

# CEPAL

## REVIEW

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UNITED NATIONS

39

# CEPAL

## Review

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#### Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

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## Review

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## Integration trends in the Brazilian labour market

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During the 30 years after the war Brazilian capitalism performed very favourably in terms of the creation of productive job opportunities and was characterized more by integration of the labour market than by its exclusion. The persistence of the traditional inequality and poverty levels is not due, therefore, to a supposed lack of economic vigour.

The fact that the trend has been towards integration does not mean at all that the modernization of the labour market was automatically accompanied by a reduction in the dimensions of poverty. This would mean admitting, which is not the case, that poverty is an attribute peculiar to the "backward" section of the market.

Accordingly, it is argued that, as an adequate growth rate is maintained, the volume of employment generated by Brazil's development could also produce improved general living standards. If this hypothesis is accepted, the emphasis placed on the formulation of "alternative" employment policies could be reduced and it would be realized that the satisfactory creation of jobs does not exhaust the social issue.

Given the requirements established of the new technical-economic model, the labour market is decisively affected by the educational level of the population. The current state of public education, which in several regions of the country is barely able to fulfil its minimum functions in the basic cycle, could become a serious obstacle in the intended path of modernization.

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Most of this text is a revised version of document TD-126, IEL/UFRJ, entitled "Industrialização e integração do mercado de trabalho brasileiro", presented at the national forum on "Ideias para a modernização do Brasil", held in Rio de Janeiro in November 1988.

During the 30 years after the war Brazilian capitalism performed very favourably in terms of creating productive job opportunities and was characterized more by integration of the labour market than by its exclusion. The persistence of the traditional inequality and poverty levels is not due, therefore, to a supposed lack of economic vigour.

The assertion that Brazil's industrialization has integrated the labour market makes it necessary to define what we mean by integration.

We can define the concept of integration as the combined result of the following phenomena:

- a) The growth in productivity resulting from the expansion of modern activities must be accompanied by a decrease in sectoral and regional disparities in levels of labour productivity;
- b) This process must produce a multiplication of sectoral interrelations and be reflected in the creation of new activities, the absorption of low-productivity activities and the incorporation of manpower in the various regions of the country; a region's performance thus comes to depend less on its natural aptitudes and more on the overall process of accumulation;
- c) This leads to the formation of a national waged-labour market which, in Brazil's case, has a legal-institutional aspect that guarantees a special status to workers possessing a registered labour book.<sup>1</sup> In saying this, we do not deny the capitalist nature of informal paid labour or of other forms of labour employment. We only say that most of the people working on such terms — vestiges of backwardness — are not integrated.<sup>2</sup>

In short, an integrated labour market, in our opinion, is one in which the employment level is defined basically by the level of aggregate demand, in contrast to what happens in dualistic

<sup>1</sup>See Wanderley Guilherme dos Santos, *Cidadania e justiça*, Editora Campus, 1980.

<sup>2</sup>In the seminar of the National Association of Postgraduate Economics Centres (ANPEC), where some of these ideas were discussed, Leonardo Guimarães suggested the concept of *heterogeneous integration* to sum up the evolution of the labour market in recent decades. This concept correctly expresses the puzzle of that phase of Brazilian development — mature capitalism with "unnecessary" poverty.

labour markets where the "modern" section can be functioning at full capacity without any important repercussions on employment or the incomes of people working in the "backward" section.

The fact that the trend has been towards integration does not in any way mean that the modernization of the labour market was automatically accompanied by a reduction in the dimensions of poverty. This would mean admitting, which is not the case, that poverty is an attribute peculiar to the "backward" section.

On the contrary, the installation phase of modern industry (1955-1980) took place under circumstances favourable to the growth of poverty; a demographic explosion<sup>3</sup> with intense rural-urban migration; political-institutional restrictions on the organization of the workers and a series of wage-control policies, especially in respect of the minimum wage.

Accordingly, it is assumed as a more general hypothesis that, as the trend of those factors is reversed and an adequate growth rate is maintained, the volume of employment generated by Brazil's development could also result in improved general living standards.

If this hypothesis is accepted, we could help to reduce the emphasis given to the formulation of "alternative" employment policies and realize that the satisfactory creation of jobs does not exhaust the social issue. The result of taking such a view is a considerable underestimate of the positive effects of economic growth in recent decades with respect to the labour market.

Given this framework, it is not surprising that formulations of "employment policy" incompatible with the size of Brazil's economy continue to proliferate, and they have very little chance of influencing poverty levels. What happens is that development plans, by confusing the struggle against poverty and inequalities with the employment issue, include proposals that are inconsistent with the rest. They range from radical alterations in the spheres of activity that must be stimulated to measures that echo in many respects the slogan "small is beautiful" in the shape of support for the "informal sector",

community experiments to create jobs, or the installation of man in rural areas by means of integrated rural development programmes, settlements, etc.

The predominating view in national development plans is that the country's industrial growth is unable to solve the deferred issue of the labour supply. In this sense, nearly all the plans include the proposal that agriculture's share in the generation of job opportunities should increase. Although information on the recent past showed a deficient performance by agriculture in terms of employment, projects to colonize unpopulated regions were implemented—generally with unsatisfactory results—with a view to reducing the migratory flows to the cities. As for industry, there was always the idea that the factors were poorly adapted, giving rise to proposals to penalize the intensive use of capital with the goal of increasing the supply of urban jobs and curbing underemployment.

The understanding of the problem did not change substantially until the first national development plan of the New Republic. On the basis of the diagnosis that the country had a modern, competitive industrial capacity, capable of reacting to the promptings of demand but with its strength eroded by a large-scale recession, the prime objective was to devise a policy of growth, understood as the main generator of productive jobs. Moreover, the plan did not overlook the unacceptable degree of inequality in Brazil's wages structure, the consequence of an insufficient basic-wage rate produced by the prolonged squeeze on the minimum wage. The quantitative side of the employment issue was then made directly dependent on the growth rate, i.e., on investment and the incorporation of technology, which increased the degree of economic integration and the accumulation of wealth and would gradually help to eliminate underemployment. On the other hand, the emphasis on the issue of poverty, the levels of which were incompatible with the existing strength of the economy, recognized the inadequacy of traditional social-policy instruments, which had been unable to meet the minimum needs of the poorer population groups. A policy of growth was therefore fundamental for guaranteeing an adequate supply of job opportuni-

<sup>3</sup>The decline in fertility, which intensified in the 1970s, would not have an impact on the supply of labour until nearly 15 years later.

ties, along with an increase in basic wages, trade-union organization and wage negotiations, all of which can create greater equality in the distribution of the profits of productivity increases.

At least three factors explain the difficulty of detecting the integration effects of industrialization on the labour market. The first is the bias itself in the analyses of the employment situation, which remains permeated by the static view that denounced high capital-intensity to the detriment of labour in industrialization. The second is the persistence of high levels of poverty and inequality. The third was linked to the crisis of the early 1980s, whose effects jeopardized the very continuity of Brazil's development.

Until now, the most salient of the critical analyses of industrialization, especially of the import-substitution process, have reached the conclusion that the correct alternative would have been to stimulate the expansion of industries processing raw materials from the farming sector.<sup>4</sup>

In the first place, there is something tautological in this conclusion, since millions of people who were vegetating in agriculture, with extremely low productivity, were classified as "employed" in the sector. With a lax definition of employment, it is not surprising that agriculture and its "related" branches appear to be the ones that employ most labour.

In the second place, even if it is accepted that the sectors "related" to agriculture have high total labour requirements per unit of final demand, it might still be asked which components would provide the stimulus. It is evident that these arguments lead to recommendations for the enlistment of comparative advantages in order to stimulate commodity exports, which are labour-intensive. But, it just so happens that knowing that labour requirements for commodity exports were higher than in import-substitution manufacturing is not worth much, if that option never existed. On the contrary, underlying the import-substitution process are

found precisely the external limitations imposed by the weakness of exports. It was the increase in investment and domestic consumption that generated, although in a concentrated way, the larger part of the income that fueled final demand.

Finally, it is necessary to consider other aspects of that static type of analysis. The propagating effects of employment, its indirect effects, are proportional to the complexity of the intersectoral network. In an underdeveloped and undiversified economy production increases tend to be absorbed almost exclusively in the direct effects. It is evident that as new sectors emerge the indirect "backward" and "forward" effects acquire more importance. As long as the manufacture of intermediate goods and, in final demand, of capital goods is not established to any significant extent the policy of "product-mix" makes sense, at least from a short-term perspective. In other words, in an economy with an incomplete technical base, it is necessary to formulate an employment strategy by comparing the relative effects of several activities, since the reciprocal linkages are tenuous or, depending on the activity, may flow to the exterior through imports. The economic backwardness lies in the inability to propagate, through an intersectoral market, an income stimulus, for it is absorbed in the final-goods market. These considerations are unimportant in an integrated economy. In this case, where total employment requirements are concerned, it does not matter which sector is "driving" the economy. And if the complexity of the sectoral network is reflected in the exports pattern, it does not matter either, in terms of employment, to know which component of final demand produced the initial stimulus. In this case, what counts is the overall expenditure and not its components.

Consequently, in evaluating the Brazil's industrialization experience on the basis of the 1970 model (or any earlier one) knowing whether the differentiated growth of the various sectors helped to structure an integrated intersectoral network will be just as or more important than calculating manpower requirements on the basis of the technical coefficients of that time.

From that standpoint, it seems undeniable that imports substitution, primarily, and the

<sup>4</sup>Ronaldo Locatelli, *Industrialização, crescimento e emprego: uma avaliação da experiência brasileira*, Rio de Janeiro, Brazil, Instituto de Pesquisa (INPES)/Instituto de Planejamento Econômico e Social (IPEA), p. 140.

intensification of industrialization in the direction of producer goods in the past decade contributed decisively to establishing intersectoral links capable of making the Brazilian labour market more elastic to the income stimulus. There is no other reason for the increase in product-employment elasticity in the industrial sector itself decade after decade.

The performance of the Brazilian economy until the mid-1960s seemed to support those who argued in favour of a "product-mix" that was supposedly unsuited to the set of factors. In fact, up till then there had been low employment elasticity in relation to the industrial product. The data from the past decade, in which the industrial branches that grew most were those producing durable goods, capital goods and basic inputs, without which it makes no sense to talk about a sectoral network, deny such conclusions.

The second factor that obscures the changes in the labour market is the volume of poverty that accompanied the industrialization process, even and mainly in its growing urban aspect, which makes it difficult to visualize any trend towards integration.

The expulsion of labour from rural properties threw millions of workers onto the urban and rural labour markets. If, on the one hand, the data do not support, as most analyses affirm, the idea that the process simply meant transferring poverty from the countryside to the town—since the absorption of a large part of this labour force by modern activities is undeniable—

there are serious doubts as to the improvement in the living standards of these new proletarians in relation to the subsistence level of the settler, local inhabitant or tenant farmer.

Another controversial issue raised by this process of expulsion—an issue which we do not claim to "resolve" in this paper—involves the influence of this unlimited supply of labour in making the official policy of cutting the minimum wage viable, especially since the 1964 *coup d'état*. What must be stressed in this case is that the speed of the economic and demographic changes made it difficult to structure employment around specific labour markets—an important condition for effective trade-union action and the consequent increase in the negotiating power of the workers.<sup>5</sup> Consequently, Brazilian capitalism had, and still has, a broad base of poorly organized labour, whose earnings are largely determined by the official policy on the minimum wage.

By making it impossible to transfer large volumes of income that could raise the standard of living of the groups working in the informal market, the low wages of most of the working class mean that the entire process of growth is viewed as one of concentration, and exclusive into the bargain.

As a third factor, it is possible that the crisis of the first years of the present decade, through its effects on employment and wage levels, has helped to foster scepticism with respect to the economy's ability to absorb labour.

## I

### Evidence of integration

Since the publication of the results of the 1980 censuses evidence has been building up that the diversification and increased integration of the Brazilian economy has finally been reflected in significant changes in the labour market.<sup>6</sup>

<sup>5</sup>Paulo Baltar (1985), "Salários e Preços: esboço de uma abordagem teórica", São Paulo, State University of Campinas (UNICAMP), mimeo.

<sup>6</sup>The few studies that analysed these results and indicated the vigour of the Brazilian labour market include: Joseph Ramos, "Urbanization and labour market", ECLAC Review, No. 24

(LC/G.1324), Santiago, Chile, December 1984. United Nations publication, Sales No. E.84.II.G.5; Regional Employment Programme for Latin America and the Caribbean (PREALC), *La evolución del empleo formal e informal en el sector servicios latinoamericano*, Working Document Series, No. 279, Santiago, Chile, September 1986; Octávio Rodríguez, "Agricultura, subempleo y distribución del ingreso", Centro Brasileiro de Análise y Planejamento (CEBRAP), São Paulo, October 1973, mimeo; Vilmor Faria, "Mudanças na composição do emprego e na estrutura da ocupação", *Transição incompleta*, Rio de Janeiro, Paz e Terra, 1986; ECLAC, *La transformación socio-ocupacional del Brasil, 1960-1980 y la crisis social de los '80* (LC/R.518), Santiago, Chile, 1986.



With respect to the effects of economic growth on the labour market in the long run, the most important fact that must be stressed is the substantial capacity to absorb productively a large part of the manpower that flowed into the urban labour market. And, yet more importantly, the growth of waged employment was significant in the so-called dynamic sectors of activity: basically, processing industries and the tertiary "functional" sector (here they are called dynamic in the sense of having high product growth rates). The absorption of labour in these sectors also meant a rise in the share of the most specialized occupations in the overall employment structure.

The modernization of labour relations in agriculture, in order to establish a more unified labour market, provides in a way another facet of this economic integration. The accelerated decline of low-productivity agricultural activities was a noticeable characteristic of recent decades. As a result, although total employment in agriculture did not rise, and indeed fell in certain regions, the waged segment of the agricultural labour force expanded at significant rates.<sup>7</sup>

The intense rural emigration did not simply lead to urban poverty, as is alleged. Even though for some time, that impression found some basis in the increased employment in those low-productivity sectors, during the 1970s modern activities in both industry and services showed sufficient vigour to absorb, at increasingly higher levels of productivity, a large part of the labour driven out of rural areas.

Processing industries had one of the highest employment growth rates during the last 30 years, increasing their workforce from 1.6 to 6.9 million between 1950 and 1980. This corresponds to an annual geometric growth rate of around 4.9%, as compared with 3.1% for the total labour force during the same period.

In the decade of the 1970s alone 3.6 million industrial jobs were generated —25.4% of total jobs created in Brazil in the same period. The average annual growth rate of industrial employment, which in the 1950s had been less than the annual global growth rate of the working population (2.0% and 2.9%, respectively),

reached 5.2% in the 1960s and 7.8% in the 1970s.

The data indicate that urbanization increased much faster in the 1950s than industrial employment, a fact which serves as a basis for interpretations centred on excessive urban growth. Nevertheless, despite the fact that the rate of urbanization remained high in the 1960s, the growth rates of industrial employment remained close to the urbanization rate and surpassed it during the 1970s.

It cannot be denied that certain activities of the tertiary sector are clearly connected with the performance of the goods-producing sectors, particularly manufacturing. In these cases (industrial services of public utility, transport, communications, storage, part of trade and finance), increased production *demands*, in turn, increases in tertiary areas. For example, employment in the "functional" tertiary sector will be heavily influenced by the growth rate of the industrial product.<sup>8</sup> And despite the high growth rates of the economically active population in the tertiary sector, particularly in the last decade, the income generated in this sector was even greater, and average "productivity" rose significantly, at about 2.6% a year between 1960 and 1980.<sup>9</sup> This rise was spurred by the branches here called "functional", whose growth rates were higher than those of the global product.

In this context there are no signs of excessive development of the tertiary sector. Neither is it correct —although the rapid urbanization would so suggest— to attribute to the tertiary sector the responsibility for the massive incorporation of informal labour, which for many is synonymous with underemployment. On the contrary, a sample of eight Latin American countries shows that Brazil is the only country with a drop in the share of the tertiary sector in the economically active population in urban areas. Besides, owing to the significant growth of formal employment, Brazil is also the country where informal tertiary activities declined in relative terms.<sup>10</sup>

The widening of the gap between productivity and income among the diverse sectors of the

<sup>8</sup>Joseph Ramos, *op. cit.*

<sup>9</sup>This performance of the tertiary sector differentiates Brazil from most other Latin American economies. See PREALC, *op. cit.*

<sup>10</sup>PREALC, *op. cit.*

<sup>7</sup>Octávio Rodriguez, *op. cit.*, chapter 8.

economy is a characteristic peculiar to underdevelopment. In the 1970s, an intense rural exodus coincided with the monetarization of labour relations in the countryside and the gradual alignment of rural and urban wages.

To sum up, the employment of labour in economic activities, in all sectors, was due much more to demand than to the accommodation of surpluses.<sup>11</sup>

## II

### The instability of the 1980s

Between 1979 and 1983 industrial employment dropped by nearly 18%, and for the first time open unemployment emerged a serious problem in Brazil. In 1979 65.7% of the economically active population of Greater São Paulo consisted of wage-earners with formal ties (registered book), but in 1983 the proportion was only 56%. As compared to 1979, by 1983 308 000 "registered book" jobs had been eliminated in industry, and 20 000 employers had disappeared from the market.<sup>12</sup> In combination with an incoming economically active population of 448 000 in the metropolitan region of São Paulo this meant an additional 710 000 workers between 1979 and 1983. They were "accommodated" in the following ways: nearly half (43.9%) swelled the ranks of informal wage-earners; more than one-third (38.2%) remained in a situation of open unemployment; and 14.5% became own-account workers with low incomes.

Although the decline in average labour incomes has been general and pronounced, the most unprotected groups experienced the greatest losses. Registered wage-earners and independent workers who contributed to social security experienced a 30% drop in real incomes between 1979 and 1983, while their total earnings fell by 35%. Thus, the average income of

workers without formal ties — wage-earners without a registered book and independent workers without social-security protection— whose numbers rose in the period by 42%, dropped by 40% confirming the hypothesis (for those working in the informal sector) that their earnings depend on the room created by the generation of income in the formal sector and on the number of people competing for that room.<sup>13</sup>

Given this situation, pessimism naturally prevailed and until recently dominated the analyses and projections. The low employment-product elasticities would demand high growth rates in order to adjust employment levels, and this would be difficult to achieve in view of the severe restrictions imposed by the balance of payments. Consequently, it would only be possible to tackle the issue of unemployment by altering the composition of the product, through specific policies.<sup>14</sup>

In order to understand the speed with which the employment level recovered after 1984, we must examine the behaviour of employment over a longer period. The available data series on industrial employment in Greater São Paulo, which are quite compatible, show the true depth of the crisis and the speed of the recovery. In the first four months of 1984 employment reached its lowest level and then until May 1987 it increased every month, except for December

<sup>11</sup>The general phenomenon of integration is not homogeneous. Although it can even be identified in the North-East, its rate there is so slow, even slower than the growth of integration with the rest of the country, that many analysts refuse to include this region in the process. See João Saboia (1988), "Dualismo ou integração do mercado de trabalho? Experiência recente da economia brasileira", TD, No. 173, IEL/Federal University of Rio de Janeiro, August 1988.

<sup>12</sup>These data come from sampling of national household survey in 1979 and 1983 by the Brazilian Geographical and Statistical Institute (IBGE).

<sup>13</sup>P.R. Souza, "A determinação dos salários e do emprego nas economias atrasadas", São Paulo, State University of Campinas (UNICAMP), 1988.

<sup>14</sup>PIPEA (Institute of Applied Socio-economic Research), "Perspectivas de longo prazo da economia brasileira", January 1985, pp. 40 and 256-257, *mimeo*.

1984. Analysis of the data of the annual social-information report (RAIS) and the "4923" shows that by July 1986 the level of formal employment in the metropolitan region of São Paulo had exceeded that of December 1980.

At the end of 1986 the average unemployment rate in the main metropolitan regions (according to the monthly employment survey conducted by the Brazilian Institute of Geography and Statistics (PME/IBGE)) fell below 3%, a level that can be regarded as frictional unemployment in view of the high job-turnover rates in Brazil.

The recovery of the labour market in 1985 and 1986 was connected with the utilization of idle capacity, and the recovery in two years of the jobs eliminated by the crisis came as a surprise to most analysts. The speed of the return to the pre-crisis employment level is an undeniable fact, but the evaluation of the behaviour of wages in this recovery deserves further comment.

The behaviour of the average wage during the crisis and the recovery reflects alterations in the wage levels of existing jobs and variations in the composition of total employment by type of work, classified in terms of the various markets. Given the magnitude of the decline in employment during the crisis and the speed of the recovery, pronounced alterations in the distribution of employment by wage level must have taken place, and they help to explain not only the magnitude of the drop in real wages during the crisis but also the speed with which they rose again during the recovery stage.

For the moment, it is enough to recall that both in the crisis and in the recovery the repercussions on employment were concentrated in the branches of activity where average earnings were clearly relatively higher. Since in the crisis the dismissals affected most seriously the least-specialized workers in those branches, the average wage therefore went up in those sectors, although the general wage level fell, for the dismissals occurred in the markets where lower wages predominated.

The increase in total wages in 1985 and 1986 was not due so much to the effect of wage increases for persons who continued working in the organized sector as to the fact that the expansion of employment occurred mainly through a

rise in the number of better-quality jobs in the formal labour markets. In fact, according to the monthly employment survey conducted by the Brazilian Institute of Geography and Statistics (PME/IBGE), while the economically active population of the metropolitan region of São Paulo rose by 16.4% between October 1983 and October 1986, the employees with registered books increased by 26.8%.

The increase in employees with registered books between September 1984 and September 1986 (19.6%) was much greater than that of the total employed (11.6%) and occurred mainly in processing industries, whose workforce increased by 26.9%. However, during the same period the average income of employees with books rose much less than the incomes of employees without books and own-account workers.

The combined effect of growth in employment and wages boosted the income of the organized sector (employees with books) by approximately 65% from September 1984 to September 1986, and this caused more than proportionate rises in incomes not regulated by wages policy, chiefly after the *Plan Cruzado*, which especially benefitted independent workers; they of course are less subject to any type of scale or control. In contrast to what happened in the period of recession, the sectors that received the greatest benefits were workers without books and own-account workers. They even overtook in October 1986 the average earnings of wage-earners with books, which was the first time that had happened in the period covered by the PME/IBGE survey. Probably as a reflection of the labour shortage, rural workers also had substantial earnings during 1986. And, as a result of the generally higher wages in relation to the minimum wage, the percentage of workers below the minimum wage level dropped sharply.

Analysis of this expansionary situation and of long-term changes indicates that in a diversified economy, such as Brazil's today, growth pure and simple is the best policy where employment is concerned. This is not to ignore the low wages that our capitalism still pays. Nor is it to deny that, whatever the growth rates and product composition, there will still be groups excluded from any integration by the impossibility of

finding a job. For them, essentially the need is not to formulate employment policies but to seek a way to meet their basic needs through social-welfare policies designed specifically for them. In that respect, there is an abundance of

analyses that demonstrate that most of the existing social policies, since they aspire to universality, in the end do not reach the people at which they were originally aimed, the people whose needs are greatest.

### III

## Prospects

Despite the clear meaning of integration with respect both to the production structure and to the labour market, it is important to emphasize that the entire industrialization process of recent decades was based predominantly on the metal-working technological model, on the widespread adoption of the methods of Taylor and Ford. This fostered the growth of manufacturing jobs, with the numbers of semi-skilled workers rising much faster than the need for skilled labour. Only on this basis is it possible to understand how the great mass of the working population, most of them with barely third-grade education, could be turned into industrial workers. Moreover, the wage structure created in this way helps to explain the low basic wages in industry, as well as the wide range of the wage scale, a characteristic feature of Brazil's economy. Lastly, and no less important, although in the initial phase the high degree of protection of Brazilian industry was decisive in shaping its current industrial capacity, it did not foster incentives for higher productivity.

However, the significant increase in exports of manufactured goods in the trade pattern is undeniable. While the export thrust at the beginning of the 1970s was based on a generous scheme of incentives of different types, the aggravation of the external problems at the end of that decade finally prompted the adoption of macroeconomic adjustment policies that acted mainly on the ratio between the exchange rate and wages. Thus, as the adjustment in the 1980s involved basically a substantial drop in real wages and major exchange-rate devaluations, there are serious doubts as to the real competitiveness of Brazilian manufactured goods. There are, evidently, exceptions; some sectors, in the

struggle to obtain positions in the external market, ended up by incorporating new technologies and even new production processes. But there seems to be no doubt that, in general terms, productivity is low and that the profits obtained from exports are due mainly to the relative decline in the prices of Brazil's raw materials and labour.

It just so happens that these factors are less important in the new international division of labour that is developing. From now on, comparative advantages will not be based so much on cheap raw materials and labour. Moreover, if account is taken of the burden of debt servicing and the increasing tendency for Latin America to be excluded from trade and capital flows, an additional effort is needed to enhance Brazil's share in those flows, and this effort can no longer be based exclusively on the abundance of raw materials and cheap labour. On the contrary, the factors that affect capital movements and exports of manufactured goods are now much more complex.<sup>15</sup>

Thus, these are two possible ways to redefine the earlier model of the country's international economic role. The first is rooted in initiatives such as exports processing zones, which have few stimulating effects on the rest of the production system and little impact on Brazil's technological independence. We do not regard this option as suited to the dimensions already achieved by the Brazilian economy, although it may be an option for small countries with unde-

<sup>15</sup>See Pedro Motta Veiga, "A inserção internacional da economia brasileira: condicionamentos e perspectivas", Centre for Foreign Trade Studies Foundation (FUNCEX), October 1988, mimeo.

versified industrial structures. The second consists of increasing the system's overall productivity in accordance with a strategy outlined in the specific documents on industrial and technological policy.<sup>16</sup> In any event, this productivity increase will clearly depend on the widespread adoption of new technologies and the new processes of the organization of production, which must lead to the abandonment of the model based on Taylor and Ford, to which reference was made earlier.<sup>17</sup> Moreover, these new technologies will allow an increase in basic wages in Brazil's economy, which in turn will provide an additional stimulus for higher productivity and contribute to the expansion of the domestic market.<sup>18</sup>

On the assumption of product growth of around 6% a year there seems to be no reason to fear that technological modernization will have greater negative effects on the general employment level, for the reasons given at the beginning of this paper. This is not to ignore the employment implications of the obsolescence of job skills entailed by such modernization.<sup>19</sup>

To the extent that the new technologies are accompanied by higher basic wages they will encourage a change in the wages model which must be extended to the sectors that are at a technological standstill.

What does a rupture with the model based on Taylor and Ford mean for labour? The new forms of the organization of production require a much more intense participation by workers in the production process and a substantial altera-

tion in the relations between management and employees, with the elimination of middle management and the assignment of more responsibility and independence to the workers. They also imply the establishment of close relations of trust between management—which becomes less remote from the factory floor—and workers, who acquire a more active role in the entire production process. All of this, however, also implies different forms of wage negotiation that truly transfer the profits of higher productivity to the workforce.

In the case of Brazil, given that most of the labour force is not structured around specific labour markets (which results in weak negotiating power)<sup>20</sup> and that the entire process proceeds slowly the responsibility for establishing the lower wage-limit, which will have to rise in view of the objectives of improving income distribution and securing growth of the domestic market, will still rest with the State. For those groups linked to the modern or most organized sectors, it is feasible for the State to withdraw from negotiations and collective agreements regarding real wage increases. However, in a context of high inflation levels, it is not realistic to propose that there should be no general readjustment rules with the status of law.<sup>21</sup>

If the objective of gradually increasing the general lower wage-limit is attained, it is inevitable that in certain labour-intensive sectors of extremely low productivity the employment of labour will be adversely affected. This factor could contribute to raising the level of open unemployment. Currently, the level remains relatively low, owing largely to a vicious circle of low productivity and low wages. When this is combined with the effect of the obsolescence of job skills described earlier, the new situation means that it will be necessary to rethink the compensation schemes in the struggle against unemployment.

In view of skill obsolescence and technological modernization, the need to update workers' skills will tend to acquire more importance,

<sup>16</sup>See Gilberto Dupas and Wilson Suzigan, "A nova articulação da economia mundial e as opções para o Brasil: estratégia industrial e modernização tecnológica", October 1988, *mimeo*, and Pedro Motta Veiga, *ibid.*

<sup>17</sup>The abandonment of this form of organization of production is not merely the result of introducing new technologies; it can even precede them in the sense of creating a favourable setting for those technologies to produce really significant increases in productivity.

<sup>18</sup>Most certainly there is also the possibility of even less openness, which would imply a trade, financial and technological gap and the gradual deterioration of Brazil's industrial plant.

<sup>19</sup>It is important to note that the introduction of the new technologies, including those based on microelectronics, is occurring at a slow rate. Moreover, the introduction of this equipment takes place in many cases only at certain stages of the production process, without the total substitution of traditional automation systems. Thus the effect on the obsolescence of job skills is not a radical process; this makes substitution of labour much less intense than might have been assumed at the outset.

<sup>20</sup>P. Baltar, *op. cit.*

<sup>21</sup>For an opposing view, with less stress on rules, see José Pastore, "Política salarial, negociação e inflação", October 1988, *mimeo*.

although it still does not figure as a priority issue in the pattern of negotiations. As these negotiations always include demands for greater stability and as the costs associated with dismissals are rising, it is to be expected that enterprises will show more interest in retraining their workers. Moreover, publications are constantly pointing out that, in the case of Japan and the recently industrialized countries of Asia, increased stability of the labour force has been an important factor in boosting productivity and technological innovation. Nevertheless, the State will still have to play an important role in providing assistance to the unemployed, either by maintaining an efficient unemployment-insurance system or by guaranteeing access to training programmes.

The rupture with the system based on Taylor and Ford also produces a greater need for labour

specialization, previously limited to a small minority of workers. The markedly hierarchical system typical of the earlier model—technicians and supervisors, skilled and non-skilled workers—tends to be watered down and replaced by a training profile with emphasis on reduction of the numbers of semi-skilled workers. In short, the overall outcome will be a need to improve manpower training.<sup>22</sup>

In these circumstances, and in contrast to what happened in the previous industrialization cycle, the educational level of the population becomes a decisive element, given the requirements of the new model. The current state of public education, which in any regions of the country is barely able to fulfil its minimum functions in the basic cycle—reading, writing, and arithmetic—could become a serious obstacle in the path of modernization that is to be followed.

<sup>22</sup>On the other hand, it is true that in the branches producing microelectronic equipment new opportunities are opening up for semi-skilled labour. However, they are predominantly for women and have relatively high formal-education requirements. In this regard see Martin Carnoy, "High technology and its impact on the

international economy: An Agenda for Research", New Delhi, March 1988, *mimeo*, and Cheyva Spindel, "Formação de um novo proletariado: as operárias do distrito industrial de Manaus", *Revista Brasileira de Estudos da População*, Vol. 4, No. 2, July/December 1987.