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## Wage disparities in the urban labour market

*Paulo R. Souza\**

A number of studies have confirmed that in all capitalist economies which have attained a certain degree of industrial development a segmentation of the urban formal labour market occurs, one of the consequences of which is greater inequality in wages and salaries. The author explains this phenomenon by postulating as a general hypothesis that the level of remunerations is determined by the overt or latent conflict between entrepreneurs and workers, and that many of the changes in the industrial structure derive from the efforts of entrepreneurs to obviate its destabilizing effects.

The first of the article's three sections analyses the case in the developed countries, and attention is drawn to the important influence exerted on salaries and wages by the internal labour markets of the large enterprises and by increases in productivity. The second section deals with the developing economies and outlines the factors which account for their higher degree of heterogeneity, such as the abundant supply of unskilled labour and the greater monopolistic power of the enterprises. Lastly, in the third section, the writer presents an analysis of the disparities between rates of pay in Brazil.

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## A. Introduction\*

During the past few years attention has been devoted in an increasing number of studies on the developing economies to the problem of the segmentation of the labour market that has accompanied the recent industrialization process. The topic has awakened interest in several international agencies as well as in some important academic centres. A characteristic common to almost all the studies concerned is the division of the urban labour market into two sectors —the formal and the informal—, with a tendency to concentrate the analysis on the second of these, i.e., the one comprising those whose situation in the labour market is worst. But as several of the studies recognize, this does not mean that two homogeneous sectors are in question, and a point is made of stressing that the distinction drawn between the two is prompted by a methodological concern to establish the 'essential features' of the operation of the labour market in developing countries. While not denying that a policy to reduce income disparities necessarily calls for the elimination or the narrowing of the productivity gap between the two sectors, the present paper aims at drawing attention to the income dis-

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tribution mechanisms operative in the formal sector.

Some recent studies indicate that the past few years have witnessed an expansion of the spectrum of salaries and wages within the formal sector of the economy in some developing countries.<sup>1</sup> Of the relevant analyses, those that have been carried out in greatest depth relate to Brazil, and respond to the need to seek explanations for the income concentration process that was observable at least throughout the decade 1960-1970.<sup>2</sup> This discussion bears the imprint of contingencies in the recent evolution of Brazil, to which allusion will be made later, but on some occasions explanations of a more general type, linked to the operational characteristics of enterprises in the present 'monopolistic' phase of capitalism, are also invoked.

One of the objectives of the present paper is to put forward a few hypotheses

which, from this last standpoint, may help to account for the increasing disparities in salaries and wages,<sup>3</sup> and another is to analyse their repercussions in the case of Brazil. The said hypotheses attempt to relate this process of wage differentiation with that of segmentation of the labour market. Since the latter is taking place throughout the capitalist world, and is a characteristic of the evolution of the system in the past few decades, the following analysis is initially of a general nature, and allusion is sometimes made to the more industrialized countries, in order to deduce, by contrast, what is likely to have been happening in economies such as those of Latin America. Lastly, in the section relating to Brazil, an endeavour is made to test these hypotheses, and at the same time to point out other characteristics peculiar to Brazil which complete the picture of the causes that account for the broadening of the pay spectrum in recent years.

## B. Some basic assumptions

The present paper is based on the assumption that the factor underlying the wage determination process is the

real or potential contest between entrepreneurs and workers for the distribution of the product. The process

<sup>1</sup> This is a process that has been taking place in some of the developing countries in particular, but not in all. The most important determinants of this difference are connected with the disparities in the power of the social forces contending for the distribution of the product and with the capacity of the society's ruling groups to impose an economic model which, as a whole, implies an increasing differentiation of the social strata and a higher degree of economic concentration.

<sup>2</sup> The discussion on income distribution in Brazil has been prolific of literature in recent

years. See, in this connexion, Langoni (1973); the essays included in Tolipan and Tinelli (1975); and also the excellent *résumé* prepared by Bacha and Taylor (1977).

<sup>3</sup> Unless otherwise indicated, these disparities should be interpreted in broad terms, that is, as existing between various types of manpower (by skill) and also between different workers with similar personal qualifications. Likewise, wages include all fringe benefits, which, strictly speaking, imply both an income for workers and a cost for the employer firms.

itself is approached from a long-term standpoint; past experience, in the course of innumerable conflicts, has taught the entrepreneurs certain lessons, which have been to some extent assimilated and are therefore very carefully taken into account when firms establish their wage policy.

On the basis of this general assumption, three trends in the behaviour of wages can be postulated as existing in the current phase of the development of capitalism.<sup>4</sup> Admittedly, moreover, none of the three suffices in itself to explain the wage differentiation process noted in recent decades. On the contrary, only from the *interaction* of the three trends can the mechanisms which have established this differentiation be deduced.

1. *Trend towards wage differentiation deriving from the operation of internal labour markets*

(a) *Internal labour markets*

Doeringer and Piore (1971) drew a distinction between intra-firm and extra-firm labour markets. The former—in contradistinction to specialized or competitive markets—are characterized by behaviour patterns relatively independent of the situation in the labour market outside the enterprise. In the view of the writers mentioned, the principal factors generating such internal structures are enterprise-specificity of skills, jobs and technology and on-the-

<sup>4</sup> What is understood here by the current phase of development of capitalism is the stage through which the system has been passing during approximately the last half-century, and which has involved, *inter alia*, a progressive increase in the size of firms and in the degree of monopolism in the economy.

job training. Obviously, these are problems which raise the cost of staff recruitment, selection and training for the enterprise and also set up barriers to the mobility of labour. Accordingly, the 'internalization' of the labour market enables firms to reduce the costs deriving from a high rate of labour turnover.<sup>5</sup> Thus internal promotion ladders have been established by virtue of which the recruitment of workers for the higher posts is effected among the firm's employees themselves; and as a counterpart, opportunities of joining the firm are confined to the vacancies existing among the less responsible or less skilled posts for each type of manpower required.

This has been the experience of capitalism in the United States during the present century. For example, Edwards (1975) underlines the relation between degree of concentration, firm size and operation of internal labour markets. The growth process of the enterprises and the tendency towards monopolism in the economy led them to 'internalize' everything that might, at one time or another, constitute a threat to their existence and expansion: competition, orientation of consumer preferences, financing, research and labour markets. In this last respect, contributory factors were the expansion of the firm and the creation of many subsi-

<sup>5</sup> The difficulties encountered by American capitalism in relation to intra-firm stability of labour during the early decades of the present century have been analysed by several authors (Edwards, 1977; Stone, 1975; and Maltese, 1975). A famous case is that of the Ford Motor Company, which, in 1913, passed through some periods in which the labour turnover was so high that it had to engage 500 new workers daily in order to maintain its labour force of 15,000 employees (cited by Maltese, p. 88).

diaries; the institution of norms of bureaucratic control and the constitution of the hierarchy *pari passu* with the enlargement of the number of post and functions; and the increasing stability of the activity concerned, which permitted long-term planning of the firm's labour requirements.

The result of all this was the bureaucratization of intra-firm relations and the establishment of rigid hierarchical channels of communication. The labour force appropriate to the new system does not need new technical skills, but it does require a new attitude as regards adaptability to established norms, identification with the objectives of the enterprise, etc. In this connexion, performance within the enterprise acquires a great deal of importance as a criterion for the evaluation of workers, while all the attributes susceptible of objective measurement *prior* to the workers' entering the firm are relegated to a secondary plane.

(b) *Effects on the labour market outside the firm.*

The effects of these practices on the operation of the labour market as a whole were of two types. In the first place, at the level of the labour force employed in large enterprises, the stabilization mechanisms led to the organization of promotion ladders and to the granting of particular benefits to the manpower employed which, in abstract terms, were supposed to be specific to *each individual* enterprise. Nevertheless, since all the big firms shared in the same process in respect of the expansion of their economic power and the need to introduce the aforesaid practices of 'internalization' of the labour market, for workers in all large

firms labour market conditions tended, *very broadly speaking*, to be fairly homogeneous.<sup>6</sup>

Secondly, from the standpoint of the labour market as a whole, the fact that the large enterprises do not employ the *entire* labour force, and that small and medium-size enterprises did not witness the same increase in their economic power, meant that demand for labour became more and more differentiated. On the one hand, the smaller scale of such establishments, the lesser degree of complexity in their management, the lower level of 'sophistication' in their production processes—still as compared with the experience of the large enterprises—offered them no inducement to 'internalize' the labour market, at any rate to the same significant extent. Moreover, the subordinate part they play in the accumulation and concentration processes—of which it is not they that are the motive force—did not allow them to increase their share in the product,<sup>7</sup> with the result that they were less able to follow in the footsteps of the large enterprises in respect of

<sup>6</sup> This does not mean, however, that no major differences are observable in the norms governing the operation of the labour market in each individual enterprise, or that all workers of identical skill or rank in all enterprises enjoy exactly the same benefits and wages. As was noted earlier, the homogeneity of this particular stratum of the labour market must be interpreted in broad terms and derives from the operation of intra-firm markets.

<sup>7</sup> According to the theoretical model of accumulation in a situation of concentrated oligopoly, in view of the technology and the overall demand conditions prevailing, small and medium-size enterprises gain an increased share in the product only over short periods. Hence it may be inferred that over the long term their participation in the product followed a downward trend. Some relevant data are included in the following section.

granting certain benefits to their workers in order to ensure that they would stay with the firm.<sup>8</sup>

*2. Trend towards linking wages to level of productivity in each enterprise or sector, deriving from the contest for the distribution of the product*

This tendency derives directly from what is generally assumed to be the very essence of the wage determination process; the contest between entrepreneurs and workers for a share in the product. As noted above, it need not necessarily be apparent at every stage in the process, since it may take latent or potential forms. Moreover, the differing structural characteristics of countries in different phases of their history determine a relationship between the forces taking part in the process which is peculiar to each country and each situation. The participating agents (entrepreneurs, workers through their trade unions and the government as the pilot of overall development and welfare policy) may also make their presence explicitly felt in different degrees in each specific situation. The existence of institutional factors (trade unions, labour legislation, etc.) strengthens or consolidates the tendencies towards segmentation of the labour market which have their *origin* in economic

<sup>8</sup> Alexander (1976) measured some relationships for the 10 industries which showed the highest and the lowest levels of employment stability in the United States during 1965-1966, and reached the conclusion that the degree of concentration in the former groups was four times higher than in the latter, the value added per worker nearly three times larger and the investment per employed person almost five times greater.

factors: differences in productivity, internal organization of the enterprises, need to stabilize the labour force, etc.

What is important for the wage differentiation process is not the existence of all these mechanisms and agencies: it is the different capacity for pressure and, above all, for response to them which is found in the various sectors that make up the economic structure. The capacity for response is a direct function of the level of productivity attained by the system as a whole or by its various component parts.

If account is taken of the dizzy speed with which the product per worker has grown in the last few decades, especially in the large enterprises, it may be concluded that these latter are relatively better placed to negotiate the distribution of the product between capital and labour in such a way as to avert possible conflicts. The counterpart of the process of introducing new techniques and increasing the product per worker is that wages dwindle to a progressively smaller proportion of the firm's total costs, so that marginal relative variations become less important.

Analyses of the evolution of the centralization and monopolization process in economies like that of the United States suggest that an increasing proportion of the market for goods has been taken over by the large enterprises (Averitt, 1968; Edwards, 1977). Although such firms are the most productive and keep in the front line of technology, and are therefore the 'leaders' in indexes of productivity growth, this greater participation in the market for goods has been simultaneously accompanied by a growing participation in employment. But the increase in the large firms' share in the product has

exceeded that of their share in total employment in the economy. In other words, the following relation can be noted:

$$\frac{r_{pg}}{r_p} > \frac{r_{eg}}{r_e}$$

where  $r_{pg}$  is the growth rate of the product in large enterprises

$r_p$  the growth rate of the total product

$r_{eg}$  the growth rate of employment in large enterprises

$r_e$  the growth rate of total employment.

This means that a proportionally larger part of the product is generated by a proportionally smaller part of the labour force.<sup>9</sup>

To follow up this line of argument, it will be convenient to divide the whole economy into two separate sectors, and to examine what would have happened to wage levels in each of them *if the other had not existed*.

In the sector formed by the large enterprises (central nucleus), improvements in productivity would allow the labour force to be successful in its demands for higher wages. The workers' requests would gain strength from the lack of a manpower surplus and employers could comply with them without adversely affecting their rate of profit,

<sup>9</sup> There is empirical evidence to show that this is what has occurred, for example, in the United States (Edwards, Reich and Weisskopf, 1978). The present paper is concerned particularly with the case of developing economies, where the process in question displays even more striking and manifest characteristics.

since productivity too would be increasing.

In the sector comprising the small and medium-size firms (peripheral area), productivity would likewise be rising (always provided that the growth rate of the product was higher than that of employment), but more slowly than in the central nucleus. Efforts to speed up the pace would find themselves cramped by a less dynamic market than that of the large enterprises.<sup>10</sup> Accordingly, workers in these smaller firms would be less successful than those of the central nucleus, although probably they too would achieve some improvements in their wages.

### 3. *Trend towards equalization of wages deriving from competition in the labour market*

Obviously, large and small enterprises do not operate in separate worlds. Thus, recognition that trends exist which reduce competition in the labour market by no means implies that there may not also be a tendency to competition in that market as in any other.

Accordingly, given the co-existence of those two sections of the economy, adjustment on the wages side, as already pointed out, is obviously bound to present some fairly serious complications. That is, the central nucleus could not grant a *blanket* wage increase because this would cause severe disequilibria in the market, particularly in the case of those categories of workers

<sup>10</sup> As explained above, in view of the prevailing oligopolical structure, the market for small and medium-size enterprises shows little or no sign of steady expansion over the long term.



where the peripheral area plays a major part in employment.

It must not be forgotten, however, that the period when this process of centralization and monopolization began (the early decades of the present century) was also a time when the intra-firm conflict between employers and workers, as mentioned above, was still unsettled (Stone, 1975; Maltese, 1975; Edwards, 1975, 1977). For the central nucleus, the solution seems obvious: to use the firm's increasing surplus (the part which the workers should receive if the peripheral area did not exist, but surrender of which is *not compelled* by the market) in order to fix wage differentials in promotion scales,

obviate conflicts with workers and stabilize the labour force within the firm.

This differentiation process has one basic characteristic: at the lower levels, through the operation of market forces, wage levels slightly higher than those current in the peripheral area are established, in order to ensure an elastic supply of manpower without upsetting the balance of the labour market. Higher up the ladder, wage differentials as between the various levels are very marked. The criteria applied to determine these differentials and to rationalize them in microeconomic terms are described by Doeringer and Piore (1971) and by Edwards (1977).<sup>11</sup>

## C.

### An explanatory hypothesis on differences in pay

#### 1. *The general case*

Analysis of the interaction between the three tendencies defined in the following section makes it possible to draw some conclusions as to how wage scales should be structured in any economy, and what should be the predictable trends in their evolution.

The tendency in the central nucleus would be to diversify its wage structure,

in line with other than market criteria, extending the gamut of wages upwards.<sup>12</sup> The effects of this on the operation of the labour market and the wage differences between the central nucleus and the peripheral area have some special aspects that are worthy of mention. In the first place, differences can be noted in the pay received by workers with the same skill or rank employed in different enterprises in the

<sup>11</sup> But since Doeringer and Piore disregard the growth of the surplus handled by the enterprises, the impression is created that in general the establishment of wage scales is subject to *constraint* on account of a total wage bill which cannot be greatly increased. In contrast, the hypothesis adopted here assumes that the growing surplus obtained by the enterprise enables it to be much more flexible in fixing wage scales.

<sup>12</sup> There is nothing new about this conclusion, however. Other writers, on the basis of different arguments, have reached very similar positions. Bacha (1975), for example, as a result of the findings of several studies relating to the intra-firm hierarchical and bureaucratic structure, divides workers into managers (persons with some supervisory responsibility at any level) and subordinates. And he comes to the conclusion that the extra

central nucleus. However, these disparities are not very marked, and by and large would tend to offset one another if a comparison were made between enterprises, in consequence of the similar degrees of intensity of the three trends described earlier. But the wage differentials between different types of labour within the labour market of the large enterprises have a tendency to grow bigger in the course of time.

In contrast, striking pay differentials would be observable as between the workers of the central nucleus and those in the peripheral area. Such differences would tend to increase with progress up the occupational ladder, i.e., from the simpler and less skilled jobs to those of greater complexity or greater responsibility in the hierarchical structure. This is a result of the interaction of the three trends mentioned above, of which the first two would prevail among the more skilled types of labour, while the operation of the market would tend to counteract their influence where unskilled labour was concerned. Another possible postulate is that in dynamic terms the maintenance of the trend towards an increase in the large firms' share of the total product would lead to

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amount received by managers is explicable only in terms of their predominant position in capitalist production relationships, which under that system associates them with the owner class (p. 132). Again, Belluzzo (1975) examines the similarities and dissimilarities between the marxist postulates on the distribution problem and those of some contemporary authors linked to the Cambridge School, endeavouring to draw conclusions as to the evolution of personal income distribution. This writer points out that changes in the structure of the enterprise and an increase in the 'degree of monopoly' are conducive to a slower growth rate for wages than for productivity, and to differentiation in the pay range of the bureaucratic hierarchy (p. 35).

a widening of wage disparities. Thus, the differences between the higher categories would increase faster than those between the lower categories of workers.

On the other hand, it is quite possible that this general trend may be offset by market forces in respect of those categories of workers where other factors (relative shortage, geographical mobility, etc.) tend to favour the operation of a competitive labour market. This might be the case, for example, with 'professionals' in general, and particularly with some careers of which spatial mobility in international terms is a fairly marked feature.

In addition to the problems of market disequilibrium already pointed out, it must be noted that, if the central enterprises were to opt for a *blanket* wage increase, they would not succeed in establishing the 'social peace' necessary for the 'efficiency' with which they operate, since these factors stem from control of labour,<sup>13</sup> facilitated by the establishment of hierarchical scales and by the wage differentials which tend to undermine class solidarity and make labour conflicts a more remote possibility. Moreover, it is stratification itself that explains why the central-nucleus enterprises, although they are the firms that characteristically constitute the *primary* labour market, also participate,

<sup>13</sup> The expression 'control of the labour force' is used here in the sense of application both of methods to prevent or reduce labour conflicts of any kind, and of those designed to guarantee the firm's operation at a satisfactory level of efficiency. For example, in an economy where some types of labour are very plentiful, the enterprise will not need to apply 'sophisticated' control techniques in those activities where the mechanics of the work itself suffices to guarantee an appropriate level of efficiency, irrespective of the specific training of the workers.

to some extent, and in relation to some very specific activities, in the secondary market.<sup>14</sup> In other words, in the case of jobs where labour control problems can be resolved by other methods and where stability in employment is not important, the central enterprises can 'allow themselves the luxury' of applying practices that are typical of the secondary market (intensive turnover, subcontracting, piece work, etc.), thus obtaining an even bigger surplus, part of which can subsequently be used for the diversification of wage structures.

In short, the evolution of capitalism during the last few decades shows a tendency towards more and more diversification of the wage structure, in consequence of the 'internalization' of labour markets within the firm, the increasing size of enterprises and the growing monopolism of the economy.

## 2. *The special case of developing economies*

Considerable attention has been devoted to the study of Latin America's development process, especially by writers linked to the CEPAL tradition, and the present paper makes no claim to go into this subject in detail. (See Tavares, 1964; Pinto, 1965, 1970, 1971; Tavares and

<sup>14</sup> As an offshoot of the studies on its segmentation, the labour market is usually divided into two sectors: the primary and the secondary market. Prevalent in the former are "high wages, good working conditions, employment stability, chances of advancement, equity, and due process in the administration of work rules. Jobs in the secondary market, in contrast, tend to have low wages and fringe benefits, poor working conditions, high labour turnover, little chance of advancement, and often arbitrary and capricious supervision" (Doeringer and Piore, 1971, p. 165).

Serra, 1971.) It is worth while, however, to emphasize three of its aspects that are related to the points summarized above.

In the first place, it is common knowledge that the development of Latin America is characterized by a relatively high degree of concentration and of monopolism in the economy, a circumstance which gives large enterprises a chance of playing a more important role than is usually the case, in view of their greater power over the market and their higher rates of return; and this factor would seem to be determining a more heterogeneous structure of production than is prevalent in the developed economies. All this is reflected in productivity differentials between sectors of the economy, or between enterprises in one and the same sector, which may result in bigger wage disparities as will be seen below.

Secondly, the transfer of consumer patterns from the developed economies has also implied imitation of their production processes and entrepreneurial structures. The latter has to some extent involved a transfer of management principles too, as well as of many control mechanisms common in the developed countries. It should be noted that this does not necessarily depend upon the ownership of the enterprise set up in a developing economy; true, should it be foreign-owned, the transfer mechanisms would be direct and more in evidence, but they have also been present in the case of enterprises owned by nationals (or even by the State), given the nature of the process to which reference has been made.<sup>15</sup>

<sup>15</sup> The case of State enterprises deserves special attention in view of their importance in Latin America. Generally speaking, such enterprises enjoy monopolies within the economy, a

Lastly, certain features of the recent evolution of the Latin American economy have tended to enhance the two foregoing aspects of the question. In the first place, even in sectors which began their industrialization process with a reasonably competitive structure (traditional industries, retail trade, certain services), in recent years a notable concentration process, with a high index of denationalization, has occurred. Secondly, problems relating to the small size of the domestic market for durable and capital goods have been resolved in three ways: concentration of income and expansion of the purchasing power of the most affluent tenth of the population (Tavares and Serra, 1971); concentration of the industrial structure in the branches producing durable consumer goods (increases in degree of monopolism and firm size and consolidation of the power of monopolistic state enterprises in several branches) (Tavares and Serra, 1971); and, lastly, internationalization of the economy through the operation of two mechanisms; (a) greater participation of subsidiaries of transna-

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situation which gives them great power over the market and a high capacity for generating surpluses in the most profitable sectors (petroleum, steel-making, mining). Although in this instance it is by definition impossible to speak of social conflicts between capitalists and workers, which would account for the adoption of entrepreneurial practices characteristic of large firms, the fact that the States enterprises form part of the central nucleus of the developing economies compels them to adopt practices of this kind (Souza, 1971). What is more, the need to retain highly-skilled personnel and the possibility of transferring costs enables them to extend benefits to their labour force which exceed those granted by transnational corporations.

tional corporations in total supply; and (b) participation of the same subsidiaries in the new system of international division of labour (Fajnzylber, 1970).

Interaction between the processes so far mentioned, in a scenario characterized by great economic dynamism and soaring growth rates of the population and of the labour force (particularly urban labour, owing to in-migration from rural areas), has helped to build up a much-segmented labour market with a high proportion of inter-sectoral disparities.

Firstly, despite the vigorous dynamism of the economy, the jobs created in the most productive sectors have not been sufficient to employ the manpower which, to an increasing extent, has become redundant in rural areas. Thus, because of the large amount of surplus labour possessed by these economies, a substantial proportion of the labour force cannot find employment in the more organized and productive enterprises (or even in those belonging to the peripheral area). For this reason, those to whom no better alternative is open *organize themselves* in a sector composed of very small enterprises and independent workers, seeking to operate on the fringe of the market in activities which bring them in barely enough to live on (PREALC, 1974; Souza and Tokman, 1974, 1976, 1977). Hence we can divide the peripheral area into two new sectors: the *small-enterprise sector* and the *informal sector*. The first would include the small and medium-sized enterprises organized on capitalist lines; the second, the very small enterprises (employing fewer than five workers, to set a ceiling), under-organized in every respect, and the self-employed, as well as some 'special cases' characteristic of

developing economies: domestic service and casual or occasional workers.

Secondly, economic dynamism has been generated principally in the central nucleus of the economies in question, formed by the large enterprises –*generally* foreign or State-owned– that operate in highly concentrated branches of activity which carry a great deal of weight in the market and use more modern and capital-intensive technology than is commonly applied in the other sectors. The existence of a large labour surplus explains why the central-nucleus firms have tended to diversify their wage structure to a greater extent than the rest. In the first place, the wages of their unskilled workers were closer than those of other types of manpower to a level far below any that had to be met in the developed economies.<sup>16</sup> Secondly, at the upper extreme, the high degree of mobility –even in international terms, as was explained above– strengthened the trend towards wage differentiation. In macroeconomic terms, moreover, this procedure is consistent with income concentration and the creation of a dynamic market for durable consumer goods. In the case of the ‘small enterprises’, the growth of the surplus was not so significant, nor the structure of employment so diversified, as to enable them to keep in step with the behaviour patterns of the large enterprises. Possibly, however, for certain types of skilled manpower in respect of which they compete with the central nucleus, they may have to adhere, up to a point, to the large firms’ wage scales. This depends, in any event, upon the degree of relative shortage of these types

<sup>16</sup> The reason is that the equalizing tendency of the market means more in these categories than in the rest.

of manpower.<sup>17</sup> Lastly, the informal sector displays a much more homogeneous occupational structure, made up of workers of whom the vast majority have little training in skills or general education, and, generally speaking, is in a disadvantageous position to compete with the firms belonging to the formal sector (central nucleus and small enterprises) in the market for goods, so that its productivity and income are unlikely to have increased steadily.<sup>18</sup>

The effects of all this on the distribution of aggregate income depend on the relative growth rates of the product and of employment in each of these sectors. In developing economies the basic assumption that the share of the central nucleus in the product grows faster than its share in employment seems even more patently true, and this difference would strengthen the tendency towards an increasing disparity in the distribution of salaries and wages.

With regard to what happens within the peripheral area as between the small-enterprise and informal sectors, at a first glance the trends do not seem clearly-defined. Available analyses point

<sup>17</sup> Hence follows an important corollary: the degree of relative shortage has less influence on the *level* of the wages earned by a given category of workers than on the range or gamut of their wages, according to the sector in which they are employed (central nucleus or small enterprises).

<sup>18</sup> This is not intended to imply that all informal activities are ‘dysfunctional’ or that they are tending to disappear. As emerges from other studies (Souza and Tokman, 1976; Tokman, 1978), a part of the informal sector admittedly offers real possibilities for growth and expansion, and this proportion might be significantly increased if appropriate economic policy measures were applied. What is meant here is that, as a whole, the product of the informal sector shows an asymptotic tendency to decline in relation to the rest.

out that in the goods market the general tendency is towards a relative decrease in the informal sector's share in the aggregate product of the economy (PREALC, 1976; Souza and Tokman, 1976; Tokman, 1978).

In turn, the growth rate of the informal sector's labour force depends upon many variables: the overall growth rate of the labour force, the rate of rural-urban migrations, and the rate of absorption by the other sectors (central

nucleus and small enterprises). The pertinent figures would indicate for each country whether the evolution of the informal sector has made for the widening or for the narrowing of the income gap in relation to what has occurred in the other sectors. This point is of particular significance not only for the relative distribution of income, but also in order to define the volume of 'critical poverty' existing in each country.

## D.

### Wage disparities in Brazil

#### 1. *Income distribution in recent years*

Income distribution in Brazil has deteriorated during the past few years. This conclusion is reached by almost all the researchers who have analysed the problem in relation to the period 1960-1970, for which the requisite data are available. The most detailed measurement was made by Langoni (1973), who, despite certain methodological difficulties which led him to underestimate the degree of concentration recorded during the period, concludes that all deciles of the population lost part of their share in total income, with the exception of the top decile, which increased its share by more than 20 per cent, and the group immediately below this, which, strictly speaking, experienced no change in its relative position. The greatest losses would seem to have been concentrated in the middle (5th, 6th and 7th) distribution deciles, with reductions of

more than 20 per cent in their share of total income.<sup>19</sup>

This phenomenon of income concentration resulted not only from the fact that the share of profits in the product was greater than that of wages,<sup>20</sup> but also from the diversification and concentration of salaries and wages in the urban sectors, as is pointed out by several writers (Bacha and Taylor, 1977; Wells, 1975). Some aspects of the evolution of the wage structure in Brazil will next be summarized and discussed, in an attempt to identify not only the causes of a conjunctural type but also those linked to the operation of the economic system.

<sup>19</sup> In any event, according to Langoni all deciles would appear to have witnessed increases in the absolute level of their average real income.

<sup>20</sup> The share of salaries and wages in urban income dropped from 57 to 52 per cent between 1949 and 1957 ("Contas Nacionais", *Conjuntura Econômica*, Rio de Janeiro, July 1977).

2. *Trends in the employment situation and the existence of an urban informal sector*

Since the Second World War the Brazilian economy has been characterized by great dynamism, which enabled it to achieve average annual growth rates of 6.7 per cent throughout the period 1950-1975.<sup>21</sup> The publication of the results of the 1970 Census also provided evidence that up to a point this growth was reflected in rapid rates of absorption of labour in high-productivity sectors. For example, a comparison between the population censuses of 1950 and 1970 shows that employment in manufacturing increased at an annual rate of 3.6 per cent; in trade, finance and transport, the corresponding rate was 4.1 per cent; and in social services, 5.8 per cent.<sup>22</sup> Moreover, the industrial censuses for the same years indicate an annual growth rate of 3.5 per cent for employment in manufacturing establishments. Setting aside the methodological problems posed by the use of population and establishment census figures, a comparison of this rate with the one mentioned above would suggest at least a similar expansion of what might be called unregistered artisan industry.<sup>23</sup>

But this is only one aspect of the question. The non-agricultural labour force was expanding at a rate of 4.5 per cent per annum during the same period; this was the result of rural-urban migration, which caused the population

of the large towns in Brazil to increase at an annual rate of 5.2 per cent, whereas the rural population did so at a rate of only 1.1 per cent.

The rapid growth of the population, over against the inflexibility of the system of access to land and production resources in rural areas, led to a flow of labour city-wards at a rate far exceeding the capacity for response of the more productive sectors of the urban economy.<sup>24</sup> Thus, for example, employment increased at a higher rate in 'other services' than in industry or distribution services (4.9 per cent per annum).

Moreover, the increase in employment in more productive sectors, such as commerce or industry, also conceals some expansion on low-productivity fringe activities of this kind (peddling and hawking, artisan industry, subcontracted services, etc.).<sup>25</sup>

This proportion of the labour force which migrates to the cities and does not find employment in the more productive activities has to make a living somehow. The most obvious means is to produce or sell something or some service, taking advantage of the 'empty spaces' left in the market by the organized enterprises. As has already been mentioned, these gaps exist on the fringe of the concentrated oligopolistic market and in those activities where the more productive and organized enterprises have not

<sup>24</sup> This is by no means intended to imply that supply was the only problem. The growth pattern of these more productive sectors was also characterized by little absorption of manpower in comparison with experience in the more industrialized countries.

<sup>25</sup> PREALC (1976) estimated that the size of the urban informal sector in the Brazilian economy during the 1960s must have increased in absolute terms despite the more rapid expansion of formal employment.

<sup>21</sup> CEPAL (1977), table 8.

<sup>22</sup> Faria (1976), chapter V, table 16.

<sup>23</sup> In both years, according to the industrial censuses, the number of workers employed in manufacturing represented a little over 80 per cent of the total recorded as employed persons in the population censuses.

yet penetrated (Souza and Tokman, 1976). Since sustained expansion of these 'empty spaces' is impossible, an increase in the number of persons who have to subsist by finding a place on this fringe means that the level of real income per person employed is bound to decrease or at least not to rise. Accordingly, after the rapid growth referred to, a large sector of marginal population is still to be found in the big towns of Brazil. It is one of the factors that explain, for example, how it came about that in 1972, 24 per cent of the non-agricultural labour force in the States of Sao Paulo and Rio de Janeiro received incomes below the legal minimum wage.<sup>26</sup> Naturally, a labour contingent thus exceeding the direct demand of the more organized sectors has a depressive effect on the wages of unskilled workers in general, a point which acquires a great deal of importance in the operation of the system as a whole, as will next be shown.<sup>27</sup>

### 3. Wage trends in the formal sector of the economy

#### (a) Evolution and coverage of urban minimum wages

Mata and Bacha (1972), in analysing the evolution of employment, productivity and wages in the transforming industries during the period 1949-1969, found evidence of a process of pay concentra-

<sup>26</sup> Of course a not inconsiderable part of this total must be made up of minors and of part-time workers who, by definition, may have incomes below the minimum even though they are working in organized enterprises.

<sup>27</sup> This is not meant to suggest the existence of a labour market that is completely competitive among unskilled workers; the

intention is merely to stress that the trend towards competition is more apparent in respect of this type of labour than of others, in view of its relative abundance and the lack of incentives for firms to 'internalize' labour markets.

tion. In the first place, they noted that the increase in the average wages of white-collar employees (214 per cent in the course of the period) was much bigger than the corresponding rise for blue-collar workers (66 per cent). In connexion with the average wage of the latter, two facts stand out: the greater increase (in absolute terms and in relation to productivity) during the 1950s; and the downward trend in the relative position of the average wages of workers in low-wage branches *vis-à-vis* the average for those in high-wage branches, especially during the following decade. Hence these writers conclude that although the type of evidence available does not permit of analyses in greater depth, the data studied suggest an explanation of the concentration process in which major roles must be attributed to trade-union-action—existent to a reasonable degree in 1949-1958— and to wage policy, admittedly constrictive in 1964-1966, and somewhat more liberal as from 1968 (*op. cit.*, p. 100).

This reference introduces the subject, of the role played by trade unions in the evolution of wage disparities in Brazil; but that is a question which will not be discussed in the necessary depth in the present paper. At all events, it must be emphasized that during the period 1945-1964 the trade unions gained an increasing share in wage-fixing in the various branches. On the one hand, the independent character of bargaining by branches allowed real wages in industry to rise, up to a point,

intention is merely to stress that the trend towards competition is more apparent in respect of this type of labour than of others, in view of its relative abundance and the lack of incentives for firms to 'internalize' labour markets.



in a fashion relatively irrespective of the existence of a large subsistence sector. On the other hand, the trade-union structure in Brazil was organized during the 1940s by branch of industry, not by enterprise, which makes its level of aggregation very low in several traditional branches (the food industries, for example) and very high in the branches which at that time were not important. (For example, the metal-workers' trade union groups together all workers in the metallurgical and metal-transforming industries.) This means that wage increases negotiated by the trade unions in the more dynamic branches have to be levelled 'downwards' in order to accommodate the less productive groups of industries in the branches concerned.

In this context, wage policy after 1964, and especially after 1967, did even more to reduce basic salaries. Up to the latter year, the lack of collective agreements between entrepreneurs and workers was supplied by the labour courts, which decided the wage adjustment in each individual case. As from 1967, the government laid down a specific formula for calculating adjustments applicable in such cases (the so-called *'dissídios coletivos'* or 'collective disputes') which implied a greater degree of homogenization of the increases offered to all categories of workers.

By virtue of the data available for more recent years, this assertion can be corroborated in part and made more exact. In actual fact, the policy of restricting the minimum wage, especially after 1964, had more importance as an indicator of the behaviour of the wages paid to blue-collar workers in general than would derive from its mere direct effect on the income of unskilled workers.

The real minimum wage has declined sharply in the past fifteen years (at least since 1963), after having shown a slightly rising trend over the period 1956-1962. The decrease was particularly marked in 1963-1967 (see table 1). On the other hand, there are signs that the proportion of people receiving up to one minimum wage dwindled in 1965-1968, but remained constant or tended to increase a little between 1969 and 1971 (Bacha and Taylor, 1977). But the importance of minimum wage policy for the evolution of wages in general can be gathered from the same table 1, via the index of the wages of unionized workers appearing in columns 2 and 3, and also from the evidence brought by Bacha and Taylor (1977) to show that the elasticity of average wages in the Rio de Janeiro manufacturing sector in relation to the minimum wage was approximately 0.5 in 1952-1975 (*op. cit.*, p. 40).<sup>28</sup>

#### (b) *Evolution of wages for various categories of workers*

The decrease in the real wage of the worst-paid categories which is reflected in the figures cited, over against the increase in average wages, constitutes an unequivocal indicator of the extent to which the gamut of salaries and wages has widened out in recent years. Other studies make it possible to compare the evolution of real wages for various categories of workers. Table 2, based on figures presented by Suplicy (1977),

<sup>28</sup> As the writers say, this is a highly significant ratio, since after 1965 workers receiving less than the minimum wage do not account for as much as 40 per cent of the labour force in the manufacturing sector in Rio de Janeiro (*op. cit.*, p. 40).

Table 1  
**BRAZIL: INDEX OF REAL MINIMUM WAGE AND OF AVERAGE REAL  
 WAGES OF UNIONIZED WORKERS, 1952-1976**

<i>Year</i>	<i>Index of average real minimum wage in Rio de Janeiro Base 1952=100 (1)</i>	<i>Wage index for unionized workers 1965=98 (2)</i>	<i>Index of average real wages for 18 trade unions 1960=100 (3)</i>
1952	100	—	—
1953	88	—	—
1954	108	—	—
1955	116	—	—
1956	119	—	—
1957	131	—	98
1958	114	—	103
1959	130	—	94
1960	115	—	100
1961	132	—	105
1962	120	—	105
1963	110	—	107
1964	111	—	103
1965	103	98	98
1966	95	90	92
1967	91	83	89
1968	92	84	92
1969	89	86	94
1970	86	86	95
1971	87	88	98
1972	89	92	102
1973	92	96	107
1974	88	94	107
1975	93	—	—
1976	92	—	—

*Sources:* (1) Suplicy (1977), p. 102; (2) Bacha and Taylor (1977), p. 34, on the basis of data supplied by the Ministry of Labour of Brazil; (3) Bacha and Taylor (1977), p. 34, on the basis of estimates prepared by the Departamento Intersindical de Estatística e Estudos Socioeconômicos (DIEESE), São Paulo.

contains the index of real wages for various categories of workers and managerial personnel in industry in São Paulo. From this it can be seen that the average increase in the wages of workers on the lower steps of the ladder was far below the corresponding figure for the higher categories. The latter, in their turn, received smaller pay increases than did managers (see tables 2 and 3). The

indexes for civil engineering workers also show the same trend as can be noted in industry (see table 3).

For example, by 1975 the pay of a general manager in manufacturing industry had come to be 162 times as large as that of a helper in civil engineering, whereas in 1969 the corresponding ratio had been 65:1 (Suplicy, 1977).

Table 2  
SÃO PAULO: INDEXES OF REAL WAGES FOR VARIOUS CATEGORIES  
OF WORKERS, 1968-1975

Category	1968	1969	1970	1971	1972	1973	1974	1975
Low wages (average for 27 jobs)		100	106	110	107	107	110	116
Medium wages (average for 28 jobs)		100	109	114	120	123	132	135
Medium salaries (average for 20 jobs)		100	105	117	128	129	133	142
High salaries (average for 24 jobs)	98	100	118	127	136	142	150	163
Very high salaries (average for 5 jobs)		100	123	128	137	148	148	182
Selected categories of managerial personnel:								
General manager		100	124	122	127	151	151	187
Financial manager		100	134	140	153	170	159	200
Divisional manager		100	147	131	127	145	179	205
Treasurer		100	104	126	135	160	138	187
Auditor		100	104	130	134	154	122	161

Source: Various wage surveys quoted by Suplicy (1977), pp. 74 and 75.

Table 3  
SÃO PAULO: INDEX OF WAGES PER HOUR IN CIVIL  
ENGINEERING, 1969-1975

Year	Carpenter	Foreman	Mason	Painter	Helper
1969	100	100	100	100	100
1970	102	95	97	97	97
1971	95	94	100	102	95
1972	95	124	94	94	97
1973	111	159	108	102	106
1974	108	172	109	112	130
1975	109	232	105	112	133

Source: Suplicy (1977), p. 76.

Again, Wells (1975), in analysing Gini's pay distribution coefficients, and drawing upon sources other than those already mentioned, reaches the conclusion that the process of wage concentration in the period 1966-1972 is observable not only in industry but also in

commerce and services.<sup>29</sup> The data for the years 1959-1965, in contrast, point to the maintenance of the wage distribution structure.

<sup>29</sup> There are other indicators of this trend: for example, Hoffman (1975) estimated Gini's

(c) *Wages by size of firm*

Bacha (1975) made a special analysis of the evolution of wages of workers and managers in large enterprises during the period 1966-1972; and the conclusion he reaches is that undoubtedly the pay spectrum in such industries widened. The real wages of unskilled workers (helpers) dropped during the period, whereas on an average workers obtained annual increases of 2.3 per cent and managers of 8.1 per cent in real terms.

The figures suggest that, in the period under analysis at least, the large enterprises adopted as their wage policy certain practices which are in keeping with the theory of segmentation of the labour market; they participated on a large scale in what was previously called the 'secondary labour market' in respect of some specific jobs, taking advantage of the existence of a plentiful supply of cheap unskilled labour and notably diversifying their wage structure. This implied, of course, operating with high indexes of staff turnover in those specific jobs for which they contracted unskilled labour at very low wages.

This characteristic of the behaviour of the large firms in relation to the labour market for unskilled workers is described by Morley, Barbosa and Souza (1977); these authors sought to discover evidence of the existence of the 'internal' labour market in enterprises in São Paulo, and were able to pin it down, generally speaking, in relation to

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coefficients for those employed in the transforming industry, distinguishing administrative personnel from workers, in respect of the years 1966, 1968 and 1969; whence he concludes that the increase in the index was substantially larger for the first group than for the second.

skilled workers and at the bureaucratic levels. They note, however, that "...intrafirm job ladders for manual labour appear to be short in Brazil, which is another way of saying that job markets at the bottom are relatively open" (*op.cit.*, p. 19).<sup>30</sup>

Through the information available on average wages some progress can be made towards identifying different behaviour patterns in wage levels by size of firm. The average wages of workers in the transforming industry in 1969, analysed by establishment size, show certain characteristics which, *grosso modo*, are common to *all* branches of industry, no matter whether the aggregate data for all Brazil are taken or only those for Greater São Paulo. For example, confirming the general rule in industry, average wages of workers increase with the size of the enterprise and with the level of output per person employed. What is of greater interest, however, is to note that the coefficients of variation of the average wages of workers in each size stratum by branch of industry (two digits) are, generally speaking, lower than the coefficients noted in considering each branch in the context of the ten size strata (see table 4).<sup>31</sup>

<sup>30</sup> Possibly, however, some differences between small and large firms may be observable even so in the evolution of income and in the indexes of turnover of unskilled personnel. But these differences should be very much smaller than in other categories of workers. As no relevant empirical tests have been carried out, the last word on the subject cannot yet be said.

<sup>31</sup> This characteristic holds good even if the criterion for classification by size is altered (number of persons employed instead of value of production), and even if the analysis is confined to the Greater São Paulo area instead of covering Brazil as a whole.

Table 4  
 BRAZIL: COEFFICIENTS OF VARIATION IN AVERAGE WAGES OF  
 PERSONNEL EMPLOYED ON THE PRODUCTION SIDE IN  
 MANUFACTURING, 1969

<i>Coefficients of variation of average wages, by size of establishment measured by value of production (Thousands of cruzeiros at 1969 prices)</i>				<i>Coefficients of variation of average wages by branches of production</i>	
(1)	Under	10	—	Non-metalliferous ores	40
(2)	10 —	50	25	Metallurgy	38
(3)	50 —	100	19	Metal-transforming industry	38
(4)	100 —	200	17	Electrical and communications apparatus	32
(5)	200 —	500	19	Transport equipment	53
(6)	500 —	1 000	21	Wood	29
(7)	1 000 —	2 000	25	Furniture	33
(8)	2 000 —	5 000	21	Paper and board	41
(9)	5 000 —	10 000	26	Rubber	49
(10)	10 000 and over		29	Leather, skins and similar products	36
	Simple average		22	Chemical products	61
				Pharmaceutical products and medicaments	38
				Perfumes, soaps, etc.	44
				Plastic products	31
				Textiles	38
				Clothing, footwear and similar products	23
				Food products	41
				Beverages	53
				Tobacco	68
				Printed matter and publications	50
				Miscellaneous	47
				Simple average	42

Source: Prepared on the basis of data published by the Instituto Brasileiro de Geografia e Estatística (IBGE), *Produção Industrial 1969*, Rio de Janeiro, IBGE, 1971.

The figures would seem to indicate somewhat more homogeneity in the behaviour of the average wage by size than in that of the average wage by branch, despite the trade-union structure referred to above. Part of the explanation of the behaviour noted is to be found in the different composition of the labour force as between skilled and unskilled workers and the different hierarchical structure of production in

establishments of different sizes.<sup>32</sup> In the light of other partial evidence, however, it might be said that the wage differentials observed could be partly attributed to the existence of the internal markets discussed and to the

<sup>32</sup> An additional problem that could be introduced here is that of the participation of intermediate and higher-level technicians connected with production. But given the weight carried by the manual workers, both on

differences in wages which that would imply.<sup>33</sup>

Unfortunately, the information available precludes much further progress in identifying the behaviour of enterprises of different sizes in the labour market. At all events, two aspects of the question merit treatment in greater depth from the empirical standpoint: labour turnover by size of enterprise and level of skill; and the comparison of wages for different categories of workers by different sizes of enterprise within each branch of industry. Nevertheless, much of the evidence assembled in the present section affords support for the hypothesis adopted in this paper as a possible explanation. Particularly important are the data appearing in table 2, where the managerial categories refer to personnel employed in large firms; and so are trends in the wages of unskilled workers in this same group of enterprises.

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account of the volume of wages and the number of persons employed, this is a minor problem; hence it is possible to speak of the wages of blue-collar workers and of personnel linked to production as equivalent concepts without perpetrating serious inaccuracies.

<sup>33</sup> Baltar (1977), working with more disaggregated data, appears to reach a somewhat different conclusion. In his opinion, the breakdown of the labour market by branches of industry (as an approximation to its division into trade union groups) is the factor which accounts for the average wage differentials in the transforming industry, rather than the productivity of industrial groups or the characteristic size of establishments in each group of industries. (Industrial branches are defined as the two-digit and industrial groups as the four-digit levels in the breakdown of manufacturing industry. The term characteristic size refers to the average size weighted by the value of production of establishments in each industrial group). In other words, average wages in industry seem to be influenced more by the action of the trade union structure which still subsists today —despite official policy—, than

#### (d) *Salaries and wages in the public sector*

In view of the weight carried by the public sector in the Brazilian economy, and particularly in the labour market,<sup>34</sup> a pause must be made, however brief, to analyse its behaviour. Macedo (1974) attributes great importance to the wage policy of the public sector in relation to its low-level staff during the period subsequent to 1964. The restriction of wages at these levels was very considerable and must be reckoned as one of the most important determinants of the increasing degree of concentration of salaries and wages. Moreover, the evidence that State enterprises pay higher wages than private firms is partly confirmed in other essays by Bacha (Bacha, 1976; Mata and Bacha, 1973). But there are no systematic studies

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by that of factors stemming from the recent development of industry in terms of productivity and growth of enterprises. It must be pointed out, however, that the contradiction with our proposition is only apparent. In the first place, the operation of the trade union structure has been especially incorporated in the present analysis as one of the mechanisms through which the struggle of the social groups for a larger share in the product finds expression. Secondly, the fact that average establishment sizes in each group do not count for much in explaining the variations in average wages may be only a consequence of the above (operation of an outdated trade union structure), which does not mean that *within* each trade union branch or category there are no wage differentials deriving from the action of internal markets and from the greater capacity of the more productive firms —those of larger size— to grant their workers additional fringe benefits.

<sup>34</sup> Bacha and Taylor (1977) estimate that within the non-agricultural sectors, the public sector, including State enterprises, absorbs about 50 per cent of total 'white-collar' employment (p. 53).

which afford unequivocal corroboration of this assertion, although it seems to be amply borne out by what is usually estimated to be the structure of wages in Brazil.

The explanation of this fact lies precisely in the predominance of the first two wage trends previously noted. State enterprises in Brazil operate in highly dynamic sectors, where they enjoy a front-line position in the market which even enables them to transfer possible increases in costs to prices. This circumstance undoubtedly enhances the bargaining capacity of the employees,

which is buttressed by the power the trade unions derive from their strategic position in the economy. Furthermore, a hierarchical and bureaucratic structure is even more necessary than in the private sector, precisely as a means of preventing possible labour conflicts in sectors which are really strategic. Owing to the need for highly-skilled manpower and the necessity of maintaining efficiency, the State enterprise not only ends up by following the same behaviour patterns as private enterprise, but also finds itself compelled to grant its strategic personnel larger benefits as a means of retaining them in face of private competition.<sup>35</sup>

## E.

### By way of conclusion

The central idea put forward here is that mechanisms conducive to greater concentration of income do exist and result from the operation of the enterprise in the present 'concentrated-accumulation' phase of capitalism.

These mechanisms not only derive from the traditional struggles for the distribution of the product between capital and labour, but also play a special part in the process of distributing the wage bill among the various levels of workers involved in the production process or in the bureaucratic functions of the enterprise. The pattern of accumulation, in which the share of big

firms in the product increases while that of the labour force does not increase so much, is favourable to a widening of the pay spectrum, especially in the large enterprises, without ill-effects on the capacity of the latter for accumulation and growth.

In a developing economy this process becomes more marked, owing to the relative abundance of unskilled labour, the low absolute wage levels for this category of workers and the greater monopolistic power enjoyed by enterprises. In the special case of Brazil, these factors have operated in an extremely favourable scenario, especially during the last 15 years, in view of the success of the official policy of restricting the growth of basic wages through the manipulation of minimum wage policy. Thus, utilizing the same wage bill in real terms (or the same proportion of the

<sup>35</sup> In an earlier case study on Chile (Souza, 1971), it was noted that the behaviour of State enterprises as regards their wage policy was not distinguishable from that of private enterprises operating in the same sector.

product), enterprises have been able to grant huge benefits to the personnel holding the better positions in the hierarchical structure. In this way, a *highly diversified* wage structure has been shaped, through which the enterprises' internal promotion mechanisms are brought into operation. At the various levels of these scales inter-firm competition for labour appears, thus consolidating the wage structure by the major sectors mentioned above (central nucleus and peripheral area). In so far as this consolidation takes place, it is obviously impossible to improve wages on the lower steps of the ladder without affecting the entire scale, or at any rate without encountering powerful opposition on account of the changes in the relative positions of the various social groups which such a move would imply.

This fact has far-reaching implications for economic policy. It is generally agreed by Brazilian economists that a change in minimum wage policy in the direction of granting substantial improvements to unskilled workers would not affect the dynamism of the system, inasmuch as the large enterprises in the 'spearhead' sectors would not feel any ill-effects on their capacity for accumulation and expansion, since they employ practically no workers at the minimum wage level. The sectors using abundant manpower at those wage levels, on the other hand, would be affected, but they are of no importance from the standpoint of the dynamism of the system.

In contradiction to this general belief, however, we infer from the present study that a change in minimum wage policy will have some effect on the entire system. In so far as substantial

increases in the minimum wage are granted, pressures will emerge which are capable of shifting the whole wage structure, and which if they became operative would damage the system's capacity for accumulation. It must be taken into account that the policy of restriction of basic wages in face of a vigorous expansion of productivity, which had been adopted with the object of giving that capacity a 'breathing-space', threatened as it was by widespread wage increases due to trade union pressure in the early 1960s, made it possible to widen the range of salaries and wages. This helped to maintain 'social peace' within the enterprise, in the sense that it permitted the establishment of channels for economic and social upward mobility, which partly undermined class solidarity and reduced the possibility of conflicts. Since then, however, an element of inflexibility has once again been introduced into the wage structure, so that new wage increases at the bottom would be liable to affect the dynamics of the system, as happened in the early 1960s, or to produce inflationary effects by the possible transfer of costs to prices as a result of the concentrated structure of the market. The only possibility of avoiding this, within the scheme of analysis put forward here, would be to change the operational parameters of the labour market in such a way as to lessen the disparities between the growth rates of wages in the various groups or to reduce margins of profit. In either case, however, the economic solution necessarily calls for a policy definition which will result from the thrust of the various social groups to maintain or change their position on the socio-economic ladder.



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