THE EFFECTS OF GLOBALIZATION ON BRAZILIAN LABOR MARKET DURING THE 1990’s

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This paper will analyze the situation of the Brazilian labor market, emphasizing the period since the beginning of the neoliberal structural adjustments (1990). It will first discuss the issue of unemployment and the phenomenon of globalization. Such an analysis will begin by addressing with the role of the technological revolution and its impact in shaping the new world of labor. The analysis will continue with a brief discussion of international economic history as a context for understanding the new international division of labor and its effects on labor markets worldwide. Then, this study will focus upon three neoliberal structural adjustments in Brazil: trade liberalization, stabilization of the economy and privatization. Finally, this paper will provide conclusions about the effect of globalization on the Brazilian labor market during the 90’s.
Dedication

To Heloisa, who is always by my side.
To my daughter Luisa, my inspiration.
Acknowledgments

My special thanks to Dr. Thomas Walker and Dr. Ismail Ghazalah for their friendship and hospitality.
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1. Introduction

In the last decade Brazil has been experiencing profound economic changes, a reflection of the phenomenon of globalization. Since the beginning of the 90’s the economy of the country has been deeply transformed due to structural adjustments performed under the banner of neoliberal theories. Many of the effects of these adjustments are clear and widely recognized. Gains in terms of competitiveness and productivity among Brazilian companies and the promotion of the country as an attractive destination for foreign investment are unquestionable. Certain other effects, however, have created considerable discontent. Critics of the economic reforms stress that, in a country of profound social inequalities like Brazil, globalization has reinforced the status quo of social exclusion.

During the mid-1980s, the import substitution model proved to be no longer adequate to the task of sustaining the country’s economy. The neoliberal policies, therefore, seemed to be the natural solution for the revitalization of the Brazilian economy. Starting during the government of Fernando Collor de Melo, in 1990 Brazil opened its economy to foreign investment, privatized most of its government enterprises and decreased custom barriers on foreign products. Imports were gradually freed, forcing the domestic industry to adapt to the new era of competitiveness. Many companies were purchased by foreign investors, some merged and others went bankrupt. Brazil was re-entering the world economy at last.
This group of actions that enabled Brazil to reenter the world economy was the most visible and propagandized side of the reforms. There were, however, many other changes to be made. Government was supposed to come up with an answer for the inescapable social side effects of those reforms. How would such drastic changes in the economic organization affect peoples’ lives? What were the measures that would come with the reforms in order to minimize the negative impact on the welfare of the population? Those were some of the important questions for which the government did not initially provide answers. One decade later, the implications of such incomplete reforms are becoming visible.

Analyzing the present macro-economic situation of Brazilian economy, one issue stands out: employment. Questions are constantly being raised: Has the level of employment been directly affected by the globalization trend? How has it been affected? Why? Is it an inescapable trend? Could it be avoided?

This paper will analyze the issue of employment/unemployment in Brazil, emphasizing the period since the beginning of the neoliberal structural adjustments (1990). After examining the process of change in employment in the country during this period, this study will distinguish those problems that are related only to the phenomena of globalization and its neoliberal reforms from those that were caused by inescapable trends in the world economy.
This study will first discuss the issue of unemployment, considering empirical evidence and different theoretical approaches to the problem in an international context. Important clarifications about unemployment will be made, and the myths around the issue will be addressed.

Secondly, the phenomenon of globalization will be carefully analyzed. Such an analysis will begin by addressing with the role of the technological revolution and its impact in shaping the new world of labor. The analysis will continue with a brief discussion of international economic history as a context for understanding the new international division of labor and its effects on labor markets worldwide.

The third part of this study will deal with the neoliberal structural adjustments in Brazil and their effects on the Brazilian economy, specifically on unemployment. This discussion will focus upon three primary structural adjustments: trade liberalization, stabilization of the economy and privatization.

In the fourth part of this work, facts and figures will help us to understand the behavior of the Brazilian labor market during the 1990’s. The analysis will focus on both formal and informal labor markets trying to depict the labor market conditions as a whole.

Finally, this paper will suggest conclusions about the effect of globalization on the Brazilian labor market during the 90’s. Changes in the economy were intense and broad, and so were changes in the labor market. What did not change for Brazilian workers,
however, were the standards of living and more importantly, the opportunity to change them.
2. Unemployment

2.1. A long controversy

Explaining why world economies frequently present long periods of high unemployment has been one of the greatest challenges for economists. In the late 1950’s, W.H. Philips developed a theory that suggested a correlation between unemployment rates and the level of prices. In this correlation, known as The Philips Curve, an increase in the level of employment would lead to increase in prices. Even though there are many critics of this theory, the inverse correlation between employment level and inflation has been largely accepted by policy makers around the world, especially in a short-term perspective.¹

To the 1980’s neoclassic economists, in a world in which economic imbalances were transitory, there was no space for involuntary unemployment. In this arrangement, prices and wages adjust themselves in order to balance supply and demand. In the worst cases, all workers would be willing to work for lower wages. Consequently, due to this hypothesis of perfect flexibility in the adjustment of prices and wages, there was space only for small transitory unemployment. According to these neoclassic economists, government should not adopt compensatory policies: government should let the economy alone find its balance.²

In contrast, the new-Keynesian school of thought advocates that government be responsible for the development of active fiscal policies during periods of high unemployment. Through tax cuts and increases in direct expenditures, government should lead the productive sector of the economy to increase production and consequently the number of jobs.³

None of the theories above totally succeed. Why? What is a more adequate way of dealing with unemployment? Is unemployment an inevitable result of progress?

2.2. General considerations about unemployment

According to the International Labor Organization (ILO), nearly one out of three people in the worldwide workforce is unemployed, and the problem is continuing to worsen. By the turn of the century, global unemployment had reached its highest level since The Great Depression of the 1930’s. Many people believe that this is due to globalization and the so-called “Third Industrial Revolution”. While most jobless people and impoverished workers live in poor underdeveloped countries, industrial nations are also suffering from high unemployment levels. In 1997, unemployment in the European Union achieved an average of 11.3 percent, with France, Germany, Italy, and Sweden all registering significant increases.⁴

³ Ibid, 215
The impact of new technologies and new ways of organizing business has extended well beyond the factory floor: downsizing and the influx of microcomputers deeply affected offices. The loss of jobs is felt in all economic sectors. In the primary sector – agriculture – the need for large-scale production motivated a change in the productive systems that affected the way people were employed. In the industrial sector, the need for increasing productivity in order to survive global competition caused a huge job loss. Even in the service sector many activities and professions are disappearing.

Although one third of the industrial workers in Brazil have lost their jobs since the beginning of the 90’s, the open unemployment rate⁵ there is still moderate. Brazil’s employment level of today is almost the same as the levels of 1991 – 1993, immediately before the neoliberal structural adjustments. Because the increase in jobs has been greater than the increase in the GDP, the average productivity of work has been decreasing since 1980; consequently the average wage is decreasing. Yet, if we consider the industrial sector only, there were considerable increases in productivity.

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⁵ Open unemployment rate is the proportion of unoccupied people (people looking for jobs) of the total number of economically active population. For methodological reasons this paper will adopt the IBGE (Instituto Brasileiro de Geografia e Estatística) numbers. The monthly research conducted by this institute follows the parameters of the ILO – International Labor Organization. In Brazil, the existence of very differentiated unemployment rates results from the use of different concepts to express the characteristics of structure and functioning of Brazilian urban labor market, carried out by Monthly Employment Research (PME), of IBGE. and Research of Employment and Unemployment (PED), of Fundação Seade and DIEESE. Although it seems to be just a methodological issue, the controversy related to the dimension of unemployment in the country is covered by an important political content.
In this apparently unfavorable environment, however, there is a surprising fact: the open unemployment rate is around 6.5%, almost the same level as the years preceding the structural adjustments.

What is the logic of unemployment in Brazil? What are the consequences in the Brazilian labor market? Were the structural adjustments fruitful in terms of gaining competitiveness in the international market? What were the costs involved and which social group paid them? What were the consequences in terms of increasing or decreasing social inequality?

In order to answer these questions one must identify the variables which enable a given society to employ all of its members. These variables are diverse, including the economic performance of the nation, the growth rate of its GDP, the average income of its citizens, the level of flexibility of its labor laws and certain other policies that can determine the level and the demand for work.

On the other hand, the qualification of the labor-force and the level of social and regional inequalities determine what kind of supply is going to meet the demand for work. Such inequalities can explain cases where some sectors experience high rates of unemployment while others cannot find workers with adequate skills or even people interested in working.

The gap between supply and demand can vary according to the incentives to the hiring of new employees for existing job positions or to open new jobs. It depends on the level of
flexibility of the labor market, which is determined by the labor laws of the country and its bureaucratic processes.

The achievement of a level of full employment – when the demand for jobs is equal or greater than the supply - depends also on the efficiency of the intervention of the state by regulatory measures and how accurate public policies are. These measures must act in order to correct imperfections in the sectoral level, mainly by supporting groups like young women, rural area youth and workers of some specific industrial sectors. The level of employment depends also on the contribution of programs coordinated by class organizations or NGO’s.

Of greatest importance, however, education is what most affects the way supply and demand for work adjust themselves. The level of education and technical skills of the workers determines the real chances of each worker in the labor market. The result of the combination of these many factors is extremely diverse. Therefore the behavior of a country’s labor market is diverse too.

The behavior of a labor market can be even more varied considering the influence of external factors. The level of exposition of the internal market to foreign competition determines its competitive performance.
2.3. A deeper analysis of the issue

There are certain concepts that can help us understand the phenomenon of unemployment. Modern structural unemployment is an inevitable phenomenon and to some extent irreversible. It is caused by a group of permanent changes in the world economies, manifested by continuous processes of rearrangements that will stabilize when transformations consolidate. Even though structural unemployment is a global phenomenon, it manifests itself differently in national economies, depending on the characteristics of their labor markets. The extent to which it happens depends on the nation’s growth rate, human capital availability, and level of labor market flexibility.

The Brazilian labor market has some characteristics that soften the problem in the present, but do not solve the problem in the long-term perspective:

- Unemployment is worst in the industrial sector, but it has the potential to spread to others sectors of the economy, because the industrial sector has a major influence on the economy.

- A consequence of the closing of formal jobs is the increase of informal activities. The informal sector, however, offers low quality jobs, turning informality into underemployment.

- Social consequences of unemployment, such as decrease in living standards of the unemployed, are visible but they are not the main cause of the social problems.
Actually, unemployment in Brazil can be better depicted as a consequence of social inequality than a cause for it.

The real challenge is not only the simple creation of new job positions; the true challenge is to create continuously good quality formal jobs and to obtain greater productivity in order to be able to increase wage level.
3. Globalization

3.1. The phenomenon of globalization

Globalization is a concept widely used to describe a series of changes in the modern economies at the end of twentieth century, both in public and private spheres. The transformation of the productive forces due to technological innovations combined with the change in institutional, political and ideological systems constitute the process of globalization. According to Naidoo⁶, globalization is not new: It is an ongoing and long-standing feature of capitalist development. It is also a process aimed at progressively integrating national commodities, capital, finance and currency markets into a single global market operating according to universal rules. Globalization is responsible for many of the problems of this end of century. Structural unemployment, redesign of national frontiers, and environmental aggression in the third world are some of the serious side effects of this trend.

Globalization is a process that imposes upon national economies a constant preoccupation with competitiveness and productivity. Nations are constantly analyzing the best strategy for development and participation in the international economic community. All political and economic activities are subject to this pressure.

Globalization is a revolutionary process of radical change of concepts and standards; it is the construction of a new reality over new pillars. According to Singer\textsuperscript{7}, the globalization process can be divided into two different phases. The first, from the post World War II years to the end of the 1960’s, occurred only in the developed countries. The massive transference of economic resources from the United States to Western Europe and Japan resulted in the creation of many transnational corporations and an increase in economic integration among those countries. During this period, known as the golden years, these economies presented considerable growth rates: production, consumption, productivity and wages increased in all countries involved.

The second phase of globalization started in the 1970’s with the opening of the developed markets to the products from developing countries. At the same time, the international financial market expanded and, consequently, there was more direct foreign investment in the developing countries. That was the environment that made phenomena such as the so-called “Brazilian Miracle” possible. Developing countries like Brazil grew at very high rates, creating a new industrial infrastructure to supply both the markets of developed countries and their increasing domestic markets as well. However, according to Naidoo\textsuperscript{8} “the reasons behind the rapid acceleration of globalization, reflected through waves of liberalizations in many countries, lie in the stagnating domestic economies of the advanced nations” For these countries, a fast expansion of trade was needed to

\textsuperscript{7} Paul Singer, Globalização e Desemprego: Diagnósticos e Alternativas (São Paulo: Editora Contexto, 1998), 19.

counteract the declining rates of profit at home. This required that trade barriers in the rest of the world be lowered.

The process of globalization was not the same for all nations. Many developing countries have assumed huge external debts. The oil shocks of 1973 and 1979 increased the interest rates, and combined with the recession in the developed nations, became an impossible burden for many countries. According to Singer⁹, the external debt crisis of the early 80’s debilitated Latin America and shifted industrialization to East Asia, specifically to South Korea, Hong-Kong and Taiwan. For many countries, Brazil included, the 80’s were the “lost decade”.

In the mid 1980’s however, the process of globalization rebounded. To great extent this was due to the recovery of global economic activity and, with the increasing sophistication of financial markets, the increase of available capital. In addition to these two factors, there was a strong process of innovation and the development of new technologies.

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3.2. The Third Industrial Revolution

The Scientific Revolution (SR) is the primary reason for the changes in the methods of capitalist production. Its influence reaches beyond both science and economics as evidenced in its role in the arenas of social, cultural and political life of the end of twentieth century. The Scientific Revolution can be described as the application of scientific knowledge to production. It started in the post-war years when industries dependent on research and development were created. Nuclear energy, petrochemicals, biotechnology, and information technology to name a few demanded a new kind of professional.10

The Third Industrial Revolution occurred when the Scientific Revolution changed the logic of production and work. It was the organized manifestation of various changes in the ways and means of production that came from the Scientific Revolution.

One of these transformations was the role of automation in the productive process. Before the Scientific Revolution, automation was used, according to Taylor and Fayol, for the substitution of human work in the assembling lines. It conditioned the rhythms of human work to the machine. With the Scientific Revolution, automation started to play a different role in the productive process. According to Harvey, completely new productive sectors were created and others suffered a transformation due to commercial, technological and organizational innovation. This phenomenon happened unequally.

10 Ibid, 16
among sectors and geographical areas, but all led to a change in the structural employment. Many less-skilled parts of the production process were now accomplished automatically, by machines on the factory-floor or by microcomputers in the offices.\textsuperscript{11}

Another element in this group of innovations was the change of the paradigm of the organizational environment. Traditional corporations focused on mass production had to adapt themselves to the recession of the 1970’s. In order to increase productivity they came up with new strategies. These companies invested in new production lines, new market segments and migrated to new geographic areas where the cost of production was low. They inaugurated a new standard for organizing production, i.e. decentralized and intensive, the era of regional industrial complexes, transnational enterprises and globalized production.

In addition to these changes in production, the Third Industrial Revolution also ushered in new concepts of products: global products. These products were similar in all markets, customizable, globally distributed and associated to services all around the globe. The Third Industrial Revolution also inaugurated new kinds of business arrangements. In order to take advantage of complementary benefits of business partners and to facilitate penetration into new markets, companies began to associate in a variety of different ways: joint ventures, fusions, merges, etc. These new arrangements proved to be more adapted to global competition in a global market.

\textsuperscript{11} David Harvey, \textit{A Condição Pós-Moderna} (Rio de Janeiro: Campus, 1994) 36.
The central point in all of these transformations in production is the increasing dependency on pure science and the consequent need for technological innovation. This trend led to an increase of investments in scientific research and the creation of sectors exclusively dedicated to producing knowledge and education.

3.3. New production standards

The new production standards can be characterized by two significant transformations: the shift in production style from extensive to intensive and the decentralization of a single production process across many parts of the globe.

In this new scenario there are constant changes in the production structure motivated by innovations achieved by research and development. Therefore intensive production became the only way in which these changes could be implemented and controlled. There is now a constant search for revolution of the productive forces: companies are constantly seeking gains of competitive advantage through innovation.

Decentralization of production is not new. For a long time products and services were marketed around the world. However, the combination of such distribution with the concept of global products is indeed new. The component parts of a single product are produced separately in different countries at the same time. This has made national competitive advantage less important then decentralization and inter-regional competition.
It is in this new environment that transnational corporations were created. These corporations invested in the development of financial mechanisms for trade and insurance and in the global telecommunications infrastructure. Transnational corporations have become both the source and the beneficiaries of these investments, increasing the concentration of the economic power under their control.

3.4. The new international division of labor

Many regions of the world are integrating their commerce regionally, creating regional trade areas. Some are creating even deeper kinds of integration, such as economic and political unions. These integration efforts determine minimal standards for the commercial policies - customs and tariffs - toward foreign trade.

Geographic proximity and common interests orient this organization of countries into economic blocs. This pattern is replicated at the corporate level within nations. Looking for competitive advantages, companies endure in different ways of integration such as joint-ventures, equity alliances, management contracts, franchises, or even merges and acquisitions.\footnote{John Daniels and Lee Redebaugh, \textit{International Business: Environments and Operations} (Reading: Adson Wesley Longman, 1998), p.587.} There is a constant search for synergy that would lead to gains of productivity.
Based on this new arrangement of forces and interests of countries and companies, a new international division of labor is created. Directly influenced by the strategy of decentralization of labor and possibly because of advances in telecommunications, this new arrangement is an indirect consequence of globalization. According to Santos\textsuperscript{13}, the new international division of labor is characterized by the concentration of Research and Development activities in the developed countries and the transference of the production of components to transnational corporate branches in developing countries. A cheap work force and incipient environmental laws make developing countries attractive and profitable for these activities.

Another important factor in this new division of labor is the particular development policy that countries adopted. With few exceptions, countries that adopted policies with a greater degree of isolation, such as import substitution strategies, play a secondary role in this new world economy arrangement. These countries usually have an inadequate production and institutional environment, which makes it much more difficult for them to attract foreign investment.

New production standards and the reorganization of the international division of labor dictate radical transformations in the world of labor. Aiming at cost reduction and an increase in productivity, corporations came up with three alternatives: progressive, traditional or a mix of both. The progressive solution consists in reducing the working period of a single worker, without dismissing anyone. In contrast, the traditional strategy

\textsuperscript{13} Theotônio Santos, A Economia Mundial em Tranformação (Rio de janeiro: Nova fronteira, 1994), 83.
consists in reducing the number of workers involved in the process, without changing the daily workload. And finally, the third alternative is a mix of the progressive and traditional approaches, which means dismissing fewer workers by reducing the hours of work for those who remain.

In this new environment rigid labor relations have become inadequate. There are now great fluctuations of demand and constant technological transformations, mandating that workers constantly learn new skills and adapt to new labor routines. There is constant pressure over workers to remain qualified for the production process. In addition, since companies are now continuously looking for greater productivity in order to preserve jobs, new labor arrangements, such as temporary contracts and outsourcing of services, rather than formal traditional employment practices have become popular. These new arrangements are alternatives that allow people to continue to work.

All of these transformations in the labor structure have created a new attitude among workers. It is now more important than ever to accumulate skills that enable workers to adapt to new demands of the labor market. These skills are more generic, like the capacity to learn and adapt, the ability to networking and establish interpersonal relationships, and the willingness to continue learning. This new worker profile is now much more important than having specific technical skills, dedication and discipline, the predominant profile of the industrial society. The great expansion of professional training
and life-long education illustrate that workers are desperately willing to recycle their careers in order to preserve their employability.14

While automation dominates industry, the service sector has become the destination for most workers, mainly in the areas of communication, information and leisure. In addition, there are now more people engaged in non-productive activities, depending on the extent to which the progressive or traditional approach is used. This explains why tourism, entertainment and sports are some of the activities that had great development in the last years. Another labor trend is the creation of positions in management and selling and administrative activities instead of activities directly related to the production process, mainly repetitive activities.

In conclusion, the worker of the future must adjust to new standards of production in which flexibility, innovation, technology and productivity are fundamental. This will require more highly educated workers who are able to perform new tasks with constantly evolving techniques. Technical knowledge, however, will not be enough since technology is now changing everyday. Therefore, the twentieth-first century’s professionals must have a solid educational support that enables them to construct their skills according to the moment’s demand. Interdisciplinary holistic knowledge, flexibility, initiative, innovation, interpersonal communication skills, and a willingness to learn are the most important attributes one must have to be a successful worker these days.

3.5. Globalization and unemployment

Flexibility and productivity are key competencies required from national economies in the globalized economic environment. In this ever-changing competitive world, a nation’s economic performance will directly depend on the capacity of that country to adapt its productive and legal systems to the new trend. The degree to which flexibility and productivity succeed will determine the way unemployment will occur in national economies.

The search for productivity implies in a decline of the global work force. This can be proved by the increase of open unemployment all around the world. This can be called the “structural” component of unemployment. Combined with the average level of education of the work force, productivity determines what the average wage level for the players in this given labor market will be.

Flexibility determines how and to what extent different economies will experience the phenomenon of unemployment. In the labor market, as in any other market, supply and demand adjust according to the amount of work companies are willing to buy (offering job positions) and the amount of work workers are willing to sell at a certain price (wages). The way this adjustment occurs determines the level of flexibility of a given labor market.

Wage flexibility is widely interpreted as the best measure of labor market flexibility. In the face of a macroeconomic shock, the extent to which real wages adjust will determine
the cost of adjustments in terms of employment. In other words, in a given shock, what is the reduction in real wages necessary to maintain a stable rate of unemployment. There is an inverse relation between open unemployment and labor market flexibility. Usually, open unemployment rates are higher in countries in which the level of flexibility is low.

At a first analysis, unemployment does not seem to be a major problem for economies with a high level of flexibility. In countries such as Brazil and the U.S. that historically do not present open unemployment rates as high as the European countries, the problem manifests itself in a different manner.

In these economies the great cost for companies to hire or the incentives for workers to stay out of labor market are smaller than in European countries. In contrast, European economies incur both high costs for contracting or dismissing employees with many social benefits that motivate people to be inactive for longer periods. This institutional apparatus inherited from the period of the Welfare State, turns these labor markets rigid and, therefore, unemployment runs high, distributed uniformly throughout all layers of society.

In economies with a greater level of flexibility, unemployment is manifested in an increase in the wage gap between the employed workers. Due to lower cost of contracts or a lack of social benefits to support unemployed workers, the capacity to generate job positions in these economies is greater. Therefore, there are more companies willing to

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15 Ricardo Paes de Barros and Rosana Mendonça, *Flexibilidade do Mercado de Trabalho Brasileiro: Uma*
hire and more workers willing to work, even for lower wages. This willingness to work for lower wages suppresses the unemployment condition, but increases the wage gap between employed workers and the income inequality among all workers.

In the Brazilian case, the rate of unemployment remains acceptable mainly because of the existence of an informal sector that accounts for almost half of the national economy. However, even if the informal sector absorbs most of unemployment rate, it is not able to generate good quality jobs. This is the biggest challenge.

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4. Structural adjustments: neoliberal approach to globalization

The neoliberal economic theory maintains that profound structural adjustments in national economies would be the only way in which a given country adapts to globalization. Most of the developing countries have been making such adjustments and Brazil was not different.

Structural adjustments occurred in Brazil basically as three great changes in the national economy: trade liberalization, stabilization of the economy and privatization. These adjustments in Brazil’s economic structure, initiated in the beginning of the 1990’s, defined the new shape of the country’s economy. However, from the perspective of the issue of unemployment, each of these changes had its own particular impact.

4.1. Trade liberalization and its effect in the Brazilian labor market

4.1.1. Competitiveness and unemployment

Modern unemployment is a global phenomenon that affects both developed and developing economies, depending on the level of flexibility of the labor market and on the position of the country in the international division of labor. In the Brazilian case, for example, productivity is historically low and the level of flexibility has always been high enough to keep open unemployment rates low.
A question, however, arises: why have employment conditions become a major problem in recent years? The answer for that is the change in the economic environment. The opening of national economies and the increasing competitiveness among companies and regions are the two main causes for this new trend.

The level and the kind of unemployment in modern economies vary according to the level of opening for trade. Unemployment is lower in economies that have a low level of participation of imports and exports in total GDP - “protected” economies. These economies benefit domestic industry by limiting the exposure of internal market to foreign competition. In this environment, however, there is little competition to motivate increases in productivity, and consequently, there is no pressure to raise real wages. In other words, protection preserves national employment but keeps real wages low.

When an economy opens to foreign trade there is a strong pressure to raise levels of productivity. This adjustment to the new competitive standard forces domestic industries to reduce the number of job positions. These industries usually adopt two strategies: they introduce new technologies in order to reduce labor or strategically reorient their final activity. On the other hand, the remaining jobs gain in importance and quality. For these workers there is an increase in real wages.

The results of the process of opening trade, with respect to job creation, can be analyzed through two different prisms: in the short term, trade opening can deeply affect less competitive sectors of the economy, leading to loss of jobs or sometimes, the total failure
of that given sector. For more competitive sectors, there is an increase in job quality – better wages for more skilled workers.

In the long haul, however, the opening of the economy will lead a country to a decisive situation: there will be an increasing need for skilled and more educated workers in order to achieve a higher level of competitiveness and flexibilization.

4.1.2. Intersectoral impact

The trade liberalization process has different impacts on the sectors of the national economy, but it is only partially responsible for the decrease in jobs. Opening trade does not close enterprises in itself. This happens in sectors with low productivity, inappropriate prices, unskilled labor force or obsolete technology.

The decrease in job offers, however, affects all economic sectors. In the primary sector it is motivated by the necessity to produce in large scale, while in the secondary sector job offers decrease due to the necessity to increase productivity in order to compete internationally. In this sector, however, the extent to which jobs are closed is greater, especially in the capital goods, transformation and consumer goods industries.

The following table shows the evolution of job supply and demand in São Paulo for different sectors during the 1990’s:
Table 1. Net creation of jobs in the formal sector – São Paulo - (thousands)

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</thead>
<tbody>
<tr>
<td>Mineral Extraction</td>
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<td>-1</td>
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<td>-1</td>
<td>0</td>
<td>0</td>
<td>0.3</td>
<td>-1.8</td>
<td>0.3</td>
<td>-6.2</td>
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<td>Construction</td>
<td>-41</td>
<td>-1</td>
<td>-27</td>
<td>-3</td>
<td>-10</td>
<td>-10</td>
<td>2</td>
<td>-1</td>
<td>-26</td>
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<tr>
<td>Commerce</td>
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<td>-35</td>
<td>20</td>
<td>33</td>
<td>5</td>
<td>-7</td>
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<td>31</td>
</tr>
<tr>
<td>Services</td>
<td>-60</td>
<td>-15</td>
<td>-54</td>
<td>5</td>
<td>30</td>
<td>25</td>
<td>24</td>
<td>60</td>
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<td>7</td>
<td>9</td>
<td>-10</td>
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<td>5</td>
<td>11</td>
<td>-6</td>
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<td>58</td>
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<tr>
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<td>-8</td>
<td>8</td>
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<td>20</td>
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<td>-16</td>
<td>8</td>
<td>4</td>
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<tr>
<td>Utilities</td>
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<td>-3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-1.2</td>
<td>-6.8</td>
<td>-1.9</td>
<td>-11.9</td>
</tr>
<tr>
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<td>-2</td>
<td>2</td>
<td>-2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>-9.5</td>
<td>-2.8</td>
<td>-0.2</td>
<td>-10.5</td>
</tr>
<tr>
<td>Total</td>
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<td>-254</td>
<td>49</td>
<td>92</td>
<td>-124</td>
<td>21</td>
<td>-20.4</td>
<td>-118.4</td>
<td>115.2</td>
<td>-868.6</td>
</tr>
</tbody>
</table>

Source: Ministério do Trabalho - Relação Anual de Informações Sociais - RAIS (various years)

Almost 85% of the jobs lost in the period were from the transformation industry. In the tertiary sector there was, in the beginning of the period, the same behavior. In the period from 1990 to 1993, when economic adjustments were stronger, the service sector lost jobs at the same pace as industry. However, since 1995 it is clear that a migration of workers from industry to services has occurred.

4.1.3. The impact on capital goods and transformation industries

The impact on production in the capital goods’ industry had its worst moment from 1991 to 1994. The biggest loss of jobs occurred in this sector due to substitution in the intermediary purchasing process since other industries substituted domestic materials for imported materials. This substitution was caused by both the technological advance of imported goods compared to domestic ones and the availability of credit lines with lower interest rates that were even more attractive due to the high levels of the exchange rate.
The effects of the substitution of imported for domestic products can be easily identified with the comparison of the level of employment in the transformation industry and the penetration of imports for the same period. Imported manufactured products more than tripled their participation in the Brazilian market from 1990 to 1998.

**Table 2.** Import penetration coefficient 1990–1998 - (%)

<table>
<thead>
<tr>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-durable consumer goods</td>
<td>3.0</td>
<td>4.0</td>
<td>3.4</td>
<td>3.7</td>
<td>4.4</td>
<td>7.2</td>
<td>7.0</td>
<td>7.9</td>
<td>8.1</td>
</tr>
<tr>
<td>Durable consumer goods</td>
<td>9.2</td>
<td>12.9</td>
<td>10.9</td>
<td>11.6</td>
<td>12.3</td>
<td>16.7</td>
<td>18.5</td>
<td>24.9</td>
<td>30.3</td>
</tr>
<tr>
<td>Intermediary goods</td>
<td>6.4</td>
<td>8.6</td>
<td>8.8</td>
<td>10.1</td>
<td>12.2</td>
<td>16.9</td>
<td>17.8</td>
<td>19.7</td>
<td>20.8</td>
</tr>
<tr>
<td>Capital goods</td>
<td>17.7</td>
<td>28.1</td>
<td>23.7</td>
<td>23.8</td>
<td>28.0</td>
<td>39.0</td>
<td>46.9</td>
<td>54.8</td>
<td>57.0</td>
</tr>
<tr>
<td>Total</td>
<td>5.9</td>
<td>8.1</td>
<td>7.9</td>
<td>9.2</td>
<td>10.6</td>
<td>15.1</td>
<td>15.8</td>
<td>18.4</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Source: Moreira (1999)

In the same period there was a decrease of nearly 30% in the employment level in the transformation industry in major Brazilian metropolitan areas.

**Figure 1.** Number of workers in transformation industry in metropolitan areas.

Source: IPEADATA (2002)
While employment decreased, there was a continuous and significant increase in productivity. Considering 1990 as the base period, the transformation industry achieved 73% more productivity in 2001.

Figure 2. Evolution in productivity for transformation industry.

Source: IPEADATA (2002)

Analyzed as a group, the industrial export sector presented until 1999 a decrease in the profitability of commercial operations with external markets, both in capital goods and in agribusiness. Due to the high value of the Real, the cost of production in national currency increased in contrast to the revenues in foreign currency. This fact intensified the need to increase productivity to maintain a minimal international competitiveness, especially in the price-only sensitive commodities market. The devaluation of the Real in 1999 finally adjusted exchange rates, but the harm to employment was already done.
The importance of analyzing the impact on the capital goods industry is that it has had a “backward” effect: it started a process transferred to all other industries and therefore, affected the level of industrial employment as a whole. As illustrated in table 2, the capital goods industry in Brazil lost almost 40% of its domestic market to international competition. The consequences for employment were severe.

4.1.4. The impact on the employment level

As previously mentioned, opening trade was the great catalyst for industrial unemployment, since it forces the economy to increase productivity in order to survive in international competition.

Despite its effects on industrial employment, the opening of trade alone does not explain the phenomenon of unemployment in the Brazilian industrial sector; it is not the only cause.

Trade liberalization had these mentioned effects because Brazil has an extremely diverse industrial sector, result of decades of self-sustained development based on import substitution model. Industries and sectors must survive in this new environment by using their competitive advantages. Some sectors did not succeed, resulting in the loss of many jobs concentrated in some industries and regions.
Beyond trade opening and diversification there is another factor that can be related to the industrial unemployment: the new division on international labor. This new situation leads to a rearrangement in the structures of the labor market, generating jobs in the lower levels of the economy and inducing a concentration on industrial activities of lesser value.

This is suggested by the increase in the participation of low-income workers in the total work force. This trend meets the industrial countries’ strategy of transferring low value-added industries, to developing countries. To be competitive, these industries focus only on price, which makes cheap labor a decisive factor.

In this sense, the main effect of opening trade in the Brazilian labor market is a general decline in employment levels for all workers – both skilled and less skilled – especially in the transformation industry sector. There was a small increase in real wages of the still employed workers in the mid-90’s, even though the latest numbers seem to show a decline in the real wage since 1999. There was also an important increase in productivity for industry in general.

4.2. Stabilization of the economy

Since the 1980’s Brazil has been struggling to overcome the problem of inflation. Since 1986 there were three major stabilization plans: the Cruzado Plan (1986), the Collor plan
(1990) and the Real plan (1994). The two first plans succeeded only temporarily in controlling inflation, but the Real plan has had a longer effectiveness.

The following chart makes a comparison between the inflation rates and the unemployment rates for the period from 1985 to 2001.

**Figure 3.** Evolution of inflation vs. unemployment

![Inflation vs. unemployment in Brazil 1985 - 2001](image)


It is important to note that the two curves show different performance in the period. It makes clear that inflationary control has little influence on unemployment rates, at least in the Brazilian recent history. However, the effects of these stabilization plans on employment can manifest in other ways.
The Real plan, implemented in 1994, was effective in reducing annual inflation to one-digit figures after more than a decade of high and hyperinflation. This well conducted anti-inflationary plan can be divided in two phases to date: before and after the devaluation of the Real in 1999. Until January 1999, when the Real was devaluated by more than 40%\textsuperscript{17}, the Real plan relied upon two strategies to maintain inflation low: high interest rates and a over valuated currency.

During the first two years (1994 –95) there was a boom in consumerism due to the benefits of a stabilized currency. Brazilians could plan their investments again, after almost a decade of inflationary chaos. Even though interest rates were high, financed sales boomed, fueling the whole economy. Due to the over valued currency, imported products were accessible; thus, the participation of imported consumer goods in national market increased.

After this first positive impact, Brazilians realized that the cost of capital was high and that financed purchases were prohibitive. Personal debts increased tremendously and consumption retracted. Since then Brazilian economy has shown only modest performance.

The policy of high interest rates has been strongly criticized by business people and entrepreneurs. This policy works well in keeping inflation under control but at the same time inhibits the creation of new businesses due to the high cost of capital.

\textsuperscript{17} In January 1999, the Real was devaluated in nearly 40%, from 1USD=R$ 1,15 to 1USD= 1,90. From
The effects of the Real plan on employment are limited, compared with the effects of trade liberalization. Actually, the initial economic boom of the Real can be considered as one of the factors that softened the effects of the industrial structural adjustments that occurred due to trade liberalization.

However one aspect is unquestionable: the control of inflation was an important contribution for the Brazilian population. The inflationary environment was profitable for bankers and rich people only. On the other hand, it was extremely harmful for those who could not benefit from financial instruments such as short-term banking investments. Brazilian people, especially those who depend on wages, benefited from maintaining their purchase power throughout the month.

4.3. Privatization

Privatization started in Brazil in 1991. Since then, 148 governmental enterprises were sold18. The total revenue earned is around USD 67 billion.19 Despite these significant numbers, the effect of this process on the employment analysis is intrinsically related to the issue of productivity.

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1999 to 2001, the Real continued to loose value, stabilizing in 1USD = R$ 2,40.


19 Globo TV, Jornal Nacional, 03/15/2002.
Privatized companies originally represented different economic sectors. The most important privatizations occurred in the steel, mining, industrial and telecommunication sectors. The most important privatizations are described below.

The privatization process started in October 1991 Usiminas, the largest steel mill of the country. From 1991 to 1993, all Brazilian steel production moved from government control to private control. The new owners were international and Brazilian consortia in most of the cases. In this sector there was an important reduction of jobs, around 20%. Most of the workers, however, were dismissed by voluntary plans (PDV)\(^{20}\) or by retirement.

In 1994, the almost bankrupted aircraft company Embraer was privatized. A consortium of national banks and pension funds took control and rapidly transformed it into the most successful private company in Brazil. Embraer is today the fourth largest player in international commercial aircraft industry and the Brazilian company that exports the most. From December 1994 to April 1997, a downsizing process chopped 2,887 jobs, meaning 47% of the work force. However, after that initial adjustment Embraer tripled its production and by the end of 1999 almost all job positions closed three years before were replaced. In terms of job creation, the privatization of Embraer will prove to be beneficial in the long-term perspective.\(^{21}\)

\(^{20}\) Plano de Desligamento Voluntário (PDV) is a program in which employees volunteer to be dismissed in exchange for benefits and financial compensations greater than if they were fired.

\(^{21}\) Edvaldo Pereira Lima, A Family Affair (Cleveland: Air transport World, 1999), 179.
In 1997 Brazil privatized CVRD – Companhia Vale do Rio Doce, the world largest producer of raw minerals, and in 1998 Telebrás, the telecommunication company was privatized. Telebrás was split into twelve new private companies in a mega-operation of US$ 18,9 billion.22 The effect of privatization on the telecommunication infrastructure has been remarkable. From 1997 to 2002 Brazil will triple the telephone density profile for fixed telephones and quadruple it for public telephones.23 This privatization process was probably the one that affected the Brazilian economy the most. Brazil was finally raising its telecommunication infrastructure to competitive international levels.

The central issue to be analyzed concerning employment in privatized companies is productivity. As governmental companies, those enterprises did not have a strong commitment to productivity. They existed in a protected, artificial environment without the necessity of profit or quality. When privatized those companies were suddenly inserted into the competitive market where increases in productivity became fundamental to their sustainability.

As mentioned before in this paper, the first measure used to increase productivity is the reduction in the number of workers. This, in fact, happened in the case of privatization in Brazil. This loss of jobs, however, was not significant in terms of the general employment level. In the case of the steel sector, most of the workers transferred to outsourcing companies that emerged after the privatization. In many other cases, such as Embraer, companies grew and created more jobs than were lost in the first place. In the

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telecom sector there were so many investments to do on infrastructure modernization, due to the technological gap, that at the end there was actually job creation.

According to Fróes, “in the Brazilian experience of privatization, state companies usually operated with excess of employees. After privatization, this distortion is corrected, leading to a decrease in the employment level of the companies. However, in the next step, there is an increase in production and the number of employees increases again.”

In conclusion, privatization process did not cause any important variation in employment levels. Most of the lost jobs were later replaced due to the modernization and growth of the privatized companies.

23 Ibid, 19.
5. Unemployment in Brazil: facts and evidences

5.1. Effects on the formal market

5.1.1. Evolution of unemployment

Aiming at a better understanding of the real dimensions of unemployment in Brazil, it would be interesting to analyze some facts related to the historic evolution of the open unemployment rate.

**Figure 4.** Open unemployment in Brazil

![Unemployment in Brazil 1982 - 2001](source: IBGE – Pesquisa Mensal de Empregos PME (2002))
According to the IBGE figures, the problem of unemployment is similar today to what it was in the first half of the 1980’s, when debt crisis and recession stagnated the Brazilian economy. Open unemployment figures for the beginning of this new century are slightly less than those at that time. It is also important to note that since 2000 there has been a tendency toward decreasing unemployment rate. During the time when the industrial structuring process occurred (1991-93), the Brazilian economy still presented reasonable open unemployment rates.

From 1997 to 1999 there was an increase in open unemployment. Those were the years in which the international financial market suffered consecutive setbacks. There was first, the Russian crisis, next, the Asian crisis and, finally, the Brazilian crisis of 1999. The instability generated by these events slowed down the Brazilian economy and thus affected employment level. However, since 2000, Brazil has shown an important recovery. The biggest proof of this is that Brazil did not suffer major damage when its Mercosul partner, Argentina, collapsed in the beginning of 2002.

From an international perspective the evolution of unemployment in Brazil suggests that the phenomenon presents relatively normal behavior, if compared to other economies. Comparing absolute numbers of open unemployment in Brazil and some European countries the Brazilian unemployment rate is located in an intermediary position.

The following table presents open unemployment rates of selected countries during the year of 2000.
Despite all the changes and crises of the last two decades, Brazil has lower unemployment rates than certain developed countries, including Germany and Italy. The great flexibility of the national formal labor market and the existence of a huge informal sector capable of absorbing the work force explain Brazil’s moderate levels of unemployment.

5.1.2. Characterizing unemployment in Brazil

5.1.2.1. High flexibility

Due to the flexibility of the labor market, unemployment in Brazil shows much more in the gap between employed, underemployed and unemployed workers than in the open
unemployment rate. The existence of an informal sector that employs nearly half of the total work force is decisive in keeping people employed. From 1986 to 1996, the number of employed people increased by 28.2%. This increase of almost 20 million workers had minimal effect on the open unemployment rate, which remained at about 5% during the same period.  

Flexibility also is positive when one analyzes the average period of unemployment. In Brazil unemployment lasts for more than a year for only 15% of unemployed workers compared to the 60% of workers who are unemployed for more than a year in certain European countries.

Table 4. Long-term unemployment in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Incidence of long-term unemployment (over one year long, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>1,0</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>4,0</td>
</tr>
<tr>
<td>Norway</td>
<td>5,0</td>
</tr>
<tr>
<td>United States</td>
<td>6,0</td>
</tr>
<tr>
<td>Brazil</td>
<td>15,0</td>
</tr>
<tr>
<td>Germany</td>
<td>52,0</td>
</tr>
<tr>
<td>Belize</td>
<td>55,0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>55,0</td>
</tr>
<tr>
<td>Greece</td>
<td>55,0</td>
</tr>
<tr>
<td>Chile</td>
<td>59,0</td>
</tr>
<tr>
<td>Belgium</td>
<td>61,0</td>
</tr>
<tr>
<td>Italy</td>
<td>62,0</td>
</tr>
</tbody>
</table>


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25 IBGE. PME- Pesquisa Mensal de Emprego (Brasília: IBGE, 2000)
However, even though there is a relative flexibility, the rigidity of the Brazilian labor market is still considerable due to obsolete labor legislation and the high cost of contracts. This type of rigidity works against the creation of good quality formal jobs. Countries that recently modernized their labor laws experienced an increase in the level of employment. In Peru (3.7%), Colombia (3.8%) and Chile (4%) this increase was greater than the Latin-American average of 2%. Flexibilization also contributes to the increase in formal jobs. In Argentina the level of employment increased by 3.2% and the level of formalization by 17% due to labor laws modernization.

Flexibilization must be reached by the adoption of new labor arrangements. Part-time work, flexible hours, outsourcing of services, and working out of one’s home are some of these new modalities of work that depends on less rigid labor laws.

This flexibilization of labor laws must concentrate on creating mechanisms that motivate negotiation instead of conflict. Brazil is the only country among the 40 largest world economies in which the Labor Law Justice System has the power to settle economic disputes. This is one of the reasons why Brazil is the world champion in the number of cases in the Labor Law Justice System. In 1998 alone, there were 2,475,630 new cases. This number of labor disputes shows that Brazilian labor laws are inadequate in an environment of increasing international competitiveness.

27 Ibid, 23.
To conclude, the flexibilization of labor laws would be a powerful strategy for creating jobs. If this flexibilization reduces the cost of contracting, high quality formal jobs can be created. Increasing the participation of workers in the formal labor market and maintaining wage levels must be the objective of the legislators when discussing new labor legislation.

5.1.2.2. High job turnover

The high level of job turnover probably is the main cause for the creation of such bad quality jobs in Brazil. A recent study\(^{29}\) points to Brazil as the leader in workforce turnover. In the industrial sector, 47\% of workers stay less than two years in the same job.

This great turnover contributes to the low level of productivity and to the maintaining a low level of skilled workers because companies do not invest in training. Anticipating great turnover, companies leave the burden of training to class entities\(^{30}\) or to the government.

\(^{29}\) Gustavo Gonzaga, Emprego no Brasil: Um Problema de Baixa Produtividade, (Rio de Janeiro: Brazil Research, 1997), 34.

\(^{30}\) Such as Sebrae (Small and Medium Enterprises Support Service), Senai (National Service for Industrial Training), and Senac (National Service for Commercial Training)
But if industrial workforce turnover rates are high, those for other sectors such as commerce and construction are even greater. The average period of employment in the transformation industry is 48.9 months, while for commerce it is 30.3 months and for construction it is only 24.8 months.\(^{31}\) The turnover increases while the size of companies decreases. Those figures lead us to conclude that high turnover is related to low quality and unskilled jobs, which are commonly available in construction and commerce, especially in small enterprises. The decrease in job quality can be proved by the creation of legalized job positions\(^ {32}\). From 1990 to 2001 the proportion of legalized workers in the major metropolitan areas dropped from 75% to 61%. The following graph shows the substitution of formal for informal work in Brazilian metropolitan areas during the 1990’s.

**Figure 5.** Evolution of formal and informal work in Brazilian metropolitan areas.

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\(^{31}\) Ministério do Trabalho, RAIS – Relação Anual de Indicações Sociais, (Brasília: MT, 2002).

\(^{32}\) Legalized job positions are those that are registered in the Ministry of Labor. A legal worker must possesses a work card and a social security document and pay all taxes and fees.
5.1.2.3. Increasing productivity

The level of productivity of work in Brazil is historically low, compared to other countries. This, however, has been changing since the beginning of the trade liberalization process in the beginning of the 1990’s. Analyzing the following table, one can conclude that during the last decade industrial work in Brazil has achieved levels of productivity that can be compared to those of industries in the developed countries.

Table 5. Productivity of industrial work in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>1980-84</th>
<th>1995-99</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>33.694</td>
<td>37.480</td>
<td>11.2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>25.579</td>
<td>58.678</td>
<td>129.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>43.232</td>
<td>61.595</td>
<td>42.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>36.903</td>
<td>60.912</td>
<td>65.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>34.945</td>
<td>79.616</td>
<td>127.8%</td>
</tr>
<tr>
<td>Ireland</td>
<td>26.510</td>
<td>86.036</td>
<td>224.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>24.580</td>
<td>50.760</td>
<td>106.5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>27.491</td>
<td>56.801</td>
<td>106.6%</td>
</tr>
<tr>
<td>South Korea</td>
<td>11.617</td>
<td>40.916</td>
<td>252.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>24.716</td>
<td>55.060</td>
<td>122.8%</td>
</tr>
<tr>
<td>United States</td>
<td>47.246</td>
<td>81.353</td>
<td>72.2%</td>
</tr>
</tbody>
</table>


Analyzing figure 6, which shows the relationship between wage level and industrial employment level for the period between 1991 and 2001, one can conclude that while there was a decrease in industrial employment, the wages of the still-employed workers increased. This indicates that there was an increase in productivity in the sector. As mentioned before, however, since 1999 a tendency of decrease can be observed.
**Figure 6.** Number of works vs. average wage in transformation industries in metropolitan areas.

![Graph showing number of workers vs. average wage in transformation industries in metropolitan areas.](image)

Source: IPEADATA (2002)

This evolution seems to indicate that the effort to obtain productivity came from the need for adjustments in the industrial sector in order to accommodate trade liberalization. The biggest motivation for modernization, however, was not the direct participation of imported products in the market share.

Table 6 describes a study conducted among companies in 1992 in which the increase in quality standards demanded by consumers was identified as the main cause for change. Consumers had the chance to compare imported and domestic products, raising their expectations.
Table 6. Motivation for competitive strategy in Brazilian companies

<table>
<thead>
<tr>
<th>Motivation for Competitive Strategy</th>
<th>% of the companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic market retraction</td>
<td>71.8</td>
</tr>
<tr>
<td>Trade opening in the company's sector</td>
<td>21.8</td>
</tr>
<tr>
<td>Trade opening in the buyer's sector</td>
<td>11.1</td>
</tr>
<tr>
<td>Access to international markets</td>
<td>13.2</td>
</tr>
<tr>
<td>Globalization of markets</td>
<td>26.4</td>
</tr>
<tr>
<td>Mercosul</td>
<td>20.0</td>
</tr>
<tr>
<td>New public regulations</td>
<td>12.4</td>
</tr>
<tr>
<td>New products in the domestic market</td>
<td>17.4</td>
</tr>
<tr>
<td>New producers in the domestic market</td>
<td>14.0</td>
</tr>
<tr>
<td>Consumer's demand</td>
<td>49.5</td>
</tr>
<tr>
<td>Increase of the price of basic materials</td>
<td>22.0</td>
</tr>
<tr>
<td>Governmental programs' policy</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Source: Coutinho (1995)

This fact allows us to conclude that companies adopted a proactive attitude towards trade liberalization, anticipating transformations in order to maintain market share.

5.1.3. Accommodation tendencies

The Brazilian labor market is reacting to the impact of globalization in many ways. There are three main tendencies that must be noticed: intersectoral migration, interregional migration, and an increase in informality. They can be considered accommodation trends.

5.1.3.1. Intersectoral migration

The destruction of formal jobs in traditional industries generated a reorganization of the Brazilian labor market. One of the most visible of these processes is the so-called
“tertiarization”. This phenomenon can be explained as the transference of workers from the industrial sector to other sectors, especially to the service sector.

The next table shows the transference of workers from agriculture and industries to service from 1986 to 1999.

**Table 7.** Distribution of labor-force among economic sectors in Brazil

<table>
<thead>
<tr>
<th>Year</th>
<th>Labor Force (% of total population)</th>
<th>Sector (% of labor force)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Agriculture</td>
</tr>
<tr>
<td>1983</td>
<td>40</td>
<td>27</td>
</tr>
<tr>
<td>1990</td>
<td>44</td>
<td>23</td>
</tr>
<tr>
<td>1996</td>
<td>44</td>
<td>24</td>
</tr>
<tr>
<td>1999</td>
<td>45</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: IBGE - Pesquisa Mensal de Emprego - PME (2002)

This trend was even more evident in metropolitan areas, where most industries are located. The following table depicts the transference of urban workers from industry to other sectors in the major metropolitan areas from 1990 to 2002.
This is not a question of worker choice: the phenomenon of “tertiarization” reflects the lack of opportunity in the industrial sector. In a choice between continued unemployment and a job in another activity, workers opt for the new job, even though it pays less.

The process of intersectoral migration contributes to the decrease in the overall quality of jobs in the Brazilian labor market since the services sector normally offers jobs of less quality. This can be proved if one considers that the proportion of workers with little education is greater in the service sector than in the industrial sector.

5.1.3.2. Interregional migration

Another process of accommodation is the interregional migration of workers seeking new job opportunities in other areas. Here there is an inversion of the migration trend of the 70’s and 80’s. Most of the new formal industrial jobs have been created in the interior of Brazil, mainly in medium cities outside the southeast.
Many industrial complexes have been established in the last decade outside the axis São Paulo – Rio de Janeiro. There is a clear movement of shifting the location for new investments to the states of the *Centro-Oeste* region\(^{33}\), especially for new agro-industrial complexes. There are some other specific areas in the states of Minas Gerais, Paraná, Santa Catarina and Rio Grande do Sul which are developing specific industrial vocations.\(^{34}\)

The automotive industry is an important example of this trend: most of the large investments in new plants in Brazil were made in the two leading states. Six new factories were created in Minas Gerais (2), Paraná (2), Bahia (1), and Rio Grande do Sul (1) while only one was established in Rio de Janeiro and none in São Paulo.\(^{35}\)

In addition, if one analyzes the distribution of industrial employment in the five leading states, a new trend can be seen. In most of these states the level of industrial employment in metropolitan areas decreased, in contrast to an increase in non-metropolitan areas. Figure 7 illustrates this phenomenon:

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\(^{33}\) Região Centro-Oeste: the Brazilian mid-west, which is composed by the states of Goiás, Mato Grosso, Mato Grosso do Sul.

\(^{34}\) Micro-electronics, software, and biotechnology are some of the so-called “economic clusters” being developed in those states.

Figure 7. Composition of industrial employment level in industrialized states.

This can be analyzed as a positive indication considering regional distribution of the national product. The metropolitan areas of the southeast region, the historical destination of foreign and domestic investment, are losing space to other regions, especially to the west and the south of the country.

5.1.3.3. Migration to informality

Migration to informality is another trend that can be identified in the Brazilian labor market. It has revealed a great ability to create new jobs due to strong flexibility and the existence of a huge informal market to absorb workers. The real challenge is not create a lot of jobs. The challenge is to continuously create formal jobs of quality.
5.2. Effects on informal labor market

The informal sector of the Brazilian economy stands for almost 45% of the overall activity\textsuperscript{36}. One of every four urban workers does not have any registration in the labor ministry\textsuperscript{37}.

When considering the informal sector, two main aspects must be considered. The first is that informality is a strategy for survival of workers that were excluded from the formal sector. The second is that informality can also be an entrepreneurial initiative for workers seeking better work and life conditions.

The informal sector is heterogeneous in its composition. Its players are owners, self-employed workers, and informal employees. This heterogeneity has made the task of defining the informal economy difficult. There are too many ways of being informal that, in order to define some activity as informal, the only way is by comparison with or denial from the formal economy.

Even though it is difficult to define the informal economy in Brazil, there are two main myths about informality that must be clarified. One is the notion of seasonality and discontinuity of informal activities. The other is that the motivation for migrating to informality is only the lack of opportunities in the formal economy.

\textsuperscript{36} IBGE, Pesquisa Nacional sobre Economia Informal, (Brasilia: IBGE, 1997)
\textsuperscript{37} Legal employment in Brazil requires a carteira de trabalho (work card), which in turn requires an identity card, the most important single document a Brazilian possesses. Only persons with a signed work card are considered legalized.
According to the PNEI research (IBGE)\textsuperscript{38} only 15\% of the informal ventures interviewed were less than one year old, 53\% were between 2 and five years old and 32\% had more than five years of operation.

Informal initiatives are not simply temporary activities performed by workers who could not find a formal job. The same research shows that only 13\% of people that established an informal business were unemployed. Nine percent of them were public workers, 19\% were free-lancers and 36\% were employees of private formal companies. The PNEI research also showed that 47\% of these people identified a business opportunity as the main motivation for opening an informal venture. Only 23\% of those interviewed declared that unemployment and/or lack of perspective in the formal labor market was the cause for such a venture.

To conclude, the decision to starting an informal job is influenced by the aspiration of becoming an entrepreneur instead of remaining an employee. It is more than just an alternative to unemployment. Even though there is a loss of job quality when migration from formal to informal sector occurs, many of the workers do not consider this migration as a transitory process before getting a new formal job.

\textsuperscript{38} IBGE – PNEI – Pesquisa Nacional sobre a Economia Informal (Brasília: IBGE, 1997).
6. Conclusions

Labor markets are passing through modifications worldwide. There is a transition going from the concept of “job” to the concept of “work”. Each day the rigidity of the labor market is being contested by new activities and new ways of selling work. Even though labor legislation tends to restrain innovative and flexible labor relationships, society is adapting rapidly to the new environment. Workers must have a holistic attitude involving interpersonal abilities such as communication skills, initiative, pro-activeness and a desire for to on-going education. Since the speed in which these changes occur is geometrically increasing, high employability is the aim of every worker of this new century. One must be prepared to identify, understand, adapt and react to transformations that certainly will occur in his/her professional activity.

In this last decade, unemployment rates have been increasing in most national economies. In a broad analysis, current unemployment is a global phenomenon since it is a consequence of structural reorganization. It is caused not by a cycle of world economy; rather, it is structural unemployment. The reasons for this phenomenon of unemployment at the beginning of the century are many, but they can all be grouped in two unprecedented processes: the scientific revolution and globalization.

The extent to which the phenomenon of structural unemployment manifests is different among nations. It depends basically on the role of the country in the international division of work and how flexible this given labor market is. Usually, when a national economy presents a rigid labor market, the problem of structural unemployment generates high
rates of open unemployment. On the other hand, in countries in which labor market presents more flexibility, the problem manifests itself in an increase in the wage gap between skilled and unskilled workers.

Of the three main structural adjustments, there is no doubt that trade liberalization was the most important in terms of influence on labor market. Stabilization of economy and privatization played secondary role in terms of employment level. These two processes were indeed important to the Brazilian economy since they gave back to Brazil infrastructure and economic order. However, considering unemployment, trade liberalization process caused a greater and deeper impact.

Trade liberalization promoted an adjustment process in the Brazilian industrial sector. The demand for jobs was greater in positions that demanded skilled and more qualified workers. This adjustment was even more visible in capital goods industries and in those of exportable products. High interest rates and the high level of the exchange rate during the first period of the Real plan reinforced the low international competitiveness of these sectors.

But these two macroeconomic factors were not alone in this process. Actually, the main cause for the destruction of job positions in the industrial sector was the need for adaptation to global quality and cost standards. In other words, in order to compete - both domestically and internationally - Brazilian industry had to transform its productive processes which were based in an artificial environment created by decades of import
substitution policies. To guarantee the survival of enterprises in the new economic environment, the achievement of international productivity levels was mandatory. In the short term the effects on employment have been severe, but there are signals that in the long term the situation will be positive.

The negative effect of trade liberalization on the Brazilian national industry is the destruction of jobs in all sectors of production. The reason for this is the great diversity of the Brazilian industrial sector, mainly due to decades of import substitution policies. Since the increased participation of imported products manifests itself mainly in the capital goods industry, it has a cascade effect in all other industrial sectors due to the important participation of this industry in the overall activity.

The Brazilian open unemployment rate still moderate if compared to other countries. This fact, however, cannot allow us to conclude that the Brazilian labor market is doing well. Actually, open unemployment rate is only one of the figures to be analyzed since there are many other aspects that demonstrate the impact on a given labor market.

The Brazilian labor market is extremely flexible. There is a high rate of turnover that can be considered beneficial when considering unemployment duration. The period in which a worker is searching for a job is relatively short if compared to the international scenario. The great turnover is harmful, however, when the quality of jobs is considered.
The main problem of the Brazilian labor market is the quality of the jobs. It is not a matter of the quantity of jobs created, but it is about the type jobs. The combination of low productivity, great job turnover and the low level of education of the average Brazilian worker create a huge obstacle to development. Low productivity demands more investment in training programs for the employer. The great turnover, however, intimidates companies from investing in a worker that probably will not last for long in that function. But, even if companies invest in training, the deficiency in education makes training an even more expensive and ineffective process.

The response of the Brazilian labor market to these transformations is the occurrence of adjustment processes. One of the adjustments is intersectoral migration. And its effect on labor market is harmful. The “tertiarization” phenomenon leads to a decrease in job quality since traditionally industrial jobs present better conditions than a job in the service sector. The other adjustment going on is the interregional migration of industrial and non-industrial opportunities. Contrary to the urban explosion and interregional migration of the 60’s and 70’s, people are starting to search for new jobs in areas other than big cities of the southeast. If this trend intensifies it can be concluded as a positive effect of the transformation of the economy since it will contribute to the softening of regional inequality in the country.

The increase in informality is also a manifestation of unemployment. Informal activities can be a temporary solution for the loss of a formal job. However, the search for better opportunities and the desire to become an entrepreneur is the biggest motivation for
going informal. The longevity of informal ventures proves that they are no longer only a transition between jobs but a solution for the cost of formality. Since labor and fiscal laws makes it very difficult for small formal enterprises to mature, informality is a risk that can make a new venture feasible.

The real challenge for the Brazilian labor market is the creation of formal jobs of high quality. There are many measures to be adopted in order to achieve this goal. The first and most effective measure is the reduction of interest rates. The whole economy will benefit from this reduction since the high cost of capital is the main restraint for economic growth. This option, however, is not so simple because of the need to control inflation. The IMF rules that Brazilian policymakers follow so rigidly puts control of inflation as the first and most important item to be analyzed in a given economy. Since exchange rates are increasingly more susceptible to global economies instabilities, interest rates are by far the most effective way of controlling inflation. Suppressing demand by credit restraints is the ongoing policy. Brazil has its inflation under control but the cost is high: the country grows more slowly than it otherwise would.

In times of economic globalization, the exporting sector is the one that must create more quality jobs. The Brazilian exporting sector had suffered from high interest rates, but the biggest problem was the overvaluation of the Real. The devaluation of 1999 corrected the imbalanced exchange rate that had so deeply affected the competitiveness of the exporting sector. During the first five years of the plan (1994-1999), the Real was fixed at artificial levels. The competitiveness of the Brazilian exporting sector, which had not
been particularly remarkable before that, was even worse due to this situation. The remedy was bitter: Brazil almost declared debt default and had to trust in an external loan of almost 45 billion dollars to resist speculative waves. However, by the end of 2001 the picture was quite different: Brazilian products had competitive prices, mostly because of the favorable exchange rate.

However, something else still has to be done in order to give Brazilian products long lasting international competitiveness. The impact of weak infrastructure and an obsolete fiscal system is enormous. Transportation is expensive and the cascade effect of indirect taxes is extremely harmful.

Public policy toward the problem of unemployment is highly diffused and disorientated. Many measures have been taken in order to soften the effects of the problem in the short term\(^{39}\). However, there is a need for a broader program to deal with the problem.

In the short and medium terms this plan must address issues like the reform of labor laws and must also encourage the development of economic activities in which Brazil presents competitive advantages.

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\(^{39}\) Brazilian government created some programs to help the unemployed population. Those programs, however, focus in given this people some temporary benefits. *Seguro Desemprego* is one of them: when a worker become unemployed he/she can receive up to two minimal wages during the first three months.
The modernization of labor legislation could be important in rescuing some of workers from informality, enhancing the quality of those jobs. In addition, a modern labor law will give businesses more options to manage seasonality without increasing turnover.

Some sectors of the economy could make an important contribution in generating quality jobs if some incentives are provided. Tourism is one of those activities that have an incredible potential in generating jobs although Brazil has not yet been effective in taking advantage of its natural potential for such activity. If investments in infrastructure, safety and environmental preservation occur, Brazil can rapidly develop a strong tourism industry that would be a natural place for workers no longer necessary in the industrial sector.

Education, however, is the key issue that must be addressed in a long-term perspective in order to address the problem of unemployment in a definitive manner. Government must come up with a solid plan that puts basic education as the central solution for employability of the Brazilian population in the future. The challenge of creating good quality formal jobs is directly related to the qualifications of the labor force and, consequently, the ability of the country to engage in activities that will increasingly demand skilled work. Even though there are many technical training programs, basic education still not taken care accordingly. Basic universal education must receive investments in order to provide the country good human material, and thus increase the possibilities of national inclusion in the increasingly competitive international, globalized economy.
Unemployment in Brazil is not the main generator of social inequality. On the contrary, it is another manifestation of social inequality, not its primary cause. If one analyzes more deeply, social inequality comes from a basic distortion: educational inequality. From educational exclusion today emerge the unemployed of the future.

This study of the Brazilian labor market shows the structural nature of the unemployment problem in Brazil. According to the neoclassic economists, government should not adopt compensatory policies to deal with unemployment: government should let the economy alone find its balance. On the other hand, the new-Keynesian economists advocate that through tax cuts and increases in direct expenditures, government should lead the productive sector of the economy to increase production and consequently the number of jobs.

Comparing the finding of this study with the above-mentioned theories, it is clear that the new-Keynesian theory is the one that better applies to Brazil. After analyzing the data shown in this paper, one will conclude that the Brazilian government should formulate a comprehensive program to deal with the imbalances of the labor market. The problems of unemployment, underemployment and the informality in Brazil will not be solved without the decisive participation of government. This comprehensive program must address two points: modernization of tax and labor laws, and most important, access to education.
Labor laws in Brazil are still based on the concepts from the time when they were formulated in the 1930’s. As mentioned above, the relationship between employer and employee is deeply affected by this paternalistic and rigid legislation, giving Brazilian labor laws an incentive toward movement of economic activity to the informal market. In the same way Brazilian tax laws are an obstacle to the creation of new formal jobs. It is not a coincidence that the size of the informal market has increased to almost 45% of the Brazilian economy: Brazilian taxes hurt the small enterprises and inhibit new ventures from going formal.

The modernization of both tax and labor laws is a key issue to be addressed in order to adjust the imbalances of the Brazilian labor market. Since the beginning of the administration of Fernando Henrique Cardoso in 1995, much has been discussed about labor and tax reform, but little has been done. The next government, to be elected in October 2002, will have to deal with the problem in a more direct way, otherwise the situation will continue to worsen. The next president must work with the Brazilian Congress in order to overcome internal political disputes and get the reforms approved.

However, education is the issue on which Brazilian government must focus on. As previously discussed in this paper, the globalized economy demands skilled work. In the long haul it will be impossible for a country to succeed in the international arena without providing good quality education to its population.
The Brazilian government should adopt a more independent attitude in order to enhance access to education on all levels. The IMF and its neoliberal doctrine imposes on countries like Brazil austerity polices which cut back on social programs in the name of balancing the budget. If Brazil wants to improve labor conditions, government should act now. It is dangerous and some would say irresponsible to continue cutting education funds.

Some measures regarding education could clearly affect the Brazilian labor market. First, basic education should be taken care of appropriately. It is not only a matter of putting all children in school, but also about the quality of education that has been provided to them. In recent years government has been bragging about an increase in the enrollment in elementary education. However, there are many critics about the quality of education in Brazilian public elementary schools. It is fundamental to provide good quality education in the beginning in order to ensure good workers in the future.

Secondly, technical education should be emphasized. Technical schools in Brazil are few, so access to this type of education is difficult. Government and companies should act together in order to create new technical schools. It is not just a matter of building schools and buying equipment. Companies must also participate in shaping students according to the demands of the globalized market. If government and businesses collaborate in the administration of such educational programs, students will benefit from getting a more updated and modern education.
Third, access to higher education must be improved. According to Tomelin⁴⁰, “private institutions (of higher education) account for the majority of the enrollment, which restricts access even more to the mainstream population where people lack the means to pay for higher education studies.” Probably the most effective way in which access to higher education could be increased is providing educational loans and scholarships. It would be much more effective to invest in this sort of incentive than creating new public universities. Yet, no matter what arrangement is to be made, opportunities for higher education must be given to a greater part of the population in order to ensure Brazil a more skilled and competitive labor force in the future.

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