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Labour retention schemes as shock-responsive mechanisms: An overview of the recent Brazilian experience

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1 Introduction

The progressive industrialisation of the global economy has driven rapid growth but has not prevented major crises. Since the early twentieth century, wars, epidemics and market imbalances have disrupted economies and triggered worldwide recessions. The Spanish Flu and the Great Depression produced enormous losses in the early 1900s, while the 2008–2009 Great Recession and COVID-19 were the defining crises of the twenty-first century. More recently, global warming has emerged as a new crisis of planetary scale, intensifying extreme weather events that generate increasingly frequent and damaging localised economic shocks.

Regardless of whether a crisis originates from geopolitical, public health, financial or climate sources, the resulting shocks reduce firm activity, cut employment and consequently erode household income and well-being. It is no surprise, then, that policymakers worldwide have experimented with a wide range of interventions aimed at softening downturns and accelerating recoveries. Many of these policies target firms directly, such as public procurement for works and services, and special credit lines. Others focus on workers and their families, including unemployment insurance, income transfer programmes and public employment schemes.

Among the many types of countercyclical policies tested, one that combines relief for firms with protection for workers has long remained relatively overlooked: job retention schemes (Giupponi et al. 2022). Their use dates back at least to the German crisis of the 1930s (Cahuc 2024), but their popularity surged only during COVID-19, following a more modest expansion during the 2008–2009 recession. Looking at the largest European economies, coverage reached a peak of 20 per cent of the working-age population in France, and over 30 per cent of salaried employment in Italy (Giupponi and Landais 2023). But their growing relevance was not confined to Western Europe after COVID-19; it also reached Brazil and other emerging economies, such as South Africa, the Philippines and Serbia.

Three main scheme types stand out: short-time work arrangements, furlough and wage subsidies (Eichhorst et al. 2022). The first two modalities (short-time work (STW) and furlough)[1] require a partial or total reduction in hours worked; wage subsidies do not. In all of them, the government covers part or all of employees' wages, providing firms with temporary payroll relief while protecting workers' income and preserving the employment relationship.

Brazil has recently experimented with all three types. The Federal Government combined short-time work and paid leave in the design of the Emergency Benefit (*Benefício Emergencial*—BEm) during the pandemic, while the Financial Support programme (*Apoio Financeiro*—PEAF), launched in response to the catastrophic 2024 floods in Rio Grande do Sul, employed a wage subsidy scheme targeted at firms in the affected areas. Despite this, until recently, little to no research had examined their results and impacts. This Policy Research Brief draws on two recent evaluations, which contribute new evidence to this literature and offer insights for policymakers. Barbosa et al. (2025) analyse the BEm during the pandemic, while Campante-Vale et al. (2026) study the PEAF in Rio Grande do Sul. Both assess programme impacts using difference-in-differences research designs. The sections that follow summarise the two Brazilian programmes and the researchers' findings, then conclude with a discussion of the policy implications.

2 The most recent Brazilian experiences with job retention

Consistent with international trends, Brazil had developed experience with labour retention mechanisms prior to the introduction of BEm and PEAF, although coverage remained modest until the onset of the pandemic. The "Professional Qualification Allowance" (*Bolsa Qualificação Profissional—BQP*), established in 1998, allows the suspension of employment contracts for up to five months, during which employees can undertake vocational training courses financed through incremental disbursements of unemployment insurance. The Programme for Job Protection (*Programa de Proteção ao Emprego*—PPE) from 2015 permitted a temporary reduction

in working hours of up to 30 per cent, accompanied by a proportional reduction in wages. The resulting earnings shortfall was partially compensated through transfers from the Workers' Support Fund (*Fundo de Amparo ao Trabalhador*—FAT), which covered up to half the loss. Although both programmes did not scale up, and PPE has eventually been discontinued, their prior implementation facilitated the rapid operationalization of subsequent schemes by drawing on accumulated institutional knowledge. Next, we present the two programmes implemented in Brazil since COVID-19.

2.1 *"Benefício Emergencial"* as a response to COVID-19

Established in April 2020 by Provisional Measure 936 (later converted into Law 14,020/2020), the BEm was designed as a combination of short-time and furlough schemes. The short-time scheme component consisted of a proportional reduction in working hours and wages, which firms could apply to specific groups of employees (e.g., by department or establishment) or to their workforce as a whole for up to 90 days.[2] A key requirement was the mandatory preservation of the worker's hourly wage, and agreements could be established through collective bargaining or through a written individual agreement. In the case of individual agreements, the law restricted reductions to fixed rates of 25, 50 or 70 per cent, and required the proposal to be delivered to the worker at least two calendar days in advance. The Federal Government complemented workers' remuneration using unemployment insurance parameters to partially replace the forgone income for the duration of the agreed measure.

The second component, the temporary suspension of the employment contract, was initially limited to a maximum of 60 days, which could be split into two 30-day periods. During suspension, the employee retained the right to any benefits voluntarily provided by the employer (e.g., health insurance and meal allowances) and could contribute to social security as a voluntary insured person. Once again, the Federal Government paid benefits to workers using unemployment insurance parameters. In this case, the amount could be partially shared with employers depending on the firm's revenue.[3]

Implementation required a strict reporting flow coordinated by the then Ministry of Economy. Employers had 10 calendar days after signing an agreement to notify the Federal Government about the reduction or suspension. When the notification was submitted on time, the first instalment of the benefit was paid within 30 days.

Finally, a decisive element to ensure effective job preservation was the provisional employment guarantee established in Article 10 of Law 14,020/2020. Beneficiaries were entitled to job stability during the agreement period and for an equivalent period after its end. If the employer dismissed the worker without cause in violation of this condition, the employer faced substantial financial penalties in addition to standard severance payments.

In terms of target population, the programme covered workers with formal contracts governed by the Consolidation of Labour Laws (CLT), and it also applied to apprenticeship contracts and part-time arrangements. Entities in public administration, state-owned enterprises, mixed-capital companies and international organisations were not eligible.[4] BEm reached about 9.8 million workers in 2020, roughly 18 per cent of the formal labour force in that year.

2.2 *"Apoio Financeiro"* in reaction to catastrophic floods

The *Programa Emergencial de Apoio Financeiro* (PEAF) was a wage subsidy programme targeting formally employed workers in flood-affected establishments. The programme was established by Provisional Measure 1,230/2024 and regulated by the Ministerial Ordinance (*Portaria* 991/2024, Ministry of Labour) in response to unprecedented floods in the State of Rio Grande do Sul that displaced roughly 600,000 people and caused the destruction or displacement of assets estimated at BRL88.9 billion (approximately USD17.3 billion).

Unlike BEm, which combined short-time work and furlough arrangements and therefore required a reduction in hours worked, PEAF provided unconditional wage subsidies. Two monthly payments equivalent to the minimum wage per worker were transferred directly to workers' accounts in July and August 2024. Firms could deduct the subsidy from their own payroll obligations, though taxes and social contributions remained due. In return, employers were required to retain benefited workers for four months, the two months while wage subsidies were in place and the following two (September and October).

To be eligible, establishments had to fall within the federal flood mapping perimeter, demonstrate revenue losses or operational constraints caused by the disaster, and have no outstanding debts with tax or social security authorities. The programme ultimately reached 9,847 establishments and 112,779 formally employed workers, with total government transfers of BRL287.6 million (approximately USD57.1 million). Among these workers, the programme also had a minor coverage of domestic workers and small-scale fishers whose homes were reached by the floodwaters, and of apprentices and interns in the affected establishments.

Despite a registration process requiring little more than completing a simple form and a loose verification of losses and damages, take-up reached only around 42 per cent of eligible establishments, covering roughly 34 per cent of eligible workers. Several factors likely contributed to this gap: prior tax or social security liabilities that disqualified some firms, disruptions to internet and road infrastructure in the most severely affected areas, and the reluctance of managers in chaotic circumstances to commit to a four-month employment guarantee with legal and financial consequences for dismissing beneficiaries early.

3 Analysis

3.1 BEm

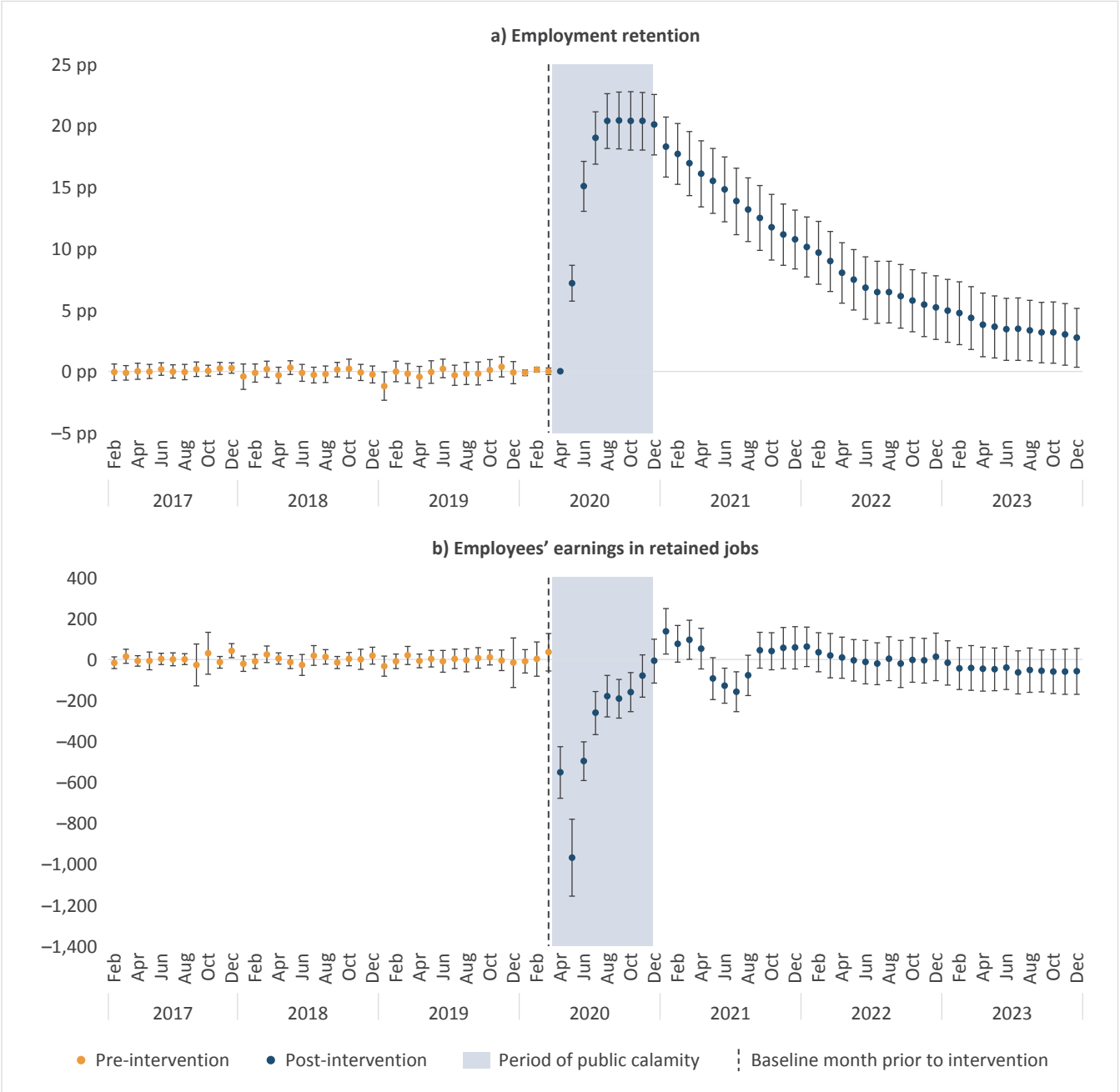
Since BEm was implemented throughout 2020, its impact was measured using the difference-in-differences estimator proposed by Callaway and Sant'Anna (2021), which is suitable for staggered treatment adoption. The data used to estimate the programme's effects were Brazil's Annual Social Information Report (*Relação Anual de Informações Sociais*—RAIS) from 2017 to 2023 and the programme's administrative data. The treated group consisted of jobs (worker–firm pairs) that benefited from the programme, while the control group was made up of employment relationships in which workers were never protected. The April and May cohorts were the most important in terms of BEm uptake, and we present results only for the first cohort here.[5]

Figures 1a and 1b show the effects on employment retention and employees' earnings, respectively. As can be seen in both graphs, there were no differences between the treatment and control groups for each variable before the programme began, indicating that the parallel trend assumption is likely valid. The employment impact was high in the short term (Figure 1a), reaching over 20 percentage points three to four months after firms entered the programme. Interestingly, although the effect began to decline after the first few months, it remained positive more than three years after the intervention began. As expected by the programme design,[6] remunerations paid to employees fell in the short term (Figure 1b) but recovered after a few months, with no difference between the treatment and control groups up to three years after programme enrolment.

Barbosa et al. (2025) also show that firms utilised the flexibility of the percentage reduction in hours (25, 50, 70 or 100 per cent) to enrol workers according to their workforce composition in terms of skills. For example, full suspension was predominantly observed for workers with less than high school, whereas the minimum reduction in hours was concentrated among workers with at least some college.

FIGURE 1

Estimated impacts of BEm



Notes: These are event study estimates for the effects of BEm on baseline job retention and employees' earnings in baseline retained jobs. The dashed line marks the baseline period, while the shaded background area marks the officially declared public calamity period, when the most restrictive social distancing measures were in place. Bars represent 95 per cent confidence intervals; standard errors are clustered at the establishment level.

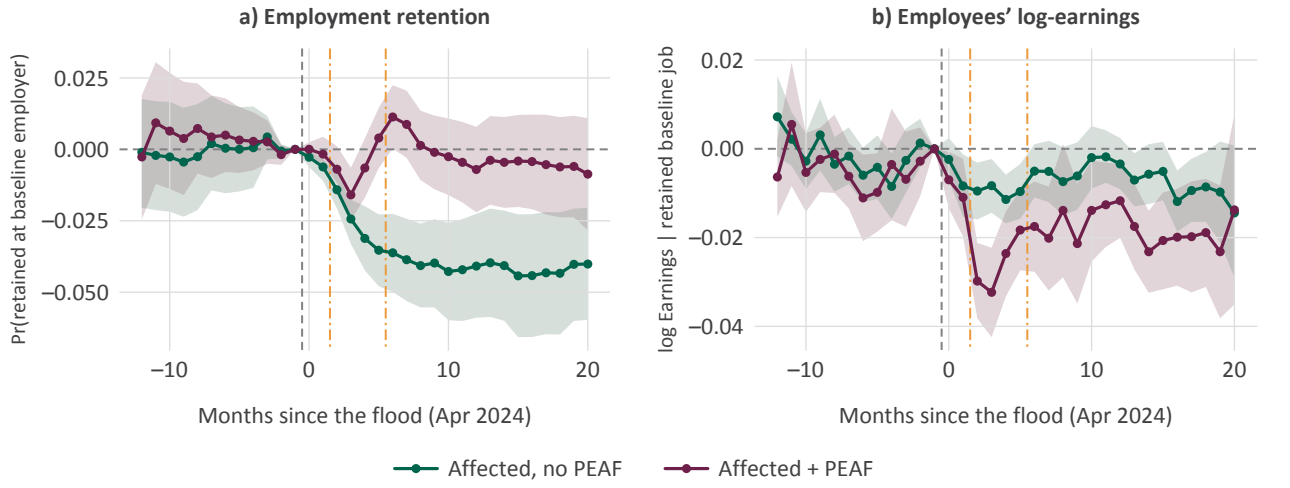
Source: Authors' elaboration based on RAIS microdata and BEm administrative records.

3.2 PEAF

The impacts of PEAF were estimated using an event study research design, exploiting the spatial variation of the floods and the programme's geographical targeting. Using a panel built from RAIS microdata, formal workers are classified according to the location of their employer immediately before the floods. Workers in establishments within the federal flood perimeter (as delineated by Pereira et al. 2024) are divided between those whose employer enrolled in PEAF and those whose employer did not. Both groups are compared against a control group of workers in unaffected areas, with the sample restricted to workers with similar sociodemographic and firm-level characteristics.[7] The programme's effect is then recovered as the difference between the estimated flood impact on PEAF-covered workers and the estimated impact on uncovered workers in the flood zone.

FIGURE 2

Estimated impacts of PEAF



Notes: These are event study estimates for the effects of working in an establishment within the flood zone of Rio Grande do Sul in March 2024 on workers' employment retention and on log-earnings conditional on remaining employed in the baseline establishment. The green line represents the effects for workers in PEAF-uncovered establishments, and the purple one for workers in PEAF-benefited establishments. The average treatment effect on treated workers can be interpreted as the difference between the purple and the green lines. Shaded areas are 95 per cent confidence intervals; standard errors are clustered at the establishment level. The dashed line marks the start of the flooding period. The dash-dotted lines indicate the start and the end of PEAF's standard operation, respectively. These estimates extend those in Campante-Vale et al. (2026) by covering the whole of 2025.

Source: Campante-Vale (2026) elaboration based on RAIS microdata and PEAF administrative records.

The results depicted in Figure 2a confirm that the floods had a meaningful negative effect on employment retention, and that PEAF successfully neutralised it. The estimated post-shock effect for uncovered workers in the flood zone (green line) turns gradually negative, stabilising at approximately −4 percentage points. On average, the floods reduced the probability of an uncovered worker remaining employed by 3.4 percentage points, an effect that PEAF fully offset. Shortly after the programme was launched, the estimated employment gap for covered workers converges to values indistinguishable from zero.

Surprisingly, however, PEAF did not neutralise the flood's negative effect on formal labour income (Figure 2b). Workers who remained in unprotected affected firms experienced a modest average earnings decline of approximately 0.7 per cent. Workers in PEAF-enrolled firms fared slightly worse on this margin, with earnings falling by 1.4 per cent on average and failing to recover to pre-flood levels even one year after the shock. This holds even when accounting for the extensive margin: when dismissed workers and their zero earnings are included in the analysis, the estimated effects for both covered and uncovered workers are approximately −2.0 per cent, leaving the programme's net effect on labour income negligible in the long run.

4 Policy discussion

From a theoretical standpoint, job retention programmes offer several advantages over policies that focus solely on preserving worker income (e.g., unemployment insurance) or on providing financial relief to firms in support of the continuity of business operations (e.g., tax exemptions). By preventing the dissolution of employment relationships during a temporary adverse shock, these programmes can avoid: (i) future search, matching and retraining costs for firms; (ii) scarring or reintegration effects for workers; (iii) loss of specific human capital built on long-term employer–employee relationships; and (iv) additional outlays on social programmes and lost tax revenue for governments. They also deliver macroeconomic stabilisation and help contain negative social externalities, which are benefits shared with other types of interventions (e.g., Britto et al. 2022).

However, the effectiveness of these schemes depends critically on their design and implementation, and poorly structured programmes can generate negative micro- and macroeconomic effects in the long run (Cahuc 2024). Indeed, Cahuc et al. (2021) provide evidence that the French programme was inefficient, subsidising employment relationships that firms would have maintained regardless. Giupponi and Landais (2023), in turn,

show that the Italian programme suffered from adverse selection towards low-productivity jobs, which delayed more efficient labour reallocation and hampered economic recovery in some regions.

The Brazilian programmes demonstrate that job retention schemes can indeed be effective instruments for preserving employment relationships in the country. In the case of the pandemic, the results were particularly strong, with the estimated effect of BEm reaching over 20 percentage points in employment retention probability in some months. In the Rio Grande do Sul floods, by contrast, the effects of PEAF were more modest, not exceeding 5 percentage points.[8]

At the same time, there are nuances that warrant attention when designing efficient programmes of this kind. Employers enrolled in PEAF preserved jobs but not workers' compensation. The flood's negative effect on remuneration persisted over time for workers in affected firms, likely operating through reductions in variable pay components, such as bonuses and commissions, as well as through slower wage growth relative to workers in unaffected establishments.[9] By contrast, workers in flood-affected firms that did not enrol in PEAF faced greater job losses but also greater labour market reallocation. The estimated probability of moving to a new employer is approximately 2 percentage points higher for this group, and those who did move appear to have partially offset earnings losses through renegotiated contracts at hiring firms. These findings point to a crucial aspect of retention scheme design highlighted in the literature: they should function as temporary support with a maximum duration set. Otherwise, the government risks inducing the maintenance of sub-optimal matches that hinder economic growth (Cahuc 2024; Giupponi and Landais 2023).

Beyond the duration, other design features are equally important for ensuring cost-effectiveness, particularly with respect to accurate targeting. Ideally, job retention schemes should avoid subsidising two types of employment relationships: low-productivity jobs that would benefit more from labour reallocation than from preservation, and highly productive jobs that would have survived the shock regardless of support. Wage subsidy programmes tend to be more costly than other types of schemes on this front, as many employers who would not have laid off workers enrol anyway in order to benefit from the transfers. In contrast, short-time work or furlough schemes partially address this adverse selection problem through their built-in requirement to reduce working hours. In this case, only firms that judge the marginal revenue of hours worked to be lower than their cost are expected to opt in, which tends to exclude the most productive firms from unnecessarily claiming support.

In the case of the Brazilian programmes, BEm offered considerable flexibility in how many hours could be subsidised, which is theoretically efficient as firms can take just the amount of support they regard as necessary. Therefore, it seems no coincidence that workers with lower levels of education had larger reductions in hours on average, while those with higher levels of education had smaller ones. PEAF, in turn, sought to address the targeting challenges inherent to wage subsidies through strict geographical delimitation of the eligible area. This was a complex endeavour that required coordination across multiple institutions, including the National Institute for Space Research (INPE) and the Brazilian Army (Namikawa et al. 2024). This process not only added operational costs but also drew legitimate criticism, mainly because an establishment that was not directly flooded but was left isolated (e.g., without road access, electricity, drinking water or the internet) was nonetheless excluded from the programme (Bischler et al. 2026). On the other hand, a geographically targeted wage subsidy does not require benefited firms to forgo working hours at a time when they may be struggling to rebuild, such as in the aftermath of floods.

Looking ahead, future policies should carefully weigh the design considerations discussed here, the trade-offs involved in different programme choices, and the nature and scale of the shocks they seek to address. In the Brazilian context, it is important to emphasise that Law 14,437 of 2022 allows the Federal Government to adopt, whenever a state of public calamity is declared, similar job retention measures to those undertaken while BEm was in place.

1. The distinction between short-time work (STW) and furlough schemes is often blurred. While STW generally covers a partial reduction in working hours and furlough implies a temporary layoff, there are STW programmes that cover a full suspension of work, and furlough schemes that allow for partial absences. Eichhorst et al. (2022) characterise furlough as an extension of unemployment insurance, primarily financed by the same fund with benefits paid directly to workers. In contrast, STW relies on varied financing sources, and its benefits are typically channelled through employers.

2. The law provided the possibility of extension by Executive act.

3. Firms with gross revenue above BRL4.8 million in calendar year 2019 could suspend contracts only if they paid a mandatory monthly compensatory allowance equal to 30 per cent of the worker's salary.

4. In addition, receipt of the benefit was prohibited for individuals holding public office (including appointed positions and elected mandates), as well as for workers already receiving unemployment insurance or other ongoing social security benefits.

5. The impacts on the May cohort were very similar to those on the April cohort.

6. Under the BEm programme, employers reported only their out-of-pocket payments to employees in administrative records (i.e., excluding the programme's benefits). Later, under PEAF, an additional field was added to the reporting form specifically to capture the subsidy while preserving the total remuneration field.

7. Coarsened Exact Matching is applied to social, demographic and economic characteristics. The spatial distribution of treated and non-treated units is also examined, with attention to potential selection into treatment according to flood damage severity (i.e., the possibility that less severely affected establishments were more likely to enrol and commit to the retention requirement, whilst the most affected were not). No noticeable evidence of such differences is found. Finally, selection into treatment on unobservable characteristics cannot be fully ruled out, although the presence of parallel pre-trends is reassuring, indicating that unobservable features were not differentially affecting outcomes before the shock.

8. It is important to acknowledge that the two programmes differ along several critical dimensions, as does the nature of the shocks that motivated them. Floods and viral outbreaks, for instance, have markedly different consequences for the stock of physical capital. The programmes also differ substantially in the level of benefits provided to workers relative to their earnings, with the replacement rate being considerably lower under PEAF than under BEm. For these reasons, identifying which of the two programmes was more effective lies beyond the scope of this Policy Research Brief.

9. RAIS data are limited in decomposing these differences: hours worked are tied to rounded numbers, extra hours seem to be underreported, contractual hourly wages are often updated only when years change, and different variable pay components are not discriminated from monthly total compensation. Notwithstanding, what we can infer from the available data is that extra hours played an important role in the reduction only for the first two months after the floods. After that, hourly wages seem only slightly lower for PEAF-protected workers in 2025, which indicates that the main component driving the disadvantage was variable pay.

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