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Brazilian labour market in an era of adjustment

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Brazilian Labour Market in an Era of Adjustment¹

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Resumo :

Este trabalho examina diferentes aspectos do ajustamento do mercado de trabalho nos últimos dez anos. A partir de um cruzamento das estruturas dos mercados de trabalho e de bens, demonstra-se que o efeito das políticas de ajustamento foi profundamente assimétrico, com os custos maiores recaindo sobre os setores menos organizados. Examina-se o papel da nova estrutura sindical no Brasil ao longo dos últimos anos e na atual crise de estabilização.

Abstract :

This paper examines different aspects of the adjustment of the labour market in the last ten years. Based on an interation of the labour and goods markets, we show that the effect of the adjustment policies have been deeply unequal, with the less organized groups carrying a greater share of the burden. We also examine the role of the new union structure in Brazil in the last few years and in the current adjustment crisis.

1. Introduction

The Brazilian economy has been quite successful in adjusting to the external debt crisis in the sense that, today, it generates a trade surplus of 17 to 18 billion dollars per year. This success is a result of the orthodox therapy of the 1981-83 period combined with a structural adjustment which started in 1974 and had as its main objective the import substitution of capital and intermediate goods. This government oriented program, which was mainly financed by foreign capital through the international private financial market, generated a rapid growth of these sectors. As a result, a substantial part of the trade surplus of the 80's comes directly from the export or the import savings of these products.

At the same time, the Brazilian economy is now going through a stabilization crisis. Inflation is running at a 1,500% a year and is out of the control of the government. The current stabilization crisis in Brazil results from many causes, the most important being, the adjustment process to the external debt crisis, the desorganization of government finances due to the socialization of the costs of external adjustment, a persistent accommodative monetary policy and the distributive conflict between labour and capital.

In order to promote the adjustment after 1979 the government had to attempt a change in relative prices in favour of tradable goods. However, the gradual process of democratization of the Brazilian society was accompanied by the re-emergence of a

strong and activist labour movement, mainly in the tradables sectors. Strong and organized unions resisted the reduction in the purchasing power of wages. They were not always successful. In the period 1981-83, as a result of a deep recession, unions bargaining power was reduced and wages fell considerably. After 1984, with the recovery of the economy, union activism was re-established. Since 1986 the government has been attempting to stabilize the economy through so called 'heterodox shocks', based on wages and prices freezes. They have repeatedly failed.

In this paper we review the central aspects of the adjustment process in Brazil, and emphasize the role of the labour market. In section 2 we discuss the three phases of the adjustment process, namely, the structural adjustment phase (1974-83), the financial adjustment phase (1981-83), and the stabilization crisis (1984-1989). Section 3 is devoted to the analysis of the effects of these policies in the labour market and section 4 analyses the structure of Brazilian labour market and the interrelation between labour market segments and output sectors.

The political economy of the labour market and adjustment is discussed in section 5 where we emphasize the role of labour market institutions, indexation and distributive conflict. Then, in section 6 we present our conclusions.

2. The Period of adjustment

In this section, before coming to the discussion of the period of adjustment per se, we present a brief background of the industrialization process in Brazil, between 1950 and 1974. Then we study the structural adjustment of 1974-1980 and the financial adjustment of 1981-1983. We then turn to the analysis of the current stabilization crisis in Brazil.

2.1. The Import Substitution Strategy (1950-1974)

Between 1950 and 1974, the Brazilian economy experienced high rates of industrial growth. Except for the few years between 1961 and 1964, the country's average industrial growth rate was higher than 7% a year. Two markedly sub-periods can be identified.

In the first sub-period, 1950/1967, the aim of economic policy was the inducement of import substitution of durable and non-durable consumption goods. The basis of the import substitution strategy was the adoption of high custom duties and quantitative limits to imports. The objective was the elimination of foreign competition in the internal markets. The undesired side-effect was the appearance of an anti-trade bias and the country's autarkyzation. Export revenues and import expenditures remained practically unchanged during the whole period 1950/1964.

While the relative dependence on a single product was maintained on the exports side, the composition of imports suffered a major change. Gradually, purchases concentrated on machinery, equipment and basic industrial inputs.

The country's economic growth was supported by a massive investment plan which required large amounts of capital. In 1968, foreign indebtedness totaled twice the value of the country's total export (US\$ 3,780 millions as compared to US\$ 1,831 million).

The dependence on imported inputs, combined with the pressures imposed by the cost of the debt services, led to a gradual opening of the economy after 1968. The new strategy comprised not only the commercial side, but also the financial side of the balance of payments. The objective measures taken were the reduction in the degree of protection to internal market, the subsidization of manufacture exports, and the adoption of a crawling-peg rule with periodical mini-devaluations as an attempt to maintain a stable real exchange rate.

Simultaneously the volume of international trade went through a period of expansion. The result was a significant increase in exports derived from primary goods and from manufactured goods as well. The fast growth in the export of manufacture products changed sharply the composition of the Brazilian exports. In 1965, these products contributed with 8% of total export receipts, growing to 30% in 1975. At the same time the contribution of coffee declined from 44% in 1965 to 10% in 1975.

The rapid expansion of industrial exports and the intensification of foreign capital inflows resulted in the virtual elimination of the foreign exchange constraints to growth. Between 1968 and 1973, the Brazilian balance of payment had a continuous surplus and the level of reserves increased from US\$ 257 millions in 1968 to the amount of US\$ 6.4 billions in 1973.

This excellent trade balance performance, associated with the low international interest rates then prevailing, made possible an increase of the country's foreign debt, without further relative commitment of export receipts with interest payments and the expansion of the Brazilian industrial output at rates higher than 10% a year. Indeed, the domestic production of capital and intermediate industrial goods was relatively small, and the import of machinery and equipments rose at an yearly average rate of 24% in the period. ²

2.2 The First External Shock and the Structural Adjustment (1974-80)

Conditions changed drastically after 1974. The increase in international interest rates and the rise of the oil prices meant a severe shock to the Brazilian growth pattern which depended heavily on imported inputs and international financing. The increase in the international interest rate had a considerable impact on the Brazilian current account. Although total export receipts continued to grow, the proportion of interest payments to export increased from 8.2% in 1974 to 31.2% in 1980. The quadruplication of oil prices had a devastating effect on the trade balance results. In the period 1967/1972, oil contributed with approximately 11% of the total Brazilian imports expenditures. In 1974, this contribution jumped to 22.4%, reaching 44.4% at the end of the decade.

² The rate of investment went from 17.6% of GDP in 1967 to 26.8% of GDP in 1973.

The response of the government to the external shocks represented a change in the growth strategy followed since 1967. As financial funds were available at relatively low real interest rates in the international capital market, it opted to implement a huge investment program to promote import substitution of capital and intermediate industrial goods. The idea was to reduce the country's dependence on the importation of these goods. In the meantime, the country would have to live with a large balance of payments deficit since not only the level of absorption was not reduced, but also most of the investments demanded imported goods in the short run to be implemented. This strategy was based on credit subsidies to investments by the private sector, and direct investment by state enterprises.

The result was the maintenance of high rates of investment and levels of absorption. The rate of investment increased from 25% in 1972 to 29.6% in 1975, mainly based on State enterprise investments in manufacturing, energy producing industries, communications and transport. The State share of total capital formation jumped from 30% in the 1970/1974 period to 65.5% in 1979.

Capital and intermediate goods imports increased, in the short run, by rates higher than 10% a year on average, the same happening to other basic inputs (except for oil). The increase in absorption had also an effect on the level of imports of consumption goods. After a decline in 1975 and 1976, it started to grow, reaching in 1979 a level twice that of 1973.

After the first oil shock, there was also no clear attempt to change relative prices in favor of tradable goods. There was however an increase in the relative profitability of tradables

produced in the private sector as the government utilized credit subsidies to foster the production of import substitutes and maintained subsidies to export. On the other hand, the wage/exchange rate ratio, which under certain hipotesys^{3/} can be considered a proxy for the relative prices of tradables and non-tradables, increased during the seventies. Although the net result of these figures is not quite clear, some estimates suggest that the final evolution of relative prices was against tradables (H. Braga, F. Castelo Branco and P. S. Malan, 1985).

The initial effect of the new strategy over the balance of payments was quite negative. The trade balance deficit averaged US\$ 4 billions a year between 1974 and 1980, which represented 30% of the yearly average value of exports in the period. Current account deficits were even higher - US\$ 7.8 billion a year in average - due to the increase in interest payments. Most of these deficits were financed with an increase in the degree of indebtness. Foreign debt increased from US\$ 17 billion in 1974 to US\$ 54 billion in 1980.

2.3 The Second External Shock and the Financial Adjustment (1981-83)

As a result, the second oil shock of 1979/1980, and the increase in the international interest rates of the beginning of the 80's, caught the Brazilian economy in a very unstable

³ 1. Under the hipotesys of constant mark-up rates and a relatively large participation of wages in the variable unitary costs.

financial situation. After a small period during which absorption was maintained at high levels, the reduction in foreign reserves and the increase in the trade deficit imposed a dramatic move towards a 'hard-option' financial adjustment. The latter included a reduction in absorption and a drastic change in relative prices in favor of tradable goods. Per capita net output declined by 12.5% between 1981/1983. A maxi-devaluation of the Cruzeiro by 30% in 1983 changed relative prices in favor of tradables. The wage/exchange rate ratio declined sharply during 1983 and 1984, as can be clearly noted in figure 1.

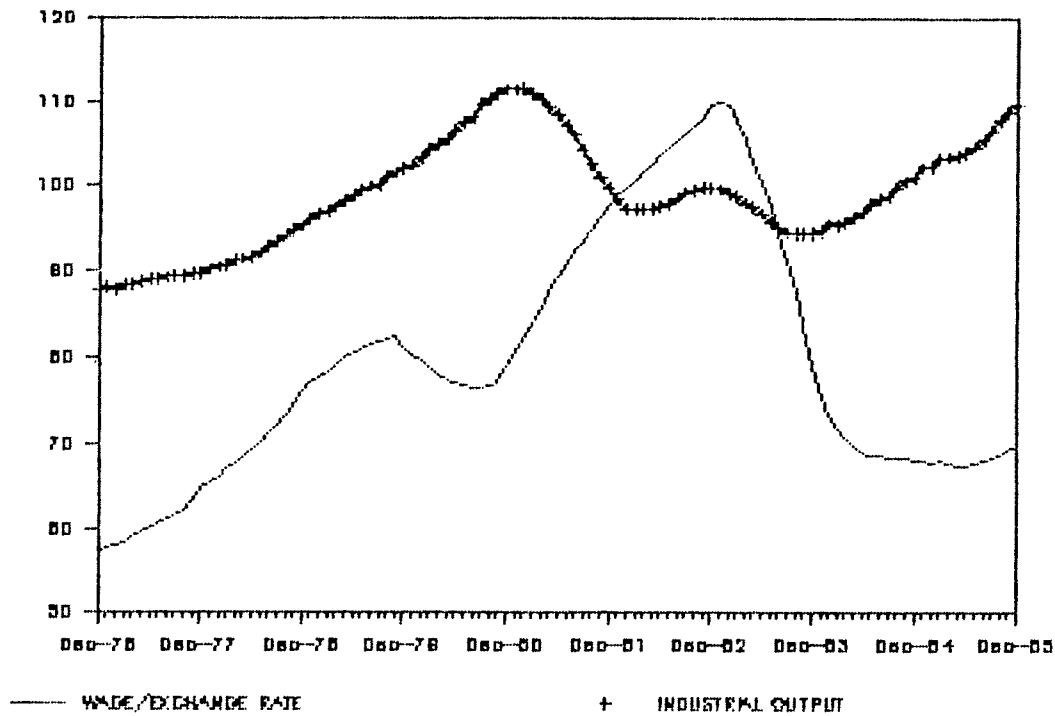


Figure 1: The level of industrial output
and the wage: exchange rate ratio

Another indicator of the behaviour of relative prices of tradables and non-tradables is the ratio of the Wholesale Price Index of industrial output (IPA - Industry) and the Cost of Living Index of São Paulo. As a large share of exports is industrial products since the late seventies and the Cost of Living Index is mainly composed of food and private and government services which are non-tradables, the evolution of this ratio is a good proxy for the behaviour of relative prices of these two types of goods (Figure 2).

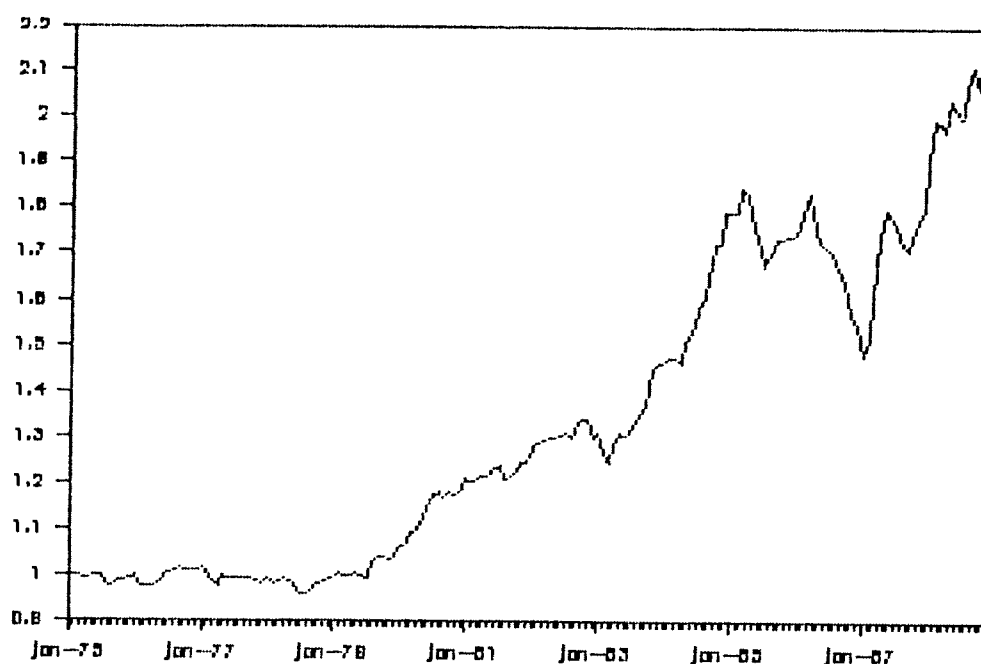


Figure 2

Ratio of Wholesale Prices of Industrial Output Index
to Cost of Living Index

The ratio is basically constant between January 1975 and July 1979 and starts to grow systematically after this date. Between July 1979 and July 1988, it increases 100%. The fastest growing periods were July 1979/July 1980 and July 1983/July 1984. Periods in which maxi-devaluations of the rate of exchange were implemented and of acceleration in the rate of inflation.

The balance of payments reacted very rapidly to these policy changes. Export values increased from US\$ 20 billion in 1982 to US\$ 27 billion in 1984, at the same time that import values declined from US\$ 19 billion to US\$ 14 billion in the same period. The balance of payment deficit, which was US\$ 9.5 billion in 1982 turned into a superavit of US\$ 400 million in 1984. Part of this relative success came from the combination of the

absorption and switching policy mix adopted after 1981. But, there are some signs that another part of the success was the result of the maturation of investments made during the second half of the seventies. These are the evolution of the import coefficient after 1980 and the behaviour of the balance of payments after 1984, when the rate of growth of output turned positive again.

The rates of growth of output in 1985 and 1986 were above 7% a year, but import values were basically stable. The import coefficient, the ratio of the values of imports to output actually declined since 1980. In 1987 it was half the value of 1980. Trade balance surpluses increased sharply, reaching US\$ 18 billion in 1988.

Table 1: Coefficients of export and import

	Import Coefficient	Export Coefficient
1965	4.39	7.45
1966	4.85	6.48
1967	5.13	5.88
1968	5.48	5.56
1969	5.34	6.20
1970	5.89	6.43
1971	6.56	5.87
1972	7.19	6.78
1973	7.76	7.77
1974	11.96	7.54
1975	9.82	6.97
1976	8.07	6.60
1977	6.79	6.84
1978	6.78	6.28
1979	7.96	6.70
1980	9.57	8.39
1981	8.36	8.81
1982	7.14	7.42
1983	7.48	10.62
1984	6.54	12.70
1985	5.72	11.15
1986	4.99	7.94
1987	4.63	8.06

Source: Anuário Estatístico, FIBGE, various numbers.

This very low import coefficient is also a result of rigid import controls and subsidies to export is also important. But, the big difference between the surpluses of US\$ 18 billion and the interest payments (US\$ 12 billion) also suggests that the Brazilian economy after 1984 was able to grow at positive rates and still generate the trade surplus needed to honor at least most of the interest payments on the external debt. In this sense, the structural adjustment of the mid-seventies can be considered a success.

2.4 The Stabilization Crisis (1984-89)

As a result of the adjustment process, after 1984 the external constraint was substantially relaxed. On the other hand, as a side effect, the situation on the internal front became critical. Not only because of the intensification of the distributive conflict due to the effects of the financial adjustment on the distribution of income, but also because of the deterioration of the public finances which drastically reduced the chances of implementing a successful stabilization programme.

Inflation increased from 20% in 1973 to 40% in the second half of the seventies, jumping to 100% a year in 1979. The exchange rate devaluation of 1983 generated another jump in the inflation rate to 250% a year. In 1986 a price freeze and a monetary reform reduced inflation to very low levels for some months (between March and October) but as soon as prices were liberalized inflation returned (more than 20% a month). Two other freezes followed the Cruzado Plan, in June 1987 and January 1989. In both cases the inflation comeback was very vigorous, reaching more than 30% a month in December 1988 and in August 1989. Except for a short period between 1981 and 1983, monetary policy during this entire period was accomodative and unable to check the inflation rate.

The acceleration of inflation since the end of the 1970's led the unions to demand a progressive shortening of the wage adjustment period, thus increasing the degree of indexation of wages, and helping to create a downward rigidity of the rate of inflation. In 1979, the oficial adjustment period of money wages went from one year to six months, and in 1985 the bargaining

between unions and firms reduced most nominal wage adjustment period to three months. Then came the 'heterodox plans' (in 1986, 1987 and 1989) each one associated with a different wage adjustment rule. However, as these plans failed, all of them implied monthly wage adjustments. Hence, in less than a decade the adjustment period of money wages went from one year to one month.

The most organized unions were able to mobilize workers to demand real wage increases. These demands were gradually transformed into demands of the less organized unions which had their bargaining power considerably enhanced with support of the strong Union Confederations (CUT and CGT). The fight for a progressive indexation of all wages and the growing degree of labour activism was the result of the dissatisfaction of workers with the reduction of the purchasing power of their incomes during the the period of political repression and the financial adjustmet years.\⁴

No doubt, one of the components of the acceleration of the rate of inflation over the 1980's is the distributive conflict between wages and profits. Before coming to this central issue, other aspects of the Brazilian stabilization crisis should be analysed: the relation between the external debt and government finances (the 'internal transfer problem') and the difficulties of conducting an appropriate monetary policy during the stabilization plan due to the very short run maturity of public debt.

The government in Brazil is responsible for more than 80% of the external debt. The origins of the government debt are (i)

⁴ An analysis of these developments can be found in sections 5 of this paper.

the finance of the huge investments of the State owned enterprises in the late 1970's and (ii) a process through which the government gradually assumed the private external debt in order to reduce the impact on the private debtors of changes in the exchange and the interest rates. \⁵

The greater the proportion of the external debt under the responsibility of the government, the stronger the relation between the services of the debt and the fiscal deficit. This is so because the proportion of exports of public enterprises over the overall volume of exports is small in comparison with the government's share of the services of the external debt. Thus, any time a private enterprise exports, the government has to buy the dollars generated by the private sector to pay its own interest. This means more public debt or more money supply. Hence, the public finances as well as the monetary policy become quite vulnerable to changes in the exchange rate, the international interest rate and the trade performance of the private sector.

However, the problem is not only the absolute volume of the debt, but the difficulties to finance or recycle it in an economy with an accelerating rate of inflation. Due to the uncertainty concerning the future rate of inflation and the capacity of the government to honor the debt, private agents have a very high degree of liquidity preference, and refuse to keep in their portfolios long and even medium term assets. Hence, the

⁵ In 1983, the Central Bank started to absorb the dollar denominated external debts of private agents who then became debtors in cruzeiros of the Bank. This was a way to reduce the vulnerability of the private debtors to changes in the exchange rate and the international interest rates.

Central Bank has to recycle all the public debt on a day to day basis, through overnight operations. This poses serious difficulties for any attempt to adopt a stabilization plan.

One of the most difficult tasks of a stabilization plan in an economy with very high rates of inflation is to avoid capital flights into dollars or real assets. Both types of capital flights have deleterious effects for stabilization attempts. When agents do not hold long-term treasury bills the Central Bank and the government must be extremely careful in conducting the monetary and fiscal policies, respectively. To prevent flights into dollars and real assets the Central Bank, in recycling its debt, must pay very high interest rates in the short run with deleterious side effects over the costs of finance (and hence inflation). On the other hand, as the public debt is of very short maturity (one day), an increase in the debt in the hands of the public is similar to an increase in the money supply. Thus, monetary restriction becomes a less effective instrument of anti-inflationary policy.

Finally, there is a question of why the monetary policy has been so accomodative during this entire period. There are political as well as economic reasons. On the political side, it is important to understand that this was also a period of redemocratization. In the mid-seventies, the military developed a plan to gradually return the country to civilian rule. The idea was that the country could end the decade of the eighties with an elected civilian president. In the mean time, the military would hold the power and make the reforms they considered necessary to give stability to civilian rule. To avoid that the leftist opposition parties could win elections during this period, it was

considered important (correctly or not) that the country could show reasonable rates of growth and low unemployment rate.

But why should unemployment be considered in Brazil politically more devastating than inflation? The reason for this is that although indexation of wages makes labour real incomes less vulnerable to inflation, the non-existence of unemployment protection of any kind (at least until march 1986) turns open unemployment into a very difficult social problem. So, when the economy goes into a deep recession as in 1981/1983, poverty increases sharply and it becomes very difficult for the government in charge to win elections. It is interesting to note that although in 1985 the president was indirectly elected by the Congress, and the military party had the majority of the votes, the military candidate was defeated by the moderate opposition candidate. The fact that the election occurred in the end of a deep recession and the unemployment rate was still very high for Brazilian standards is at least in part responsible for this outcome.

Hence, Brazilian governments, and the population in general, have always been more inclined to live with inflation than with recessions. The explosion of the inflation rate of the end of the eighties will certainly change this aspect of Brazilian society.

The above description calls attention to the fact that one of the strategies used by the government to deal with the external crisis was the socialization of the private losses and the exchange rate risk of the external adjustment process. The result was a sharp deterioration of governmental finances and pressures on the rate of inflation. One question to be solved in the future

is who is going to bear the cost of the adjustment needed to solve the government financial problem.

3. Adjustment, Stabilization Crisis and the Labour Market -

The developments described in section 2 have to be complemented by a description of the behaviour of the Brazilian labour market in the same period. We turn to this aspect of the adjustment in the present section.

3.1. Employment and Real wages

During the seventies three basic trends can be observed. First there was an increase in the rate of participation of male and female workers both in the Southeast and the Northeast. Female participation in Brazil as a whole increased from 22% in 1970 to 30% in 1980. Male participation went up from 65% to 70% in the same period. Second, there was an increase in urbanization of the labour force, mainly in the Northeast where the share of urban workers went from 39% to 50%. In the Southeast it increased from 75% to 85%. Third, there was a considerable decline of agricultural employment which, in Brazil as a whole, fell from 44% to 29% between 1970 and 1980. On the other hand, there was an increase in industrial employment which in 1980 was essentially concentrated in the Southeast with 70% of the industrial labour force.

During the period of financial adjustment (1981-83), the employment figures deteriorated significantly. Employment grew much slower than the labour force, and the main adjustment variables were the rate of unemployment and the creation of low-paid and non-signed contract jobs. This is shown in Table 2.

Table 2
 Labour Force, Employment and Unemployment, 1981-83
 (Rates of change, %)

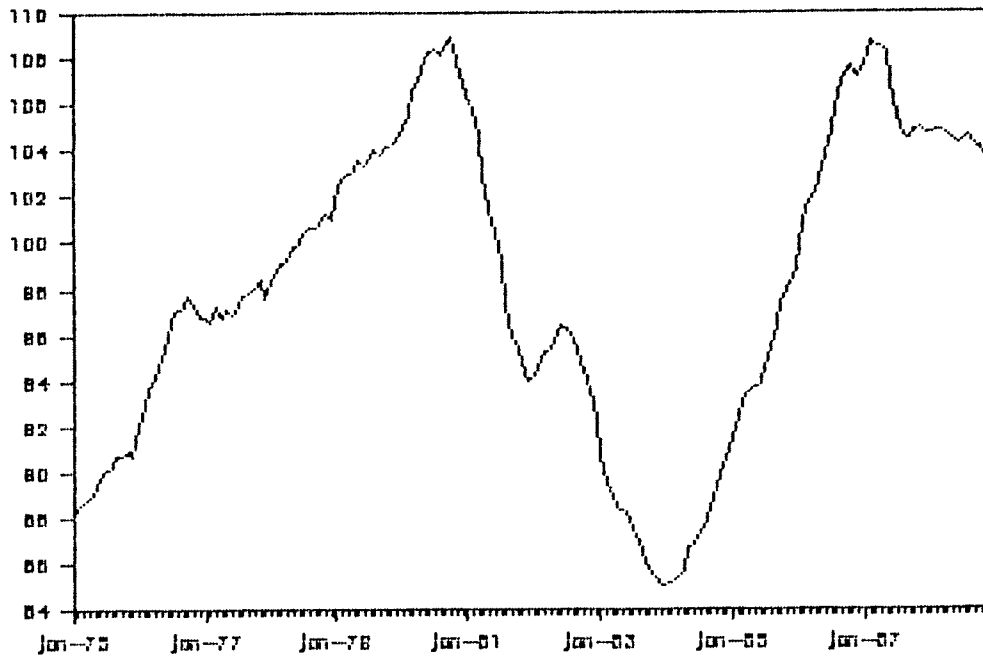
	Brazil	Southeast	Northeast
Urban labour force	3.8	3.27	5.40
Urban employment	3.41	2.00	5.18
Urban unemployment	10.15	9.93	8.17
Low-pay urban jobs (less than one minimum wage)	11.09	12.20	11.22

Source: Jatobá (1989)

The first important information to mention is that low-paid jobs contributed with more than 90% of the creation of new positions. In the Southeast, the 2% increase in non-agricultural employment resulted from the creation of low-pay self-employed and non-signed contract jobs. The second information of some interest is that unemployment grew faster in the Southeast than in the Northeast implying that the recession hit the industrialized sectors harder.

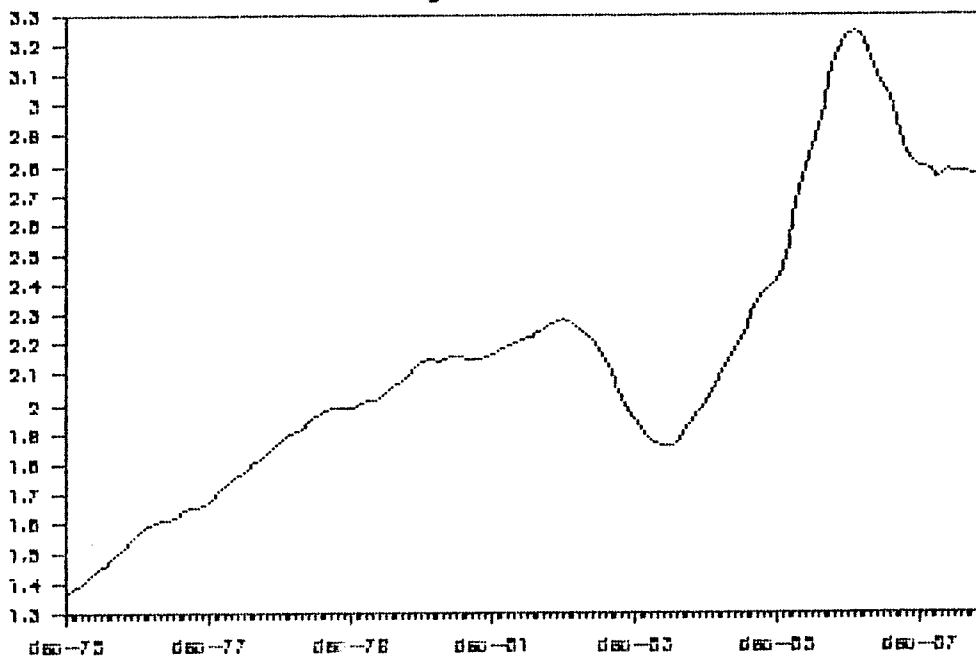
Turning to more disaggregated data, we can see that during the structural adjustment period (1975/1980), the level of employment in industry increased, the same happening with real wages.⁶ Figures 3 and 4 below presents the evolution of employment and real wages in the industrial sector of São Paulo, respectively. They show the increase in employment levels and in real wages during the second half of the seventies.

⁶ This is the nominal wage in month t deflated by the cost of living index of month $t + 1$. This takes into account the fact that the wage received in the end of the month is expended in the following month.



Industrial Employment in São Paulo

Figure 3



Industrial Real Wages in São Paulo

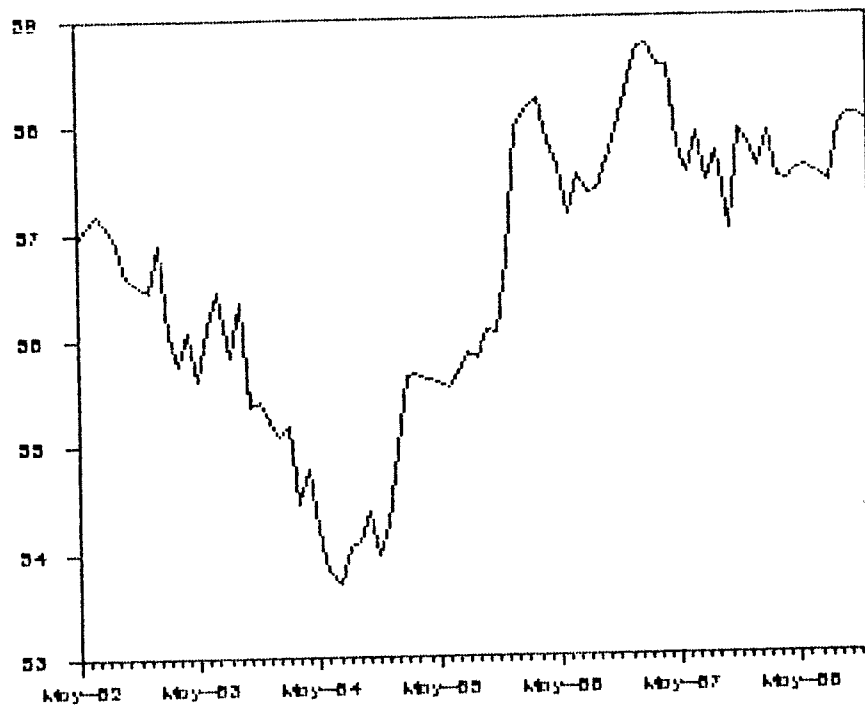
(12 months moving average)

Figure 4

The percentage of employed workers with a sign contract job, which corresponds to the protected segment of the labour

market ⁷, also increased during this period (see Figure 5).

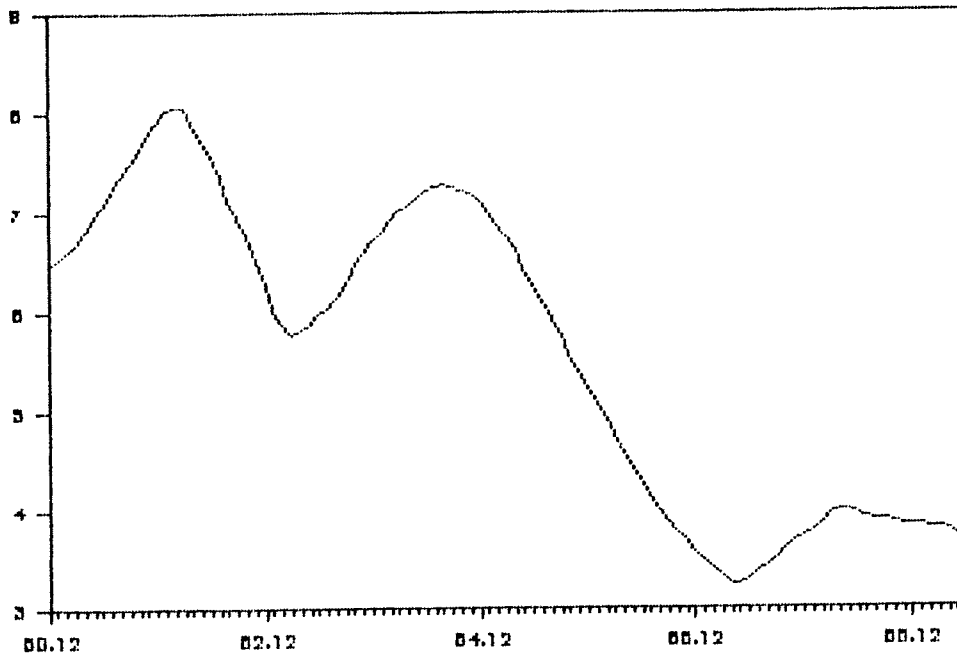
As opposed to this period characterized by growth and labour market improvement, the financial adjustment years (1981/1983) were characterized by sharp reduction in industrial employment, real wages and in the percentage of workers with a signed contract job. At the same time, the rate of open unemployment increased, reaching 8% of the active labour force in 1982 (Figure 6).



Percent of workers with a signed contract job

Figure 5

⁷ See next section for a description of the structure of Brazilian labour market.



Rate of open unemployment

Figure 6

After 1984, all labour market indicators turned positive again. Real wages, employment and the percentage of workers with signed contract jobs increased sharply, until 1986. After this year, the sequences of heterodox stabilization plans and the resulting instability of the rate of inflation, which varied from zero to 30% a month resulted in erratic changes in the labour market indicators as well. Real wages and the percentage of workers with a signed contract job declined in 1987 and stabilized in 1988. The rate of open unemployment also increased in 1987 and stabilized in 1988.

3.2. Distribution of Income and Poverty

Adjustment processes of the type described above usually have very important effects on income distribution and poverty levels. This section uses household surveys and Census data to analyse the evolution of income distribution and poverty in Brazil during the period of adjustment.

There is now a consensus among Brazilian economists that the period of fast growth which started in 1967 and ended in 1974 resulted in a sharp increase in income inequality of the economically active population. The Gini coefficient, which was 0.497 in 1960, reached 0.565 in 1970 and 0.622 in 1972 (Camargo, 1984) ⁸. This trend was reversed between 1972 and 1976. In this latter year, the Gini coefficient had declined to 0.583. In contrast with the previous period, the second half of the seventies showed a reduction in income inequality. In 1981, the Gini coefficient was 0.562, still very high if compared with other countries, but much smaller than the high levels of 1972.

The recession and relative prices change of the 1981/1983 period generated an increase in income inequality. The Gini coefficient grew to 0.582 in 1983. Although the economy had returned to a growth path in 1985, the Gini coefficient continued to increase, reaching 0.599 in this year. In 1986, there was a small reduction in inequality (Bonelli & Sedlacek, 1989).

There are important regional differences in this pattern. In the following table we summarize some information concerning

⁸ Although the figures for 1972 are not strictly comparable with the data of 1960 and 1970 -- they come from different sources of data (Census for 1960 and 1970 and Household survey for 1972) -- the increase in the Gini coefficient is so high that it certainly represent an increase in inequality.

the distribution of income in São Paulo, Rio de Janeiro and the Northeast in 1980. From the table, it can be concluded that the distribution of family income in the Northeast is clearly worse than in the two most developed urban areas in Brazil.

Table 3
Distribution of Income amongst Families - 1980

Region	Theil	20-	50-	5+	1+
São Paulo	.427	3.9	18.1	25.5	10.4
Rio de Janeiro	.536	3.3	15.0	30.1	13.2
Northeast	.727	3.5	14.0	36.4	15.8

Source: Jatobá (1989).

As of poverty, there has been a reduction in the degree of poverty in Brazil over the 1970's. According to Pastore et alii (1983), the percentage of poor families ⁹ fell from 40% in 1970 to around 18% in 1980. But again, as noted by Jatobá (1989), the regional differences increased. In 1970, 41% of the poor families lived in the Northeast whereas in 1980 this figure went up to 50%. In the Southeast, this percentage went from 35% to 26%.

We can also use more disaggregated data to analyse the behaviour of the earnings of different groups of workers during the period 1979/1986. The data base for this analysis is a special tabulation of household surveys (PNAD) made by FIBGE for the PNUD/OIT/BRA/87/002 project (Gatica, 1989). These tabulations divide the non-signed contract jobs into those earning less (and more) than 2 minimum wages, and the self-employed are divided into

⁹ A family is considered poor if its per capita average income is less than 1/4 minimum wages per month, which in July 1989 would correspond to approximately US\$ 20.

those who earn less than 2 or 5 minimum wages and those who earn more than 2 or 5 minimum wages. The data show the percentage of workers in each of these income brackets for the period 1979/1986 (Table 4).

Table 4
Percentage of workers, by occupational status and
income brackets
1979/1986

year	non-signed contract jobs		self-employed			
	<2MW	>2MW	<2MW	>2MW	<5MW	>5MW
1979	80,35	19,65	52,73	47,21	83,63	16,37
1981	73,02	26,98	55,39	44,55	87,19	12,75
1982	78,70	21,96	63,27	36,73	89,77	10,69
1983	73,94	26,06	55,28	44,72	84,58	15,42
1984	71,64	28,29	53,10	46,90	84,01	15,99
1985	72,94	27,06	55,05	44,95	82,38	17,62
1986	64,81	35,19	43,85	56,15	76,82	23,24

Source: Calculated by the authors with data from, J. Gatica, "Evolution y Alternativas de Medicion de la Estructura Ocupacional Brasileira: 1979-1986". Project PNUD/OIT/BRA/87/002, Políticas de Emprego e Salários, SES/MTB, Março 1989, mimeo.

One important drawback in using the minimum wage as a measure of poverty is that during the period under consideration, the real value of the minimum wage varied significantly. Hence, an increase in the proportion of workers earning less than a given number of minimum wages in itself does not imply a worsening of the distribution of income. In particular, if the real minimum wage increases in the same period, the effect on distribution becomes unambiguous. For this reason, the figures must be analysed with care so as to avoid undue conclusions. However, some tendencies can be observed from the data.

Taking the INPC ¹⁰ as a deflator, the real minimum wage increased between 1979 and 1981, declined by more than 20% until 1984, and increased again in 1985 and 1986. The growth in the real minimum wage between 1979 and 1981 coincided with a reduction in the percentage of workers with a non-signed booklet job receiving less than 2 minimum wages from 80.35% to 73.02%. Hence, there was a clear improvement in terms of the level of poverty. In 1982, this percentage increased to 78,70%, and then started falling until the end of the period (1986). However, the real minimum wage declined between 1981 and 1984, which implies that at least part of the decline of percentage in the 1983/1984 period was off set by a smaller purchasing power of the minimum wage. In 1986 the percentage of workers earning less than two minimum wages fell to 64.81% and the real minimum wage went up implying some improvement.

The same behaviour can be observed for the self-employed receiving less than 2 or less than 5 minimum wages. The percentage of workers in these income brackets increases until 1983 and then declines reaching the smallest percentage of the period in 1986 (Table 4).

These figures show that the period 1981/1983, which corresponds to the years of recession and dramatic changes in relative prices, were also years in which a reduction in the level of income of the poorest groups of workers took place.

A close observation of table 4 allows us to point out some other aspects of the Brazilian labour market. First, the

¹⁰ The INPC is a nacional consumption price index calculated by FIBGE since 1979.

percentage of workers in non-signed contract jobs receiving less than 2 minimum wages is above 70% for all years, except 1986, while this same percentage for self-employed is below 60%, except for 1982. This means that the average income of a self-employed is higher than that of a non-signed contract jobs.

A second observation refers to the figures for the year 1986. As can be seen on the table, this is the best year for both groups of workers. The percentage of workers with more than 2 and more than 5 minimum wages increased sharply this year. On another work (Camargo & Ramos, 1988) we suggest that this is a side effect of the price freeze implemented during the Cruzado Plan.

According to our argument, large firms in oligopolist sectors of the economy are more visible and thus easily controlled during price freezes. Small firms and self-employed workers, on the other hand, which are in the most competitive sectors, can evade control. As a result, the power to mark-up increases in wages to costs becomes greater in the more competitive sectors, unless the level of activity is reduced during the freeze ¹¹. The resistance of employers to the demands of workers for higher nominal wages is inversely correlated to their capacity to mark-up the increase in costs to prices. Hence, during a price freeze, big firms in concentrated sectors become less tolerant in wage negotiations, as compared to small firms in more competitive sectors of the economy.

As it is well known, the freeze adopted during the Cruzado Plan was accompanied by a sharp growth in demand, and as a result,

¹¹ Prices in these sectors are more sensitive to changes in the level of activity than prices in the oligopolist sectors, see Amadeo & Camargo (1989b).

there was a significant increase in wages of the non-signed contract workers and of the income of the self-employed. It is interesting to note that this is an inversion of the behaviour of the labour market in "normal" times. During these periods, except when demand is too high, the big firms on concentrated sectors, and the workers of these firms, normally unionized workers, have a higher capacity to affect their prices and wages.

Finally, the evolution of family poverty during the 1979/1986 period has a similar behaviour to the evolution of the labour market indicators presented above. Using the Poverty index developed by Sen (1976, 1984) and calculated by Hoffman (1989) for the Brazilian economy, we can see that this index, as well as the proportion of poor families, increased during the recession period and declined after 1983. This is the case for Brazil and for all the regions in the country (see table 5).

Table 5
Family Poverty in Brazil and Four Big Regions
1979/1985

Region	Year	H	P
Brazil	1979	0.209	0.131
	1980	0.219	0.126
	1981	0.208	0.132
	1982	0.211	0.133
	1983	0.265	0.169
	1984	0.243	0.153
	1985	0.222	0.138
Northeast	1980	0.439	0.260
	1981	0.384	0.234
	1982	0.382	0.230
	1983	0.455	0.293
	1984	0.407	0.257
	1985	0.396	0.248
Southeast	1980	0.115	0.066
	1981	0.131	0.088
	1982	0.134	0.090
	1983	0.181	0.116
	1984	0.175	0.111
	1985	0.151	0.094
South	1980	0.161	0.090
	1981	0.160	0.099
	1982	0.167	0.106
	1983	0.223	0.138
	1984	0.198	0.121
	1985	0.173	0.104
Center-west	1980	0.202	0.115
	1981	0.188	0.119
	1982	0.186	0.117
	1983	0.227	0.135
	1984	0.212	0.127
	1985	0.183	0.110

Source: R. Hoffman, *op.cit.* (1989), p. 45.

H = proportion of families below poverty line.

P = Sen poverty index.

Poverty line = minimum wage of August 1980.

It is interesting that poverty levels increased more in the richest regions (southeast and south) than in the poorest region (northeast), thus reducing the regional disparity observed

in the 1970's. Indeed, the recession hit hardest the more industrialized and urbanized regions of the country. This also suggests that Brazilian poverty is now more of an urban problem, except in the northeast, than a rural phenomenon. The lack of institutional protection to urban unemployed results in the growth of the slums population in the largest cities and in the increase in urban violence in the country. This makes recession and unemployment a hard problem to cope with politically.

4. Labour Market Segmentation and Stabilization Crisis

The description of the behaviour of the labour market during the periods of adjustment and stabilization crisis, assumed implicitly a 'passive' role to this market in the economic process. Actually, conditions were quite different and workers reacted strongly to the economic policies implemented, and played an 'active' role. Very important structural changes took place which affected in important ways the economic performance of the country. In this and the following section, we analyse these changes and how they turned into an important component of the stabilization crisis the country is now going through. We start by analysing labour market segmentation in Brazil. We then propose a combination of labour market segmentation and the output market tradables/non-tradables sectors. Finally, in section 5, we discuss the political economy of the labour market and its effects on the stabilization crisis.

4.1. Segmentation in the Brazilian Labour Market

Brazilian labour market can be divided into three different segments, depending on the legal status of the labour contract. The Brazilian labour law obliges an employer to sign an identification booklet each time it hires a worker. If the booklet is signed, the worker is eligible to all the social benefits and costs of the wage relation, which include the social and health contributions and security provided by the State, retirement, payed vacations, 44 hours a week of maximum normal work time, a

50% increase in extra time work, a minimum wage, etc. The costs of these benefits to the employer ranges between 50% and 70% of the direct wage. The first segment is composed of those workers who have their identification booklets signed by the employer. This is the "protected" segment of the labour market.

Some small firms, to avoid the extra cost of having employers with signed booklets, hire workers on a non-signed booklet basis. The group of workers which do not have a signed booklet job makes up the second segment of Brazilian labour market. Finally, there are those who work for themselves and are not wage workers. These are the self-employed. The non-signed booklet and the self-employed workers are considered "unprotected", since their working relation do not have the protection of the law.

The participation of each segment in the total employment in the economy varies depending on the sector and on the region of the country. At the national level, 38.2% of workers have a signed booklet job (from now on, signed contract job), but the numbers differ widely among sectors. In industry, 72.4% of the workers had a signed contract job in 1986, while in the services sector this percentage declines to 21.9%, and in construction the corresponding figure is 39.3%. In agriculture, only 6.9% of the working population has a signed contract job (Table 6).

Table 6
Composition of the Labour Force by Sector
Brazil, 1986

sector	Signed contract	Non-signed contract	self-employ	without remuneration	employer
Agriculture	6,9	33,2	33,2	25,2	3,5
Industry	72,4	15,9	6,6	1,3	3,8
Construction	39,3	27,9	29,6	0,7	2,5
Commerce	42,5	16,3	30,9	3,5	6,8
Services	21,9	40,7	33,2	1,5	2,7
Transport & Communication	60,2	11,9	25,1	0,7	2,1
Public Adm.	52,5	47,0	0,3	-	0,2
Total	38,2	27,9	22,9	7,6	3,4

Source: Sabóia (1988)

Table 7
Composition of the Labour Force by Sector
São Paulo, 1986

sector	Signed contract	Non-signed contract	self-employ	without remuneration	employer
Agriculture	25,5	36,0	13,9	18,9	5,7
Industry	82,6	11,6	1,5	0,7	3,6
Construction	42,0	22,5	30,8	0,5	4,2
Commerce	47,7	16,7	24,0	2,6	9,0
Services	28,1	36,5	30,7	1,3	3,4
Transport & Communication	68,2	8,7	19,2	1,1	2,8
Public Adm.	42,0	57,9	-	-	0,1
Total	54,8	23,5	14,7	2,6	4,4

Source: Saboia (1988)

Table 8
Composition of the Labour Force by Sector
Northeast, 1986

sector	Signed contract	Non-signed contract	self-employ	without remuneration	employer
Agriculture	3,3	33,0	38,5	23,1	2,1
Industry	41,7	27,9	23,2	3,9	3,3
Construction	32,4	37,6	28,2	0,6	1,2
Commerce	25,1	17,6	48,4	5,4	3,5
Services	12,0	46,3	37,6	2,2	1,9
Transport & Communication	42,9	19,4	35,3	1,0	1,4
Public Adm.	59,7	39,6	0,5	-	0,2
Total	21,8	32,5	32,2	11,4	2,1

Source: Saboia (1988)

The regional differences are also very important. In São Paulo, the most developed region of the country, the percentage of workers with a signed contract job in 1986 was 54.8%, while in the northeast it was 21.8%. While in São Paulo, the percentage of workers with a sign contract job in the industrial sector represented 82.6% of the total, in the Northeast the corresponding percentage was 41.7%. In the service sector of São Paulo the figures were 28.1% as compared to 12.0% for the Northeast.

A second important consideration is the evolution of each segment of the labour market during growth and recession periods. When the economy is growing, the percentage of workers with a signed contract job increases, the opposite hapening when during a recession. Thus, in 1979, 53.2% of the non-agricultural workers had a signed contract job. In 1983 this percentage had declined to 45.5%. After this year, it increased reaching 49.2% in 1986. The

percentage of workers in non-signed contract jobs had the opposite behaviour. It was 23.2% in 1979, 33.8% in 1983 and 26.3% in 1986.

Table 9
The Distribution of Employed Workers by Occupation
Agricultural and Non-agricultural Activities
Brazil, 1979-84

Occupation	1979		1981		1982		1983		1984	
	A	NA	A	NA	A	NA	A	NA	A	NA
Signed contract	4.5	53.2	4.9	50.0	5.3	49.1	4.0	45.5	5.3	47.6
Non-signed	29.5	23.2	31.8	24.9	31.0	25.2	33.8	29.5	33.4	26.9
Self-employed	29.8	17.9	30.4	19.5	30.7	20.2	30.3	19.8	30.4	20.3
Non-paid	32.7	2.1	29.4	1.9	29.5	2.3	28.7	2.1	27.6	1.9
Employers	4.0	3.8	3.5	3.0	3.5	3.2	3.2	3.1	3.3	3.3

A = agriculture; NA = non-agriculture.

Source: Saboia (1988)

The percentage of the self-employed is quite stable during this entire period. Regardless of the macro-economic behaviour of the economy, this percentage varies around 20% of the non-agricultural labour market between 1979 and 1986.

These numbers suggest an alternative to the 'protectionist' approach to the segmentation of the labour market according to which workers with a signed contract (protected workers) should be classified as participants of the formal segment, and workers with non-signed contract jobs and self-

employed (unprotected workers) should be combined to form the informal segment. In the alternative approach, on one side, there are the wage workers, with and without a signed contract job, and on the other segment, the self-employed workers. Short-run adjustments take place inside the first segment of the labour market while changes in the second segment are basically a long run phenomenon. \¹²

This segmentation is based on the fact that wages are determined in the labour market through supply and demand for labour and collective bargaining while incomes of the self-employed are determined in the output market through competition between goods produced and/or commercialized in registered firms and goods produced and/or commercialized by the self-employed.\¹³

In agriculture, the behaviour is very different. The self-employed plus workers without remuneration comprise 60% of the working population, and workers with a signed contract job is a very small percentage (between 4.0% and 6.9%) of the total. Although the percentage of workers with a signed and non-signed contract job tend to increase, there is no clear evolution in the self-employed segment of the agricultural labour market.

We thus conclude that most of the jobs in the industrial sector are signed contract jobs (around 80%), while a large proportion of the jobs in the service and construction sectors is

¹² There is a further segmentation within the formal segment between unionized and non-unionized workers to which we shall turn presently.

¹³ . For a formal model which analysis the interactions between these two segments, see Camargo (1989).

non-signed or self-employed jobs. In agriculture most of the workers do not have a signed contract. On the other hand, substitution between signed and non-signed contract jobs is higher than between these and self-employment.

4.2. Output Sectors and Labour Market Segments: a suggested approach

As most of the tradables are industrial goods, while the non-tradables sectors are service, construction and government, the above segmentation can be combined with the tradables/non-tradables classification to provide an interaction of the goods and labour market segments in the Brazilian economy.

Taking into account the segmentation proposed above, we can divide the labour market into two segments, the wage workers segment, which includes signed and non-signed contract jobs and the self-employed. The production of tradable goods (industrial output) basically generate signed contract jobs, while non-tradables generate signed and non-signed contract jobs. Table 10 shows the interaction between output and labour market segmentation.

Table 10
Interactions Between Output and Labour Markets
Segments

Goods market	<u>Tradables</u>	<u>Non-tradables</u>
Labour market		
<u>Wage workers</u>		
- signed contract	Industry	Government, state enterprises & financial
- unionized		
- non-unionized		
- non-signed contract (non-unionized)	Agriculture	Commerce, services, construction & agriculture
<u>Self-employed</u>	---	Commerce, services & agriculture
- non-unionized		

Table 10 includes a third dimension on the segmentation of the Brazilian labour market, the unionized and non-unionized sectors. This third dimension is very important for the analysis of the role of the labour market in the adjustment process, as we will see below. Data on unionization rate in Brazil is not easy to get, but for 1986 it is possible to make an estimation based on household survey conducted by IBGE. ¹⁴

¹⁴ These data come from the Pesquisa Nacional por Amostra de Domicílios - 1986, Supplement on Associativism (PNAD). Fundação Instituto Brasileiro de Geografia e Estatística (IBGE), 1986.

Table 11 shows the percentage of wage workers who are member of a class association (union or not) in Brazil in 1986. To arrive at the numbers on Table 11, some hypotheses are needed. First, the original data refers to the occupied labour force and do not discriminate between wage workers and self-employed. As a large percentage of the self-employed in Brazil are street vendors, and workers who perform construction and other small services, we decided to take out all self-employed and workers without remuneration from the total occupied labour force. Thus, we are assuming that workers on these two groups are not members of class associations. This is not strictly true since a share of professionals belong to associations. However, not only this share is relatively small but the proportion of the professionals in the self-employed is also small in Brazil. So, there is some over-estimation in the unionization rate.¹⁵

A second aspect refers to the fact that employers are not separated from workers in the data. So, we decided to make two indexes. The first (U1), assumes that all employers belong to a class association. It is an under-estimation of the rate of workers belonging to a class association (from now on rate of unionization, for short). The second (U2) assumes that none of the employers belong to a class association and so, is an over-estimation of the rate of unionization.

¹⁵ If we compute the rate in relation to the occupied labour force, instead of the wage workers, the most important changes are in the auxiliary service and transport and communication sectors (increase of 10 percentage points in each). But these two sectors together represent only 6% of the total occupied labour force in Brazil. The rate in the industrial sector changes very little and is concentrated in the northeast (6 percentage points). In the more developed regions, the Southeast and the South, the changes are about one percentage point only.

Table 11
 Percentage of non-agricultural wage workers
 members of a class association
 Brazil - 1986

Sector	U1 %	U2 %
Total	21.36	28.05
Manufacturing	29.10	33.94
Construction	12.30	16.22
Other Industries	43.36	44.62
Commerce	14.79	27.25
Services	5.61	10.44
Auxiliary Serv.	36.30	50.88
Transp. & Commun.	43.37	46.28
Social Services	25.85	27.64
Public Administ.	20.89	21.05
Others	48.56	50.35

Source: PNAD - 1986, Supplement on Associativism. IBGE, 1989.

Table 11 shows that the rate of unionization varies widely between sectors. In manufacturing it is close to 30% and in the other industrial sectors close to 40% of the wage workers. Transport and communication sector has also a relatively high rate of unionization. On the other extreme, services and construction are the least unionized sectors, close to 10% of the wage workers.

Differences are also important between regions. As expected, the rate of unionization is higher in the most developed regions (South and Southeast) than in the less developed regions (Northeast). While in the Northeast the two rates are 16.4% and 22.32% for U1 and U2, respectively, the corresponding numbers for the South are 27.09% and 33.23%, and for the Southeast 21.62% and 28.62%.

Combining the informations on Tables 5 through 11, we can see that most of the employment in industry (tradables) is wage employment with a signed contract job. In the more developed region of the country, São Paulo, this group represents more than 80% of the total employment in industry. The rate of unionization of this group is above 30%. On the other hand, the non-tradables sectors, mainly construction and services, have a much smaller percentage of workers with a signed contract job and a rate of unionization of about 10% of the wage workers in these sectors.

These results imply that a large share of jobs in the tradables sectors are wage workers and unionized, and very few are non-signed contract jobs (except in agriculture). On the other hand, the non-tradables sectors generate jobs in all segments of the labour market.

The interaction between the labour and the goods market, and the introduction of unionization as a third dimension, have major implications for the analysis of the recent financial adjustment in Brazil. First, if we associate changes in relative prices in favour of the tradables sector with a reduction of the wage:exchange rate ratio and recognize that workers in the signed contract/unionized segment are able to resist (at least better than other workers) reductions in their real wages, then it seems clear that the non-unionized workers of the non-tradables sectors suffered most the costs of the adjustment. ¹⁶

Second, because unionized workers usually have signed contract jobs, and non-unionized not necessarily have signed

¹⁶ We provided evidences of this conclusion in the previous section .

contract jobs, changes in the level of activity (or demand for labour) affect the two types of workers differently. The non-unionized worker with a signed contract job, who is usually less qualified and fired during a recession rather than laid off, tends to move into the non-signed contract market. The segmentation is not very strong for the non-unionized worker. The unionized worker, on the other hand, is usually better qualified and laid off rather than fired during a recession and will tend to remain unemployed rather look for a job in the non-signed contract or self-employed segments. \¹⁷

For the agricultural sector, most of the tradables output is produced in large farms (soy beans, coffee, orange, sugar cane etc.) while food for domestic consumption (rice, beans, vegetables, etc.) is produced in small farms. Large farms employ wage workers and most of the signed booklet jobs in agriculture are located in these large farms. On the other hand, self-employment and family, non-remunerated, employment is a characteristic of the small farm sector. Thus, also in agriculture, the combination tradables-signed contract, non-tradables-non-signed contract and self-employed can be taken as a good approximation of reality.

¹⁷ As seen above, the rate of unemployment grew more in the Southeast, where the tradables/unionized sectors are located, than in the Northeast, where most workers are not qualified and unions are less organized.

5. The Political Economy of the Labour Market

This combination of wage workers/unionized and tradables sectors makes it very difficult (if not impossible) to understand the role of the labour market in the adjustment process in Brazil if we do not take into account the political changes which happened in the country, how they affected the structures of unions organization and collective bargaining, and the process of determination of nominal wages and prices in the economy. This section deals with the links between adjustment policies and the political economy of the labour market.

While the adjustment process was taking place, very important political changes were also occurring. The latter affected not only the power but also the structure of the labour unions organization and, in consequence, the wage and price determination process in the country.

5.1. Historical Perspective

Between 1943 and 1988, the Brazilian labour market and union structure followed a set of laws called the Consolidation of the Labour Laws (CLT). According to these laws, unions were organized on an occupational basis, by cities, and needed the formal approval of the Ministry of Labour to represent workers. If approved, they had monopoly of representation and were grouped by occupation at the state level to form a Federation, and in a sector basis at the national level to form a Confederation (industry, commerce, banks, agriculture).

A financial contribution to the union was compulsory for all workers in a given occupation, regardless of union affiliation. The total revenue collected was divided between the union itself, the federations, the confederations and the Ministry of Labour. A law regulated the use of this fund and the fiscalization was a responsibility of the Ministry of Labour, which had an important coercion power over the unions. It could intervene and depose the board of directors, nominate a new board, regulate and control the election process ¹⁸.

A very restrictive strike law was approved in 1964 (law 1330). Restrictions included approval by a formal convention in secret ballot, previous notification to the employer, prohibition of political and solidarity strikes. Also, a large number of sectors were considered essential and strikes in these sectors were also forbidden.

Collective bargaining were conducted between labour unions and employers representatives, at the occupational and city level. Each occupation had a different date for collective negotiation, and the legal periodicity of the negotiations was one year. If agreement was reached, it could be either approved by the Ministry of Labour, or not. If approved, it acquired force of law. The law stipulated that the agreement should be in line with the economic policy followed by the government.

There was a system of Labour Courts with jurisdiction over the social and individual rights of the workers. If no agreement was possible, one of the parts could call a "dissídio" and the

¹⁸ For a detailed description of the CLT, see Amadeo & Camargo, 1989.

dispute would be sent to the Labour Courts at the state level. The sentence at this level could be appealed to the Superior Labour Court, whose decision was final.

The above description suggests that the objective of the legislation was the creation of a decentralized union organization -- very much dependent and controlled by the State -- based on an atomized process of collective bargaining in which an important role was ascribed to the Labour Courts. The same law, which stipulated the rights of the workers, established a very strong system to control the unions.¹⁹

As a result, until 1964, the power of the Brazilian union movement was very much dependent on the attitude towards labour of the government in charge. When it was favorable to labour, the political power of unions increased and vice-versa. The period 1962/1963 represented the years of highest political power, and also of union activity and capital-labour conflicts.

5.2. Authoritarian Rule and Democratization: conflict and stalemate

The political regime installed by the military coup of March 1964, maintained the same institutional framework described but the political scenario changed completely. The strong anti-labour bias of the authoritarian military government, generated a period of repression in which the stronger labour unions in the

¹⁹ Collier & Collier (1979) argue that organized labour and state relations in Brazil during this period was mainly based on concessions to labour (monopoly of representation, compulsory contribution, etc.) combined with high level of constraints to effectively organize labour, what they call 'State Corporatism'.

country were dismantled. A large number of labour leaders were enjaid in 1964/1965, reducing considerably the power of the labour movement (Souza & Lamounier, 1981). As a result, until 1974 the degree of labour and political activity was substantially reduced.

At the same time, a major change was introduced in the process of nominal wage determination and in the extent of employment protection. Up until 1965 wages were negociated yearly on an occupational and city basis. Further, the minimum wage was determined by decree of the President, at his discretion. In 1965, the government introduced a wage law according to which the rate of change of nominal wages should follow a general rule imposed by the central government. Agreements, to be aproved by the Ministry of Labour, should obey conditions imposed by the general economic policy. If agreement could not be reached and the dispute went to the Labour Courts, the final result was the application of the rule stipulated by the wage law. As unions were very weak the wage policy became a very important instrument in the process of nominal wage changes and indeed, of macroeconomic coordination. Actually, it was a mechanism to centralize nominal wage determination. To quote an important economist who was part of the team which formulated the policy at the time:

"wage indexation laws ... were intended to act as incomes policy tools. From 1965 through 1979 wage laws had a binding effect in all collective wage negotiations, leaving no degree of freedom to the employers or the employees. [The formula] became an incomes policy device because both productivity gains and the expected rate of inflation were decreed by the government, leaving no room for collective bargaining or strikes" (Simonsen, 1983, pag. 118 and 119).

The second important change was in the employment relation. Before 1964, there was an employment protection law,

which made it very expensive to fire a worker. The cost increased with seniority in the enterprise. After 1965, a fund was created (FGTS), financed by employers, which reduced the costs of dismissals and made it easier to fire workers thus, increasing the degree of discretion of employers in the labour market.

The reactions to the authoritarian rule increased during the seventies, and the military government was forced to implement a 'controlled' process of democratization, which started in 1975. The consequences of these changes on the wage law and on the unions structure were very important.

Until 1974, according to the wage policy, nominal wage adjustments were determined as a function of past and the expected future inflation. The wage policy followed during the 1964/1974 period used the 'expected' rate of inflation as an instrument to reduce the actual rate of inflation. During this period, the expected rate of inflation was consistently underestimated by the government, resulting in a reduction of real wages and downward pressure on the rate of inflation. Given the weakness of the labour movement this mechanism worked quite well to reduce the rate of inflation until 1974 when the political situation changed (see Amadeo & Camargo, 1989d).

The liberalization of the political system and the reduction in the degree of repression of the labour movement had two very important effects on the process of nominal wage determination. First, as noted in section 2, unions pressured the government to increase the degree of indexation of wages to the past rate of inflation. The underestimation of the expected inflation was rightly seen by the unions as an important cause of the systematic reduction in real wages. Second, the capacity of

unions to mobilize workers increased sharply during the second half of the seventies and the eighties.

The response of policy makers was an increase in the degree of wage indexation through changes in the wage formula with no change on the structure of the system. In 1975, a change was introduced in the wage formula to take into account the difference between the expected and actual rates of inflation. In 1979, the idea of expected inflation was completely abandoned, wages became indexed only to past inflation, and the wage adjustment period was reduced from one year to six months (see Simonsen, 1983 and Amadeo & Camargo, 1989d). The period of adjustment of wages was gradually reduced until a situation of monthly adjustments was introduced in 1987.

Union mobilization had also an important effect on the structure of the labour movement. The labour movement which re-emerged in 1975 was completely different from the one of the previous period. Instead of utilizing the official union structure, the new labour leaders mobilized workers directly at the factory level. As the mobilization increased, they were able to attract the most important unions in the most important industrial regions of the country, especially in the Southeast.

In the beginning of the 80's a Workers Party (PT) was created to represent the workers in Parliament and in 1983 a centralized national union (Central Unica dos Trabalhadores - CUT) was created.

Because the institutional framework which regulated the capital/labour relation in the country was not adapted to the new democratic regime, and the penalties imposed by the law were excessively rigid, the government simply avoided using them when

there was a disrespect of the law. Strikes became very violent and frequent, and the law was not imposed because it was considered too authoritarian for a democratic regime. Thus, an institutional vacuum was created.

The strong tendency towards the centralization of the union structure, and the link between the unions and the political representation of the workers, made it easier to transform gains in specific collective bargains into gains in the aggregated level.

At the same time, collective bargaining was further atomized as a strategy of the unions. To obtain favourable agreements, unions decided to bargain at the firm level in the biggest firms, where workers mobilization was greater, and then transformed the agreement arrived at into a national demand. Negotiations occurred over the year (each occupational group in a different month). Hence the demands of the most organized unions gradually became a guide for the demand of unions around the country. The support of the central union increased significantly the power of each and every union, thus enhancing the chances of having their demands satisfied.

In a regime of chronic, high and accelerating inflation, the levels of uncertainty are enormous, and this makes rational for each individual union to demand changes in nominal wages above the rate of past inflation. This attitude tends to feed the acceleration of the inflationary process.

The dissynchrony between the centralized union structure and a decentralized collective bargaining process generated very unstable macroeconomic results. At the firm level, unions are not worried about the results of their bargaining on the economy as a

whole, and indeed, there are not any good reasons for unions to internalize the macro effects of their bargaining in a decentralized structure of negotiations. But the spread out of the demands of the most organized unions through the national union (in particular wage increases) feeds the acceleration of inflation. As the level of labour conflict increased sharply after 1975, and especially after 1984 with the new civilian government, there has been a persistent increase in the degree of labour conflict and acceleration of the rate of inflation.

The degree of union activism can be measured by the strike activity between 1979 and 1986. Table 12 shows an estimation of strike activity during these years. It can be noted that in 1979, the number of strikes more than doubled as compared to 1978, stabilized during the period 1980/1982 and increased sharply again after this year until 1986. The data also show that the most conflictuous groups are the industrial workers and the middle class wage earners.

Table 12
Number of Strikes

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Industrial workers	84 (72)	77 (31)	43 (29)	41 (27)	73 (50)	189 (54)	317 (64)	246 (39)	534 (53)
Middle class workers	8 (7)	55 (22)	43 (29)	48 (3)	31 (21)	85 (24)	84 (17)	211 (34)	237 (23)
Housing industry	8 (7)	20 (8)	19 (13)	7 (5)	4 (3)	10 (4)	18 (4)	23 (5)	45 (5)
Others	5 (4)	44 (18)	18 (12)	34 (22)	11 (8)	16 (5)	11 (2)	14 (2)	1 (1)
	118 (100)	246 (100)	144 (100)	150 (100)	144 (100)	347 (100)	492 (100)	619 (100)	1004 (100)

Source: NEPP/Unicamp reproduced from Tavares de Almeida (1988).

Data on the labour activism is much better after 1985, when the Ministry of Labour started to publish statistics on the issue. Although these data are not comparable to the above statistics it is a much better picture for the period after 1985. Table 13 shows data on number of strikes and the number of workers on strike between 1985 and may 1989.

Table 13
 Number of Strikes and Numbers of Workers
 on Strikes
 1985/1989

year	number of strikes	numbers of workers on strikes
1985	843	6,635,183
1986	1,493	7,146,958
1987	2,275	8,303,807
1988	1,914	7,137,035
1989 (until may)	1,672	7,832,892

Source: Mercado de Trabalho - Indicadores Conjunturais, Ministério do Trabalho, Maio, 1989.

As can be seen from the table, the number of strikes as well as the number of workers on strikes increased sharply after 1985. The first figure more than doubled in the first three years, declined a little in 1988 and increased sharply in the first five months of 1989.

The "explosion" of labour activism in the first semester of 1989 is important to understand. In January of 1989, the government introduced a price freeze (for the third time in less than three years) and decided to finish with all indexation mechanism. So, for the first time in more than 25 years there was no explicit nominal wage adjustment rule in the country. As the freeze was not effective, the future rate of inflation became very uncertain. As wage negotiations take place once a year for each group of worker, the non-existence of a wage adjustment law meant that workers and employers had to estimate the rate of inflation of the next 12 months in the moment of the wage negotiation. If the workers accepted a low rate of nominal wage adjustment and the

rate of inflation was too high, the real wage could decline sharply during the following year. On the other hand, if the employers accepted a high rate of nominal wage adjustment and were unable to pass this increase to prices, the real cost of labour increased and profits declined. Given the high degree of uncertainty about the future rate of inflation, conflict increased as shown in table 13. In June 1989, a new wage adjustment law was introduced by the Congress. Although there is no data available up to the present date (October 1989), there was a clear reduction in strike activity after this month. This also suggests that although the wage law lost its effectiveness as a mechanism to coordinate the process of nominal wage determination, it is still very important as an indexation device. ²⁰

The importance of labour activism is even greater when we note that most of it is concentrated in the industrial, tradables sector. Any time a change in relative prices is tried, (through an exchange rate devaluation, for exemple), real wages declines in the tradables sector. This increases the degree of dissatisfaction of labour and thus the degree of union activism. The result is nominal wage increases, as a device to protect real wages of the unionized sector. As competition is very small due to the high degree of concentration of the industrial structure and to high levels of tariffs and quantitative protection, the increase in nominal wages is marked up to prices resulting in pressures over the rate of inflation. To obtain the desired change in relative

²⁰ For an analysis of the effectiveness of the wage laws in the period 1975/1988, see Camargo (1989.b)

prices, further devaluation has to be implemented, and so further pressures over the rate of inflation shows up.

A recession, by increasing unemployment and reducing the power of labour, can check this exchange rate-price-wage spiral. But, the high degree of indexation of all incomes, the non-existence of protection to the unemployed, the low real wages, high poverty and unequal income distribution, make the political and social costs of a recession very high, at least in the size needed to reduce substantially the inflation rate. As a result, the economy is living through periods of growth and recession, with ever accelerating rates of inflation. Changes in relative prices are feasible but at very high and accelerating rates of inflation.

Thus, although unions activism can not be considered responsible for the origins of the inflationary process, its function in society that is, to protect workers real wages, and the lack of adequate social institutions able to make the intermediation between labour and capital interests, created an important incentive to conflict and made them one of the factors in the perpetuation of inflation in the country. On the other hand, the low real wages prevailing in the Brazilian economy and the very unequal distribution of income, are important incentives to political and social conflict. All these factors combine to make organized labour into a very important social actor in the Brazilian society today.

6. Concluding remarks

In this paper we made an analysis of the role of the labour market and labour institutions in the adjustment process in Brazil. We showed that as a reaction to the first international oil shock, the Brazilian government implemented a massive investment program in import substitution of capital and intermediate goods financed by external indebtedness which, in the eighties, helped to generate the external surpluses needed to pay the services of the debt. On the other hand, the democratization of the country resulted in an important change in the unions organizations and labour market behaviour, an increase in the political power of labour unions and resistance to real wage reductions.

These changes in labour market structure combined with the high degree of international protection of the industrial sector necessary to generate the external surplus, generated a complete disorganization of the process of wage and prices formation. Capital-labour conflict increased sharply and inflation accelerated reaching the 1,500% a year rate in the end of the eighties.

The solutions to this situation must take into account all these factors. On the external front, although it seems possible to generate the surplus to pay for the services of the debt, it is very difficult to solve the stabilization crisis if the country has to do so. This is so for two reasons. First, because of the effects of the external debt on the government budget. Second, because it is very difficult to generate enough competition in the product market if tariffs and quotas protection are not reduced and imports not increased.

On the internal front, a complete change in the social institutions which intermediate the capital-labour conflict in the process of collective bargaining seems urgent. This reform has to take into account the centralization of the union structure, the growing power of unions and the uncertainties of the collective bargaining process itself. To recognize the power of labour qua social actor and the centralization of the labour movement and make workers co-responsible for the macroeconomic objectives is a way out of the impasse. An increase in the centralization of collective bargaining at the sector and regional levels, synchronization and reduction in the period of negotiations of wages (not of wage adjustments since it is already very short) points in this direction. Also, the creation of conditions to increase the potential for rank and file discipline in the labour and the employers organizations is also important.

Finally, the improvement in the protection of the unemployed and the implementation of a reform of the State so as to improve its financial situation, increase the efficiency of the State apparatus (even reducing the number of State employees), and redirect resources to social programs to reduce the level of poverty and inequality of income, can also be of fundamental importance to cope with the high levels of conflict in the country and to make active monetary and fiscal policies politically less costly and so more effective instruments of economic policy.

Note that all this represents a change in the distribution of income from capital to labour on the one side and from some organized to non-organized groups of workers.

One important lesson of the Brazilian experience is that structural reforms in the context of a political democratization

process has to take into account labour market institutions, as well as the characteristics of the output market and the government sector. Without a structural reform in the labour market, which includes the process of collective bargaining, the structure of representation and participation of labour and employers in the political arena, the efforts in the direction of adjustment can be destroyed by the conflict between capital and labour which will define who will bear the costs of this process. The final result can be unsustainable levels of conflict, accelerating inflation, instability and stagnation.

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