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CONCENTRATION IN INCOMES  
POLICY: THE CASE OF BRAZIL

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## I - The economic context

After three decades of sustained growth, Brazil was seen at the end of the 70's as one of the few successful experiences of economic development based on import-substitution policies. Heavy industrialization accelerated in the last decade with the production of capital goods and basic inputs. Modernization of agriculture occurred through various agro-industrial complexes and rural-urban migration continued as high as in the previous decades. The growing cities were in condition to offer employment opportunities to the majority of migrants who, in general, were able to match the new requirements of an urban-industrial society.

In addition to the high rate of labour absorption in the modern sectors, either industries or services, a quite effective trickle-down mechanism suggested that, inspite of the enormous disparities, social and economic integration, albeit sluggish, could be foreseen as long as growth would go on.

The external debt crisis put an halt to this process. The 80's brought recession, instability and uncertainty about a future that was almost already there.

The 1981-84 recession was very deep. Real wages fell circa 25/30%. Hundreds of thousands lost their jobs in industry and had to accept work under informal conditions or face open unemployment which, for the first time, appeared as an important problem.

During and after 1984, the Brazilian economy experienced a recovery, first pulled by exports, followed in 1986 by a feverish expansion of the internal market - in great part a



consequence of the stabilization plan — but did not manage to recover the previous "Japanese" investment rate (24% of GNP). Government and foreign savings vanished and so did confidence in future. Brazil grew suddenly old.

Our purpose in the following pages is to sketch first the Brazilian experience on trade unionism and collective bargaining, then the recent developments in labour relations, and, finally, the new regime's frustrated concertation intent (\*).

## II - Trade Unions in Brazil — a Historical Perspective

The first aspect to notice in a historical perspective is the pale performance of Brazilian trade unions in collective bargaining, at least until the middle of the 70's. This weakness manifested itself through small participation of workers in union's rank and file, and through scarce legitimate representation. These cannot be explained only by underdevelopment, but were due to conscious aims of state regulated labour relations. In order to understand it, we must take into account the political dimensions of the question, that is, the role of the Brazilian state in controlling economic institutions and unions through corporative laws. It is not an overstatement to say that the state determined those who can and those who cannot perform as partners in distributive conflicts. Representation has to be sanctioned by a traditionally bureaucratic and authoritarian state.

(\*) We will base our exposition on parts of a report coordinated by us last year at the Institute of Industrial Economics/Federal University of Rio de Janeiro: "The Brazilian Labour Market". The relevant parts of that report were written by Vera Pereira and Maria Herminia Tavares de Almeida.

Labour relations institutions are characterized mainly by monopoly of representation on a territorial base; denial until recently of horizontal organizations — both favouring atomised action — compulsory union tax aimed to finance cooptation through social assistance by the unions; organizational design of the unions imposed from the top; the state's power to intervene and by the important role attributed to Labour Justice in arbitration, disguising the heavy hand of the state with the veil of labour legislation. In sum, the state, after 1930, was not a mere intermediary between capital and labour, but the arena in which these relations developed. Labour market conflicts took place in the offices of the Ministry of Labour. Labour rights, like regional minimum wages, were granted against the sacrifice of free labour unions. Rank and file was not really mobilized by autonomous organizations, but coopted by formal unions whose main purpose was to collaborate with the state. Employers associations were not different in nature, and delegated to the state the power to regulate labour relations.

It is amazing that, inspite of the intense industrialization process, these rules and institutions showed great stability. They last 50 years through different political regimes, populist and authoritarian ones.

In this respect, two aspects should be kept in mind. First, that state-regulated unionism was not completely against workers interests. The first stages of industrialization were marked by the disposal of unlimited supply of desorganized and cheap labour. With a completely free market, certainly things would be worse for the workers. Employers would resist more easily to pressures. So, inspite of the corporative character



of unionism, some achievements must be credited to it. Otherwise, it would be difficult to understand why the pledges for autonomy, internal democracy and legitimate representation were not major issues until recently. Although union leadership lacked legitimation in a more liberal sense, it had a warranted seat in government decision-making process in relation to wages, social security and working conditions.

Second, corporativism did not inhibit autonomous movements and strikes which grew in number and scope with inflation at the end of the 50's until the military coup in 1964.

Therefore, due to the privileged formal positions of leadership in state departments, it was not easy (although the law permitted it), up to 64, to intervene in autonomous strike movements. Labour Justice, as usual also in other countries, judged favourably to labour in not few cases. The legal minimum wage — a strong social standard in all wage negotiations at the time — experienced real growth until the end of the 50's.

The 1964 military coup undercut the rising influence of union leadership in government decisions, and, in addition, the level of minimum wages never again recuperated their 1957/59 values.

The military had no reason to change the labour legislation. They just had to apply it in its tougher aspects. And they abused of them. Without adding a single paragraph, strikes could come to a standstill and leadership changed. The result was an emptiness of labour representation at state level. But, not satisfied, they did change some articles in labour legislation that turned dismissals easier, a strong device in controlling wages and in weakening labour's bargaining power. Working

conditions deteriorated rapidly under the military regime.

As a response to these circumstances and also as a consequence of modernization and labour concentration in big plants, a strong movement emerged in the 70's in São Paulo, called New Unionism. Strong enough at the end of the decade to bypass wage legislation in many cases. Both, employers and workers, seemed to be of a new kind and often preferred to negotiate directly without state mediation. Criticism of state intervention in labour relations no longer belonged solely to left wing discourse but crept also into business. This criticism could not be isolated from criticism of authoritarianism as a whole.

### III - Recent Developments

Together with the fading out of the military regime, it seemed that the whole structure of state-corporate unionism would crumble down. Mechanisms of control were not working any more, not even at the firm's side. Business developed new forms of association, mainly by broad branches of activities (basic industries, electric and electronics, etc.) not envisaged by state regulations.

The modernization of the economy was finally making its way through (obsolete?) corporative legislation. Undoubtedly, this was a tendency. Undoubtedly, also, the economic crisis of the eighties was an inflection in this process, although not a complete reversal. De facto, there was, at the end of the military regime a more liberal climate. De jure, it is not clear yet if the old legislation will be radically substituted by a more modern one. Probably, the new constitution



will introduce some substantial changes in industrial relations structure, specially in regard to trade union organizations, degree of autonomy and conditions on strikes. As the constitutional process has not yet come to an end, we prefer not to comment on it.

After 1980, the numbers of unions and workers associated grew strongly. Notwithstanding, the degree of effective participation is still low — less than 20% of urban labour-force.

Restricted at the beginning to the more technologically advanced sectors, the new practices experienced rapid diffusion, inclusive and remarkably among middle class segments linked to public services (health and education mainly) (\*). The civil transition government still has the legal power to intervene but the political atmosphere, until now, would not recommend it. On the other hand, vested interests in corporativism, also among unionists, are strong enough to impair advances in legislation.

Nevertheless, direct negotiations have spread, mainly at plant level, becoming more important than justice arbitration, at least for the more organized workers. The agenda of negotiations includes nowadays many social items in addition to wage claims, and strikes as a pressure device, inspite of heavy legal restrictions still existent, does not provoke panic anymore.

(\*) Public servants' strikes are ilegal, but they have occurred frequently. Different from the majority of workers' strikes, those tend to last longer due to the fact that no costs are involved, since the participants continue to receive their payments.

Three national associations of unions were created (recently legalised) and informal representation at plant level widely accepted, but far from being legally recognised.

Because of the diminishing real value of minimum wage, claims for basic wage rate by category became of utmost importance, followed by demands for more frequent readjustments in face of inflation (\*) and for limitations on "unjustified" lay-offs. Some kind of job stability is also a major claim.

At least in the more modern and larger firms, minimum wage today lost its previous importance, but it is still a standard to weaker categories. Certainly, one of the biggest frustrations of the transition period is that it was unable to reverse its falling tendency.

Only recently demands concerning awareness about the social effects of technological innovations became part of the agendas, but there is no remarkable concession to be registered until now in this matter. Also worth of noticing is the upsurge and the number of strikes performed by rural workers (\*\*). Table below shows paralisations (in thousands of men/days) by broad categories in 1986 (\*\*\*):

<u>Categories</u>	<u>1st semester</u>	<u>2nd semester</u>
Public Servants	5329	7818
Industry	1985	3795
Banking	5	544
Rural Workers	2559	2444
Others	1546	1658
<u>Total</u>	<u>15924</u>	<u>16249</u>

Source: Ministry of Labour.

(\*) Today, with a monthly rate of inflation around 20%, wages are readjusted every month.

(\*\*) Rural unionism got momentum by the end of the 60's.

(\*\*\*) Circa 50% of the strikes took place in São Paulo, the most developed region, with about 20% of the Brazilian labour force.



#### IV - An Intent of Concertation

Since 1984, the topic of concertation (and/or Social Pact) came to discussion in Brazil. In advanced, more homogeneous, capitalist democracies, concertation has a precise meaning, which includes some kind of agreement about income distribution but, definitely, it does not include negotiations about political or economic institutions, like private property of land for instance. These latter issues were firmly established long ago (\*).

In Brazil, as in other Latinamerican countries, the agenda of an eventual concertation process could become so diversified, since even some basic institutions are object of dissent, that its meaning turns quite ambiguous and its success feasibility rather difficult. On the other hand, it is by no means clear who should sit at the concertation table.

In spite of the enormous obstacles, the project of a democratic transition period, where decisions would be based on a broad political negotiation, was present with Tancredo Neves. He had enough political support to propose and to foster such an ambitious project. Unfortunately, it was buried with him. Sarney's main preoccupation, on the contrary, has been to build his political support. In so far, he lacked a firm basis to promote, effectively, a social pact, although the rethoric of it remained until the beginning of 1987. To tackle the tense situation caused by the failure of the stabilization programme (Plano Cruzado) at the end of 1986, Sarney tried, through the Minister of Labour, to negotiate with various leaderships

(\*) Spain is an exception.

policies concerning such broad issues: as prices and wages adjustments, a desirable rate of growth of GNP (sic) and alternatives to cope with the services of external debt, among others. It was, of course, doomed to failure. We do not have to go here into details of the unsuccess. Sufficient is to say that, as mentioned, the agenda had to include too many points if all partners, considered as important, were to participate. But, again, who are the important, or legitimate partners after all? Who represents the employers? Who represents the workers? And so forth (\*).

In this moment, once again, Brazil faces the possibility of hiperinflation with recession. A scenario that would badly need some kind of concertation. But none of the inhibiting factors that were present a year ago have disappeared.

(\*) The CUT, one of the three labour-union associations, hegemonic in many of the most advanced sectors, refused to participate. Since São Paulo's powerful Federation of Industries was more interested in pressuring the Minister of Finance, they paid little attention to his colleague's efforts.



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