on how others perceive Brazil and its role in the inter-American and global systems. Since at least the late 1970s, there has been remarkable continuity in Brazil’s grand strategy for growth and development—pursuit of the aerospace, nuclear, bio-technology, agriculture, mining, oil, and ethanol industries—as well as the desire to become a “rule-maker” in the international system. Guedes da Costa noted that the generation of Brazilian de- cision-makers (“the class of ‘79”) and bureaucrats currently in power were socialized during the period of disappointment with the United States noted by Zaluar and Spektor and of perceived constraints created by technology export control regimes of advanced countries. In past decades, Brazil has sought to match economic influence with a prominent role in security affairs. It promotes itself as a power broker and as a moderating actor. It aims to produce changes in the international system. For instance, it portrays itself as a country that should represent the aspiration of developing countries in an eventual reform of the United Nations Security Council. Brazil has looked to Germany, Russia, China, and France, among others, to pursue strategic partnerships to enhance its assertiveness and national security goals, in spite of U.S. concerns. But decisions are also ambiva- lent and have unintended consequences, especially when Brazil moves to play the major powers’ game. Its nuclear policy is ambivalent. Guedes da Costa argued that under the intricate bilateral and multilateral non-proliferation measures negotiated earlier with Argentina and with the International Atomic Energy Agency, Brazil would likewise have benefited by staking its own ground in the realm of nuclear power, by declining to sign the Nuclear Non-Proliferation Treaty (NPT). Signing the Treaty in 1997, he said, may have been a stra- tegic mistake. The diplomatic payoff was less than the commercial and technological gains. Measured in terms of post-Cold War realpolitik, Guedes da Costa maintained that Brazil’s political status was not enhanced as a result of its decision to join the Treaty. Brazil’s position contrasts with that of India, a non-signatory of the NPT, which reached a nu- clear agreement with the U.S. government during the George W. Bush administration; the agreement includes transfer of technology. In the view of foreign policy advisers in the Lula government, Brazil’s earlier decision now threatens the country’s ability to enrich and share nuclear fuel unless it observes the NPT Additional Protocol, which the country has already announced it will not sign. Brazil and South America Brazil’s role of regional leader in South America is not undisputed. As noted by Latin American Program director Cynthia Arnson, while smaller states such as Bolivia may be inclined to accept Brasília’s leadership, larger neighbors have chal- lenged Brazil’s hegemony either openly or dis- creetly. Hugo Chávez has sought to expand Ven- ezuela’s influence in the region but has found ways to exploit Brazilian leadership to advance his own interests. At the same time, historic ri- valries with Argentina have complicated Brazil’s would-be hegemony in the Southern Cone, and 6 ￼￼Colombia’s strong ties with the United States serve to diminish Brazilian influence there. To delve further into some of these questions— including whether Brazil is a regional leader, acts like a regional leader, and is perceived as a regional leader—the second panel explored Brazil’s growing role in South America as well as the varied South American responses to more assertive Brazilian leadership. Michael Penfold, associate professor at the Institute for Advanced Studies in Administration (IESA) in Caracas, argued that Venezuela has not directly challenged Brazil’s increasing leadership activity within South America, but rather, has found ways to benefit from the country’s lead- ership. In the last decade, several regional and international changes worked to Brazil’s benefit and helped paved the way for its more active role in contemporary South American politics. First, in terms of economic growth and development and trade integration, the region is in a much improved situation as compared to the 1990s. This worked to Brazil’s favor, as the country was best positioned to take advantage of the economic upswing: Brazil is among the most important foreign direct investors in Latin America today and Brazilian firms are among the most active investors throughout all Latin America. Second, for a variety of reasons Mexico plays a far less active role in Central America than it did in the 1990s, and Brazil adeptly took advantage of the ensuing vacuum. Third, in the last decade the United States likewise has exerted far less influence and has been far less of a presence in the region. This likewise opened up space for Brazil to expand its own influence. Finally, the polarization around market economic reforms and the emergence of a new social agenda worked to Brazil’s benefit as well. The country has embraced and promoted a number of pragmatic social policies to its receptive neighbors.

#### Latin American instability causes genocide, poverty, and extinction

Manwaring 5 (Max G., Retired U.S. Army colonel and an Adjunct Professor of International Politics at Dickinson College, venezuela’s hugo chávez, bolivarian socialism, and asymmetric warfare, October 2005, pg. PUB628.pdf)

President Chávez also understands that the process leading to state failure is the most dangerous long-term security challenge facing the global community today. The argument in general is that failing and failed state status is the breeding ground for instability, criminality, insurgency, regional conflict, and terrorism. These conditions breed massive humanitarian disasters and major refugee flows. They can host “evil” networks of all kinds, whether they involve criminal business enterprise, narco-trafficking, or some form of ideological crusade such as *Bolivarianismo.* More specifically, these conditions spawn all kinds of things people in general do not like such as murder, kidnapping, corruption, intimidation, and destruction of infrastructure. These means of coercion and persuasion can spawn further human rights violations, torture, poverty, starvation, disease, the recruitment and use of child soldiers, trafficking in women and body parts, trafficking and proliferation of conventional weapons systems and WMD, genocide, ethnic cleansing, warlordism, and criminal anarchy. At the same time, these actions are usually unconfined and spill over into regional syndromes of poverty, destabilization, and conflict.62 Peru’s *Sendero Luminoso* calls violent and destructive activities that facilitate the processes of state failure “armed propaganda.” Drug cartels operating throughout the Andean Ridge of South America and elsewhere call these activities “business incentives.” Chávez considers these actions to be steps that must be taken to bring about the political conditions necessary to establish Latin American socialism for the 21st century.63 Thus, in addition to helping to provide wider latitude to further their tactical and operational objectives, state and nonstate actors’ strategic efforts are aimed at progressively lessening a targeted regime’s credibility and capability in terms of its ability and willingness to govern and develop its national territory and society. Chávez’s intent is to focus his primary attack politically and psychologically on selected Latin American governments’ ability and right to govern. In that context, he understands that popular perceptions of corruption, disenfranchisement, poverty, and lack of upward mobility limit the right and the ability of a given regime to conduct the business of the state. Until a given populace generally perceives that its government is dealing with these and other basic issues of political, economic, and social injustice fairly and effectively, instability and the threat of subverting or destroying such a government are real.64 But failing and failed states simply do not go away. Virtually anyone can take advantage of such an unstable situation. The tendency is that the best motivated and best armed organization on the scene will control that instability. As a consequence, failing and failed states become dysfunctional states, rogue states, criminal states, narco-states, or new people’s democracies. In connection with the creation of new people’s democracies, one can rest assured that Chávez and his Bolivarian populist allies will be available to provide money, arms, and leadership at any given opportunity. And, of course, the longer dysfunctional, rogue, criminal, and narco-states and people’s democracies persist, the more they and their associated problems endanger global security, peace, and prosperity.65

### Brink Ev

#### Brazil’s economy is on the brink – Petrobas corruption scandal, weak currency, and bad credit

Nardelli 3/6 [Alberto Nardelli (Data Editor at The Guardian), “The noise from Brazil? An economy on the brink,” The Guardian, 3/6/2015] AZ

Second, next to rising prices, the real is sinking. Despite the rate increase, Brazil’s currency hit R$3 to the US dollar on Wednesday for the first time in more than a decade. This puts further pressure on prices: the cost of imported goods goes up – more bad news for shoppers. The foreign outlook isn’t much rosier Across the Atlantic, many proponents of a Greek exit from the euro argue that the reintroduction of a domestic currency would allow for devaluation – and this in turn would boost exports. It’s economics 101, they say. Under textbook circumstances it would be safe to assume that, broadly speaking, a weak currency does indeed aid exports. Things are a little more complicated in a global economy. According to The Economist, nearly half of Brazil’s exports are bought by five countries — China, the US, Argentina, the Netherlands and Germany - and [average GDP growth in these countries has now halved compared to 10 years ago](http://www.economist.com/news/finance-and-economics/21645248-brazils-fiscal-and-monetary-levers-are-jammed-result-it-risks-getting-stuck). Government subsidies are less sustainable One problem that Brazil increasingly shares with many EU countries is debt. [Brazil](http://www.theguardian.com/world/brazil) holds nearly $250bn worth of dollar-denominated debt, up from $100bn just five years ago. A weak real means that the debt-pile is getting more burdensome. Around $40bn of it is due this year alone. Officially, Brazil’s direct public debt is around 65% of GDP - the highest among Bric nations. However, according to the credit ratings agency Moody’s, once indirect debt is factored in, the [figure reaches 100%](http://blogs.ft.com/beyond-brics/2014/12/09/brazils-public-debt-bigger-than-you-think/). This is due to guarantees for state-owned companies. In the first two months of this year,  [Brazilian companies suffered a rating downgrade](http://www.bloomberg.com/news/articles/2015-02-25/the-0-for-27-tally-on-debt-ratings-seen-worsening-brazil-credit). There were zero upgrades. Unable to borrow from private markets, companies need government funding. However, Brazil’s own sovereign credit rating is only a notch above junk, which combined with a weak real, means that borrowing is costly – and getting more so by the day. Spending on interest payments, which amounts to roughly 6% of Brazil’s GDP, already increased 25% last year compared to 2013. [Ten-year bond yields are at 13%](http://www.tradingeconomics.com/brazil/government-bond-yield) – the same level as sanction-hit Russia. In order to finance companies and banks, the [government and government-bank entities often lend at a loss](http://www.ft.com/cms/s/0/c510368e-968e-11e4-922f-00144feabdc0.html). As debt increases, and with interest rates so high, this system of state subsidies becomes more difficult to sustain. No company better exemplifies the direness of affairs than Petrobras, the state-controlled energy giant. Mired in a corruption scandal, which has [engulfed both company executives and high-profile politicians](http://espresso.economist.com/3276f99623a2aab86d5d9e81f4a61706), the company accounts have been frozen and its credit-rating lowered to junk. Petrobras is Brazil’s largest investor, accounting for more than 10% of the country’s investments and employing tens of thousands of people. Even President Dilma Rousseff has gone as far as acknowledging that [the scandal may change the country forever](http://www.bbc.co.uk/news/business-30129184).

### 2NR Brazil Heg Key

#### Brazil Hegemony helps foster regional stability

**Flemes 12** [Flemes and Wehner, 2012 (Daniel and Leslie, “Drivers of Strategic Contestation in South America”, GIGA, accessed on 7/10/13, BT)

The type of regional polarity (unipolarity) and the security order (security community) in which the relationships between Brazil and the region’s secondary powers are embedded have not changed significantly during the last decade. Moreover, historical drivers of contestation are not explanatory factors in this empirical setting given the peaceful past between Brazil and the South American secondary powers. Besides the historical rivalry between Bra‐ zil and Argentina, neither legacies of conflict nor mutual threat perceptions undermine the relationships of the states under consideration. Consequently, it is not likely that the major policy shifts on the part of the secondary powers towards Brazil in the last decade have been based on historical or structural drivers. Before analyzing the causes, and in particular the domestic drivers, of each secondary power’s strategic responses, we highlight Brazil’s for‐ eign policy behavior as a potential cause of contestation. Brazil’s willingness to provide public goods (distributional leadership) differs according to the issue area under consideration. Brasilia is not ready to pay the costs of economic integration, but it is willing do what is necessary to secure regional stability. On the one hand, Brazil has recently been increasing its military spending in order to secure the status of the region’s dominant military power (Flemes 2008). On the other hand, Brasilia provides regional stability through its various mediation engagements and security‐cooperation initiatives. Additionally, Brazil invests in the public goods of regional energy security and infrastructure (Initiative for the Integration of Regional Infrastructure in South America, IIRSA). However, the country is not taking on a great share of the economic integration costs: the re‐ gional power does not support smaller UNASUR members through payments into structural funds. It is true that Brazil forgave the debts of Bolivia and Paraguay in recent years, but its smaller neighbors are demanding that Brazil open its consumer market to their goods. The acceptance of Brazil’s leadership in South America will depend on in addition to the provision of public goods its ability to bridge political and ideological cleavages by way of an ideational leadership project. In this regard, Brasilia is trying to guide the states of the region towards the shared goal of a South American space. Brazilian diplomacy has success fully established a regional consensus on democracy, human rights, development, the eco‐ social market economy and regionalized responses to the challenges of economic globalization (Burges 2008).

#### Leadership in the region solves radicalism and boosts cooperation – economic leverage is the key internal link

Amorim 11 Amorim, Brazils Foreign Minister, 2011 (Celso, “Reflections on Brazil’s Global Rise”, Quaterly America’s, January 31)

More recently, the Brazilian government’s decision to recognize the Palestinian state triggered a series of similar acts by other Latin American countries. The gesture even contributed to some European countries reviewing their stance. Given Brazil’s new willingness to act on the international stage, it is natural that it would raise concern in some quarters. The official and unofficial statements by U.S. authorities have been mostly positive in nature, but the unease is palpable. It is possible that the Brazilian action undertaken with Turkey toward Iran has caused some discomfort in Washington DC. The agreement obliged the U.S. government to explain, not always convincingly, its reasons for refusing an agreement that met all of the points raised in President Obama’s letter to President Lula less than three weeks earlier. But Brazil’s increasing resourcefulness and independence will benefit the United States. On a number of occasions, Brazil’s stance has permitted a consensus that seemed impossible in the face of more radical positions. This was what happened at the Organization of American States (OAS) General Assembly meeting in June 2009 in San Pedro Sula, Honduras, when the decision was made to revoke Cuba’s suspension from the OAS. In other matters, such as Haiti or the conflicts involving Colombia, Venezuela and Ecuador, Brazil’s firm yet sensible position has been a steadying factor that has helped mitigate—if not fully eliminate—tensions and conflicts. Brazil’s influence in the region derives from its own economic and geographic weight, but is also influenced by its role in the international arena.

#### Multiple empirics confirm Brazil’s stabilizing role

Christensen 13 Steen Fryba, prof at Aalborg university “Brazil’s Foreign Policy Priorities”, Third World Quarterly, 34:2, 271-286, taylor and francis, accessed tm 7/15

Brazil has also been active in the security dimension, both regionally and at the global level. At the global level the country has been particularly critical of military interventions by the USA and its partners.46 Brazil defends a multilateral approach to security issues, and furthermore wishes to reform the UN and¶ become a permanent member of the Security Council.47 Throughout the Lula¶ presidency, Brazil sought to situate itself as the key player in South America, thereby marginalising the traditional central role of the USA. Arguably security cooperation is one of the most significant aspects of Unasur**’**s cooperation and¶ of central importance to Brazil**’**s regional and hemispheric geopolitical strategies.¶ Brazil has played an important moderating role in several cases of internal political instabilities, such as the case of Venezuela after the 2002 coup and that¶ of the domestic socio-political instability in Bolivia in 2003.48 Shortly after taking¶ over the presidency in 2003 the Lula government took the initiative to create¶ the Group of Friends of Venezuela, which aimed to stabilise the country¶ politically and protect its democracy.4

### 2NR Manufacturing on Brink

#### Manufacturing is Brazil’s *weakest link*

MercoPress 14 [South Atlantic News Agency “Manufacturing remains the weakest link of the Brazilian economy” March 12th 2014] AT

January's improvement comes just one month after Brazilian industry posted its steepest monthly decline since December 2008. December's industrial production drop from November was revised on Tuesday to an even further 3.7% from 3.5% previously. Manufacturing has consistently been the weakest link in Brazil's commodities-strong economy as companies struggle with competition from abroad, high tax and labor costs, and poor infrastructure. While capital goods production rose 10% in January from December, its base of comparison was low following a 12.2% drop in December, revised down from a 11.6% decline by IBGE on Tuesday. IBGE also revised December's decline from a year earlier to 2.5% from 2.3% previously. Of the 27 industrial sectors surveyed by IBGE, 17 expanded in January from December, including pharmaceuticals, office equipment and machinery. Automobile production rose for the first month in four, climbing 8.7% from December as workers returned from collective vacations. In broader industrial categories, consumer goods rose 2.3% from December while intermediate goods advanced 1.2%.

### 2NR Dutch Disease Cards [wip]

#### Dutch disease leads to inflation and competitive sector industry trade off within international markets-hampering global competition within other industries

Jahan-Parvar, East Carolina University economics professor, & Mohammadi, Illinois State University economics professor, 11

 (Mohammad R., Assistant Professor, Department of Economics, East Carolina University and Hassan, Professor, Department of Economics, Illinois State University, Fall 2011, The Journal of Developing Areas, Volume 45, Single Issue, Published by Tennessee State University College of Business, “Oil Prices and Real Exchange Rates in Oil-Exporting Countries: A Bounds Testing Approach,” P.309-310, Accessed: 7/13/13, LPS.)

The sharp increase in oil prices over the past decade has renewed interest in the “Dutch disease” hypothesis. According to the hypothesis, the inflow of oil windfalls into an oil exporting country may cause appreciation of the real exchange rate, reduce its competitiveness in the non-oil exporting sector, and limit its ability to build a diversified exports base. The culprit for the disease is the “spending effect”. More specifically, higher oil income may increase the demand for non-traded goods, and increase their prices relative to those of traded goods. This appreciation of the real exchange rate will reallocate resources from the non-oil traded sector into the non-traded sector, contracting the former to the extent that it is exposed to international competition. Early literature on the subject includes Dornbusch (1973), Gregory (1976), Forsyth and Kay (1980), Corden (1984), Corden and Neary (1982), Buiter and Purvis (1982), Bruno and Sachs (1982), Eastwood and Venables (1982), Enders and Herberg (1983), Edwards and Aoki (1983), Edwards (1986), van Wijnbergen (1984). More recent studies include Gylfason (2001), Torvik (2001), and Stevens (2003).1

#### Dutch Disease has a severe impact on GDP – Most comprehensive studies conclude neg

Ross, Assistant Professor of Political Science at the University of Michigan, Ann Arbor, ‘99

(Michael L., Assistant Professor of Political Science at the University of Michigan, Ann Arbor. His forthcoming book is on the impact of commodity booms on state institutions; it includes case studies of the Philippines, Indonesia, and Malaysia, 1999, World Politics The Johns Hopkins University Press. “The Political Economy of the Resource Curse,” <http://muse.jhu.edu/journals/world_politics/v051/51.2er_karl.html#astnote>, P.300, Accessed: 7/13/13, LPS.)

The most comprehensive study to date, however, now paints a gloomier picture. Jeffrey D. Sachs and Andrew M. Warner in *Natural Resource Abundance and Economic Growth* examine ninety-seven countries over a nineteen-year period, using regression analysis to measure the impact of mineral and other resource exports on gdp growth. Their study shows that states with a high ratio of natural resource exports to gdp in 1971 had abnormally slow growth rates between 1971 and 1989. The correlation remained significant even after the authors controlled for a wide range of growth-related variables, including initial per capita income, trade policy, investment rates, region, bureaucratic efficiency, terms-of-trade volatility, and income distribution. [7](http://muse.jhu.edu/journals/world_politics/v051/51.2er_karl.html%22%20%5Cl%20%22FOOT7) What accounts for this effect? **[End Page 300]**

#### Dutch disease causes exogenous shocks-multiple countries prove

Jahan-Parvar, East Carolina University economics professor, & Mohammadi, Illinois State University economics professor, 11

(Mohammad R., Assistant Professor, Department of Economics, East Carolina University and Hassan, Professor, Department of Economics, Illinois State University, Fall 2011, The Journal of Developing Areas, Volume 45, Single Issue, Published by Tennessee State University College of Business, “Oil Prices and Real Exchange Rates in Oil-Exporting Countries: A Bounds Testing Approach,” P.310, Accessed: 7/13/13, LPS.)

Despite a great deal of theoretical work on mechanisms of Dutch disease, formal empirical work on the subject has received limited attention. Furthermore, available evidence is not conclusive. Edwards (1984) finds that exogenous shocks to world price of coffee have monetary and inflationary effects on the Colombian economy. Taylor et al. (1986) finds a negative relation between Nigerian agricultural exports and its oil export revenues. Warr (1986) concludes that higher oil revenues enabled the Indonesian government to defer the much-needed currency devaluation in the 1970s, and were the primary source of subsequent financial problems. Brunstad and Dyrstad (1997) find significant demand and cost-of-living effects following the intensive build up period of the Norwegian petroleum sector, suggesting that Norwegian petroleum sector has been the culprit for the country’s weak manufacturing performance. In contrast, Bjorland (1998) finds evidence of weak response in UK’s manufacturing but positive and significant response in Norwegian manufacturing in response to oil and gas sector shocks. Hutchinson (1994) finds that developments in oil and natural gas sectors of the Netherlands, UK, and Norway had no significant effects on manufacturing sectors of these economies, and thus there is no support for the Dutch disease hypothesis. Jahan- Parvar and Mohammadi (2009) study the potential loss of competitiveness due to higher oil prices in a sample of six oil producing countries using a dynamic simultaneous equations method, and find weak evidence for the monetary channel of Dutch disease. This paper provides a formal test of the Dutch disease hypothesis by examining the possibility of a long-run relationship between real oil prices and real exchange rates in monthly data for a sample of fourteen oil exporting countries. Our empirical results using the “autoregressive distributed lag” (ARDL) model of Pesaran, et al. (2001) reveal the existence of stable long-run relationship between real oil prices and real exchange rates across all fourteen countries. Furthermore, analysis of the short-run dynamics reveals the existence of unidirectional causality from oil prices to exchange rates in four countries, from exchange rates to oil prices in two countries, bidirectional causality in four other countries, and no causality in the remaining four countries.

## Case Solvency

### Employment

#### The plan reduces employment

Lemos 4 [(Sara, lecturer at University of Leicester and IZA Bonn) “The Effects of the Minimum Wage in the Formal and Informal Sectors in Brazil”] AT

The limited evidence for Latin America suggests that the compression effect is a lot stronger in developing than it is in developed countries, and as a result, adverse employment effects are also stronger (Reynolds and Gregory, 1965; Rottenberg, 1981; Corbo, 1981; Gregory, 1981; Castillo- Freeman and Freeman, 1992; Bell, 1997; Lora and Henao, 1997; Villarreal and Samaniego, 1998; Feliciano, 1998; Gindling and Terrell, 2001; El-Hamidi and Terrell, 2001; Angel-Urdinola, 2002; Cowan et al., 2003; Maloney and Mendez, 2003; Montenegro and Pages, 2004). However, more evidence is needed to confirm this reading. That is because there are very few point estimates to rely on, the variance across the range of estimates is high (due to substantial institutional differences across countires), and the estimates might not be directly comparable. For example, although the evidence for Brazil also suggests that the minimum wage strongly compresses the wage distribution, it suggests a small adverse employment effect (Velloso, 1988; Carneiro and Faria, 1998; Carneiro and Hanley, 2001; Barros and Lemos, 1998; Neri, 1997; Carneiro, 2000 and 2002; Foguel et al., 2000 and 2001; Corseuil and Morgado, 2001; Fajnzylber, 2001; Soares, 2002; Corseuil and Servo, 2002; McIntyre, 2002; Neumark et al., 2003; Lemos, 2004). The studies that estimate minimum wage effects across sectors report larger wage effects for the informal than for the formal sector, and mixed employment effect evidence, which was found to be negative in both sectors (Fajnzylber, 2001; Foguel, 1997), and was also negative in the formal and positive in the informal sector (Carneiro; 2000).

continues

There is very little evidence on the effects of the minimum wage in developing countries and in particular on these effects on the formal and informal sectors of such countries. The informal sector is not only large and overpopulated by minimum wage workers in Brazil, but it is also where most of the poor workers are. Extending the understanding of minimum wage effects both in developing countries and in particular in the informal sector is crucial if the minimum wage is to be used as a policy to help poor people in poor countries. This paper estimates wage and employment effects in both the formal and informal sectors for a key developing country, namely Brazil. The minimum wage was found to compress the wage distribution of both sectors. The compression effect extends higher in the informal sector wage distribution, but it is stronger at the bottom of the formal sector distribution. This suggests that the minimum wage redistributes in favour of the poorer in both sectors, but that it redistributes in favour of those in the very bottom of the distribution in the formal sector, while it redistributes more widely in favour of those in the half bottom half of the distribution in the informal sector. Consistent with the presence of a spike, spillover effects, and the associated compression effect in both sectors, employment was found to decrease in both sectors. Negative employment rate effects (jobs effects) were found to be negative in both sectors – stronger in the informal sector – and aggregate unemployment rate effects was found to be positive. The compression effect together with the disemployment effect of the minimum wage in the informal sector in Brazil is the novelty here. This suggests a downwards sloping labour demand curve in both sectors, challenging the standard Two Sectors Model as inadequate to explain the effect of the minimum wage on the formal and informal sectors in Brazil and in Latin America more generally.

#### Prefer this evidence – multiple empirics confirm and standard models don’t apply

Lemos 4 [(Sara, lecturer at University of Leicester and IZA Bonn) “The Effects of the Minimum Wage in the Formal and Informal Sectors in Brazil”] AT

Although the above evidence on wages (see Section 3) and employment effects (see Section 4) is in line with previous empirical evidence for Brazil and for other developing countries, it is not in line with theory. The standard Welch-Gramlich-Mincer Two Sector Model major’s prediction, following a minimum wage increase, is that the uncovered sector wages fall as a result of covered sector displaced workers moving into uncovered sector employment. It follows that, in the uncovered sector, a spike should not be observed in the wage distribution and the labour demand curve should not be downwards sloping (Welch, 1976; Gramlich, 1976; Mincer, 1976). These predictions do not hold for Brazil. A sizeable spike, as well as substantial spillover effects and strong compression effects, are observed in both sectors. Furthermore, employment rate effects (job effects) are negative in both sectors and unemployment rate effects are positive. This suggests a downwards sloping labour demand curve in both sectors, challenging the standard Two Sectors Model as inadequate to explain the effect of the minimum wage on the formal and informal sectors in Brazil and in Latin America more generally. The predictions of the Two Sectors Model follow from the assumption of non-coverage. The Brazilian informal market suffers from non-compliance, not non-coverage. That is the key difference between the US and the Brazilian literature on uncovered and informal sector minimum wage effects. Informal sector wages and employment need not respond to an increase in the minimum wage in the same way that uncovered sector wages and employment respond. Maloney and Mendez (2003) question the validity of the standard Two Sector Model to explain the formal and informal sector in Latin America. Barros et al. (1997) discuss both the Cloistering Effect and Lighthouse Effect and conclude that the second dominates the first in Brazil. The first one predicts negative effects on wages below the minimum wage, within the standard Welch-Gramlich-Mincer Two Sector Model, whereas the second one predicts positive effects on wages, even on those below the minimum wage (Souza dn Baltar, 1979 and 1980). Mincer (1976) notes that the prediction of falling uncovered sector wages is not robust to alternative assumptions on sectoral choice and unemployment. Edwards and Lustig (1997) argue that the Harris-Todaro prediction of fall in uncovered sector wages depends on various elasticities, in particular on the labor demand elasticity (Haris and Todaro, 1970). Card and Krueger (1995) show that the uncovered sector wages rise (and employment falls) if the covered sector labour demand curve is relatively inelastic. The labour demand curve for the industry (mainly formal sector firms) in Brazil is fairly inelastic (Barros et al., 2001).