



**INSTITUTIONAL CONSTRAINTS TO ECONOMIC POLICIES:
WAGE BARGAINING AND STABILIZATION IN BRAZIL**

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ABSTRACT

After a short review of the logics of unions' attitudes in wage bargaining the author turns to the origins of the Brazilian corporatist labor system, then directs attention to new developments such as the centralization of the union movement in the last ten years, its relation with political parties, and new trends in collective bargaining. The paper then looks at the effectiveness of policy instruments in recent stabilization attempts, and finally discusses the prospects for a concerted incomes policy.

RESUMEN

Después de una breve revisión de la lógica de las actitudes de los sindicatos en las negociaciones salariales, el autor procede a analizar los orígenes de la organización corporativista del trabajo en Brasil y, posteriormente, dirige su atención hacia algunos cambios recientes tales como la centralización del movimiento sindical en los últimos diez años, su relación con los partidos políticos, y las nuevas tendencias en la negociación colectiva. Posteriormente el trabajo analiza la efectividad de los instrumentos de política económica en los intentos recientes de estabilización y, finalmente, discute las perspectivas que puede tener una política de ingresos concertada.

1. INTRODUCTION

Much has been written on the conditions of wage restraint, the macroeconomic consequences of unions' activities, and the diversity in the actual behavior of unions in the advanced countries; but very little on the role of industrial relations in Third World countries. There may be different causes for this lack of interest in the subject. One may simply be that unions in the South lack the minimum bargaining power to produce "noise," and hence to stimulate researchers' awareness of their importance. However, this is certainly not the case in Latin America where unions' mobilization has been an important element in the political and economic history of the region. Another reason may be that political repression or state corporatism have been effective in controlling labor militancy and thus have turned it into an unimportant factor in explaining macroeconomic phenomena. Finally, because in the 1970s and '80s real wages carried the burden of adjustment and workers came to be seen as the victims of the crisis, nobody really thought of unions as active agents in aggravating the crisis.

In countries like Argentina, Uruguay, Chile, Brazil, and others in Latin America, where unions played an important political role before the authoritarian wave, the macroeconomic effects of the attitudes of workers and unions seem to be far from insignificant. It is the objective of this paper to study the evolution of the union movement and the collective bargaining structure in Brazil, and their potential connections with the recent stabilization crisis.

After a short review of the logics of unions attitudes in wage bargaining (section 2), we turn to the origins of the Brazilian corporatist labor system, and then direct our attention to new developments such as the centralization of the union movement in the last ten years, its relation with political parties, and new trends in collective bargaining (sections 3.1 to 3.3). We then look at the effectiveness of policy instruments in recent stabilization attempts (sections 3.4 to 3.6), and finally discuss the prospects of a concerted incomes policy (section 4).

2. THE LOGICS OF UNIONS' ATTITUDES IN BARGAINING AND THE CONDITIONS FOR WAGE RESTRAINT¹

Two sets of mutually exclusive conditions are usually seen as required to ensure wage restraint. On the one hand, negotiations at national or near-national levels induce union leaders to ponder on the macroeconomic effects of their demands (either on inflation or on unemployment), thus reducing the likelihood of wage overindexation. Indeed, in certain circumstances, unions will be prepared to accept underindexation in order to enhance the

1 This section uses the material developed in Amadeo (1991b).

chances of attaining other goals such as greater competitiveness of the economy. On the other hand, where negotiations are decentralized, in face of the constraints imposed by competition on the capacity of firms to mark-up increases in costs, the bargaining power of unions is reduced, thus creating the conditions for wage moderation.

The two polar cases—where negotiations take place at the national level or at the firm level—are purely notional. In general, negotiations take place at intermediary levels. However, some national systems are closer to the first polar case (in Nordic countries and Austria negotiations are quite centralized), and others are closer to the second case (in the US local negotiations are the rule). Two modifications to the pure cases are important in characterizing hybrid situations found in some national systems:

- The typical level of negotiation may be intermediary between the firm and the economy as a whole. When negotiations take place at high levels of aggregation within the industry, some special features arise. As the size of the negotiating party increases, the elasticity of demand falls because the “good” produced by the firms involved in the bargain now comprises a wider range of substitutes. Not only that, but the possibility of collusion increases the firms’ market power. On the other hand, the bargaining power of the unions increases in direct relation to the size of the labor supply that it controls. Hence, the slackening of the goods market constraint, and resulting increase in the market power of firms, and the increase in the bargaining power of unions, tend to diminish the conditions for wage moderation.
- Decentralized negotiations are usually not synchronized, that is, they are scattered over time. However, they could all take place at the same time, say in the same month of the year. Synchronized wage bargaining mitigates the uncertainties concerning the future path of relative wages, thus reducing the incentives for unions to take preemptive actions (attempts to overindex past inflation) against possible reductions in real wages. An effective system of pattern setting (in which one sector sets the standard wage adjustment) plays a similar role and also reduces the incentives for overindexation.

Table 1 takes stock of the previous discussion. It considers two attributes of wage negotiations, namely, the degree of centralization (high, intermediate, and low) and the degree of synchronization (high or low). High degrees of centralization and synchronization and the symmetric case characterize the two polar cases—Polar I and Polar II. Two hybrid cases are of some interest. In the Hybrid I case, the degree of centralization of negotiations is intermediate (or low) but the degree of synchronization is high—thus providing a significant coordinating element to the system. The role of pattern setters is important in this system. In Hybrid II, the predominant level of negotiation is intermediary and the degree of synchronization is low. This is a system with very problematic features because all the coordinating mechanisms are absent.

Calmfors & Driffill (1988) and Freeman (1989) argue that there exists a hump-shaped relation between the degree of centralization of negotiations and wage restraint. The conditions for wage restraint hold either when negotiations take place at a very high level or a very low level. Intermediate systems are bound to excessive wage increase and, hence, a severe trade-off

TABLE 1
Patterns of Wage Bargains

		Level of Centralization		
		High	Intermediate	Low
Level of Synchronization	High	Polar I	Hybrid I	***
	Low	***	Hybrid II	Polar II

between inflation and unemployment.² The hump-shaped pattern results from a lack of coordinating mechanisms at intermediate levels of bargaining.

We would argue that there are other factors accounting for the degree of coordination and wage restraint. As noted above, the degree of synchronization of negotiations or the existence of pattern setters affect the level of coordination. If negotiations take place at the industry level (such as we would argue is the case in Japan) but the degree of synchronization is high, the level of coordination will be greater than in cases in which wage bargains are scattered over time and pattern setting industries do not exist (as in France and Belgium).

Apart from the degrees of centralization and synchronization of wage bargains, there are other factors that qualify the conditions for wage moderation. Trade dependency is an important element affecting the goods market constraint and thus the bargaining power of unions. Whether we look at a particular industry or at a national economy, the size of the market constraint will depend on the level of protection from external competitors and the degree of trade dependence (that is, necessity to export). Protected and/or domestic-oriented industries face smaller market constraints than unprotected and export-oriented industries.

Workers' militancy also affects the unions' attitudes towards wage bargaining. Public policies that protect the workers' income from shocks or the conditions of the economy—or, in short, insulate the workers' income from market fluctuations—tend to reduce labor militancy. In

² In face of the recent trend towards decentralization, the following argument put forward by Calmfors & Driffill (1988, p. 47) calls for some degree of prudence:

The main point remains that what one should not do is to go only part of the way to a somewhat more decentralized system with, say, industry-level bargaining. In economies with wage setting at this level one should not resist tendencies to enterprise bargaining in order to preserve some coordination.

advanced OECD economies, and in Western Europe in particular, the increase in social spending, or the increase in the “social wage,” has been seen as response to labor militancy, as well as an important factor in taming labor militancy. In the case of inflation-prone economies, wage laws have an important role in protecting real wages against inflation. If the policy is effective in protecting wages, the incentives for mobilization during bargaining periods are reduced. Both the degree of indexation to past inflation and the length of the indexation period are important in determining the effectiveness of the wage policy. Low degrees of indexation and long indexation periods imply great vulnerability of wages to inflationary shocks, and thus create incentives for mobilization and conflict.

Instability is also a factor to be considered. When recent history is marked by recurrent inflationary shocks and changes in policies and rules of the game, leading to erratic movements of the real wage, there is an incentive for workers to take preemptive actions during negotiations. Such actions aim to increase wages as an insurance against shocks at the cost of more mobilization.

3. BRAZIL: UNION STRUCTURE, WAGE BARGAINING, AND OVERINDEXATION

In the following sections we discuss the Brazilian labor system, its origins and late developments, and try to characterize it in terms of the conditions for wage moderation discussed in the previous section.

3.1 The Relation between the State and the Labor Movement

We first look at the relation between the state and the development of the labor movement in Brazil between the early 1940s and the early 1990s. The period is divided into three subperiods corresponding to three broadly defined phases in the political history of the country. The first, from the early 1940s up until the coup d'état of 1964, is characterized by an “institutionalized state corporatist” system in which the state was able to create an environment of harmonious but increasingly conflictual relation with the unions. The second period, of military rule (1964-77), is marked by a “repressive corporatist” system in which control over the labor movement was exercised with the use of force. In the third period, from 1978 to today, in a response to the dependency of the union movement in relation to the state, the re-emergence of union militancy is characterized by high levels of industrial conflict in a system that is best described as the growing “autonomy and centralization of the labor movement.”

3.1.1 Institutional State Corporatism: Dependency and Avoidance of Conflict

The origin of state corporatism in Brazil is associated with two different but interrelated aspects of the process of late industrialization. The first is a strong presence of the state in shaping the strategy, raising the necessary financial resources, and providing the infrastructure for industrial development. The second, as noted by Souza (1978), is the rise of organized labor and socialist parties. In Brazil, both instances were intimately related and associated with the institutional structure established during the Vargas dictatorship (1937-45). The state, seen as the strategist and organizer of the process of economic modernization, establishes instruments to “regulate industrial conflict by incorporating organized labor into an arbitration and bargaining system..., by using welfare policy and social insurance as tools of social and political control, or, where these measures proved insufficient to secure working-class compliance, by the suppression of autonomous labor organizations and their supersession by organs of state control” (Souza, p. 63).³ The anarchist movements of the beginning of the century in São Paulo seem to have generated enough worries in the dominant classes to lead to the adoption of a detailed labor code which established strong dependency links between the union movement and the state, and which for three decades, served (with decreasing efficacy) the purpose of avoiding major spurs of industrial conflict. The most important dependency ties were the right of the Ministry of Labor to approve the creation of unions, to intervene in unions when their actions were seen as irregular or against the orientation of the Ministry, and to veto the eligibility of certain workers to official posts.

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

³ The adoption of corporatist institutions in Brazil is usually associated with the Fascist regime in Italy, but in fact, as noted by Esping-Andersen and Korpi (1985, p. 180-1), corporatist relations were introduced much earlier in other European countries:

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

the part of the state, that is an anticipation of unions' demands and an instrument to avoid, or dampen, the conflict of interests between workers and employers.⁴

The institutional constraints and incentives served their purposes with decreasing effectiveness, especially in the late 1950s and early 1960s when the level of industrial conflict increased dramatically—refer to Table 5. Indeed, the notion of social chaos, which was clearly associated with and seen as an important cause of the coup d'état of 1964, was impregnated with labor disputes, some with political colors. The military saw in the labor movement a focus of communist ideology, and in the attitude of workers an attempt to destabilize the political order.

3.1.2 Repressive State Corporatism

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

The new regulation of strike activities was quite restrictive, making it almost impossible for a union to call a “legal strike.”⁵ If it was declared illegal, the strike had to be immediately suspended. As noted by Sandoval (1984, p. 18),

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

The level of strike activity fell dramatically between 1964 and 1977. Not only because the strike rights were restrictive, but also because wage disputes (which accounted for the majority of disputes before 1964) were virtually nonexistent in face of the binding wage controls enforced by the labor justice secretary. Since 1965 the government fixed the annual rate of wage adjustment, thus reducing the scope for wage disputes and, indeed, the discretionary role of the labor courts.

⁴ Collier and Collier (1979) have analyzed the evolution of industrial relations in some Latin American countries in terms of state/union relations characterized by different doses of “inducements” (incentives) and “constraints” (institutional constraints) over time.

⁵ Mericle (1974, p. 202) provides a synthesis of the strike law imposed by the military government: “strikes are legal in two situations: in interest disputes over the negotiation of new contracts, and in disputes over the enforcement of the wage clauses of a court decision or collective contract. The enforcement strikes can only occur if the employer is behind in wage payments or if he fails to pay the specified wage rate. Other contract enforcement disputes are subject to the grievance procedure of the conciliation courts. Strikes during the life of a contract or court decision are illegal if their objective is to alter the terms of the contract. Political and solidarity strikes are also illegal.”

The military period was marked by the absence of direct negotiations between unions and employers, and purely bureaucratic activities on the part of labor courts. The combination of the strike law and wage controls created a void in the collective bargaining process.⁶

3.1.3 “New-Unionism”: Autonomy and Centralization

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

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

The most characteristic features of the new-union movement, and indeed innovative ones in terms of the Brazilian experience, are the search for a centralized structure and its relation with the state. We have in mind the most combative and articulate group of the labor movement which in 1983 created the Central Unica dos Trabalhadores (CUT).⁷

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

7 The other group was essentially composed of members of the official movement during the military period, and had a more conservative perspective. In 1983 the two groups split: one created the CUT and the other kept its original name (CONCLAT) and in 1986 became the Central Geral dos Trabalhadores (CGT). Our analysis applies almost exclusively to the CUT which is clearly numerically dominant and represents the innovative element in the Brazilian labor movement.

The incentives for union centralization are far from unambiguous.⁸ Unions—and especially the most organized and powerful unions—have obvious incentives to keep their independence in relation to, and not be subject to, a centralized structure. The incentives are even stronger when sectoral-specific interests divide workers. Hence, as noted by Wallerstein (1987, p. 21),

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

Industry-specific factors certainly play a role in the attitudes of unions in all economies. Also, in sectors in which the oligopoly power of firms is large, workers usually share the market rents with the firms, and do not have incentives to align with weaker unions. However, the importance of these factors has to be weighed against factors that affect workers in general. Class-based considerations may be more important than sectoral-based factors in different economies or at different points in time in a given economy. Wallerstein (1987) argues that were all sectors are equally dependent on foreign markets there would be strong incentives for union centralization. Indeed, if all unions support export orientation and free trade they have less cause to guard their capacity for autonomous action. In a sense the argument holds in the case of Brazil, not because all sectors are equally dependent on external trade but because they are all highly protected against foreign competition. Indeed, in Brazil, industry-specific factors are not (or have not been) really a concern of union leaders.

However, the most important centripetal forces accounting for the centralization of the union movement in the last ten years in Brazil are ideological, political, and institutional in nature. That is, the class-based political incentives to create a strong labor and middle-class coalition seem to be the driving force. Several elements account for this. The military regime had a clear antilabor bias, and excluded workers from the sharing out of economic gains. It also had a clear antileft bias which marginalized important sectors of the middle class from political participation. Finally, as a result of the “investment-oriented strategy” of the 1970s, it had a antisocial bias, which caused important groups of the Catholic Church, who took the side of the poor and marginalized groups through the Comunidades Eclesiais de Base in the rural suburban areas, to be politically

⁸ We mean by “centralization” a tendency towards an institutional centralization of the union movement around two major central unions (CUT and CGT) and one rural central union (CONTAG). This tendency does not imply that there are no important political cleavages among confederations and within confederations (and we shall refer to them presently—most notably those within CUT).

repressed. These groups (industrial workers, educated middle class, and the “descamisados” through the influence of the church) formed the basis of CUT, CGT, and CONTAG. What brought them together in the first place was the resistance against the military regime.

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

There is also an institutional factor explaining the centralization of the labor movement in recent years. In face of the history of labor relations in Brazil in which, as noted above, the state and a universal labor code played very important roles, it seems that the most effective way to change labor rights and institutions is through centralized organization and legislative actions. In other words, the nonexistence of a culture of direct negotiations naturally leads to, and at the same time requires, a type of organization that faces the state and the labor code. This organization must have a centralized and horizontal character and its activities must aim at a change in the legislative area.⁹

The political and institutional factors accounting for the centralization of the labor movement reflects an attempt by the union leaders to establish themselves in the “political market,” or to carry their actions beyond the labor market.¹⁰ As noted by Pizzorno (1978, p. 280), in contrast to collective bargaining in which the control over the supply of labor and the

⁹ Whereas in Western countries the centralization of the union (and employers’) movements is seen as positive in face of the obvious ties between centralization and the sensitiveness of collective actors to policies—thus enhancing coordination—in Brazil both the government and employers show signs of circumspection in respect to the issue for they associate centralization with the growth of the political power of unions.

¹⁰ Korpi and Shalev (1979, p. 170; cited by Cameron, 1985, p. 146) argue that “to the extent that labour is successful in acquiring control over political institutions, it can exercise its power through these means and will not be limited to the industrial arena.”

requirements of “regularity of work” are the sources of unions’ market power, in a situation of political exchange, “benefits are obtained against the threat to social order or social consensus” and the capacity of unions to destabilize the polity. Indeed, the core issue of the first meetings of union leaders in the early 1980s, and one that really influenced the division of the group between “moderates” (CGT in the future) and “radicals” (CUT), was the use of general strikes as weapons against what was seen as employers’ and the government’s intransigence.

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

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

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

The second characteristic feature of the new-union movement is its relation with the state. Independence and autonomy in relation to the corporatist structure (Ministry of Labor and Labor Justice), and a strong relationship with the Partido dos Trabalhadores (PT)—actually founded before the CUT in 1982 by the same workers’ leaders—are the central elements here.

Union leaders affiliated with CUT have clearly been against the corporatist structure in which every action of the union is ultimately dependent on the state’s acquiescence. The opinion of an union leader in 1985, Jair Bittar—today the mayor of an important municipality in the state of São Paulo—can be seen as representative of the CUT position:

When I think of the CLT [the labor code], three essential things come to my mind: the question of union autonomy, job security and the right to strike. These are causes for which the union movement must fight in order to create an autonomous union movement, independent in relation to the state, the political parties, and representative of the interests of the workers. The changes in the CLT should come in this direction: recognizing the unions autonomy, and eliminating all the restrictions on the free organization of workers.

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

The relation with the PT is also an important element in the characterization of the new-union movement in Brazil. Historically there seems to be a strong correlation between the success of labor parties and the centralization of the union movement. Centralized union movements, because of their class-based interests, help labor parties in elections—and this has clearly been the case in Brazil where a significant number of union leaders from CUT have been elected as representatives at both the state and federal levels and mayors of important cities, and one, Mr. Luis Inácio Lula da Silva, ran for the presidency of the republic and ended second in 1989. In a survey conducted in the third congress of the CUT, 91% of the delegates voted for PT candidates. On the other hand, a strong labor party helps the creation of a bridge between the central's demands and the legislative process. In Brazil, these positive feedback effects have been very important in consolidating both the PT and the CUT. However, as the party attempts to gain a broader base, the relation between the central union and the party becomes increasingly difficult. Indeed, this has been a historical problem for labor and social democratic parties in Europe (see Przeworski 1985).

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

Although not explicitly mentioned in their programmes or in the discourse of their most prominent leaders, the dominant stream within both the CUT and PT has a clearly social democratic inclination. Indeed, the positions and strategies followed by the central union and the party, and the relation between the two, resemble those of the European central unions and social democratic parties in the interwar period and after the second World War.¹¹ Rodrigues (1990), an expert on the history of the union movement in Brazil, notes that:

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

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

The majority of the groups represented in the central union, however, favor negotiations within the prevailing institutional apparatus. Indeed, the president of the CUT, Jair Menegelli, has been quite clear in asserting that the central union should not declare itself revolutionary, though some of its members may be revolutionary socialists (see Rodrigues 1990). The attitudes of the central union's leaders, more than their rhetorics, are a sign of their social democratic preferences. As noted already, these actions have been in the direction of increasing the political power of the unions and forcing the adoption of social reforms that intend to insulate the workers' income from

¹¹ The attempts to increase job security and expand the coverage of unemployment benefits can be seen as an effort to "decommodify labor" to use Esping-Andersen's term. This author notes that

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

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

In respect of the movement, social democracy depends on the nationalization and centralized coordination of trade unionism and on optimal electoral penetration by the party. The first precondition is the victory of vertically organized and nationally centralized trade unionism. Trade union centralization is also necessary for coherence between the union movement and the political party (p. 33).

market fluctuations. As noted, the CUT played an important role during the elaboration of the new Constitution and has kept open the possibility of negotiating an incomes policy with the government.

3.2 The Social and Political Profile of the New-Union Movement

The CUT was born in 1983 and so far three national congresses have taken place—in 1983 when it was founded, and in 1986 and 1989. The majority of the groups represented in the congresses come from the rural sector. This might seem somewhat surprising since the union movement is usually associated with the strikes of the industrial workers of São Paulo in 1978 and '79. As noted already, however, the growth of the rural movement is clearly a result of the grassroots movement of the Catholic church, especially in the rural areas of the Northeast and North regions of the country. Services come in second place and industry in third. Over time public servants had their representation increased from 7% in the first congress to 16% in the third. The representation of industrial workers also increased, from 15.4% to 20.1%.

When the data are regionally desegregated (for the third congress), the proportion of industrial delegates from the industrialized Southeast is around 13%. More than half (actually 61%) of the rural delegates come from the less industrialized regions (North, Northeast, and Center West). In terms of the overall regional distribution the Southeast has a clear majority (35%), but other regions also have a fair representation.

The coordinating board of the central union has 20 members of whom seven come from the industrial sector, five from the service sector, two from education, two from the agricultural sector, two from public services, and two from liberal professions. Of the seven coming from the industrial sector, five come from the core of the union movement in São Paulo—the metal workers. Hence, when we look at the composition of the top leadership of the CUT, the representation of industrial workers dominates the others. The chief coordinator, Jair Menegelli, who is also the president of the metal workers union of São Bernardo do Campo e Diadema, has been in the job since the central union was created.

Most of the workers who founded the CUT were not members of the official union structure. Indeed, in the first and second congresses, when the central union was still being organized, the proportion of delegates who were not official union leaders outnumbered the proportion of elected leaders and directors of official unions. In the third congress there was an inversion, with the number of official union leaders being greater than the number of base leaders. This change has two important implications. On the one hand it means that CUT leaders have effectively penetrated the official union structure essentially by winning elections. And on the other, that the central union has become more institutionalized and structured. Not only that,

TABLE 2
Groups Represented In CUT's Congresses
(by sectors of activity)

	Industry	Public Sector	Rural	Transport	Financial	Services	Other	Total
1st congress								
(1984)	144	68	308	0	0	246	171	937
(%)	15.4	7.2	33.0	0	0	26.2	18.2	100
2nd congress								
(1986)	182	114	366	0	0	276	76	1014
(%)	17.9	11.2	36.1	0	0	27.2	7.6	100
3rd congress								
(1989)	233	185	374	28	48	289	0	1157
(%)	20.1	16.0	32.4	2.4	4.1	25.0	0	100

Source: CUT as reported by Rodrigues (1990).

TABLE 3
Delegates by Sector of Activity and Region
(3rd Congress, 1989, Percentage of Total of 6243 Delegates)

	North	Northeast	C. West	Southeast	South	Total
Rural	6.6	9.8	3.0	6.1	6.7	32.2
Industry	1.4	4.5	0.5	13.8	4.0	24.2
Services	1.4	5.1	3.5	7.1	4.5	21.6
Public sector	1.4	4.7	1.6	5.4	2.6	15.7
Financial	0.1	0.7	0.3	2.0	0.9	4.0
Transport	0.0	0.4	0.2	1.3	0.4	2.3
Total	10.9	25.2	9.1	35.7	19.1	100

Source: CUT as reported by Rodrigues (1990).

but one important decision approved in the third congress was that from then on the representation of each union had to be proportional to the number of affiliated workers in the union.

TABLE 4
Distribution of Delegates

	Grassroots Delegates	Official Union Leaders	Total
1st Congress (%)	3440 65.9	1782 34.1	5222 100
2nd Congress (%)	3649 70.4	1532 29.6	5181 100
3rd Congress (%)	3178 50.9	3065 49.1	6243 100

Source: CUT as reported by Rodrigues (1990).

3.3 Collective Bargaining

The periodization used in section 3.1 in the discussion over state-labor relations can also be applied to the analysis of collective bargaining. Until 1964 only half of the labor contracts resulted from direct negotiations between the union and employers. Working conditions and hours of work were based on the labor code and only demands that exceeded those established in the law were subject to negotiations. In general, disputes over these issues were very rare. Mericle (1974) notes that as inflation accelerated in the late 1950s and early 1960s, wage adjustment became an important, if not the only, issue negotiated. In fact, most of the strikes in the period were associated with demands for wage increases—strikes over working conditions were rare. Mericle studied 23 contracts in the state of São Paulo in March of 1964 and concludes that “none of the contracts resemble the comprehensive agreements which are common in North America... [O]f the sample of 23 contracts and court cases, 21 were concerned exclusively with the size and application of the wage increase” (p. 205). As reported in Table 5, around 50% of the collective bargains studied by Mericle did not involve the labor justice, and in 25% of the cases there were judicial arbitrations.

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

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

The greatest differences between the 1980s and the previous periods are the following: (a) direct negotiations between unions and employers became the rule; (b) the wage policy gradually lost its efficacy as a coordinating instrument; (c) nonwage demands gradually spread out; and (d) the central unions (in particular, CUT) started playing an important role in negotiations. In what follows we discuss the changes in the nature of collective bargains over the last ten years.¹²

As seen in Table 5, the proportion of direct agreements to judicial agreements in the state of São Paulo jumped from 0.23 in 1970-71 to 2.43 in 1981 and then remained above one in 1982-84; the percentage of judicial arbitrations to the total number of cases went from 55% to 3% in 1982, 11% in 83 and 9% in 1984.

As noted already, the structure of the labor movement in Brazil is in a process of change. It is no different with collective bargaining. The central unions were very active and indeed quite influential in the discussion over minimum standards as far as labor conditions and workers' rights in the new Constitution were concerned. In a sense, this can be seen as an indication that part of the collective bargaining process does take place at the national level. To the extent that local bargaining is concerned, the degree of centralization of negotiations varies from sector to sector, and from region to region. Pastore and Zylberstajn (1988, p. 63) have carefully studied the recent patterns of bargaining, and concluded that both the CUT and CGT have been looking for:

¹² The spread of nonwage demands and the role of the CUT in attempting to make them legislative matters during the elaboration of the new constitution was discussed in section 3.1.3. The loss of efficacy of the wage law will be examined in section 3.5.

TABLE 5
Nature of Collective Bargaining, São Paulo, 1964-1984

	Direct Agreement/ Judicial Agreement or Arbitration (ratio)	Direct Agreement/ Total (%)	Judicial Agreement/ Total (%)	Judicial Arbitration Total (%)
1964 (March)	0.92	48	26	26
1970-71	0.23	19	26	55
1979	0.63	—	—	—
1980	0.96	—	—	—
1981	2.43	—	—	—
1982	1.88	66	31	3
1983	1.11	53	37	11
1984	1.20	54	36	9

Calculations by the author.

Source of Data: Mericle for 1964 and 1970-71, Vasconcellos for 1979-81, and Aguirre et al. for 1982-84.

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

Indeed, it has become a common procedure to have negotiations starting at a very high level of aggregation in the industry (to define the minimum standards), and as the demands become more specific (or simply prohibitive for the smaller firms), to have negotiations at lower levels. In some cases the central union (CUT specially) plays an important role in providing professional negotiators who bargain in the name of the local unions at high levels of aggregation in the industry. Furthermore, in many circumstances, the central union creates solidarity movements to enhance the bargaining power of those unions that are negotiating. In some

important sectors with powerful unions (banking and oil refineries being the best examples here), negotiations take place at the national level with obvious spillover and demonstration effects.

The role of the central unions in collective bargaining and through the extension of bargaining achievements to the legislative area has been to elevate the standards of the less organized groups. On the other hand, it is indisputable that the stronger unions have also profited from the political power of the central organizations to improve (beyond the minimum standards) the conditions of their members. However, these unions would do better than the less organized anyway, which leads to the conclusion that the central unions have played an important part in reducing the disparities and inequalities, as compared with a situation where horizontal organization did not exist.¹³

It is difficult to anticipate what the typical pattern of negotiations in the future will be—if there will in fact be a typical pattern. Be that as it may, there are certain trends worth noting. The CUT have been proposing a centralized national collective bargain followed by localized negotiations. It is not clear if the central union would favor second layer negotiations at the sectoral level or the level of the firm. Employers' associations are clearly against the proposal for they fear that centralized bargaining would enhance to an undue measure the central union's bargaining power. Their experience with the new Constitution was an indication in this respect: the unions were well organized and had very clear demands whereas the employers' associations kept a very defensive position.

The National Confederation of the Industry (CNI)—the employers' association—has strengthened its department of industrial relations in recent years, and its central activity has been to put together sectoral conferences of human resources specialists with the aim of establishing negotiation standards. This seems to be a strong indication that the CNI is anticipating a greater centralization of negotiations at the sectoral/national level.

In face of the current trends, it seems quite unlikely that the system will become totally decentralized. The most probable scenario seems to be a consolidation of the current state, in which local bargains at the level of the firm will continue to be the last layer of negotiations while minimum standards will be negotiated at the industry, and possibly national, level.

The characteristics of the Brazilian system clearly puts it among those classified in the second section of the paper as "hybrid" systems. It has elements of the Polar I system (increasing centralization of unions' organization and participation of confederations in collective bargains) and of the Polar II system (decentralized negotiations). However, it is much closer to the Hybrid II case than to the Hybrid I case. Indeed, the negotiation of minimum standards takes place at the

¹³ In comparative analyses of advanced OECD countries, it has been found that where the degree of centralization of the union movement is greater and their role in collective bargaining more important, pay differentials are smaller. See Treu (1987) and Freeman (1989).

industry level and the level of synchronization of negotiations is extremely low. Moreover, relations between the government and the unions have been quite disastrous (as noted below). All these factors account for a complete lack of macroeconomic coordination in the formation of wages and prices and hence do not contribute to wage restraint.

3.4 Trade Independence and Accommodative Policies

There are some aspects of the Brazilian experience that account for a lack of solid restrictions on wage and price increases. Not only is the degree of industrial concentration very high in many industrial sectors—thus providing firms with great market powers—but, in general, the economy is very closed and protected from foreign competition. The import substitution strategy is obviously responsible for the lack of external competition. Since the 1950s, a deliberate policy to protect domestic industries has been systematically implemented. Because import substitution and protection have become part of the Brazilian culture, and indeed can be seen as one of the most stable rules of the game in the country, managers did not even have to worry about the prospects of eventually facing international competition. The protection against foreign competition also resulted from the exchange rate policy adopted since the late 1960s which indexed the exchange rate to inflation thus providing an insurance against price increases. Subsidies to export sectors complete the list of instruments used to insulate the industrial sector.

Accommodative monetary and fiscal policies also reduce the constraints to wage and price inflation. Economic growth and the creation of employment posts have been for a long time an important shield against opposition and social unrest used by (both military and civilian) governments in Brazil. It is true that in 1981-83 a policy-driven recession interrupted more than ten years of accelerated growth. But this was an isolated episode and understandably so in a country in which a significant share of the labor force lives in urban areas and in which safety nets (unemployment benefits most notably) did not exist until 1986. Since 1984, with the consolidation of the democratic regime and the growth of the union movement, the word “recession” was banned from the official vocabulary of both the right and left, thus reducing any serious threats of unemployment.

3.5 Dissatisfaction, Instability, and Government Credibility

As noted above, since 1964 a wage law establishes the adjustment parameter of wages to past inflation and the indexation period, that is the time span between adjustments. In principle, the policy applies to all wages in the economy. The wage policy can be seen as a non-negotiated incomes policy explicitly conceived as an instrument to prevent wages from creating

inflationary pressures. As described by the architect of the first version of the law, it was meant to replace strikes, pressures, and distributive conflicts by a simple arithmetic calculation (see Simonsen 1983). Wage controls were quite effective between 1964 and 1978-89, and played an important role not only in stabilizing the economy but also in bringing down the rate of inflation as wages were systematically underindexed to past inflation in the first ten years.¹⁴ The effectiveness of the law resulted in a large measure from the repressive character of the regime. Not even the labor justice which in the 1950s and '60s had the right to arbitrate wage disputes could deviate from the wage law. Indeed, as noted by Mericle, writing in 1974:

Wage increases are...calculated by applying a...formula to data supplied by the government. The courts are required by law to use both the formula and the data in the arbitration decisions which they render. Furthermore, all cases in which the parties reach agreement without court intervention must be registered with the labor courts, where the increase is promptly appealed if it exceeds the government index. Voluntary agreements in excess of the formula figure are always overturned in the Supreme Labor Court. Thus, the size of all...wage increases is, in effect, centrally controlled (Mericle, p. 264).

The law was altered in 1968 and 1975 with the introduction of an ex-post corrective factor to account for reductions in the wage due to the possible underestimation of inflation, and to shorten from 24 to 12 months the reference period of the average purchasing power of wages which the rule was supposed to restore. These changes can be seen as a response to the many criticisms that the wage law was responsible for the deterioration of the distribution of income over the 1960s.

With the acceleration of inflation in the second half of the 1970s and the re-emergence of strike activities in 1978, two new elements start affecting the dynamics of wage (and price) formation. The first is the reduction of the official adjustment period from one year until 1979 to six months thereafter. The different policies adopted together with the so-called heterodox shocks between 1986 and 1989 had even shorter adjustment periods. The second and more important new element is the return of direct negotiations between unions and employers and of the right of the labor courts to validate or arbitrate wage adjustments that incorporated real wage gains associated with increases in "productivity." This opened a door for wage adjustments above the past rate of inflation. Another important instrument to protect wages against the acceleration of inflation was the demand by unions for reductions in the adjustment period of wages independently of the period fixed by the wage law.

¹⁴ Between 1964 and 1968 the formula used to adjust wages had a term that depended on the expected rate of inflation. The latter systematically underestimated the actual rate of inflation thus implying a reduction in the real wage. It has been estimated that between 1964 and 1967 the real wage in the industry fell 9.1%.

Both the reduction of the indexation period and the “overindexation” of wages in respect to past inflation imply an increase in real wages if the rate of inflation remains the same.¹⁵ However, in face of the degree of protection of the Brazilian industry and the level of oligopoly power of firms in many sectors of the economy, firms were able to protect their profit margin by indexing (or overindexing) changes in costs. The race between wages and prices seems to be an important element of the acceleration of inflation over the 1980s.

At this point it is important to consider two policy related elements that accounted for the increasing degree of distributive conflict and the explosive trajectory of inflation in Brazil. One is the adjustment to the debt crisis in the late 1970s and early 1980s through currency devaluations with obvious inflationary pressures. Had the unions been impotent to respond to the acceleration of inflation, or in other words, had the wage policy been effective, the reductions in real wages would have been dramatic. Actually, the average real wage (and especially the average product wage) fell considerably in 1983-84 but in many sectors unions were able to resist the shock. In fact, relative wages changed considerably during this period.¹⁶

The second policy related aspect that deserves notice is the series of heterodox shocks applied to the economy after 1986. These shocks were exacerbations of the wage (and price) control policies of the previous period with the difference that the union movement now had greater bargaining power and firms did not have less market power than before. Price freezes and tight wage controls are hardly effective in an environment of rapidly changing relative prices, workers' dissatisfaction, and distributive conflict. A non-negotiated incomes policy in a system in which agents have considerable market power and can effectively defy the government's measures is doomed to be rendered ineffective. This is not meant to be a simplistic criticism of the policies, nor to imply that there are easy alternatives, but only to point out to the structural and institutional obstacles.

Policy failures—whether due to an inept reading of the conjuncture by the government or to inconsistent goals—are not as important to us as their consequences for the behavior of the actors (unions in particular). Since 1979 a series of policies aimed to adjust the economy to the debt crisis and cope with an accelerating rate of inflation resulted in growing instability and loss of credibility of the government. The recurrence of unexpected inflationary and policy shocks and resulting fluctuations in real wages tend to create an extremely defensive attitude on the part of workers and unions which is reflected in attempts to protect real wages against shocks through the overindexation of money wages and reductions of the indexation period.

¹⁵ See Lopes (1986), Ros (1989), and Amadeo (1991a).

¹⁶ See Amadeo (1990a).

A measure of workers' dissatisfaction and distributive conflict is the level of strike activity. In what follows we present some figures on strike activities in the Brazilian economy. Table 6 compiles information from three different sources. The data for the period 1955-80, borrowed from Sandoval (1984), clearly show that after a positive trend in the late '50s and early '60s, there was a substantial reduction in the number of strikes after 1964 and a strong resurgence in 1978-80. Between 1981 and 1984—years of negative industrial growth—the number of strikes as reported by Tavares de Almeida (1988) grew from 144 to 492. Between 1985 and 1989 the number of strikes reported by the Secretary of Labor went from 843 to 3164.

TABLE 6
Strikes In Brazil, 1955-1980

1955-56	18	1981	150
1957-58	53	1982	144
1959-60	132	1983	347
1963-64	215	1984	492
1965-66	30	1985	843
1967-68	22	1986	1493
1961-62	192	1987	2275
1978-80	338	1988	1914
		1989	3164

Sources: 1955-80 Sandoval (1984, 29), 1981-84 NEPP, UNICAMP, as reported by Tavares de Almeida, and 1985-89 Ministerio do Trabalho, Brazil.

In the last ten years or so, all the ingredients against wage restraint seem to be present in Brazil. Not only institutional and structural factors—hybrid/intermediary type of collective bargaining and trade independence—but also conjunctural factors (lack of credibility of the government and growing instability) account for the defensive behavior of unions with obvious effects on the aggravation of the crisis.

3.6 Wage Policy Ineffectiveness and Overindexation

There is evidence of a gradual loss of effectiveness of the wage policy and of overindexation of wages during the 1980s in Brazil. Before we turn to the evidences, it is important to note that lack of wage restraint is not inflationary by itself. The impact on inflation

depends on the pricing behavior of firms. If firms mark up costs then overindexation is clearly inflationary. The extent to which firms are willing or are forced to assimilate changes in costs by reducing their profit margins determines the effect of wage variations on the rate of inflation.

The first evidence of overindexation is provided in Table 7. The Table shows increases in real wages (demanded by unions and actual) due to "productivity gains." The years 1982-84 were marked by a very strong recession, and quite clearly productivity increased much less than real wages in the period which obviously indicates the presence of overindexation.¹⁷

Further evidence of the ineffectiveness of wage controls in the 1980s, or the presence of overindexation, is provided in an econometric work by Camargo (1990). He shows that both the conditions of the labor market (as measured by the rate of unemployment) and the degree of dissatisfaction of workers (as measured by the ratio of the institutional wage to a proxy of the "target wage"¹⁸) affect the determination of the "wage drift," or the difference between the institutional wage and the actual wage. In particular, the greater the rate of unemployment and the lower the degree of dissatisfaction of workers, the greater the adherence of the actual wage to the institutional wage.

Marinho (1990), also in an econometric work, shows that real wages in the oligopolist sectors of the Brazilian industry tend to grow as inflation accelerates, the opposite occurring with wages in the more competitive sector. This is not necessarily evidence that money wages in the oligopolist sectors are the primary causes of the acceleration of inflation. It may simply be an indication that as a response to the acceleration of inflation (due to other causes), unions in the oligopolist sectors are able to increase money wages ahead of past and current inflation, thus creating additional inflationary pressures. If unions in other sectors cannot overindex their wages there is a tendency for real wages in the oligopolist sectors to increase.

The clearest evidence of overindexation in the Brazilian experience, as shown in Figure 1, is given by the ratio between annual variations of money wages in industry and CPI inflation between 1976 and 1990. The ratio turns out to be greater than 1 over the period, with the exception of a few months during the 1981-83 recession. In another study (Amadeo 1990b), it is shown that the estimated mark-up of firms remained approximately constant over the period. Taking the levels of indexation of wages (with respect to CPI inflation) and industrial prices (with respect to changes in costs) together, it becomes obvious that strong inflationary pressures were created in the industrial sector.

¹⁷ We are not arguing that the increases in real wages were not fair but only that money wages in those years grew faster than past inflation.

¹⁸ The institutional wage is defined as the wage as determined by the wage policy; and the target wage is assumed to be equal to the real wage obtained in the last negotiation.

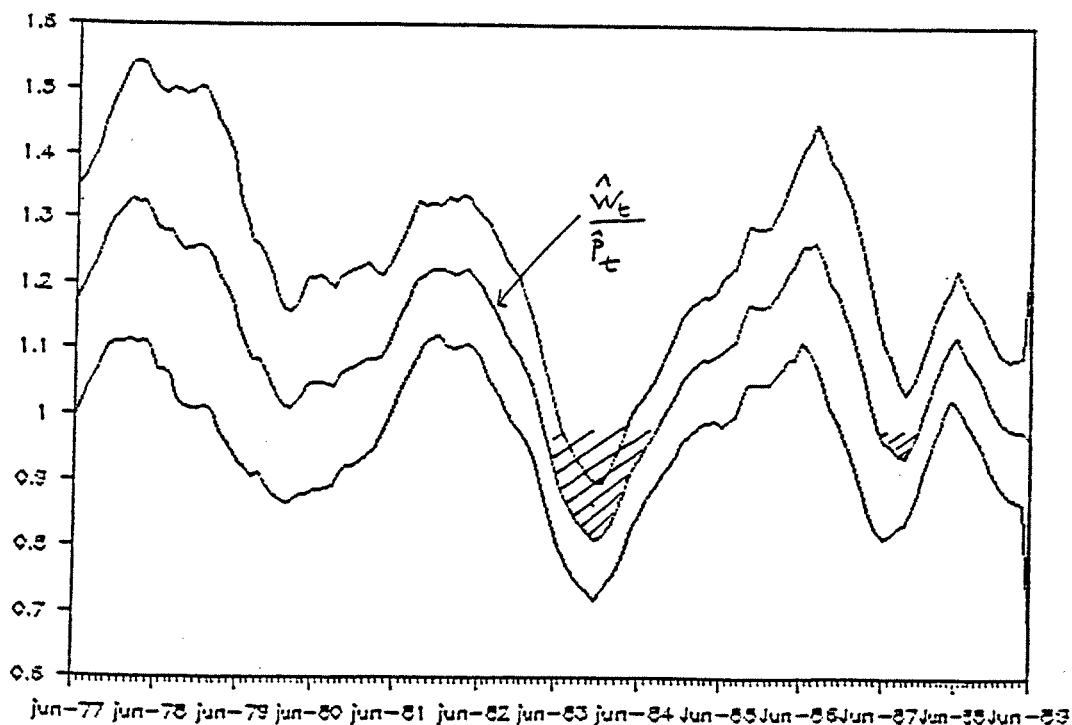
TABLE 7

Average Increase in Real Wage due to "Productivity Gains"
 (% of Wage after Adjustment for Inflation, Annual Average, Industry)

	Direct Agreements		Judicial Agreement or Decision	
	Demanded	Actual	Demanded	Actual
1982				
São Paulo	12.8	3.9	12.8	5.3
Rio de Janeiro	13.0	3.2	10.3	4.6
Minas Gerais	8.2	3.3	9.4	4.4
1983				
São Paulo	11.4	3.9	12.6	5.3
Rio de Janeiro	**	**	7.6	3.9
Minas Gerais	6.7	2.3	8.1	4.7
1984				
São Paulo	13.3	**	9.8	7.0
Rio de Janeiro	**	**	7.8	4.4
Minas Gerais	9.5	**	8.6	**

Source: Aguirre et al. (1985). Note: The data for 1984 refers to the first semester only. (**) Data not available.

FIGURE 1



4. CONCLUDING REMARKS: STABILIZATION AND CONCERTED INCOMES POLICY

Over the 1980s, the coordinating capability of the Brazilian government has been gradually reduced. The rapid acceleration of inflation over the decade can be seen as the result of a distributive conflict involving the government, firms, and workers. The government participates in this conflict in two different but interrelated instances. On the one hand, in trying to adjust the economy to the external debt crisis, two major devaluations of the domestic currency intended to change relative prices in favor of tradable goods created obvious inflationary pressures. On the other hand, given the interrelation between the rate of inflation and the government deficit (due to the indexation of public bonds), the Treasury and the Central Bank have had to recurrently refinance the debt by either issuing new debt or increasing the supply of money, thus reducing the government's flexibility in conducting monetary and fiscal policies.

Agents in the private sector, in turn, respond to supply shocks and rising uncertainty over the path of future inflation by trying to protect their income through overindexation. We have already noted the reduction in the degree of effectiveness of wage controls. The loss of control over macroeconomic variables led the government in March of 1986 (and again in June of 1987, January of 1989, March of 1990, and February of 1991) to adopt so-called heterodox stabilization programmes based on wage and price controls. However, in a system in which there is a lack of credibility in the government's ability to impose costs on free-riders, and with a significant number of "large" free-riders (that is, agents with considerable market power), the coordinating power of wage and price controls becomes negligible.

The use of market instruments (fiscal and particularly monetary policies) to support the incomes policy was seen as unnecessary in 1986 due to the level of popular acquiescence surrounding the government's programme. The actual level of acquiescence turned out to be much smaller as time went by, and the large free-riders started boycotting the programme. In the other two plans of the Sarney government, market solutions were not implemented due to the absolute lack of political support of the government. The Collor plans (1990 and 1991) were supposed to combine incomes policies and market instruments, but the latter were never strong enough to impose sufficient restraint on the part of the most powerful and organized agents, including labor.

The experience so far has demonstrated that non-negotiated incomes policies (wage and price controls) are quite ineffective and the market approach too costly (and also rather ineffective) in the Brazilian case. The institutional apparatus based on which wages are negotiated (decentralized and desynchronized bargaining), the structural features of the economy (highly

protected industry in particular), and the growing uncertainty concerning the eventuality of future policy shocks seem to be at the root of the stabilization crisis and the inability to coordinate the economy of the government.

Over the decade many attempts to establish a "social pact," or a concerted incomes policy, have taken place. The government, in face of a deterioration of the situation would appeal to the organized agents (employers' and workers' associations), and try to engage in a national agreement. None of the attempts had a real prospect of success. Institutional, political and economic factors explain why the attempts were, from the very beginning, doomed to failure. As already noted, the degree of centralization of the union movement has been growing significantly over time, and this should be seen as a positive sign. But on the other hand, there are political cleavages within the major confederation (CUT) and among confederations that do impose certain difficulties for an agreement. On the employers' side, the problem of representation is even more serious which implies that if an agreement were to be in fact signed, the level of compliance with the guidelines would probably be very low. Furthermore, there is a complete lack of experience in negotiating at the national level and none of the parties involved, including the government, has a solid conception of the means and goals associated with a concerted programme.

As for the political conditions, the exclusion of organized labor from the political arena for so many years during the military regime has led union leaders to be very skeptical about agreements with employers and the government. It is true that a strong relation exists between the union movement and the political parties. But on the other hand, union leaders do not hold any key positions in government agencies and hence do not have effective political power within the administration. Indeed, the unions still see themselves as outsiders and accordingly, as far as their relations with the government are concerned, have a very independent and combative attitude. However, it cannot be said that the union movement has had an irresponsible attitude. In fact, it has been willing to engage in negotiations but has not yet seen any evidence that workers will become coresponsible for the management of certain key instruments in the economy. It seems legitimate to argue that, up to this moment, neither the (Sarney or Collor) government nor the employers are prepared to share with the unions the power over the process of production (at the firm level) and the management of the economy (at the national level).

The distributive conflict between workers and firms seems to be at the heart of the high levels of industrial confrontation of the past years. Unions and employers have quite conflicting perspectives on what is fair and what is feasible as far as the distribution of income is concerned. As a result of differences in perspectives the level of disputes has been growing, and with it the level of uncertainty and instability. The lack of a range of consensual economic outcomes implies that agents are very often dissatisfied with their conditions.

There is a shortage of consensual long-run goals and an excess of self-protection based on very short-run outlooks. The demands do not add up to one, and macroeconomic imbalances ensue. The government intervenes with strong measures but is too weak to make them effective. A sense of chaos and disorder grows in the economy, information becomes very cacophonous, the agents feel insecure and rational behavior brings about inconsistent macroeconomic outcomes.

Two views of the future are possible. One is that the growing levels of conflict and instability will lead organized agents to eventually conclude that the cooperative solution is superior to the individualistic approach. In this sense, the greater the level of centralization and organization of interests around a few key associations and, paradoxically enough, the greater the degree of conflict, the greater the likelihood of a cooperative solution becomes. The pessimistic view is that entropic forces are very strong, and that agents have myopic perspectives and will never seek the cooperative approach.

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