

Work, law, and labor market structure

Insights from regulatory changes in Brazil

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Context - Trends in Labor Market

- Employment relationships are being reshaped by the rise of the gig economy, the proliferation of remote work, and the evolving dynamics of contemporary labor market.
- Although increasing market flexibility and efficiency, this trend has introduced new risks.
- Most of the challenges faced by short-term or temporary workers are the same as those faced by workers in the informal sector.

Context - Labor Law Changes in Brazil

Brazil stands out as a relevant case study, implementing a two-pronged legal strategy focused on encouraging formalization and increasing labor market flexibility.

MEI Law - 2008

- MEI is defined as a person who works for herself and is legalized as a small business owner.
- Designed to simplify the formalization process for self-employed workers, **while granting access to social security benefits.**

Labor Reform - 2017

- More flexible working arrangements.
- **The reform enhanced legal certainty for firms engaging in outsourcing, including core business activities.**

Hypothesis

1. **The initial hypothesis under investigation is that the flexibilization of labor laws promoted by the 2017 Labor Reform had a significant impact on labor outsourcing.**
2. **The second hypothesis poses that the effect of the law on firm outsourcing varies based on the type of economic activity carried out.**
3. **Our third hypothesis is that the characteristics of the regional labor market, may influence the extent to which firms adopt outsourcing practices.**
4. **The fourth hypothesis states that increased outsourcing is expected to reduce firm size and promote the growth of micro and small enterprises.**

Regression Model

$$Y_i = \alpha + \sum_{t=2014}^{2019} \beta_t \times D_{i,t} + X' \Gamma + \epsilon_i \quad (1)$$

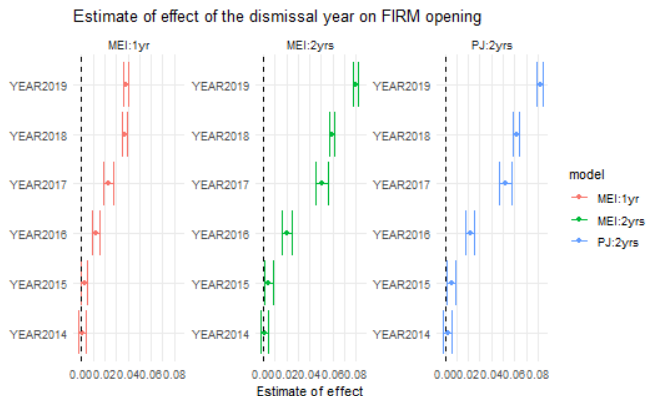
Regression Model - Size

$$Y_{st} = \alpha + \beta \cdot \text{Year}_t + \sum_{s \neq \text{ref}} \gamma_s \cdot \text{Size}_s + \sum_{s \neq \text{ref}} \delta_s \cdot (\text{Year}_t \times \text{Size}_s) + \epsilon_{st} \quad (2)$$

- The study is based on 9.1 million records (8.9M workers, 1.6M firms), and tracks transitions from employment to entrepreneurship — 630,000 dismissed workers opened firms, 87% as MEI.
- In 2023, the integrated employment and firm datasets covered 70.3 million workers (70% of the labor force) and 100% of formally registered firms, allowing a detailed analysis of labor market.

By combining employment and firm-level data, the analysis enables a detailed tracking of transitions between formal employment and entrepreneurship.

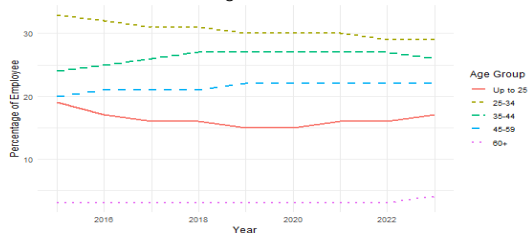
Results



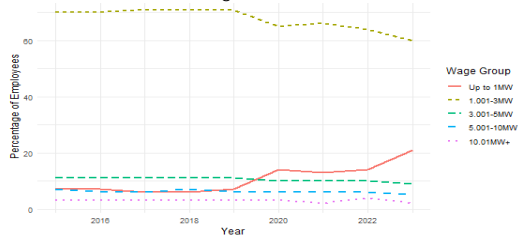
These findings substantiate our initial hypothesis. Although the establishment of individual businesses was an ongoing trend prior to legislative changes, the enactment of the 2017 Outsourcing Law significantly accelerated this process.

Results - RAIS Composition

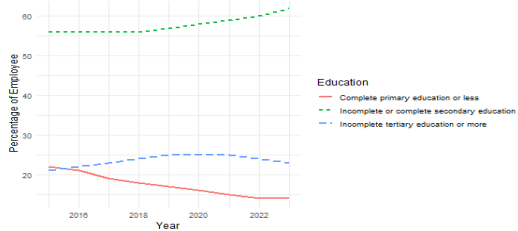
Age distribution



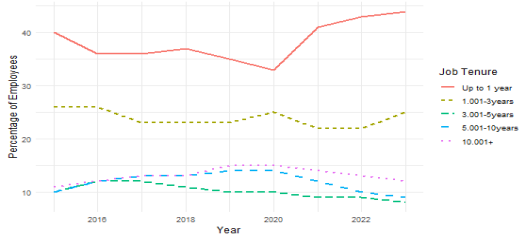
Wage distribution



Education distribution



Job tenure distribution



Results - Labor Market Composition

Table: Regression Results: Worker Distribution by Firm Size

| Variable | Estimate | Std. Error | t value | Pr(> t) | Signif. |
|-------------------|----------|------------|---------|-----------|---------|
| (Intercept) | 20.744 | 0.590 | 35.167 | 0.000 | *** |
| Year | 0.500 | 0.124 | 4.035 | 0.000 | *** |
| Size 1-9 | -9.860 | 0.834 | -11.819 | 0.000 | *** |
| Size 10-99 | 2.718 | 0.834 | 3.258 | 0.003 | ** |
| Size 100+ | 31.722 | 0.834 | 38.026 | 0.000 | *** |
| Year x Size 1-9 | -0.543 | 0.175 | -3.101 | 0.004 | ** |
| Year x Size 10-99 | -0.577 | 0.175 | -3.291 | 0.003 | ** |
| Year x Size 100+ | -0.425 | 0.175 | -2.425 | 0.022 | * |

Notes: The model considers a linear time trend for the reference group using a continuous year variable from 2016 to 2023, with 2015 as the baseline.

Significance levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$.

- The 2017 outsourcing law accelerated an ongoing trend of individual firm creation, facilitating transitions from traditional employment to independent contracting.
- While outsourcing is a dominant trend across sectors, its expansion can be strongly influenced by specific legal frameworks and their enforcement. Regional differences are also notable.
- The RAIS data show little change in average firm size and wages, although disaggregated analysis show interesting trends.
- Brazil's labor market is evolving into a dual structure - a small group of large companies concentrating the majority of formal employment and a growing number of firms operating without employees.

Thank you.