

Amadeo, Edward

Working Paper

The impact of stabilization and structural reforms on capital-labor relations in Brazil

Texto para discussão, No. 291

Provided in Cooperation with:

Departamento de Economia, Pontifícia Universidade Católica do Rio de Janeiro

Suggested Citation: Amadeo, Edward (1992) : The impact of stabilization and structural reforms on capital-labor relations in Brazil, Texto para discussão, No. 291, Pontifícia Universidade Católica do Rio de Janeiro (PUC-Rio), Departamento de Economia, Rio de Janeiro

This Version is available at:

<https://hdl.handle.net/10419/186536>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

DEPARTAMENTO DE ECONOMIA

PUC-RIO

TEXTO PARA DISCUSSÃO

N.º 291

**THE IMPACT OF STABILIZATION AND STRUCTURAL REFORMS
ON CAPITAL-LABOR RELATIONS IN BRAZIL**

EDWARD J. AMADEO

NOVEMBRO 1992

**The Impact of Stabilization and Structural Reforms
on Capital-Labor Relations in Brazil ¹**

Edward J. Amadeo

Department of Economics, PUC-RJ
Rua Marques de S. Vicente, 225
Rio de Janeiro, BRAZIL, 22453
Fax: (021) 294-2095

¹Prepared for the LASA meetings, Los Angeles, September 24-27, 1992. I am grateful to Artur Wichman and Marcelo Guimarães for their competent research assistance.

1. Introduction

The liberal wave came to Latin America to stay. Its effects on growth and equity are still uncertain. However, it has had already important effects on the culture of economic agents in the region. It seems clear that protectionism and a significant part of the regulatory apparatus of the State created significant barriers to economic development in Latin America. Major distributive coalitions which have flourished over decades are seriously menaced by the new waves, and these are certainly good news.

The effects of the liberal economic and institutional reforms on the labor market and capital-labor relations in Brazil are not very clear. On the one hand, because the reforms did not reach the labor legislation yet, and on the other, because the effects on the attitudes of firms, unions and the workers are not clearly discernible due to the concomitant influence of the stabilization policy in course. In other words, the reforms have been adopted together with a very orthodox and severe stabilization policy, and it is therefore very difficult to separate the effects of each of the two processes.

However, some of the effects work in the same direction. Both trade liberalization and the recession resulting from the stabilization effort increase the market constraints which firms have to face, and thus their attitude towards industrial relations and labor productivity. On the other hand, the privatization process has changed the attitude of workers and unions in state enterprises towards productivity and competitiveness.

In this paper we explore the evolution of the labor movement and collective bargaining practices in Brazil in order to access the impact of both the current stabilization policy and structural reforms on the labor market and on capital-labor relations. In section 2, we discuss the relation between capital, labor and the State, and differentiate the old corporatist structure from the new-union movement of the 1980's. The evolution of collective bargaining practices with emphasis on the 80's is presented in section 3. Section 4 is devoted to the impact of the recession and the structural reforms on the attitude of firms and unions, and the effects on the labor market. Section 5 concludes.

2. The Relation between the State and the Labor Movement

We first look at the relation between the State and the development of the labor movement in Brazil between the early 1940's and the early 1990's. The period is divided into three sub-periods corresponding to three broadly defined phases in the political history of the country. The first, from the early 1940's up until the Coup d'Etat of 1964, is characterized by an 'institutionalized state corporatist' system in which the State is able to create an environment of harmonious but increasingly conflictual relation with the unions. The second

period, of military rule (1964-77), is marked by a 'repressive corporatist' system in which the control over the labor movement is exercised with the use of force. In the third period, from 1978 to today, in a response to the dependency of the union movement in relation to the State, the re-emergence of union militancy is characterized by high levels of industrial conflict in a system which is best described by the growing 'autonomy and centralization of the labor movement.'

2.1 Institutional State Corporatism: dependency and avoidance of conflict

The origin of state corporatism in Brazil is associated with two different but interrelated aspects of the process of late industrialization. The first is a strong presence of the State in shaping the strategy, rising the necessary financial resources and providing the infrastructure for industrial development. The second, as noted by Souza (1978), the rise of organized labor and socialist parties. In Brazil, both instances were intimately related, and associated with the institutional structure established during the Vargas dictatorship (1937-1945). The State, seen as the strategist and organizer of the process of economic modernization, establishes instruments to "regulate industrial conflict by incorporating organized labor into an arbitration and bargaining system ..., by using welfare policy and social insurance as tools of social and political control, or, where these measures proved insufficient to secure working class compliance, by the suppression of autonomous labor organizations and their supersession by organs of state control". (Souza, p. 63) \¹

The anarchist movements of the beginning of the century in Sao Paulo seems to have generated enough worries in the dominant classes to lead to the adoption of a detailed labor code which established strong dependency links between the union movement and the State, and which for three decades, served (with decreasing efficacy) the purpose of avoiding major spurs of industrial conflict. The most important dependency ties were the right of the Ministry of Labor to approve the creation of unions, to intervene in unions when their actions were seen as irregular or against the orientation of the Ministry, and to veto the eligibility of certain workers to official posts.

However important institutions may be in binding (or more generally, influencing) the actual evolution of potentially conflictual relations, the fact of the matter is that agents need incentives to comply with regulations and the law. In the case of the state corporatist system in Brazil, the incentives to workers were associated with the set of rights which protected them from undue exploitation by employers such as job security, welfare benefits provided by the state and the unions, and the minimum wage. On the part of the leaders, the incentives were representational monopoly and the participation in consulting and decision making organs of the state, including the labor judicial system.

E. J. Amadeo

The incentives can be seen as preemptive actions on the part of the State, that is an anticipation of unions' demands and an instrument to avoid, or dampen, the conflict of interests between workers and employers. ²

The institutional constraints and incentives served their purposes with decreasing effectiveness, especially in the late 1950's and early 1960's when the level of industrial conflict increased dramatically. Indeed, the notion of social chaos, which was clearly associated with, and seen as an important cause of, the coup d'Etat of 1964 was impregnated with labor disputes, some with political colors. The militaries saw in the labor movement a focus of communist ideology, and in the attitude of workers an attempt to destabilize the political order.

2.2 Repressive State corporatism

The military regime introduced a very small number of changes in the labor code. Indeed, compliance with the existing set of regulations was almost all that was needed. Apart from political repression to resilient union leaders -- which should not to be neglected as an important factor in damping the opposition to the new regime--, formally, the only two important changes were the new Strike law and the adoption of wage controls.

The new regulation of strike activities was quite restrictive making almost impossible for an union to call a 'legal strike'.³ If it was declared illegal, the strike had to be immediately suspended. As noted by Sandoval (1984, p. 18),

"the various moments in which the intervention of the labor courts [could] be solicited [by employers] before a strike erupt[ed] mean[t] that the courts [had] the power to decide which strikes [would] be tolerated. In this respect, conflicts over wages and work conditions [were] generally settled by court decisions before a strike [occurred]."

The level of strike activity fell dramatically between 1964 and 1977. Not only because the strike rights were restrictive, but also because wage disputes (which accounted for the majority of disputes before 1964) were virtually non-existent in face of the binding wage controls enforced by the labor justice. Since 1965 the government fixed the annual rate of wage adjustment, thus reducing the scope for wage disputes and, indeed, the discretionary role of the labor courts. The military period was marked by the absence of direct negotiations between unions and employers, and purely bureaucratic activities on the part of labor courts. The combination of the strike law and wage controls created a void in the collective bargaining process. ⁴

2.3 'New-unionism': autonomy and centralization

The new union movement in Brazil is a response to the economic and

political model of the 1960's and 70's in which organized labor and sectors of the middle class were clearly marginalized. The key words here are inequality in the distribution of economic growth and political repression. The process of democratization which started with the Geisel administration in 1974 created an environment in which the re-emergence of the union movement was possible - which does not imply that there were not setbacks or that the opposition to the new movement was not extremely strong. In fact, the demands for union autonomy from the state and the right to negotiate with employers without the interference of the labor justice were not new, having started in the early 1970's [see Souza, p. 18], but the political climate then was not at all favorable.

The first strikes in 1978 were essentially motivated by economic demands by workers in Sao Paulo. At that time, the relation between the new union movement and political parties was openly rejected by the union leaders. However, as the movement gained momentum, it very quickly acquired political colors. On the one hand, the new leaders demanded greater autonomy and independence for the union movement in relation to the State. On the other hand, union leaders rapidly became important political actors in a broader movement in favor of redistributive economic measures, an increase in social spending and democratization.

The most characteristic features of the new union movement, and indeed innovative ones in terms of the Brazilian experience, are the search for a centralized structure and its relation with the State. We have in mind the most combative and articulate group of the labor movement which in 1983 created the Central Unica dos Trabalhadores (CUT).⁵

The incentives for union centralization are far from unambiguous.⁶ Unions --and especially the most organized and powerful unions-- have obvious incentives to keep their independence in relation to, and not be subject to, a centralized structure. The incentives are even stronger when sectoral-specific interests divide workers. Hence, as noted by Wallerstein (1987, p. 21),

"a decentralized confederal structure allows the affiliated unions to shift back and forth between alliances with their employers and alliances with other unions depending on the policy. In contrast, a centralized confederal structure binds unions in a class coalition and makes more difficult the pursuit of sectoral policies in which the interests of workers of different industries do not coincide. [...] The cost of centralization ... depends on the attractiveness of alliances along industrial lines to obtain industry-specific policies."

Industry-specific factors certainly play a role in the attitudes of unions in all economies. Also, in sectors in which the oligopoly power of firms is large, workers usually share the market rents with the firms, and do not have incentives to align with weaker unions. However, the importance of these

factors have to be weighted against factors which affect workers in general. Class-based considerations may be more important than sectoral-based factors in different economies, or at different points in time in a given economy. Wellerstein (1987) argues that were all sectors are equally dependent on foreign markets there are strong incentives for union centralization. Indeed, if all unions support export-orientation and free trade they have less cause to guard their capacity for autonomous action. In a sense, the argument holds in the case of Brazil, not because all sectors are equally dependent on external trade, but because they are all highly protected against foreign competition. Indeed, in Brazil, industry-specific factors have not been really a concern of union leaders.

The most important centripetal forces accounting for the centralization of the union movement in the last ten years in Brazil are ideological, political and institutional in nature. That is, the class-based political incentives to create a strong labor and middle class coalition seem to be the driving force. Several elements account for this. The military regime had a clear anti-labor bias, and excluded workers from the sharing out of economic gains. It also had a clear anti-left bias which marginalized important sectors of the middle class from political participation. Finally, as a result of the 'investment-oriented strategy' of the 1970's, it had a anti-social bias, which led important groups of the catholic church who took the side of the poor and marginalized groups through the Comunidades Eclesiais de Base in the rural suburban areas, to be politically repressed. These groups (industrial workers, educated middle class, and the 'descamisados' through the influence of the church) form the basis of CUT, CGT and CONTAG. What brought them together in the first place was the resistance against the military regime.

Political cleavages within CUT --the most politicized central union-- are not insignificant. If the different groups, with different social extractions and different experiences during the military regime, are going to stay together, and for how long, it is difficult to say. However, it is important to note that the cleavages inside the central union are associated with differences in ideological lines and strategies, but not with differences between, say, more narrow interests of highly organized industrial unions or industry-specific demands, on the one hand, and the broader interests of the working class as a whole on the other hand. The top priorities of the central union are class-based and horizontal in character rather than group-based demands. The most organized unions, whose leaders have been in CUT since its creation and form the core of the coordination committee, have been defending their own interests in local negotiations since the years of the military regime. The central union however has broader demands which apply to workers in general. The rational basis of these demands (agrarian reform under the control of the workers, repudiation of the external and public debts, profit-sharing, increase in social spending) are

not always clear and are subject to criticism, but they certainly express a class-based political voice and not the interest of a minority.

There is also an institutional factor explaining the centralization of the labor movement in recent years. In face of the history of labor relations in Brazil in which, as noted above, the State and an universal labor code played very important roles, it seems that the most effective way to change labor rights and institutions is through centralized organization and legislative actions. In other words, the inexistence of a culture of direct negotiations naturally leads to, and at the same time, requires a type of organization which faces the State and the labor code. This organization must have a centralized and horizontal character and its activities must aim a change in the legislative area.⁷

The political and institutional factors accounting for the centralization of the labor movement reflects an attempt by the union leaders to establish themselves in the 'political market', or to carry their actions beyond the labor market.⁸ As noted by Pizzorno (1978, p.280), differently from collective bargaining in which the control over the supply of labor and the requirements of "regularity of work" are the sources of unions' market power, in a situation of political exchange, "benefits are obtained against the thread to social order or social consensus" and the capacity of unions to distabilize the polity. Indeed, the core issue of the first meetings of union leaders in the early 1980's, and one which really influenced the division of the group between "moderates" (CGT in the future) and "radicals" (CUT), was the use of general strikes as weapons against what was seen as employers' and the government intransigence.

It seems clear therefore that the motivation behind the centralization of the labor movement in Brazil was the capacity to affect the stability of the polity. Arguments can be made that the centralization of interest organizations may either result in strong destructive conflict and confrontation, or fruitful cooperation. In the literature on industrial relations one finds convincing theses according to which the incorporation of labor into the established political system tend to reduce labor militancy. Crouch (1985, p. 111 and 113), to give an example, argues that

"once labor has been admitted to the core parties seen to make up the **ministrable** elements of a consociational political system, not only will its representatives cease to seek the overthrow of the capitalist system, but employers will also cease to entertain hopes of a nonunionized labor force... The admission of organized labor into political respectability has ... inhibited the two sides of industry from pursuing the massive conflict that characterized systems in earlier periods."

In the Brazilian case, so far, the centralization of the labor movement

E.J. Amadeo

has strengthened the bargaining power of unions and generated increasingly conflictual attitudes. The extent to which the costs of conflict will lead to an incorporation of labor and generate a more cooperative environment is still very uncertain.

The second characteristic feature of the new union movement is its relation with the state. Independence and autonomy in relation to the corporatist structure (Ministry of Labor and Labor Justice), and strong relationship with the Partido dos Trabalhadores (PT) --actually founded before the CUT in 1982 by the same workers' leaders -- are the central elements here. Union leaders affiliated with CUT have been clearly against the corporatist structure in which every action of the union is ultimately dependent on the state's acquiescence.

The tendency towards greater centralization of the movement and the demands for autonomy in relation to the State do not imply that the formal structure of the labor organization in Brazil is really that different from what it was in the 1950's. Formally, that is according to the prevailing Labor Code, unions are organized on an industry and regional basis at the local, state (federation) and national (confederation) levels. Until very recently (1988) central unions were banned, and until today there is a compulsory contribution which all workers (unionized or not) have to pay. Hence, state corporatist institutions are still in place, and old union leaders still play an important role. The new leaders entered the official structure in order to remove the old and more conservative leaders, and gradually are trying to modify the formal apparatus. The extent of the changes are still uncertain. Some of the reminiscences of the corporatist structure (most prominently the union organization based on industrial sectors at the state and national levels) does not seem to be in the agenda for future changes. Hence, the coexistence for some time of a centralized structure with strong sectoral branches is a clear possibility.

The relation with the PT is also an important element in the characterization of the new union movement in Brazil. Historically there seems to exist a strong correlation between the success of labor parties and the centralization of the union movement. Centralized union movements, because of their class-based interests help labor parties in elections --and this has clearly been the case in Brazil where a significant number of union leader from CUT have been elected representatives at both the state and federal levels and mayors of important cities, and one, Mr. Luis Inacio Lula da Silva, run for the presidency of the republic and ended second in 1989. In a survey conducted in the third congress of the CUT, 91% of the delegates voted for PT candidates. On the other hand, a strong labor party helps the creation of a bridge between the central's demands and the legislative process. In Brazil, these positive feed-back effects have been very important in consolidating both the PT and the CUT. However, as the party attempts to gain a broader base,

the relation between the central union and the party become increasingly difficult. Indeed, this has been a historical problem for labor and social democratic parties in Europe. [see Przeworski, 1985]

During the elaboration of the 1988 new Constitution, the CUT made a number of proposals through the PT and other left parties. The proposals had a clear social democratic tone: their main objective was to protect the workers from market fluctuations and to increase their bargaining power in negotiations with employers. The increase in the costs of dismissals, on the one hand, and the right to strike, on the other, are the best examples in this connection. As for more specific labor rights (reduction in work time, increase in annual bonus, etc), the objective of the CUT was to extend to all workers the achievements of the most organized unions in Sao Paulo. In most cases, the demands were included in the Constitution, and there is very little doubt that CUT came out of this process as a winner.

Although not explicitly mentioned in their programmes or in the discourse of their most prominent leaders, the dominant stream within both the CUT and PT has a clearly social democratic inclination. Indeed, the positions and strategies followed by the central union and the party, and the relation between the two, resemble those of the European central unions and social democratic parties in the inter-war period and after the second World War. ⁹ Rodrigues (1990), an expert on the history of the union movement in Brazil notes that:

"it is clear that within the majority group [in the central union] there are strong forces pushing in the direction of a social-democratic line, which would tend to direct the CUT to the attainment of economic gains and social and political reforms within the market economy."

Inside the central union there are disputes over the objectives and strategies to be followed. To be sure, there are groups who firmly oppose an acceptance of capitalist rules of the game, and see the socialist revolution as an aim. During the preparation of the new Constitution these groups were contrary to the idea of using the established institutional apparatus to voice demands. Instead, a "general strike" was advocated. The revolutionary groups favor a combative strategy, strongly rooted at the firm level, and oppose any political concertation involving employers or the parties of the center and the right.

The majority of the groups represented in the central union, however, favor negotiations within the prevailing institutional apparatus. Indeed, the president of the CUT, Jair Menegelli, has been quite clear in asserting that the central union should not declare itself revolutionary, though some of its members may be revolutionary socialists. [see Rodrigues, 1990] The attitudes of the central union's leaders, more than their rethorics, are a sign of their

social democratic preferences. As noted already, these actions have been in the direction of increasing the political power of the unions and forcing the adoption of social reforms which intend to insulate the workers' income from market fluctuations. As noted, the CUT played an important role during the elaboration of the new Constitution and has kept open the possibility of negotiating an incomes policy with the government.

3. Collective Bargaining over the 1980's

The periodization used in section 2 can also be applied to the analysis of collective bargaining. Until 1964 only half of the labor contracts resulted from direct negotiations between the union and employers. Working conditions and hours of work were based on the labor code, and only demands which exceeded those established in the law were subject to negotiations. Disputes over these issues were very rare. Mericle (1974) notes that as inflation accelerated in the late 1950's and early 1960's, wage adjustment became an important, if not the only, issue negotiated. In fact, most of the strikes in the period were associated with demands for wage increases --strikes over working conditions were unusual. Mericle studied 23 contracts in the state of Sao Paulo in March of 1964, and concludes that "none of the contracts resemble the comprehensive agreements which are common in North America... [O]f the sample of 23 contracts and court cases, 21 were concerned exclusively with the size and application of the wage increase. " (p. 205) Around 50% of the collective bargains studied by Mericle did not involve the labor justice, and in 25% of the cases, there were judicial arbitrations.

After 1964, the combination of the new strike law and the introduction of wage controls reduced dramatically the bargaining power of the unions. Direct negotiations and even judicial agreements became very seldom. In all cases, the labor courts arbitrated in accordance with the government's wage law. In 1970, direct negotiations accounted for only 19% of the cases in a sample of 47 cases studied by Mericle; in 55% of the cases there was judicial arbitration. Employers did not have any incentive to negotiate with the unions: they knew that the labor court would simply follow the wage law, and that unions did not have much of a bargaining power. The usual procedure was the refuse to negotiate with the union, and take the case to the labor court.

As a result of the binding constraint imposed on wage negotiations by the wage law, unions moved into non-wage demands. Mericle (1974, pp. 228-9) notes that in a sample of 35 important unions in the state of Sao Paulo studied in the period 1964-71, only one did not make any non-wage demand. Demands included reductions in the duration of work, working conditions, and bonuses, among others, and not an insignificant proportion of them were won. However, in most cases in which the unions were successful, the negotiation had taken place at the firm level, and the gains were not extended to other workers in the

industry.

The greatest differences between the 1980's and the previous periods are the following: (a) direct negotiations between unions and employers became the rule; (b) the wage policy gradually lost its efficacy as a coordinating instrument; (c) non-wage demands gradually spread out; and (d) the central unions (in particular, CUT) started playing an important role in negotiations. In what follows we discuss the changes in the nature of collective bargains over the last ten years.

As seen in Table 1, the proportion of direct agreements to judicial agreements in the state of Sao Paulo jumped from 0.23 in 1970-71 to 2.43 in 1981 and then remained above one in 1982-4; the percentage of judicial arbitrations to the total number of cases went from 55% to 3% in 1982, 11% in 83 and 9% in 1984.

Table 1
Nature of Collective Bargaining
Sao Paulo, 1964-1984

	Direct	Direct	Judicial
Judicial	Agreement/	Agreement/	Arbitrat/
Total(%)	Judicial	Total (%)	Total (%)
	Agreement	or arbitrat.	(ratio)
	(ratio)		
1964(March)	0.92	48	26
1970-71	0.23	19	55
1979	0.63	--	--
1980	0.96	--	--
1981	2.43	--	--
1982	1.88	66	3
1983	1.11	53	11
1984	1.20	54	9

Calculations by the author; source of data: Mericle for 1964 and 1970-71, Vasconcellos for 1979-81, and Aguirre et al for 1982-84.

Central unions were very active and influential in the discussion over minimum standards as far as labor conditions and workers' rights in the new

E.J. Amadeo

Constitution (voted in 1988) were concerned. In a sense, this can be seen as an indication that, de facto, part of the collective bargaining process does take place at the national level. To the extent that local bargaining is concerned, the degree of centralization of negotiations varies from sector to sector, and from region to region. Pastore and Zylberstajn (1986, p. 63) have carefully studied the recent patterns of bargaining, and concluded that both the CUT and CGT have been looking for

"negotiations of minimum standards at the federation level and freedom to negotiate additional clauses at the level of the firm. Innumerable agreements signed at the level of the federation [between 1984 and 1986] had to be altered ... in order to provide better conditions to workers at the level of the firm. As a general trend, we move towards a conception of negotiation akin to the European system in which there are centralized negotiations (at the federation level) over minimum standards, and decentralized mechanisms (at the level of the firm)."

Indeed, it has become a common procedure to have negotiations starting at a very high level of aggregation in the industry (to define the minimum standards), and as the demands become more specific (or simply prohibitive for the smaller firms), to have negotiations at lower levels. In some cases the central union (CUT specially) plays an important role in providing professional negotiators who bargain in the name of the local unions at high levels of aggregation in the industry. Furthermore, in many circumstances, the central union creates solidarity movements to enhance the bargaining power of those unions which are negotiating. In some important sectors, with powerful unions (banking and oil refineries being the best examples here), negotiations take place at the national level with obvious spill-over and demonstration effects.

The role of the central unions in collective bargaining and through the extension of bargaining achievements to the legislative area has been to elevate the standards of the less organized groups. On the other hand, it is indisputable that the stronger unions have also profited from the political power of the central organizations to improve (beyond the minimum standards) the conditions of their members. However, these unions would do better than the less organized anyway, which leads to the conclusion that the central unions have played an important part in reducing the disparities and inequalities, as compared with a situation of inexistence of a horizontal organization. ¹⁰

4. Collective Bargaining: the Effects of Recession and the Neo-liberal Wave

Up until the beginning of the Collor Administration in 1990, CUT was proposing a centralized national collective bargain followed by localized

negotiations. Employers associations were clearly against the proposal for they feared that centralized bargaining would enhance to an undue measure the central union's bargaining power. Their experience with the new Constitution was an indication in this respect: the unions were well organized and had very clear demands whereas the employers' associations kept a very defensive position.

The Collor Administration completely changed the institutional macroeconomic environments in Brazil. The populist government of President Sarney gave place to a very austere orthodox stabilization plan and the beginning of important structural changes, namely, the liberalization of international trade, the process of regional integration, and the privatization of state enterprises. The new environment has had significant effects on the "culture" of the private sector. There has been a process of gradual rationalization of firms and a new approach towards productivity and competitiveness. The fruits of this new attitude have not been felt on employment and growth yet as a result of the severeness of the stabilization policy.

Curiously enough, labor institutions were not object of major changes. The first Secretary of labor of the Collor government, Mr. Magri, was the main union leader of CGT, the conservative central union, and an enemy of CUT. The idea was to try to reduce the power and influence of CUT, but the incompetence of Mr. Magri in doing anything was such that, from an institutional and political point of view, nothing really changed.

The labor movement in general had to adapt to the new environment. The end of the populist era and the austerity of the stabilization plan changed the attitude of firms toward capital-labor relations and collective bargaining. Over the 80's, oligopolist firms were able to share with their workers the rents resulting from their market power. Things have changed dramatically with the recession and the thread of greater competition with imported goods. Firms are now trying to adapt to the new situation and the process of adaptation has obvious spill over effects on capital-labor relations, collective bargaining and the labor market.

The labor market has been severely affected by the stabilization policy and the process of rationalization of firms. The first sign of the adjustment is the increase in unemployment. As seen in Figure 1, the rate of open unemployment in Brazil (IBGE) climbed from 2 to 6% between Jan 1990 and Mar 1992, whereas in São Paulo (SEADE) it went from 5 to almost 10%. In Brazil, as in most Third World countries, the rate of open unemployment is not the best evidence of unemployment, broadly defined. The latter should also take into account the size of the informal sector which, in Brazil, is composed of (part of) the self-employed workers and wage workers who do not maintain legal employment relations --the so-called "trabalhadores sem carteira assinada".¹¹

E.J. Amadeo

In São Paulo, the number of self-employed workers has increased whereas the number of wage workers has fallen since 1990 as seen in Figure 2. Figure 4 shows that the level of employment of self-employed workers and wage workers "sem carteira assinada" has increased while the level of employment of wage workers "com carteira" has fallen. These are clear indications that the impact of the change in the environment has been an increase in both unemployment and the informal sector.

For the firms trying to adjust to the new circumstances, the natural tendency is to intensify negotiations within the firm.¹² Firms have assumed a very "dualistic" approach in their processes of rationalization. They have fired the less skilled workers --who now constitute the "reserve army" of unemployed and informal workers-- and kept the skilled ones. This type of adjustment is particularly important in the industrial sector, where the level of employment has fallen continuously since Jan 1990, as shown in Figure 3.

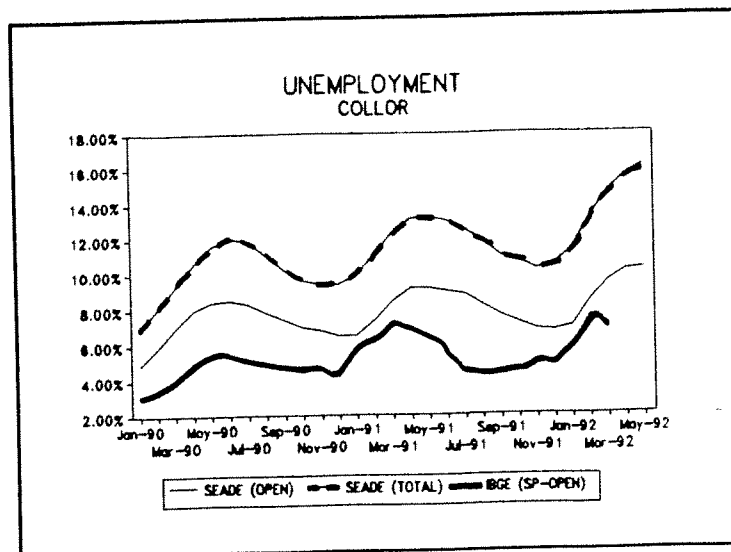


Figure 1

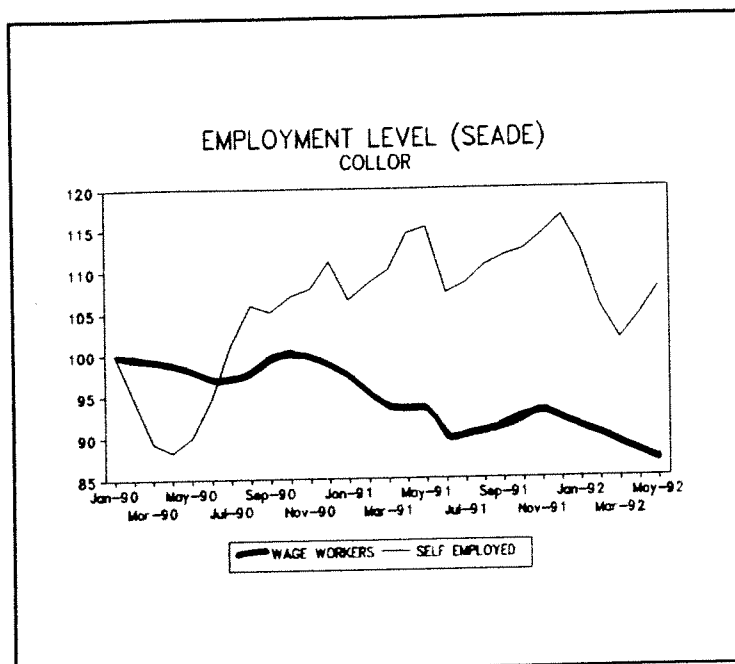


Figure 2

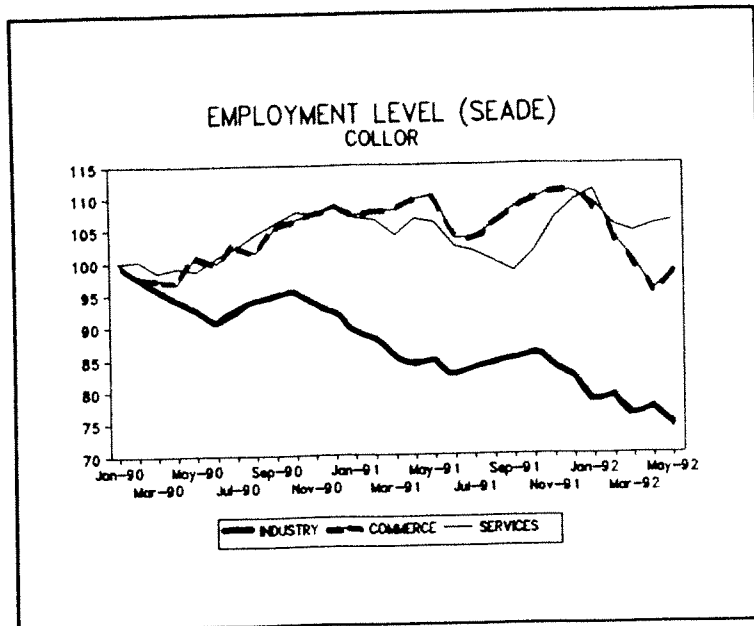


Figure 3

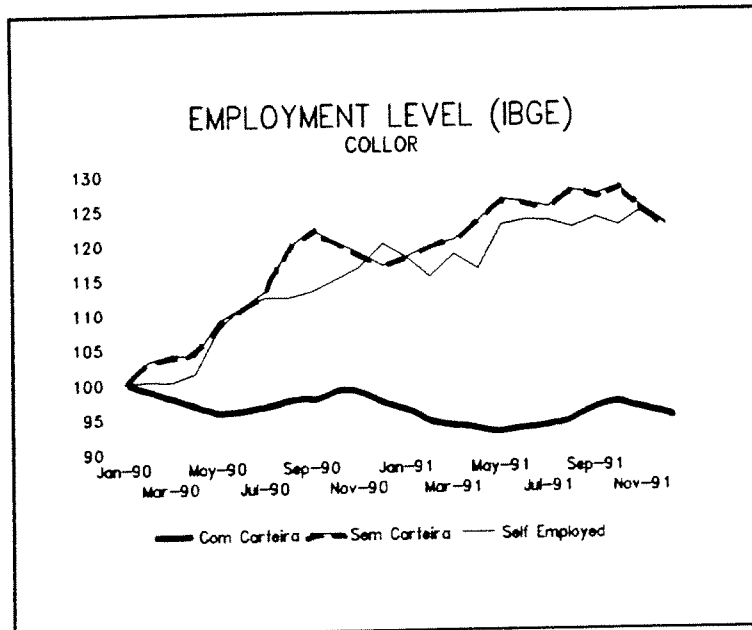


Figure 4

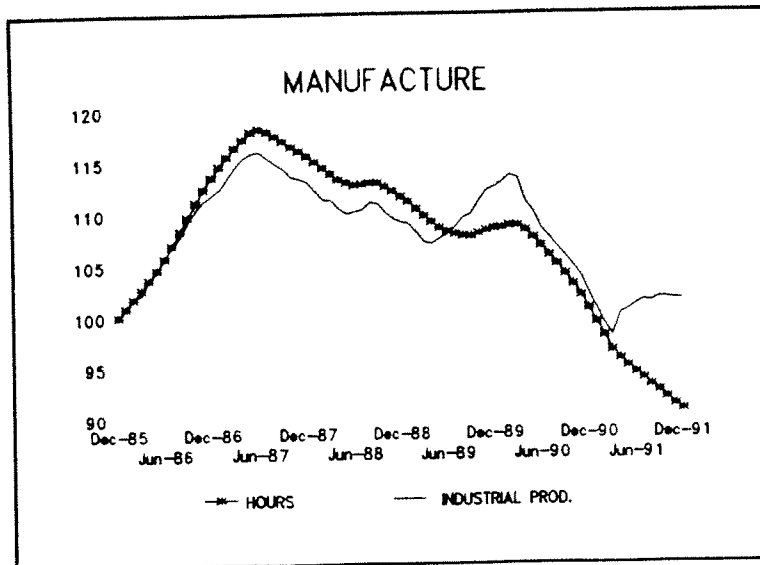


Figure 5

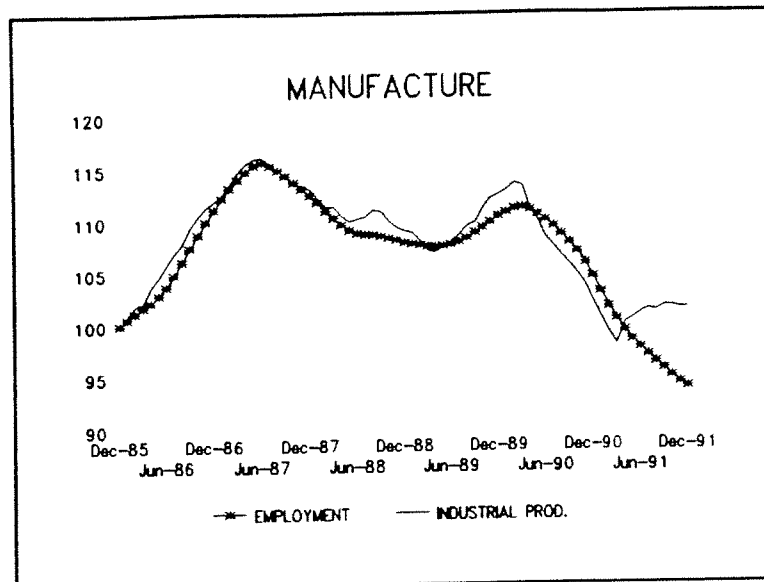


Figure 6

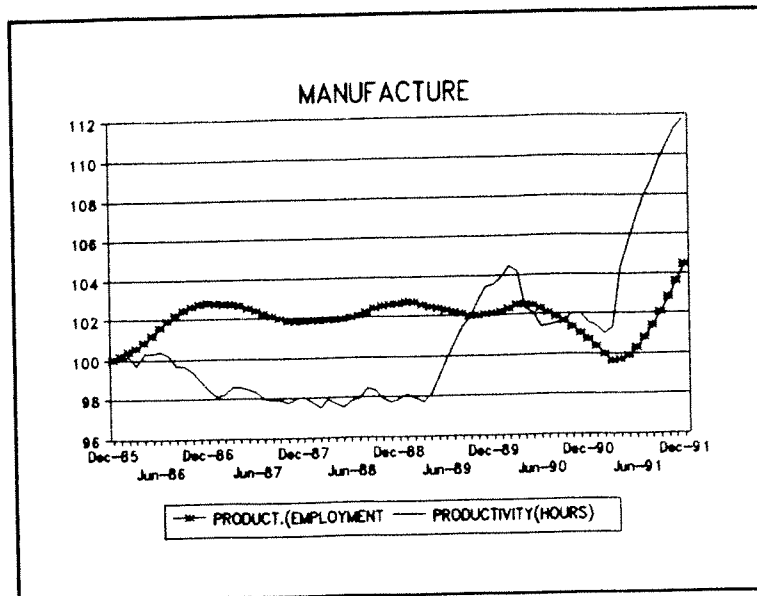


Figure 7

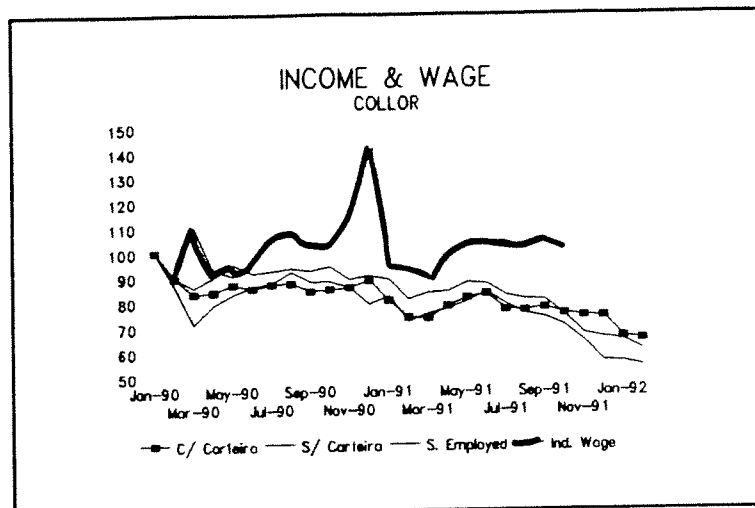


Figure 8

A different type of relationship has started between firms and the workers who remained employed. In face of the difficulties imposed by the new environment, firms seem prepared to maintain relatively stable the purchasing power of wages, but on the other hand, have negotiated reductions in working hours and have demanded greater productivity from their workers. The result

is a reduction in total hours of work greater than the reduction in the level of employment --as shown in Figures 5 and 6-- and a very significant increase in labor productivity --as shown in Figure 7. As seen in Figure 8, real wages in industry, on the other hand, have remained practically constant since 1990, whereas real wages of both formal and informal workers in the economy as a whole have fallen continuously. The stability of real wages in the industrial sector results from the fact that firms do not want to widen the dissatisfaction gap of their 'core' workers.

5. A Concluding Note

After a decade of "new-unionism", marked by the centralization and politization of the union movement, capital-labor relations in Brazil are now exposed to a liberal shock. In the late 80's the trend seemed to be towards the European "neo-corporatist" model based on centralized collective bargains and very regulated capital-labor relations. The pluralist wave of the early 90's is pulling the system in the direction of the market-oriented US model with very decentralized negotiations and deregulation of the labor market. It is very hard to anticipate what is really going to be the system of capital-labor relations and collective bargaining in the future. All that we can say is that there are forces pulling in both directions.

In a sense, it is a good thing that both forces are present. From the point of view of productivity growth and competitiveness, local bargaining and strong market constraints seem to be important ingredients. On the other hand, purely market-oriented forces, especially in the case of a country marked by economic inequity, lead to dualistic structures. The experience of the last two years discussed in section 4 provides evidences in this direction. A centralized union movement, acting as an "encompassing organization" --to use Olson's (1986) term-- is certainly a vigorous element in reducing social and economic disparities.

E. J. Amadeo

References:

Amadeo, E. 1991b. "Unions' attitudes, social structures, and wage restraint: a suggested scheme of analysis", Mimeo, Kellogg Institute, University of Notre Dame.

Amadeo, E. 1992. "A Model of Wage Over-indexation", Discussion Paper, Department of Economics, PUC-RJ.

Amadeo, E. and Banuri, T. 1991. "Worlds within the Third World: labour market institutions in Asia and Latin America", in T. Banuri (ed.), Economic Liberalization: No Panacea, Clarendon Press, Oxford.

Amadeo, E. and Camargo, J. M. 1992. "A Structuralist Model of Inflation and Stabilization", forthcoming in Revista de Economia Política.

Amadeo, E. and Camargo, J.M. 1992. "The Mirror's Image: the labor market response to the Cruzado and Collor plans", Mimeo, Department of Economics, PUC-RJ.

Bell, L. and Freeman, R. 1987. "Flexible wage structures and employment", in M. Gunderson et al (eds.) <<Unemployment: international comparisons>> University of Toronto Press.

Blanchard, O. and Fischer, S. 1989. Lectures on Macroeconomics, MIT Press.

Blanchard, O. and Summers, L. 1986. "Hysteresis and the european economic problem", in NBER Macroeconomics Annual, MIT Press.

Blanpain, R. 1987. "Belgium", in J. Windmuller (ed.) Collective Bargaining in industrialized market economies: a reappraisal, ILO.

Bruno, M. and Sachs, J. 1985. Economics of Worldwide Stagflation, Harvard University Press.

Caire, G. 1987. "France", in J. Windmuller (ed.) Collective Bargaining in industrialized market economies: a reappraisal, ILO.

Cameron, D. 1985. "Social democracy, corporatism, labour quiescence, and the representation of economic interest in advanced capitalist society", in J. Goldthorpe (ed.) Order and conflict in contemporary capitalism, Clarendon

Press.

Collier, R. and Collier, d. 1979. "Inducements versus constraints: disaggregating 'corporatism'", The american political science review, 73(4).

Crouch, c. 1985. "Conditions for trade union and wage restrain", in L. Lindberg ad C. Maier (eds.) The economics of inflation and economic stagnation, Brookings Institution.

Esping-Andersen, G. and Korpi, W. 1985. "Social policy as class politics in post-war capitalism: Scandinavia, Austria, and Germany", in J. Goldthorpe (ed.) Order and conflict in contemporary capitalism, Clarendon Press.

Filgueira, C. "Organizaciones sindicales y empresariales ante las politicas de estabilizacion: Uruguay, 1985-87", Mimeo, PREALC.

Flanagan et al. 1983. Unionism, economic stabilization and incomes policies: european experience, Brookings Institution.

Freeman, R. 1989. "On the divergence in unionism among developed countries", NBER Working Paper 2817.

Freeman, R. and Blanchflower, D. 1990. "Going different ways: unionism in the US and other advanced OECD countries", NBER Working Paper 3342.

Frenkel, R. and Damill, M. 1988. "Concertacion y politica de ingresos en Uruguay, 1985-88", Mimeo, CEDES.

Goldthorpe, J. 1984. Order and conflict in contemporary capitalism, Clarendon Press.

Hirshman, A. 1985. "Reflections on the Latin american experience", in L. Lindberg ad C. Maier (eds.) The economics of inflation and economic stagnation, Brookings Institution.

ILO. 1989. Current approaches to collective bargaining.

Jackman, R. 1988. "Wage formation in Nordic countries viewed from an international perspective", <<Working paper>>, n. 1042, Center for labour Economics.

Klau, F. and Mittelstadt, A. 1986. "Labour market flexibility", OECD Economic Studies

E. J. Amadeo

Lange, P. 1985. "Unions, workers, and wage regulation: the rational basis of consent", in J. Goldthorpe (ed.) Order and conflict in contemporary capitalism, Clarendon Press.

Lipietz, A. et al. 1990. "The rise and fall of the golden age of capitalism", in S. Marglin and J. Schor (eds.), The golden age of capitalism, Oxford University Press.

Lloyd, U. and Flanagan, R. 1971. Wage Restraint: a study of incomes policies of Western Europe, University of California Press.

McDonald, I. and Solow, R. 1981. "Wage Bargaining and Employment", American Economic Review, 71.

Nelson, J. 199. "Organized labor, politics and labor market flexibility in developing countries", World Bank Research Observer.

Pastore, J. and Zylberstajn, H. 1988. A administração do conflito trabalhista no Brasil, IPE/USP.

Pekkarinen, J. 1988. "Keynesianism and the Scandinavian models of economic policy", Working Paper 35, WIDER.

Pizzorno, A. 1978. "Political exchange and collective identity in industrial conflict", in C. Crouch and A. Pizzorno (eds.) The resurgence of class conflicts in Western Europe since 1968, Macmillan.

Przeworski, a. 1985. Capitalism and social democracy, Cambridge University Press.

Regini, M. 1985. "The conditions for political exchange: how concertation emerged and collapsed in Italy and Britain", in J. Goldthorpe (ed.) Order and conflict in contemporary capitalism, Clarendon Press.

Rodrigues, L. M. 1990. CUT: os militantes e a ideologia, Paz e Terra.

Ros, J. 1989. "A review of the literature on stabilization and inflation", <<Mimeo>>, WIDER.

Rowthorn, R. and Glyn, A. 1990. "Diversity of unemployment experiences", in S. Marglin and J. Schor (eds.), The golden age of capitalism, Oxford University Press.

Sachs, J. 1983. "Real wages and unemployment in OECD countries", Brookings papers on economic activity.

Sachs, J. 1979. "Wages, profits and macroeconomic adjustment", Brookings papers on economic activity.

Shapiro, C. and Stiglitz, J. 1984. "Equilibrium Unemployment as a Discipline Device", American Economic Review, 74.

Souza, A. 1978. The nature of corporatist representation: leaders and members of organized labor in Brazil, Ph. D. dissertation, MIT.

Takanashi, a. et al. 1989. "Shunto wage offensive: historical overview and prospects", The Japan Institute of Labour.

Tarantelli, E. 1987. "Monetary policy and the regulation of inflation and unemployment", in M. Gunderson et al (eds.) Unemployment: international perspectives, University of Toronto Press.

Tarantelli, E. 1983. "The regulation of inflation in western countries and the degree of neocorporatism", Economia, 7(3), 199-237.

Tarantelli, E. 1986. Economia politica del lavoro, UTET.

Tavares de Almeida, M. 1985. "Sindicalismo brasileiro e pacto social", in CLACSO. El sindicalismo latinoamericano en los ochenta.

Therborn, G. 1986. Why some people are more unemployed than others, Verso.

Treu, T. 1987. "Centralization and decentralization in collective bargaining", Labour, 1(1), 147-175.

Wallerstein, M. 1987. "Union centralization and trade dependence: the origins of democratic corporatism", Mimeo, UCLA.

Windmuller, J. et al. 1987. Collective bargaining in industrialized economies, ILO.

Notes

1. The adoption of corporatist institutions in Brazil is usually associated with the Fascist regime in Italy but, in fact, as noted by Esping-Andersen & Korpi (1985, p. 180-1), corporatist relations were introduced much earlier in other European countries:

"In nations such as Germany and Austria where capitalism became established under neo-absolutist, statist auspices, an active social policy had emerged [before the First World War]. It was explicitly designed to preserve stability and arrest socialism by granting rights independent of market participation. Social reform pursued a corporatist, status-segregated order designed to reward loyalty and traditional privilege, and to discourage wage-earner unification."

2. Collier & Collier (1979) have analyzed the evolution of industrial relation in some Latin American countries in terms of State/unions relations characterized by different doses of 'inducements' (incentives) and 'constraints' (institutional constraints) over time.

3. Mericle (1974, p. 202) provides a synthesis of the strike law imposed by the military government: "strikes are legal in two situations: in interest disputes over the negotiation of new contracts, and in disputes over the enforcement of the wage clauses of a court decision or collective contract. The enforcement strikes can only occur if the employer is behind in wage payments or if he fails to pay the specified wage rate. Other contract enforcement disputes are subject to the grievance procedure of the conciliation courts. Strikes during the life of a contract or court decision are illegal if their objective is to alter the terms of the contract. Political and solidarity strikes are also illegal."

4. Sandoval (1984, p. 20) notes that "by greatly restricting legal strike actions and by withdrawing salary and working condition questions from the arena of collective negotiation, the government sought to perfect the autocratic structure and eliminate class conflict, while the unions retained only the task of administering their welfare activities."

5. The other group was essentially composed by members of the official movement during the military period, and had a more conservative perspective. In 1983 the two groups broke away: one created the CUT and the other kept its original name (CONCLAT) and in 1986 became the Central Geral dos Trabalhadores (CGT). Our analysis applies especially to the CUT which is

clearly numerically dominant and represents the innovative element in the Brazilian labor movement. In 1990, a new central union called Força Sindical was created. It does not have strong relations with political parties and is clearly smaller and less organized than CUT, but it has been growing very fast mainly as a result of the prestige of its leader, Mr. Medeiros.

6. We mean by "centralization" a tendency towards an institutional centralization of the union movement around two major central unions (CUT and CGT) and one rural central union (CONTAG). This tendency does not imply the inexistence of important political cleavages between confederations and within confederations (and we shall refer to them presently --most notably those within CUT).

7. Whereas in Western countries the centralization of the union (and employers') movements is seen as positive in face of the obvious ties between centralization and the sensitiveness of collective actors to policies --thus enhancing coordination-- in Brazil both the government and employers show signs of circumspection in respect to the issue for they associate centralization with the growth of the political power of unions.

8. Korpi and Shalev (1979, p. 170; cited by Cameron, 1985, p. 146) argue that "to the extent that labour is successful in acquiring control over political institutions, it can exercise its power through these means and will not be limited to the industrial arena."

9. The attempts to increase job security and expand the coverage of unemployment benefits can be seen as an effort to "decommodify labor" to use Esping-Andersen's term. This author notes that

"social democratic class formation ... is first and foremost a struggle to decommodify labor and stem market sovereignty in order to make collective action possible. Only when workers command resources and access to welfare independently of market exchange can they possibly be swayed not to take jobs during strike actions, underbid fellow workers, and so forth." (1985, p. 31)

Esping-Andersen also refers to the centralization of the union movement and the relation with the political system as a typical social democratic strategy:

"In respect of the movement, social democracy depends on the 'nationalization' and centralized coordination of trade unionism and on optimal electoral penetration by the party. The first precondition is the victory of vertically organized and nationally centralized trade unionism... Trade union

E.J. Amadeo

centralization is also necessary for coherence between the union movement and the political party." (p. 33)

10. In comparative analyses of advanced OECD countries, it has been found that where the degree of centralization of the union movement is greater and their role in collective bargaining more important, pay differentials are smaller. See Treu (1987) and Freeman (1988).

11. Employees who maintain legal employment relations --and as a result have access to social security benefits as well as other rights-- are referred to as "trabalhadores com carteira assinada".

12. The exception to this rule is the agreement between firms, unions and the government concerning the de-indexation of automobile prices in exchange for a reduction in taxes, the de-indexation of wages and employment security for a fixed period of time. The agreement was proposed by the firms after they had increased over-indexed the prices of cars for a few months.

Abstract:

In this paper we explore the evolution of the labor movement and collective bargaining practices in Brazil in order to assess the impact of both the current stabilization policy and structural reforms on the labor market and on capital-labor relations. We discuss the relation between capital, labor and the State, and differentiate the old corporatist structure from the new-union movement of the 1980's, the evolution of collective bargaining practices with emphasis on the 80's, the impact of the recession and the structural reforms on the attitude of firms and unions, and the effects on the labor market.

Resumo:

Neste trabalho exploramos a evolução do movimento sindical e das negociações coletivas no Brasil a fim de avaliar o impacto de ambos, o esforço de estabilização e as reformas estruturais sobre o mercado de trabalho e as relações capital-trabalho. Discutimos a relação entre capital, trabalho e o Estado, e diferenciamos a velha estrutura corporatista do novo sindicalismo dos anos 80, a evolução de práticas associadas a negociações coletivas com ênfase nos 80, o impacto da recessão e das reformas estruturais na atitude das firmas e sindicatos, assim como os efeitos sobre a estrutura do mercado de trabalho.

Textos para Discussão:

274. Amadeo, E.J.; Landau, E. "Indexação e dispersão de preços relativos: análise do caso Brasileiro (1975-1991)"
275. Amadeo, E.J. "A model of wage over inflation"
276. Amadeo, E.J. ; Camargo, J.M. ; Marques, A.E.S. ; Gomes, C. "Fiscal crisis and assymetries in educational system in Brazil"
277. Amadeo, E.J. ; Camargo, J.M. "Política comercial e distribuição de funcional de renda"
278. Bonelli, R.; Franco, G.H.B. ; Fritsch, W. "Macroeconomic instability and trade liberalization in Brazil: Lessons from 1980s to the 1990s"
279. Abreu, M.P. "Trade policies in a heavily indebted economy: Brazil, 1979-1990"
280. Abreu, M.P. "O Brasil e o GATT: 1947-1991"
281. Bonomo, M.; Garcia, R. "Indexation, staggering and disinflation"
282. Werneck, R.L.F. "Fiscal federalism and stabilization policy in Brazil"
283. Carneiro, D.D. ; Werneck, R.L.F. "Public savings and private investment: Requirements for growth resumption in the Brazilian economy"
284. Bonomo, M. ; Garcia, R. "Consumption and equilibrium asset pricing: An empirical assessment"
285. Bacha, E.L. "Savings and investment for growth resumption in Latin America : The cases of Argentina, Brazil and Colombia"
286. Fritsch, W.; Franco, G.H.B. "Aspects of the Brazilian experience under the gold standard"
287. Fritsch, W.; Franco, G.H.B. "Import repression, productivity slowdown and manufactured export dynamism : Brazil, 1975-1990"
288. Bonelli, R.; Ramos, L. "Income distribution in Brazil: Longer term trends and changes in inequality since the MID-1970s"
289. Bonomo, M. "Busca e inflação"
290. Bacha, E.; Carneiro, D.D. "Stabilization programs in developing countries: Old truths and new elements"