

What Brazil learned from labour flexibilization in the 1990s

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Abstract. *The debt crisis of 1981–83 changed the course that Brazil’s social and labour policy had followed from the 1930s to the 1970s. The social and labour protection systems built up over those five decades – in conjunction with urbanization, industrialization and the rise of wage employment – were gradually dismantled. The neo-liberal policies adopted, however, failed to generate sufficient economic growth and brought worsening unemployment and job insecurity instead. Since the end of 2002, Brazil has been turning away from its “neo-liberal society” project.*

In the twentieth century, Brazil had one of the world’s highest rates of economic growth. With the onset of the Great Depression in 1929, it gave up its reliance on the export of primary commodities and embarked on a vigorous national project of industrialization interrupted only by the external debt crisis of 1981–83. High rates of GDP growth, however, did not eliminate the social exclusion that affected a good many of those who moved from the interior to the cities and from underdeveloped regions to the main centres of industrialization. Hence the disparity of outcomes of the industrialization process between the leading capitalist economies and South America’s inter-tropical zone.

To begin with, Brazil’s industrialization came late, in the twentieth century, when control of advanced technology by large oligopolistic multinationals biased state policies towards capital accumulation rather than social development. As a result, a large share of the public funds collected through compulsory savings – e.g. pension and retirement funds – ended up financing the infrastructure required by industrialization.

Moreover, industrialization took place under undemocratic regimes opposed to the adoption of the land-tenure, fiscal and social reforms that had “civilized” industrial capitalism elsewhere. The problem of social exclusion thus continued to fester in Brazil. The bulk of the workers driven from the countryside

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flooded an urban labour market consisting of informal and poorly paid jobs. Because of the country's limited democratic experience, the complex social web of interests ensuing from society's transition from agrarian to urban/industrial failed to consolidate.

Social and labour rights had to gain ground under authoritarian regimes: the "New State" of Getúlio Vargas (1937–45) and military dictatorship (1964–85). Between 1930 and 1980, national product increased by a factor of 18.2, averaging annual growth of 6 per cent, and an industrial base was created which laid the foundations of the national system of social protection. Older forms of (occupational) social security date back to 1923, when Brazil's first such scheme – the rail workers' pension fund – was launched, setting an example that was followed in the 1930s by the main urban occupational categories.

Although some degree of social protection was extended to rural labourers through health-care and pension schemes adopted in the 1930s, the welfare and social security systems for urban and rural workers were only consolidated under the federal Constitution of 1988. This renewal of the country's social security system was helped by the surge of popular participation in the "re-democratization" movement of the 1980s. The system's effectiveness, however, was undermined from 1990 by the adoption of neo-liberal policies and reforms that worsened social exclusion. Progress towards universal coverage clearly came to a halt (narrower range of beneficiaries, more relief programmes), and the share of wages in national income shrank drastically, largely as a result of slow economic growth coupled with expansion of "financial" capital flows. However, the country's socio-economic indicators are currently looking better thanks to the abandonment of neo-liberal policies since the turn of the century.

This article outlines the key features and the main effects of the social and labour model resulting from the liberal reforms of the 1990s.

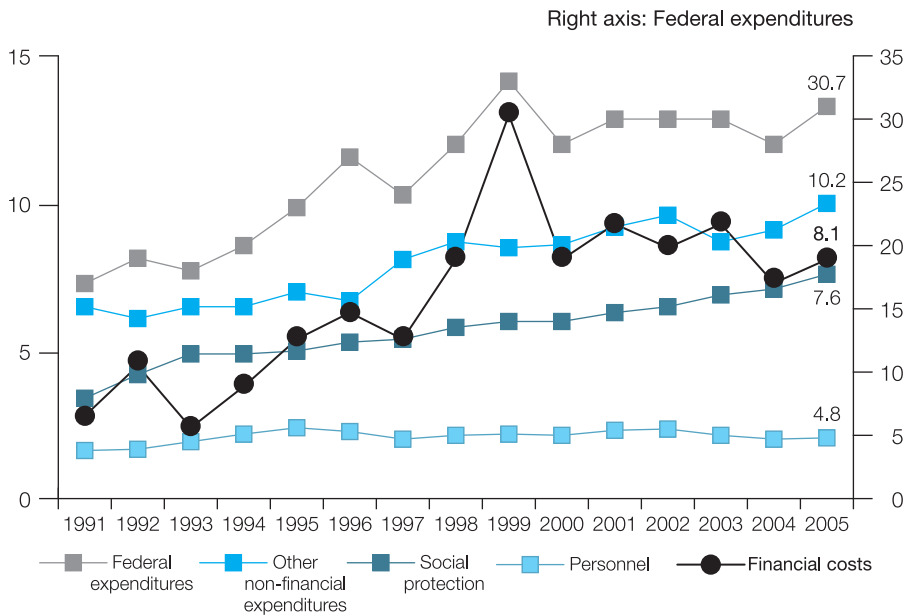
The social model and neo-liberal reforms

The neo-liberal reforms transformed the welfare and employment regimes of Brazil. The country's unreserved, though belated, acceptance of the Washington Consensus rules slowed economic growth and hindered improvements in social welfare. Social and labour policies favoured relief-type aid of limited scope, while the key item on the labour legislation agenda was widening the range of possible employment contracts in order to give firms more flexibility.

Social policies of limited scope

The roll-back of earlier welfare advances was the result of social and labour policies straitjacketed by international macroeconomic commitments made under the neo-liberal programme of the 1990s pursuant to the liberal-conservative pact for the 1989 presidential elections – the first after the authoritarian rule of 1964–86 – which favoured neo-liberal national policies and reintegration into the global economy.

Figure 1. Itemized trends in public expenditure (as a percentage of GDP)



Source: Author's calculations based on data from the Central Bank of Brazil and the Treasury Department.

Given the modest rate of economic growth – GDP only rose by an average of 2.4 per cent a year in the 1990s – growth of the financial sector required ever more public resources (see figure 1). The State took on more debt, increased the tax burden by more than 10 percentage points as a proportion of GDP, privatized a large share of the public sector (some 15 per cent of GDP was “transferred” from the public to the private sector) and outsourced several government functions.

In a macroeconomic context that was causing rapid deterioration of the country's social fabric, Brazil's social policies became fragmented and bureaucratized, cutbacks were made in already inadequate resources, a messy process of devolution was under way, and NGO-based patronage spread. The path to stronger social protection opened by the 1988 Constitution was thus strewn with obstacles.

For example, the social security system was hampered by budget difficulties and problems in the financing of benefits, exacerbated by the growing number of pensioners in the ageing population and the extension of coverage to beneficiaries who had previously not contributed. Presumably because their pension benefits were insufficient to make ends meet, about a third of retirees and pensioners remained active in the labour market in 2007. Also, with the re-centralization of the Federal Administration's revenue collection, some of the resources of the social security system were used to pay for other items of government expenditure.

Other areas of social policy have been hit by the dismantling of parts of the public sector and by a string of indiscriminate presidential vetoes that severely limited the power of Congress to make regulations under the Social Assistance Act (LOAS),¹ the Educational Principles and Guidelines Act,² the Health Act³ and certain labour laws.

Brazil's dual health-care system consists of the Standard Health Scheme (SUS), which covers around 140 million Brazilians, and private health plans providing complementary medical care to some 38 million people who can afford it. There have been attempts gradually to reform the SUS and limit its already insufficient resources. According to data from the Inter-American Development Bank, per capita health expenditure in Brazil was US\$222 in 2001, compared with US\$679 for Argentina and US\$603 for Uruguay. Though Brazil's per capita health expenditure had risen to US\$333 by 2005, it remained far behind the US\$2,856, 2,219 and 1,595 spent in the United States, Sweden and Spain, respectively.

The traditional social welfare bureaucracy was gradually dismantled following the enactment of the LOAS in 1995. With the "Child and Adolescent Statute" of 1990, the social security system had indeed entered into a new era.⁴ The LOAS turned assistance schemes into something more like social security services, though the eleemosynary model and the flaws of the National Council for Social Assistance (CNAS) – i.e. patronage and bureaucracy – remained largely unchanged.⁵

As regards education, the 1996 Educational Principles and Guidelines Act refocused public policies at all educational levels. Significant advances were made in education for children aged 6 to 14 years, by developing cooperation between different public authorities through the "Fund for Support to Basic Education and Valorization of the Teaching Profession" (FUNDEF) and decentralization of federal resources to municipalities to pay for school lunches and teaching aids.

Sanitation, transportation and housing – like other areas of social policy – lack resources for infrastructure. Recurring budget cuts killed all initiatives requiring sunk investments. The National Housing Bank, which used to finance the construction of public housing units, ceased to exist during the second half of the 1980s,

¹ Act No. 8.742, of 7 December 1993, on the organization of social assistance and other measures, in *Diário Oficial*, 8 December 1993, No. 233, pp. 18769–18772.

² Act No. 9.394, of 20 December 1996, establishing principles and guidelines for national education, in *Diário Oficial*, 23 December 1996, No. 248, pp. 27833–27841.

³ Act No. 8.080, of 19 September 1990, in *Diário Oficial*, 20 September 1990, No. 182, pp. 18055–18059.

⁴ Act No. 8.069/90, of 13 July 1990, laying down the Statute of the Child and Adolescent and other provisions, in *Diário Oficial*, 16 July 1990, No. 135, pp. 13563–13577.

⁵ In 2003, for instance, there were some 22,000 charitable organizations – of which only 6,822 were licensed to provide public services and 1,860 were registered as operating in the public interest. Only a third of them held a "social benefactor certificate" (*Certificado de Beneficente de Assistência Social*, CEBAS) entitling them to public aid for the provision of health, education and social assistance services.

and the financing of social infrastructure was taken over by the National Economic and Social Development Bank and by the Federal Savings Bank.

Adopted in 1994, the “Real Plan”⁶ restored monetary stability but further subordinated social policy to macroeconomic strategy. In particular, it allocated 20 per cent of federal revenue to the payment of financial costs. Its provision for the “de-earmarking” of federal revenue or “DRU” (*Desvinculação das receitas da União*) resulted in almost two-thirds of the primary surplus being used to sustain the “financialization” of private wealth. By combining the fight against inflation with the opening of the economy and currency revaluation, the Real Plan essentially reduced social policy to targeted measures in the nature of social assistance. In brief, re-centralization of all federal budget resources, the DRU, limitation of available budgetary allocations (*contingenciamento*) and the setting of limits on the indebtedness of states and municipalities greatly constrained the decentralized management of social policies (Lopreato, 2002; Affonso and Silva, 1995).

As a result, social and labour policies were subordinated to a macroeconomic policy that was increasingly dominated by budgetary austerity. Given the high domestic cost of a neo-liberal macroeconomic policy of high interest rates (required by increased vulnerability to external shocks and the growing financial burden of debt rescheduling), the Government opted for adjustment – i.e. tax increases and restriction of investments. The flip side of such adjustment was social maladjustment: the economy could avoid neither the stagnation of per capita income nor the continued spread of social exclusion.

The limited scope for government social policy led to an increase in the activities of non-public bodies, mostly NGOs. Privatization of the social-policy sphere thus proceeded through the increased involvement of charities in social assistance and the strengthening of both non-profit “social organizations” (OS) and civil society organizations “of public interest” (OSCIP). These developments were facilitated by the administrative reform of the second half of the 1990s. The main spheres of public policy intervention (health care, education, welfare, the fight against hunger, etc.) gradually morphed into policies based on the devolution of resources and functions to NGOs.⁷ The outsourcing of state functions, particularly in the social sphere, went ahead by externalizing both resources and the direction of public policies.⁸

⁶ Act No. 8.880, of 27 May 1994, on economic stabilization, the national monetary system and establishment of the *real* currency unit, in *Diário Oficial*, 28 May 1994, pp. 7861–7865; and Act No. 9.069, of 29 June 1995, establishing the national unit of currency, the *real*, as legal tender throughout the national territory, in *Diário Oficial*, 30 August 1995, pp. 9621–9627.

⁷ In 2002, for example, 1.4 billion Brazilian reals were turned over to NGOs – an amount equivalent to 45 per cent of total Federal transfers to the country’s 27 states that year – with health-care services getting almost 21 per cent of the total, followed by education with 11.3 per cent, and welfare and the fight against hunger with 7 per cent (Pochmann, 2004).

⁸ According to a newspaper report in *Folha de São Paulo* of 12 November 2006, the Court of Audit of Brazil’s Federal Union found in 2005 that over half the public funds transferred to NGOs were destined for activities unsuited to their purpose.

State intervention was stunted by curtailment and staggered delivery of the funds needed to carry out social policies, together with the introduction of a quota system in the targeting of beneficiaries and the restriction of cash benefits to the poorest segment of the population. The latter refers to such conditional cash transfers programmes as the “school stipend” (*Bolsa Escola*) – a subsidy to poor families for sending their children to school – or the food stamps (*Cartão Alimentação*) issued to destitute families.

While such schemes proliferated, their funding depended critically on redistribution and the DRU mechanism for allocating federal resources. Hence the need for reforms to free up resources by cutting expenditure on social programmes, public administration, education and other items, especially in regard to organized workers and the middle class. Indeed, the setting of a low “destitution threshold” for social policies – i.e. families living on less than half the minimum wage per capita – encouraged the belief that those with incomes above the threshold were not poor and therefore not entitled to more public benefits.

As from 2001, the Government became eager to concentrate budgetary resources on subsidies for the extremely poor making up the socially and economically excluded population in a country that had not known sustained economic development since 1981. At the same time, budgetary adjustments were continuously being made for the sake of freeing up more resources to meet the Government’s new financial commitments. As a result, the neo-liberal social policies increasingly catered for two categories of “minimum income” beneficiaries. The first was the affluent minority living off the high interest rates paid by the State in servicing the public debt. Since the 1990s, some 20,000 family clans have indeed received between 6 and 8 per cent of annual GDP in financial-market income. The second category was made up of the population stuck in poverty and genuinely living on minimum income: over 11 million families are now beneficiaries of federal, state and municipal income-guarantee programmes (amounting to less than 0.5 per cent of the country’s GDP in total).

For organized workers and the middle class, the result of the neo-liberal counter-reform was to cut public spending and refocus social policies, sometimes dismantling federal programmes and agencies to replace them with NGOs as service providers. Subordination of social policies to market-oriented macro-economic policies made public interventions less effective and efficient. To make matters worse, the welfare regime was tainted by atavistic patronage, paternalism and competition for public resources.

Labour market deregulation

The dismantling of labour standards was the hallmark of the neo-liberal paradigm of the 1990s. Wage employment ceased being the norm, and workers in different contractual categories began mixing on the same shop-floors, including self-employed workers and “partners” in (real or fake) cooperatives, trainees/apprentices, subcontracted workers and workers contracted directly by the main employer.

The type of contract which predominated in Brazil until then was the permanent employment contract as provided for in the country's 1943 Labour Code (*Consolidação das Leis do Trabalho*, CLT).⁹ Other types of contract then came along, diversifying the forms of wage employment. In particular, Act No. 6.019 of 1974 authorized temporary hiring for specific services such as surveillance and cleaning.¹⁰ Act No. 8.745 of 1993 facilitated fixed-term employment to meet temporary staffing needs,¹¹ and a 1995 decision of the High Labour Court made it easier to subcontract in certain areas. A year later, special employment contracts for micro- and small enterprises (CLT-*Simples*) and "renegotiated" employment contracts of limited duration (CLT-PT) were introduced. The 1999 *Lei do Simples* established a simplified taxation system for micro- and small Brazilian businesses, unified their tax and contribution regime and reduced their hiring costs.¹²

Two more types of contract began to be used in 1998: the contract of limited duration and the part-time contract.¹³ It also became possible to suspend a contract for two to five months for the purposes of vocational training. Finally, in 1999 new legislation eased the rules on dismissal from public-sector employment in the event of redundancies.¹⁴ Under the profit-sharing scheme introduced in 1994, a growing proportion of pay was performance-based. Amendments to employment contract legislation made it possible to resort to contingent workers, i.e. workers not employed full time by the firm, who may be self-employed, on call, on short-term or part-time contracts, or employed by companies to which work has been subcontracted. Although several other arrangements flexibilizing employment had also been introduced, a 2002 bill that would have made them statutory was turned down by the legislature.

These new forms of employment contract had far-reaching effects on wages. Indeed, in an increasingly deregulated labour market, the cost of labour became a significant competitive factor. And the proliferation of contractual forms was not restricted to wage employment. In 1994, for example, legislation was passed which denied the existence of an employment relationship or

⁹ Legislative Decree No. 5.452, of 1 May 1943, approving the Codification of Labour Laws, in *Diário Oficial*, 9 August 1943.

¹⁰ Act No. 6.019, of 3 January 1974, to make provisions for temporary employment in urban enterprises and for other matters, in *Diário Oficial*, 4 January 1974.

¹¹ Act No. 8.745, of 9 December 1993, laying down provisions on fixed-term employment to meet temporary needs of exceptional public interest, in *Diário Oficial*, 10 December 1993.

¹² Act No. 9.841, of 5 October 1999, establishing the Micro-enterprise and Small Business Statute, in *Diário Oficial*, 6 October 1999.

¹³ Act No. 9.601, of 21 January 1998, on contracts of limited duration, in *Diário Oficial*, 22 January 1998, No. 15, pp. 1–2; and Decree No. 2.490, of 4 February 1998, to make regulations under the said Act for the private sector, in *Vade-Mécum Trabalhista*, 20 November 2002, No. 11/02, pp. 267–268.

¹⁴ Act No. 9.849, of 26 October 1999, which broadened the range of possible fixed-duration contracts for public administration staff, amending articles 2, 3, 4, 5, 6, 7 and 9 of Act No. 8.745, of 9 December 1993, in *Diário Oficial*, 27 October 1999.

legal link between cooperatives (of professionals or service providers) and their members.¹⁵

The boom in business start-ups in Brazil was largely due to the mushrooming of new enterprises with few, if any, employees under contract. Although employment did not grow much for want of sustained economic growth, deep changes occurred in the nature of work and the structure of labour costs. Between 1992 and 2002, self-employment accounted for almost two-thirds of the jobs created in Brazil's manufacturing sector. Moreover, seven out of every ten jobs created in the 1990s were concentrated in only four occupations: domestic help, hawking, cleaning, and maintenance and security services (Pochmann, 2001; SDTS, 2003a and 2003b).

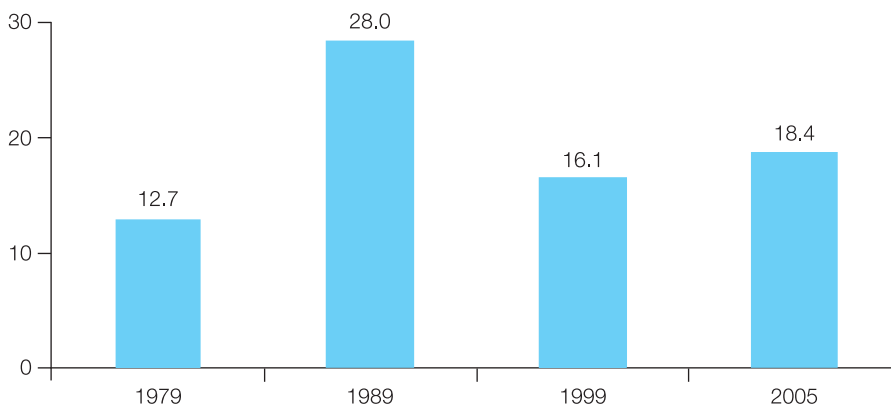
Unemployment and the informal economy grew, while employment conditions and relationships became more precarious. As already noted, during the twentieth century, and especially after the Second World War, the Brazilian economy underwent a transformation: it became predominantly urban and industrial, with a very dynamic formal sector capable of absorbing the multitude of people leaving the countryside and moving to the cities, driven by the high rate of population growth. During the period of economic restructuring that resulted from the pursuit of neo-liberal macroeconomic policies, the economy was unable to create enough quality jobs to absorb the 2.5 million people who joined the labour force every year.

Continuous worsening of labour market conditions from 1990 made unemployment widespread, with significant changes in its duration and structure. Thus, between 1990 and 2005, unemployment grew more among men over 40, among married workers and – surprisingly – among better-educated workers. The average duration of unemployment went from 15 weeks in 1989 to 42 weeks in 2005.

From 1930 to 1980, industrialization transformed and enlarged Brazil's productive capacity, eventually leading to the emergence of so-called new unionism in 1978. However, subsequent changes in the employment regime resulted in disappearance of the spirit of teamwork and cooperation of old-time on-the-job relationships, the decline of unionization and the weakening of trade unions (see figure 2). Union activity was hampered by the biggest wave of unemployment in Brazilian industrial history and the proliferation of jobs at, or beyond, the boundaries of labour law. Changes in the employment regime were made in a context of slow economic growth, increasing unemployment, underemployment and informal employment, falling wages, and the exclusion of a great many workers from the system of social and labour protection. Employers adopted new forms of work organization, such as outsourcing, internal reorganization and delayering: labour was utilized more intensively and remunerated more flexibly. Large firms too – including foreign ones – increasingly resorted to such retrograde forms of labour utilization and remuneration, seeking competi-

¹⁵ Act No. 8.949, of 9 December 1994, which added a clause to article 442 of the Labour Code (CLT) to rule out the existence of employment relationships between cooperatives and their members, in *Diário Oficial*, 12 December 1994, No. 234, p. 1.

Figure 2. Trade union membership (as a percentage of the employed population)



Source: Author's calculations based on data from the IBGE household survey.

tiveness in low labour costs rather than in high productivity. Decentralization and geographic relocation of production are further examples of the business strategies they adopted, seeking employment conditions and relations more typical of small enterprises (and not always the most productive).

In the public sector, especially after the privatization of state-owned industries, the employment regime which had till then ensured a degree of employment stability – backed up by collective agreements guaranteeing union representation and centralized wage bargaining for the main occupational categories – was quickly abandoned. This paved the way for the growth of sub-contracting, decentralized bargaining, high staff turnover, precarious working conditions and employment relationships, union fragmentation and the dismantling of collective agreements.

These developments occurred in Brazil's so-called "islands of modernity". In the rest of the country, where the application of labour standards had always been problematic, the difficulties became even more serious. In short, what used to be a traditional employment regime evolved into a variety of new labour–capital relations. There were no major structural changes in the system of social and labour protection despite the negative effects of the rise in unemployment and the fall in the wage share of national income. Funds from the Social Integration Programme – Civil Servants' Contributory Savings Programme (PIS-PASEP) were transferred to a new Workers' Protection Fund (FAT), which could thus count on a reliable source of financing for unemployment benefits, training, labour exchanges, bonuses¹⁶ and other social benefits. Some of these programmes are administered by the National Bank for Economic and Social Development (BNDES) which gets 40 per cent of FAT resources. The

¹⁶ *Abono salarial*, a yearly payment made to formal-sector workers whose monthly pay is lower than twice the minimum wage.

Government, having concluded that unemployment was caused by the inadequate skills of jobseekers, increased the funds allocated to short-term vocational training courses. Unfortunately, this failed to put an end to the cheapening of labour. Nor have advances in education and the general training of workers succeeded in reducing unemployment; in many cases, even the highly educated feel at risk of unemployment.

The notion of “voluntary unemployment” was then increasingly put forward to shift responsibility for the lack of jobs from the public authorities and their macroeconomic policies to the unemployed themselves, thus blaming the victims for their own plight. Social policies have followed this logic, allocating more funds to training and vocational courses (mostly unrelated to labour market needs) and promoting further flexibilization of employment and competition among the country’s municipalities and states for attracting private investment.

These measures had little effect on unemployment, but they did contribute to the dismantling of the system of social and labour protection. For instance, in 2007, when just over half the employed were in wage employment, only 50 per cent of them held a formal employment contract and even fewer paid contributions to the social security system.

Consequences of neo-liberal reforms for social and labour protection

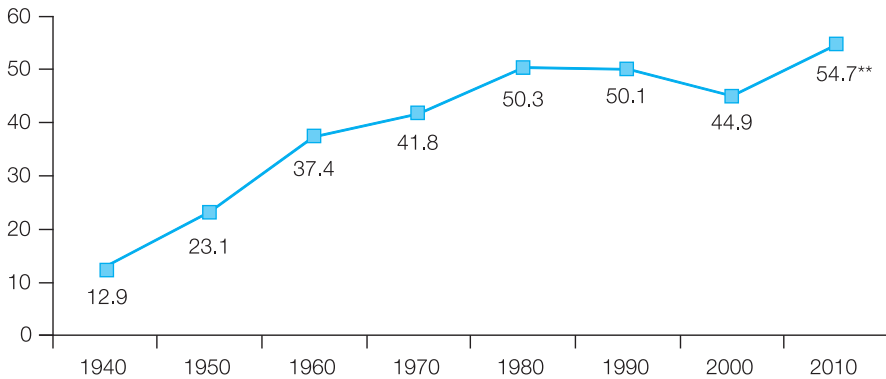
During the high-growth economic cycles of the 1930s and 1970s, the coverage of social and labour legislation expanded steadily. In the 1940s, when the Labour Code was enacted, only one out of ten employees was protected; four decades later, Brazil had succeeded in extending social and labour protection to over 50 per cent of those employed.

Progress came to an end in the 1980s and, from the following decade, significant regression occurred (see figure 3). The end of the improvement trend in social and labour protection coincided with the adoption of labour market flexibilization measures. Protection coverage did not begin to improve again until the neo-liberal paradigm was abandoned.¹⁷ The rate of social and labour protection is projected to return to 50 per cent by early 2010.

During the 1990s, when the paramount policy goals were to fight inflation, reduce the role of the State, and liberalize trade, finance and production, the average annual growth rate of the Brazilian economy was only 2.4 per cent. This performance was inadequate because the country needed to create 2 million jobs every year to accommodate new labour market entrants. And adoption of neo-liberal social and labour policies only made things worse for all employed workers.

¹⁷ Luiz Inácio Lula da Silva was elected to Brazil’s Presidency in October 2002 and re-elected in October 2006. Since 2003, all bills aimed at making it easier to hire and fire employees have been rejected, though measures to strengthen social and labour protection have yet to be adopted except, recently, for the self-employed (micro-enterprises). However, not enough time has passed for an evidence-based evaluation of their effectiveness.

Figure 3. Percentage of the employed covered* by social and labour legislation



* Covered workers are employed workers who enjoy some degree of social and labour protection, i.e. employees under formal employment contract and self-employed workers and employers who contribute to the social security fund.

** Estimate.

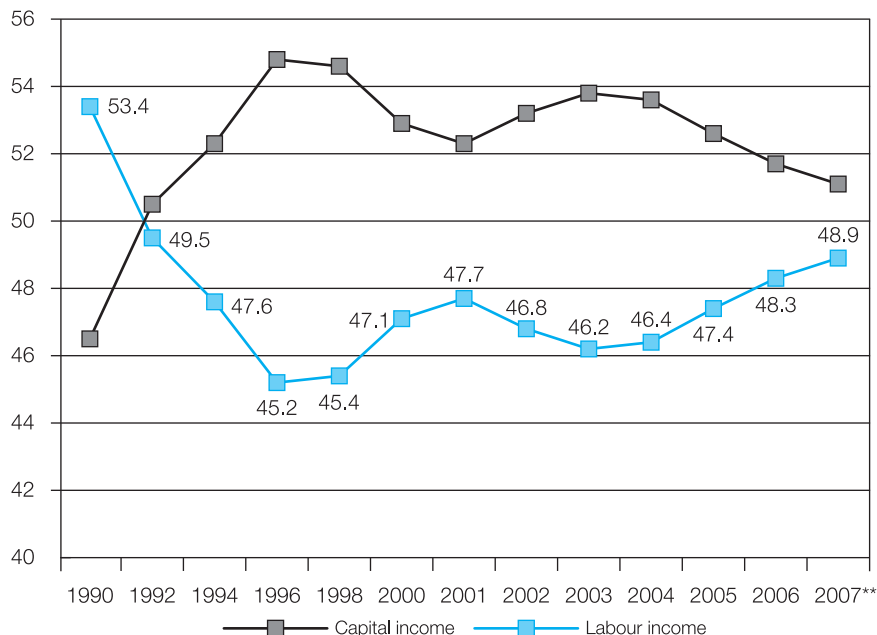
Source: Author's calculations based on data from the IBGE household survey.

The federal Constitution of 1988 had laid down the principle of universal coverage and integrated the pension, health-care and social assistance systems managed since 1991 by the National Social Security Institute. In the 1990s, however, unlike what happened after the 1930 revolution, Brazil had to live with the liberalization of public policies that accompanied the reduction in the role of the State. The social security reform of 1998 raised the requirements of eligibility for a full retirement pension. Under the new contributory pension rules, the amount of the benefit depends on the duration of contributory employment. Normally, men must pay social security contributions for 35 years, and women for 30 years. A minimum of 180 monthly contributions must be paid for entitlement to an old-age pension (equivalent to 15 years of uninterrupted contributory service).

Since labour turnover is kept high by employers – a serious problem in itself – it is hard for workers to sustain 12 contributions per year. Annual turnover, at over 33 per cent of the country's total number of jobs, greatly increases the time needed to qualify for a retirement pension. For the almost 10 million workers paying fewer than 12 contributions per year, it would take approximately 84 years to qualify. Considering that the average working life begins at the age of 15, these people would thus have to keep on working until the age of 99. The paradox is that average life expectancy in Brazil is only just over 70 years, and probably lower for low-income people (because their socio-economic characteristics generally imply jobs with a higher incidence of occupational diseases, workplace accidents and long hours). Workers in extreme poverty, however, are entitled to a pension even if they have not contributed for the required number of years.

The neo-liberal reform of social security has thus made retirement pensions uncertain, if not unattainable, for a great many workers. In the 1990s, job

Figure 4. Labour and capital shares in national income from 1990 to 2007
(total labour and capital income*=100)



* Capital income includes mixed income; it does not include the production tax, which is equivalent, on average, to 15 per cent of total national income. ** Estimates.

Source: Author's calculations based on data from the IBGE household survey and from the Brazilian System of National Accounts.

growth in Brazil occurred mostly in the economic sectors with the highest turnover rates, thereby creating what amounts to a new form of exclusion. Moreover, the intermittency of contributions paid by workers exposed to such turnover is jeopardizing the financial stability of the social security system: 21 per cent of the workers with regular employment contracts pay fewer than 12 contributions per year in the course of their working life.

Apart from the fragility of Brazil's social security finances, it appears that the goal of modernizing employment relations and the social protection system has been perverted by the excessive pursuit of flexibility, leading to the social exclusion of workers who lose their social security protection in spite of having paid contributions. In short, the mere existence of social and labour protection legislation does not guarantee effective protection in practice. Neither has full employment been achieved, nor does the regulatory framework protect the unemployed and (obviously) those who work in the informal economy.

With the decline of social and labour protection for the employed, the relative share of wages in national income fell from over 53 per cent in 1990 to 45.2 per cent in 1996 (see figure 4). In the second half of the 1990s, labour's share

of national income slowly recovered until 2001; it fell again between 2002 and 2003, and then picked up to reach 48.9 per cent in 2007 – still below its level in 1990 when labour flexibilization measures were first introduced. In other words, the liberalizing reforms reduced both labour's share of national income and the extent of workers' social and labour protection. In 2005, per capita social expenditure was US\$860, against US\$1,521 in Argentina and US\$1,087 in Uruguay (it was US\$9,081 in Sweden, 5,779 in the United States and 4,928 in Spain).

Concluding remarks

The neo-liberal reforms implemented in Brazil reversed the country's progress towards a social and labour welfare regime. Against the background of slow economic growth and continuous budget cuts, resource allocation became increasingly focused, with social protection targeting only those with insufficient means of livelihood. At the same time, labour market conditions have deteriorated as workers face high levels of unemployment and increasingly precarious jobs. The end result has been a drop in the share of labour in national income coupled with a sharp deterioration of social protection for workers generally and for employees in particular.

Some of the potentially positive effects of welfare expenditures were cancelled out by the near stagnation of per capita income, on the one hand, and by the weakening of the State's role, on the other. The privatization of state-owned industries, increased public debt, higher taxes and outsourcing of public services have to a large extent compromised social policy while benefiting the "financialization" of wealth. In 2007, for example, the cost of servicing the public debt was equivalent to almost two-thirds of federal government spending on social programmes. Not only are such financial costs unproductive, they also undermine job creation and transfer resources to the wealthier segments of the population.

Admittedly, about 20 million unemployed workers did receive some kind of income supplement in 2007 (unemployment benefits, *Bolsa Família*, child labour eradication programme, retirement programme for the rural elderly, or social assistance). Furthermore, the greater part of the money spent on social policies went into assistance programmes to combat absolute poverty.

Since the turn of the century, rejection of the "neo-liberal society" project has opened up new possibilities for rebuilding the social and labour welfare regime. Socio-economic indicators are already showing signs of improvement. While important, however, this has yet to make up for the human suffering endured during the years of neo-liberalism.

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