

Informality, labour market reconfigurations in Brazil: From 1980 Until The Covid-19 Pandemic

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Abstract:

This article analyzes the adjustments of the Brazilian labour market during periods of macroeconomic crisis, which have occupied more than one third of the last forty years including the first year of the Covid-19 Pandemic. We show the tremendous resilience of the Brazilian labor market, which goes down in history, the gradual disappearance since the 1990s of the mechanisms of the dualist thesis, supplanted by a process of multifaceted exclusion and the partial erasure of formal / informal borders, to the detriment of workers' rights.

Keywords : Labour Market, Crisis, Informality, Brazil, COVID-19

Introduction

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Brazil has experienced major economic and political upheaval in recent decades. From a quick review of the Brazilian trajectory, it can be noted that Brazil has had to face six periods of crisis, i.e. fourteen years of recession over forty years and three 'lost decades' (1980s, 1990s and 2010).

Rather than seeking to explain their origins, the aim here is to examine the forms that crises take, along with possible common denominators, in a well-defined field: the labour market. It should be noted that this institution is the main transmission belt between macroeconomic and microeconomic dynamics. More specifically, the question arises as to the role of the informal economy, both in the transformations at work over the long term and as an adjustment variable during crises. An increase in the informal economy, consisting of unregistered employees and self-employed persons (i.e. without any form of social protection), is synonymous with a deterioration in working conditions. However, despite the precariousness of informal jobs, they can play a specific role in times of crisis: as a refuge of last resort for workers and as a counter-cyclical cushion for the economy, a process that is referred to in this article as a "canonical crisis". At the same time, alternative forms of adjustment to the phenomenon of informalisation during crises are also to be identified.

This article thus proposes to re-read the crises in the Brazilian trajectory over the last forty years through the prism of the transformations in the labour market, an institution recognised as fundamental but rarely studied as such. Our analysis focuses on the issue of informality. Have the changes observed led to new modes of regulation or, on the contrary, have they had little or no effect on the underlying structures of the labour market, the characteristics of which will then be revealed. On the theoretical level, we draw on our previous work in this field, which discusses dualist, structuralist or liberal theses on the dynamics of the informal economy (Roubaud, 1994; Cling et al., 2014). Empirically, our approach is based on an important work of "statistical archaeology" of reconstitution of the main historical series of the labour market (1980-2020), as well as, for a more recent period (2000-2020), of first-hand processing of millions of observations from micro-data of surveys or administrative registers². It takes the approach of constantly bringing together original information extracted from registers or statistical surveys and the analysis of socio-economic dynamics over a long period³.

In the first part, the article offers a panoramic view of the context by presenting the macroeconomic trajectory of the Brazilian economy over the last forty years, as well as the main developments in the institutional framework of labour relations. This framing allows us to reread the long-term labour market dynamics that we establish on this occasion. The second part changes the perspective with a focus on crises, defined as phases of negative growth. It aims at shedding more light on the adjustments on the labour market by taking into account the heterogeneity of the categories as well as the respective characteristics of the jobs. The conclusion summarises the main results.

1. Wide angle on the dynamics of the Brazilian economy since 1980

1.1 Brazil's macroeconomic trajectory: a brief framework

One of the most striking features of the Brazilian economy and society is its structural heterogeneity, which shapes its socio-economic development, and the labour market in particular. Another characteristic of its macroeconomic dynamics is the recurrence of economic crises over the

² PNAD and PNAD-C: Household surveys conducted by the IBGE (*Pesquisa Nacional por Amostra de Domicílio*, PNAD Continua since 2012). CAGED (*Cadastro Geral de Empregados e Desempregados*) and RAIS (*Relação Anual de Informações Sociais*): Ministry of Labour registers of all formal employees and employers. CAGED records flows (entries/exits) and RAIS records stocks.

³ This approach makes it possible to attempt (with all the possible imperfections given the magnitude of the task) to overcome two pitfalls: i) studies that focus solely on micro-data and present the results of surveys without placing them in their economic, political, social or institutional contexts and ii) studies that aim to have a long-term socio-economic development perspective but without being able to mobilise data to shed light on this perspective.

last four decades. Three phases of Brazil's trajectory can be distinguished, with their specificities, their ruptures but also their elements of continuity.

a. The turning point of the 1980s-1990s

Like all countries in the region, Brazil was also strongly affected by the debt crisis during the 1980s and early 1990s, the "lost decade" as CEPAL calls it. The crisis of the early 1981-1983 decade followed the consequences of the second oil shock. It resulted in high inflation, a debt crisis and mega-devaluations at the end of the military regime. The end of the 1980s was marked by tensions over debt and exchange rate restructuring, episodes of hyperinflation, and various monetary stabilisation plans. In the midst of economic instability, Brazil adopted a new Federal Constitution in 1988. This constitution proposed to link economic development through the market with the guarantee of social, civic and political rights unheard of in Brazil. The 1980s and 1990s were marked by structural adjustment plans. They experienced destructive episodes of hyperinflation, resulting in increasingly volatile growth (Saludjian, 2007). This period of economic instability did not end until the implementation of the 'Plano Real' in 1994. This created a new macroeconomic and monetary framework that had a significant effect on the long-term dynamics of the Brazilian economy (Filgueiras, 2006).

b. The 2000s

The evolution of the Brazilian economy since the beginning of the 2000s (2003 with the Workers' Party, PT in power), is distinguished from the previous period by high growth. Between 2004 and 2008, growth was driven externally by the upward cycle of commodity prices and strong demand from the Chinese economy, and internally by domestic demand (consumption, in particular due to an active policy of raising the minimum wage and cash transfers, and also public investment in the industrial sector). In 2007, as he embarked on his second term as President, Lula launched the Growth Acceleration Programme (PAC), a year after the announcement with great fanfare of the discovery of one of the world's largest oil reserves in Brazilian waters (Pre-Sal), which came up against the first effects of the 2008 crisis. Affected from the 4th quarter of 2008, growth fell in 2009 (-0.1%) before recovering in 2010 thanks to counter-cyclical economic policies (massive tax breaks for companies and consumption tax cuts for households). These measures marked the end of Lula's presidency and the return to the pre-crisis growth level of 2008. Worse still, this slowdown in growth, in the order of 2 to 3%, well below the 2004-2008 period, continued until 2014, the start of D. Rousseff's second term. From a structural point of view, the Brazilian economy is continuing the process of early deindustrialisation that began in the late 1980s and which is accelerating with the rise of China in the world economy (Salama, 2020; Paineira and Saludjian, 2021).

c. Crises and stagnation since 2014

From the second quarter of 2014 onwards, the growth rate, which was barely positive for a while, became negative until the first half of 2017 (-3.5% and -3.8% in 2015 and 2016). It remains at a low level (below 2% in 2018 and 2019). The economy has thus been at half-mast since 2014. The liberal recipes of reducing public spending as a guarantee of good governance are still being applied, such as the 2016 constitutional reform (Teto dos Gastos, Constitutional Amendment 95, under Temer's presidency) which froze the amount of public spending in volume for 20 years (Jaccoud, 2018). In 2018, J. Bolsonaro was elected President with an economically incoherent programme, led by P. Guedes, his ex-Chicago boy Minister of Economy. The ultra-liberal discourse has difficulty in being transformed into action. The privatisation policy (Eletrobras, Petrobras, Banco do Brasil, Caixa Econômica Federal) has not been completed to date, due to the statist tradition of the military that dominates the Bolsonaro government as well as the political flip-flops of the president (Pinto et al., 2019). In 2019, the first year of its mandate, the government mobilised to implement a pension reform. Conducted in the name of financial balances and the end of the 'privileges' of the public sector (but not the military), it proposes a reduction in the rights of the vast majority of Brazilians and gives pride of place to the financial system (pension funds). The vote on this reform could not be passed either for internal political reasons. The tax and administrative reforms (reform of the state) that were

supposed to be voted on in 2020, according to their promoters to respond to the crisis since 2014, were also postponed for the same reasons: political tensions and then slowed down by the COVID-19 pandemic. In the end, Bolsonaro's government simply ratified the labour market reform passed in 2017 by his predecessor Temer (see section 1.2), and the constitutional freeze on public spending adopted in 2016. In the context of pre-COVID-19 austerity, growth has been reduced to a trickle (Pibinho: small GDP). The Minister of Economy and his allies even make these reforms a *sine qua non* for the exit from the crisis. The COVID-19 crisis has hit an already weakened Brazilian economy hard. Brazil, one of the countries most affected by the pandemic, seems unable to control the spread of the virus. Beyond its tragic consequences, the government's reaction is characterised by a double paradox (Razafindrakoto and Roubaud, 2021). On the one hand, on the health front, the president denied the seriousness of the country's epidemiological situation, which helped to increase the health toll, and while the Bolsonaro government is violently opposed to any form of redistribution, it initiated an emergency transfer programme (Auxílio emergencial), an interventionist policy on a scale unprecedented in Latin America and in the country's history (around 9% of GDP). Despite this massive injection of public funds, GDP fell by 4% in 2020. Despite the extension of emergency aid in a very light version in April and for four months, the worsening of the pandemic casts doubt on growth forecasts in 2021.

1.2 Reforms and developments in the institutional framework of the labour market

a. A quick overview of the situation before the 2000s

Historically, the labour market was structured with the Consolidation of Labour Laws (CLT) in 1943 during the initial phase of the country's industrialisation under G. Vargas, and still shapes it today. Vargas, and which still shapes it today. After the dictatorship limited the power of the trade unions during the industrialisation period, pressure on wages and an increase in formal employment during the expansion phases (*milagre econômico* 1968 to 1973), the hope of establishing a welfare state was the subject of bitter debate in 1988. The new 'citizen' Federal Constitution recognises workers' rights such as the right to retirement, to minimum social benefits (BPC, Benefício de Prestação Continuada, for the destitute and disabled, i.e. 4.5 million people in 2017) while institutionalising and ensuring their sources of financing⁴. This Constitution is, according to Jaccoud (2018), anti-liberal and universalizing. It is also redistributive thanks to social measures that reaffirm the role of the state: the Single Health System (SUS), free and compulsory public education, non-contributory benefits, etc. The legitimising capacities of the discourses presenting the advantages of the welfare state quickly took precedence over guaranteed rights in the debates surrounding the Federal Constitution. After the policies of openness, privatisation and liberalisation following the election of F. Collor as President of the Republic, the effects on the labour market soon became apparent. Flexibilisation and subcontracting were presented by Collor, but also by F.H. Cardoso⁵ as a way to break the "privileges" of formal jobs governed by the CLT by putting in competition the directives such as GCP, labour rights, minimum wage, social security financing and innovation in terms of equity and poverty treatment. The violence of the 1980s crisis, the exhaustion of different types of jobs and leaving it to the market to find its 'balance' (Dedecca, 1998 and 2005). The aim was to make the labour market more flexible in order to face the challenge of unemployment and informality, and to adjust labour regulation to technological change and competition in the era of the Washington Consensus (Krein, 2018). Indeed, in a context of massive imports, mainly of manufactured goods (especially automobiles), domestic firms have been hit hard by the effects of trade opening. The dynamics of production and the labour market built from the 1930s to the end of the 1970s were profoundly modified during the 1990s (see section 1.3): against the welfare state, relying on the informal sector as a shock absorber and on entrepreneurial freedom (promotion of micro-entrepreneurs; Dedecca, 2005). Krein (2018) notes that FHC lacked the political weight to carry out a comprehensive reform

⁴ Lautier et al (2004) note that "*the mutualist-universalist principle thus defined does not only orient European systems of protection, since it is explicitly at the basis of the part of the Brazilian constitution of 1988 concerning social protection*".

⁵ (FHC, Minister of Economy and then President from 1994 to 2002).

(due to the combativeness of the trade unions, especially the CUT, linked to Lula's PT). However, the FHC promoted specific measures that carried a lot of weight at the time and in the long term. These measures subjected workers to increased competition and, from the point of view of social rights, were not compensated by the initiation of social policies of conditional transfers. Although the 1994 Plano Real contained inflationary pressure by stabilising the Brazilian economy, it had negative effects for many Brazilian workers. From then on, the weariness and then the rejection of the proposed continuity of the liberal project fuelled hope in a project carried by Lula during the first election of the new millennium in 2002; and this all the more so as monetary and macro-economic stability was being undermined (Asian, Russian and finally Brazilian financial crises).

b. The years 2002-2014

The good GDP growth results of Lula's first term in office led - as has rarely been the case in Brazil's history - to a significant improvement in the labour market, a marked increase in the minimum wage and a reduction in informality. Lula I's policy decisions on rural pensions⁶ and, above all, transfer programmes such as Bolsa Família, together had a positive effect for a significant proportion of people previously excluded from the labour protection system: 13 million households for Bolsa Família in 2017 (Jaccoud, 2018), even though assistance programmes had already been implemented under FHC on a smaller scale. These policy decisions had a strong impact on Lula's popularity, which remained very high until the end of his term and beyond. In 2008, the Lula II government created the status of individual micro-entrepreneur (MEI: Micro-Empreendedor Individual) which aimed to formalise the informal by giving them access to a set of rights (including that of being 'entrepreneurs of themselves'; Krein, 2018), such as the pension to which they must contribute individually and from which they had always been excluded (Jaccoud, 2018). Krein (2018) draws up a contradictory assessment of the institutional changes of the years of the PT governments (2003-2016) with, from the point of view of rights, advances but also setbacks. The advances include the policy of raising the minimum wage, the regulation of domestic work, collective bargaining on purchasing power, and the debate on equal treatment between men and women. The setbacks include the 2003 pension reform, restrictions on unemployment benefits, wage flexibilisation, the maintenance of subcontracting, and the flexibilisation and intensification of the working day.

c. The 2014-2016 crisis and the 2017 labour market reform

The economic situation deteriorates from 2014 onwards. This led to increasing tensions, particularly during the "June Days 2013" protests. Protest movements broke out throughout the country. The demands, initially concerning the price of public transport, were extended to all public services. At the end of 2014, with the worsening of the economic situation, the conditions of access to unemployment insurance were tightened, also for considerations of political credibility in view of the presidential elections⁷. After the parliamentary coup, the 2017 labour market reform (under Temer's presidency) is the most important since the 1943 CLT in terms of the scope of the changes it brings, and it can be considered as its counterpoint⁸. It follows liberal recipes, with the motto of reducing the "Brasil cost" (Custo Brasil) in order to become more competitive. It extends the possibility to go through recruitment to MEI status to practically all activities (whereas the list was previously limited), relieving employers of their contributions and reducing employees' rights (unemployment rights, severance pay). Krein (2018) details the package of measures. It includes most of the key elements of the employment relationship (authorisation of atypical forms of contract and ease of dismissal, flexible working hours, variable remuneration, working conditions, particularly employee health and safety) but also institutional alterations and transformations (including the inversion of the hierarchy

⁶ Pension at minimum wage level for rural workers even without having contributed during their working life which benefited 9 million people in 2017.

⁷ *Medida Provisória* n. 665 published on 30 December 2014 by Dilma Rousseff (two days before the end of her first term in office) doubling, among other things, the minimum working time from 6 months previously to 12 months in order to qualify for unemployment insurance.

⁸ Law 13.467/2017 which alters 201 points of the CLT and Law 13.429/2017 which liberalises subcontracting (*terciarização*) and extends the temporary contract (Krein, 2018).

of norms, but also the limitation of access to labour justice and the reduction of the system of fraud control, and the end of compulsory funding for trade unions). This reform was carried out without political legitimacy (after the parliamentary coup d'état) but with strong support from employers' organisations (and the "physiological" parties of the Centrão)⁹. At the heart of this reform, subcontracting is the default type of employment contract¹⁰. This is called *Péjotização*¹¹. As we will see in the third part of the article, the existence of the MEI figure since 2008 makes it even easier to replace the contract of employee with rights (CLT) with an 'individual micro entrepreneur' or 'autonomous' without access to employee rights with 'carteira assinada' (CLT; Krein, 2018). J. Bolsonaro followed the legal framework provided by the 2017 reform, which he supported as a parliamentarian at the time. As soon as he came to power in 2019, and even during the presidential election campaign, the president had presented his vision of the labour market: 'more employment and fewer rights'¹².

1.3 Long-term labour market dynamics

The evolution of the labour market is at the crossroads of macroeconomic dynamics and labour market reforms, which are themselves linked to the political cycle¹³. It should be emphasised that in order to carry out this analysis over a long period, it was necessary to carry out a tedious task of reconstructing historical series from scattered and disparate documents, as the information available was not accessible in its current state. Consequently, we must bear in mind the fragility of the diagnosis made, which is based on a limited number of indicators (activity, unemployment and informality rates, and to a lesser extent labour remuneration), which nevertheless make it possible to identify a certain number of stylised facts. The first overall observation is the surprising stability of the structure of the labour market (Figure 1). This resilience is all the more surprising given that it is accompanied on the one hand by a particularly turbulent macroeconomic situation and on the other by underlying trends in Brazilian society (a massive fall in agricultural employment and the rural population, a sharp rise in the level of education, accelerated ageing and a surge in women's participation in the labour market, to name but the most notable; Vidal Luna & Klein, 2020). Broadly speaking, when comparing the beginning and the end of the period (from the 1970s-1980s to 2020), the activity rate is growing very slowly. It has stabilised since the beginning of 2010 at slightly above 60%, the drop at the turn of the millennium being perhaps only a statistical artefact. The unemployment rate is rising inexorably. Virtually non-existent in the 1970s (around 2%-3%), it first reached 10% at the end of the 1990s and reached a plateau of 12-13% in the second half of the last decade.

⁹ Political parties without a clear political line and willing to sell their political support to the highest bidder.

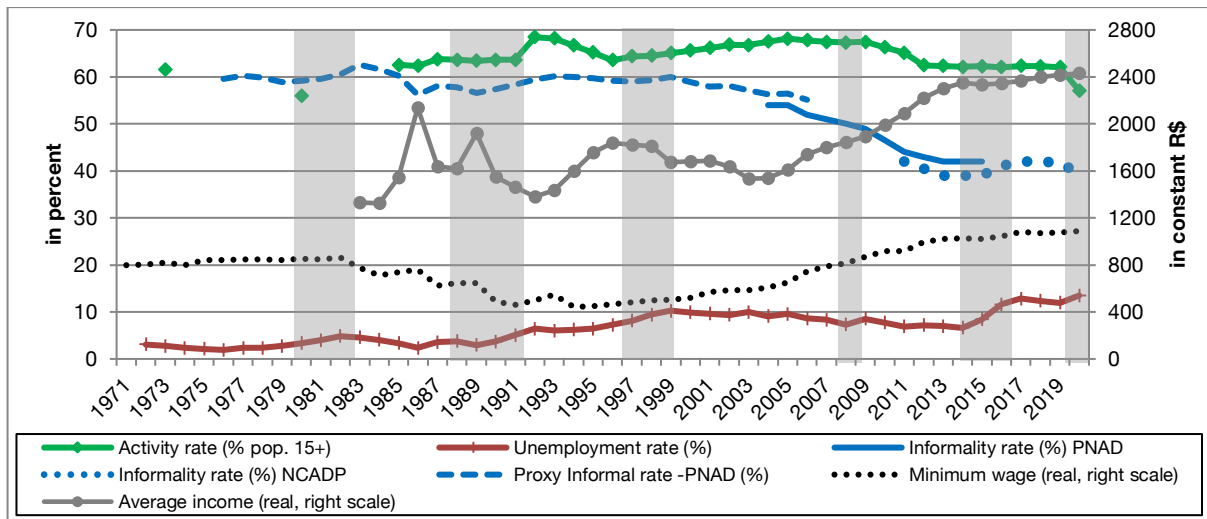
¹⁰ Temporary, part-time, intermittent, 270-day-a-year contracts, and "disguised contracts" with self-employed status without having CLT rights, even in the case of single employer and continuous work.

¹¹ *Péjotização* (PJ -ização) in reference to the CNPJ (Cadastra Nacional de Pessoa Jurídica) and not as Pessoa Física (CPF).

¹² Sentence pronounced by J. Bolsonaro during a radio interview in 2018: <https://jovempan.com.br/programas/jornal-jovem-pan/bolsonaro-sobre-futuro-trabalhista-menos-direito-e-emprego-ou-todos-os-direitos-e-desemprego.html>. Bolsonaro has mobilised his economic team to limit the activities of trade unions (by making it harder to collect dues from union members) and by threatening to link strikes and demonstrations to illegal activities. See <https://www.democracybrazil.org/policy-paper-on-brazi>

¹³ In fact, the mechanisms involved are more complex: on the one hand, other types of economic policies have an impact on the labour market (social policies, fiscal policies, etc.) and on the other hand, changes in the labour market have a retroactive effect on macroeconomic dynamics.

Figure 1: Employment, unemployment, informality and earnings over time



Sources: PNAD, PNAD-C, various publications, IBGE; authors' calculations.

Notes: Shaded areas correspond to periods of crisis (decline in GDP per capita).

After a period of stagnation lasting a quarter of a century, from 1976 (the first point in our series) to the end of the 1990s, informality fell sharply until the 2014-2016 crisis (by 15 to 20 percentage points). The informal employment rate falls from around 60% to 40%, and has since stabilised at this level. This fall in informal employment, and therefore the concomitant movement towards formalisation of the Brazilian labour market, appears to be the most notable development of the last 50 years. It is all the more exceptional as estimates of the share of the informal sector in urban employment for previous periods, using different proxies from census data, converge and show a remarkable constancy between 1950 and 1980 (Paiva, 1984; PREALC, 1987; Cacciamali, 1988). As for the evolution of labour income (here in the main job, the share of those in secondary employment being negligible), it is by far the most volatile. This variability (in volume) reflects the (hyper)inflationary jolts of the 1980s-1990s, the series in value being much more regular. From the point of view of the major trends, we find our macroeconomic periodisation, with stagnation on average over the last two decades of the twentieth century, then a phase of rapid growth between 2000 and 2014, and stagnation since then, roughly following the developments of the real minimum wage. In one decade (from 2003 to 2014), average real pay rose by 54% and the minimum wage by 75%. But beyond these major trends, a closer look at Graph 1 is instructive, particularly in terms of identifying turning points, crises or, on the contrary, recoveries. The first crisis identified is that of 1981-1983. In the light of the long term and our observation glasses, it is barely identifiable: rise in unemployment (at structurally very low levels) and informality (+2 percentage points), first drop in the minimum wage, reflecting a policy of de-indexation to control rising inflation. We have not been able to reconstruct the labour compensation series up to that point, but it is likely that it also fell. The second half of the 1980s is sluggish with a slight recovery in formal employment and wages. However, it was at this time that the policy of de-indexing the minimum wage was introduced and it lasted for some 20 years until the late 1990s. As we have seen, the 1990s was a long period of stabilisation on the macroeconomic side, marked by two major recessions at the turn of the 1990s and 2000s. On the labour market side, the most notable movement is the inexorable rise in the unemployment rate. While average earnings fell at the time of the crises, they tended to rise throughout the period. It was also at this time, under the Cardoso governments, that a policy of raising the minimum wage began, accompanied by the implementation of social policies. Finally, and paradoxically, the rate of informality seems to be generally inert at national level. But this is an optical effect. In fact, the other labour market survey focused on the main metropolitan regions (the SME) clearly shows a growth of more than 10 points in the informal employment rate (Cacciamali, 2000). The stagnation at the national level would then reflect a process of informalization of urban and non-agricultural jobs, and on the contrary of formalization of agriculture in rural areas. This phenomenon deserves to be documented further, but it highlights the difficulty of making a national diagnosis in a

country with such heterogeneous characteristics, including regional ones. The PT years are the easiest to interpret: under the dual effect of strong growth and pro-labour and social policies (see section 1.2), all labour market indicators are in the green. In just over 10 years, the unemployment rate has fallen by 4 percentage points (from 10% to 6%), despite a certain downward rigidity, especially when compared to the dynamics of jobs that are being formalised en masse (by almost 15 percentage points), while labour incomes have risen by more than 50% and inequalities have fallen significantly, mainly due to the growth in the minimum wage (redistribution policies, primarily Bolsa Família, providing the rest; Pero, 2012). Since 2014, as presented in section 1.1, Brazil has entered a long economic crisis, open between 2014-2016, from stagnation to a low point between 2017 and 2019, and open again with the tsunami caused by COVID-19. The main reactions on the labour market have been, once again, a sharp rise in unemployment, which doubles between the end of 2013 and the beginning of 2017 (from 6.5% to 13.5% at the peak). More marginally, we observe the beginning of a reinformalisation which paradoxically does not occur during the open crisis but afterwards (between 2017 and 2019), and which can probably be attributed to the labour market reform of 2017. As for labour income, it continues to grow, albeit at a slower pace, but despite the crisis.

In conclusion, at this stage of the analysis and at a very overarching level, two major facts stand out. On the one hand, there is a structural rise in unemployment, partly linked to the process of urbanisation and the fall in agricultural employment. Although it seems to be partially rigid downwards, it clearly reacts to the macroeconomic situation. On the other hand, informality shows little sensitivity to the economic cycle in its role as a shock absorber in times of crisis. The trade-off between unemployment and informal employment is generally inoperative. On the other hand, and asymmetrically, the mechanism seems to work during growth phases. During the PT years of 2002-2014, unemployment and informalisation fell together. The dynamics of the labour market over this period are in every respect atypical: by the duration and extent of the improvements observed; and by the "legibility" of the mechanisms at work, whereas the record of the previous and subsequent periods is much more confused.

2. A focus on crises

So far our diagnosis of the adjustment patterns of the Brazilian labour market has adopted the spectacles of the long period (40 years: 1980-2020). But this analysis "from the Sirius point of view" is partially unsatisfactory. On the one hand, the indicators we have to assess its mechanisms are both frustrating and incomplete. On the other hand, it 'crushes' the phenomena at work. To overcome this potential presbyopia effect, we will reverse the focus by concentrating our attention on 'crisis' episodes. By their very nature, they are a formidable laboratory that crystallises moments of upheaval and reconfiguration, a kick in the ant-hill, which needs to be illuminated in greater detail. In order to carry out this work, we must first define what we call 'crisis' here. Without entering into the debate on this vague and polysemous notion, our approach is above all pragmatic and partly arbitrary. We have retained all macroeconomic shocks, whatever their origin, that have led to a reduction in GDP (and a fortiori in GDP per capita). Secondly, access to microdata must be taken into account, as this is the only way to carry out an accurate analysis. In general, and Brazil is no exception, this is a major constraint. We will therefore study here in detail the three crises that have affected Brazil over the last twenty years, namely: the current crisis linked to the pandemic (2020), marked by a decline in GDP -4.3% between the last quarter of 2019 and the third quarter of 2020¹⁴, that of the years 2014-2016 (-7% growth over two years), to which we will add, and finally that of 2008-2009, even though the fall in GDP was minimal (-0.1%). It is clear that these three macro crises have neither the same origin nor the same intensity; moreover, the last crisis is still ongoing. But this does not prevent us from asking the common question: how did the labour market absorb these shocks? We will complete the perspective with a more succinct analysis of the three previous crises, during the 1980s and 1990s, in order to draw some more general lessons. We start by specifying our hypotheses, i.e. what are the

¹⁴ This is the latest data available at the time of writing. The low point of the crisis is in the second quarter of 2020 (-11% between Q4-2019 and Q2-2020), followed by the beginning of a recovery. On an annual basis, GDP fell by 4.1% in 2020, a similar fall to that in our analyses.

expected reaction mechanisms. We will judge the observed developments against what we call the "canonical crisis", which is assumed to be typical of the labour market adjustment pattern in developing countries (DCs). Broadly speaking, in industrialised countries, the main adjustment variable is unemployment, however one interprets its rise (rigidities and/or fall in demand), with, at the margin, a bending of activity rates and a downward pressure on wages. The main difference with DCs is the massive presence of informality, which is expected to substitute for unemployment in times of recession; a phenomenon that has been documented for a long time (see for example, Roubaud, 1994 and Cling et al. 2014). From a theoretical point of view, this scheme is based on the 'dualist' model, which is part of the neo-classical school of thought, in line with the work on dualism (Lewis, 1954; Harris and Todaro, 1970). There is a clear distinction between the two segments of the economy: the formal and informal sectors. Taking the individual as the unit of analysis, the model posits that, mechanically, those who lose their formal jobs (or who cannot access them as first-time job seekers) are forced to find livelihoods. Therefore, they have three options: either they become unemployed if this status gives rise to compensation, or they accept to be informal employees (but this presupposes that employers hire them), or they become self-employed by deciding to create their micro-units of production and become self-employed in the informal sector. There are no barriers to entry into the latter, unlike the formal sector. In developing countries, where unemployment is often not compensated, workers can only resort to the informal sector in times of crisis. In fact, the mechanisms are more complex. In the "canonical" crisis, formal workers lose their jobs and turn to either informal employment or unemployment. The trade-off between the two depends on several factors: the ratio between unemployment benefit (when it exists) and informal income, the reservation wage and expectations of returning to work. In all cases, informal employment (in its great mass) plays a counter-cyclical role. In terms of labour income, the increase in the number of informal jobs and the fall in aggregate demand (including that addressed to the informal sector) mechanically translates into a fall in the remuneration of informal workers. Moreover, as formal wages are more rigidly reduced (legislation, trade unions), on the one hand, and as redundancies are targeted primarily at the most precarious workers in the formal sector, the pay gap between the formal and the informal sector increases, which translates into an increase in inter-sectoral pay inequalities. The informal sector therefore fulfils its role as a shock absorber, as an adjustment variable to prevent the growth of unemployment from turning into mass unemployment, but at the cost of a drop in the quality of the jobs it generates. To what extent are the successive Brazilian crises 'canonical' and if not, how and why are they different? We will start with the 2020 crisis, the most massive and still the least well known, which we will compare with the two previous ones.

2.1 Adjustments 1: extensive margin (employment, unemployment and discouraged workers)

In 2020, the COVID-19 crisis is by far the worst labour market shock ever recorded in the history of contemporary Brazil¹⁵. A book published in 2020 titles the "devastation of labour" (Andrade Oliveira and Pochmann, 2020). Moreover, it does not follow the expected effects of the "canonical" crisis described above¹⁶. The main stylised facts of the mechanisms at work are as follows (Table 1). On the jobs side, 12 million jobs were lost between Q4 2019 and Q3 2020, or 13% of the 95 million pre-crisis jobs¹⁷. For the first time, the employment rate has fallen below 50%. This massive destruction of jobs is not specific to Brazil, as it is found in all countries, but it is more marked here (ILO, 2021).

Table 1: Structure and development of the labour market in the crises of the 2000s

2019-2020		2014-2016		2008-2009	
Number (millions)	%	Number (millions)	%	Number (millions)	%

¹⁵ Given that the 2014-2016 crisis was already described as the biggest crisis ever experienced by Brazil, as was the 2008-2009 crisis on an international scale (since the 1930s crisis).

¹⁶ It should be remembered, for the record and despite ex-post rationalisations, that no analysis of the start of the pandemic, before the empirical data became available, had anticipated not only the scale but above all the adjustment mechanisms observed.

¹⁷ The number of jobs lost is in fact greater, since it is necessary to take into account those that would have been created in normal times (maintaining employment rates).

	2019	2020	Diff.	Diff.	2014	2016	Diff.	Diff.	2008	2009	Diff.	Diff.
WAP (Working Age population) (14 years +)	171,6	175,1	3,5	2,1%	161,1	165,7	4,6	2,9%	148,0	150,6	2,6	1,7%
Assets	106,2	96,6	-9,6	-9,1%	98,7	102,5	3,8	3,8%	99,5	101,3	1,8	1,8%
Employed persons	94,6	82,5	-12,1	-12,8%	91,8	90,7	-1,2	-1,3%	92,4	92,9	0,4	0,5%
Formal (EF)	55,1	50,0	-5,1	-9,2%	55,9	55,2	-0,6	-1,1%	45,6	47,0	1,4	3,0%
Informal (IE)	39,4	32,4	-7,0	-17,7%	36,0	35,4	-0,5	-1,5%	46,8	45,9	-0,9	-2,0%
<i>Informality rate</i>	<i>41,7%</i>	<i>39,3%</i>	<i>-2.4 ppt</i>	<i>-5,7%</i>	<i>39,2%</i>	<i>39,1%</i>	<i>-0.1 ppt</i>	<i>-0,2%</i>	<i>50,6%</i>	<i>49,4%</i>	<i>-1.2 ppt</i>	<i>-2,5%</i>
Unemployed	11,6	14,1	2,5	21,5%	6,8	11,8	5,0	72,6%	7,1	8,4	1,3	18,8%
Unemployment rate	0,1	0,1	+3.6 ppt	32,7%	6,9%	11,5%	+4.6 ppt	66,2%	7,1%	8,3%	+1.2 ppt	16,7%
Inactive	65,4	78,6	13,2	20,1%	55,6	54,3	-1,3	-2,4%	48,5	49,3	0,8	1,6%
Discouraged	10,8	17,1	6,3	57,9%	6,8	9,0	2,2	31,7%	n.a.	n.a.	n.a.	n.a.

Sources: PNAD-C 2019-2020 & 2014-2016, PNAD 2008-2009, IBGE; authors' calculations.

By way of comparison, between 2014 and 2016, when GDP fell by 8% (compared to 4% in 2020), "only" 1.2 million jobs were lost. As for the financial crisis of 2009 (slight decrease of -0.1% of GDP), employment had continued to grow (at a slower pace): + 500,000 jobs. In other words, the elasticity of employment to GDP has nothing to do with one crisis to the next, which raises the question of the meaning of approaches that estimate the average effects of phenomena that are a priori incommensurable. Contrary to expectations, this fall in employment primarily concerned informal employment, which fell by 18% in absolute terms (compared with "only" 9% for formal employment), which led to a 2.4% fall in the informality rate (from 41.7% to 39.3%, after having fallen to 38.2% in the second quarter, the lowest rate ever recorded in Brazil). The destruction of jobs has only been partially converted into unemployment. With 2.5 million additional unemployed, the unemployment rate rose from 11.6% to 14.1%, a tiny fraction of the jobs lost (20%). In fact, most of the shock has been absorbed by a massive withdrawal from the labour market. The number of inactive people has risen by an unprecedented 13 million in less than a year. While the number of inactive people as a whole is increasing at about the same rate as unemployment (+20%), the number of discouraged workers (or unemployed) (i.e. those who are not working but want to work even if they are no longer looking for a job) is exploding (+68%).

In summary, the dynamics of the COVID-19 crisis were a fall in employment, mainly informal, a massive withdrawal from the labour market, and a contained rise in unemployment. What about the two previous crises? As we have seen, they are much less intense in macro terms and in terms of job destruction. Classically, between 2014 and 2016, as between 2008 and 2009, the number of unemployed increased (+66% and +17% respectively). The two episodes are distinguished from each other (as in the 2020 crisis) by a rise in the activity rate during the 2014-2016 crisis (upward bending), a maintenance for the 2008-2009 crisis, and a collapse in 2020. These changes in employment and unemployment are mechanically reflected in inactivity. The total number of inactive people falls in 2014-2016 (whereas it has exploded in 2020), but this time, as in 2020, the number of discouraged workers jumps by 32%. Unfortunately, the lack of data does not allow us to measure the dynamics of discouraged workers in 2008-2009. The only thing that can be appreciated is the number of inactive workers, which is increasing at a slightly lower rate than the number of active workers. Even more surprising, and central to our analysis, is the dynamic of informal employment: not only is it falling in absolute numbers, but its fall is greater than that of formal employment, resulting in a declining informality rate; in other words, the opposite of what was predicted. In all three cases, therefore, and whatever the nature and scale of the shock, informal employment does not play its expected role as a safety cushion. What about before the 2000s? The analysis will necessarily be more succinct due to the lack of micro-data processing. The mode of regulation by unemployment and not informality also seems to apply to the crisis of the late 1990s. While the unemployment rate almost doubled between

1995-1999 (from 6% to 10%), all the proxies of informal employment available to us show that the rate of informality is stable.

To go further, it is interesting to disaggregate the macro impact on employment (formal and informal) by socio-demographic category. Which population groups are paying the highest price for the crises? The analysis of the data confirms and refines the previous diagnosis. Let us start with the 2020 crisis. Three main results emerge. Firstly, employment is falling for all categories, whether formal or informal, but it is the latter that is falling the most. The informality rate is falling in all groups. Second, the crisis is deeply unequal. It is the already socially disadvantaged groups that are bearing the brunt of the shock: young people, the less educated, Afro-descendants, women, people from the north-east. For example, while the total number of formal and informal jobs fell by 9% and 18% respectively, the drop was 21% and 25% for young people (14-25 years), 18% and 28% for Afro-descendants and 18% and 23% for those who had not gone beyond primary school. In comparison, those who have attended university see informal employment fall by only -6% and formal employment rise by 1%. Finally, these same disadvantaged categories are more often excluded from the labour market (discouraged workers) with a massive fall in employment, whether formal or informal, while the more advantaged categories experience less job loss but a greater rise in unemployment. Overall, a double negative adjustment is at work: between unemployment and withdrawal from the labour market on the one hand, and between formal and informal employment on the other, always to the detriment of the poorest. This blow to the most vulnerable social strata is a constant in Brazilian crises, which can be seen, on a lesser scale, both in 2014-2016 and in 2008-2009. It goes beyond the mere concentration of these groups in informal jobs, already problematic in itself, since it operates within each sector, leaving open the possibility of all kinds of discrimination. A first explanation of our main paradox, namely the decline of informal employment in the crisis, could come from its intrinsic heterogeneity, a recurrent criticism that has led some researchers to reject its relevance. The latter comprises two main components: jobs in the informal sector, mainly own-account jobs - *autonomos* - and informal jobs in the formal sector, which are largely unprotected wage jobs. These two segments are likely to react very differently to crises. Informal wage earners in the formal sector might be the first to be poached, while the switch between formal and informal jobs might only concern the informal self-employed, with those who cannot find formal jobs being led to create *ex nihilo* their own job/survival business to avoid unemployment or inactivity. It is difficult to test this hypothesis as the informal sector is not measured in Brazil. Nevertheless, we have attempted to decompose employment in the informal sector by approximating it by the size of the enterprise (less than 5 people). This operation is only possible for the last two crises. Following this decomposition, it appears that informal jobs in the formal sector are indeed the main adjustment variables in times of crisis. In 2020, as in 2014-2016, it is this type of informal employment that is declining the most. Moreover, but only during the 2014-2016 crisis, jobs in the informal sector are growing slightly (+1.3%), against -11% for informal jobs in the formal sector. Two conclusions can be drawn from this exercise: on the one hand, the (counter-cyclical) safety cushion hypothesis seems to be partially at work for this crisis. On the other hand, and paradoxically, the eviction of informal jobs from the formal sector at the time of the crises mechanically leads to a "reformalisation" of the formal sector from below. At an even finer level, and in order to shed more light on the heterogeneity of jobs by institutional sector, which are not only informal (formal employment includes both civil servants and small-scale managers of registered businesses), we will distinguish between six types of formal jobs and six informal ones. For the COVID-19 crisis, all previous results are confirmed. Informal employees (together with domestic workers, formal and informal) are the first victims of employment adjustments. The informal self-employed (employers and own accounts) are declining as much as formal employees, while the "canonical" crisis thesis predicts that their ranks will swell. For the previous crises, the dynamics are contrasted, but they support the earlier conclusion of the reminiscence of the anti-cyclical mechanism, with a very slight growth in the number of informal self-employed. Nevertheless, this mechanism is marginal and in no way likely to absorb the loss of formal wage employment. An important point to note is the strong growth of the formal self-employed (or their lesser fall in 2020), a development again contradictory to the predictions of the "canonical" crisis. This dynamic could be explained by the creation of the official status of Individual Micro-Entrepreneur, which dates from 2008 and aims to formalise informal micro-enterprises.

2.2 Adjustments 2: Intensive margin (hours, pay and underemployment)

So far we have only dealt with the extensive margin, i.e. the dynamics of job creation, unemployment and inactivity. However, adjustments in the labour market also involve the intensive margin, i.e. the quality of jobs, and above all the management of working hours and pay. In 2020, job destruction was not the only mode of adjustment in the labour market (Table 2). Changes in the number of hours worked and wages (chosen or suffered by firms and workers) are another channel through which the labour market has adapted to new conditions. At the global level, while 13% of jobs were destroyed between the last quarter of 2019 and the third quarter of 2020, the total volume of hours worked was reduced by 17%. The largest number of hours lost was in the informal economy (-22% compared to -14% for the formal economy). This decline in the overall hourly volume for the labour market as a whole is a combination of job losses and a reduction in the number of hours actually worked by employed persons. On average, the working week has been reduced by about -5% in both the formal and informal sectors. Real wages (deflated for inflation) have also fallen by 16%, a phenomenon that is much more marked for informal jobs (-22%) than for formal jobs (-14%). These declines are a combination of the fall in jobs and the number of hours worked, while real hourly earnings remained broadly stable and even increased slightly (+0.9%). As a result, the monthly pay in volume of those who have kept or obtained a job is down by about -4% due to the reduction in the number of hours worked. It is of the same order of magnitude for both formal and informal jobs. At this level of analysis, it is not possible to distinguish between the different modalities of this adjustment: freezing of salaries in value, cut by inflation over the period, drop in value, composition effect (job losses concentrated on the most precarious jobs). Only panel data following the same individuals over time would allow us to know more.

Table 2: Labour market adjustments (jobs, hours and pay)

	2019-2020			2014-2016			2008-2009		
	Totals								
	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal	Total
Employment	-9,2	-17,7	-12,8	-1,2	-1,5	-1,3	3,0	-2,0	+0,5
Hours	-14,2	-21,5	-16,9	-2,6	-2,4	-2,8	n.a.	n.a.	n.a.
Actual earnings	-14,3	-22,3	-15,9	+5,9	-1,3	+4,3	+4,3	-2,0	+2,4
Average (for those in employment)									
	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal	Total
Hours	-5,6	-3,9	-4,6	-1,6	-1,3	-1,4	n.a.	n.a.	n.a.
Actual remuneration	-5,3	-5,6	-3,7	+7,1	+0,1	+5,5	+1,9	+0	+2,2
Actual hourly rem.	+0,3	-1,7	+0,9	+8,8	+1,4	+7,1	n.a.	n.a.	n.a.

Sources: PNAD-C 2019-2020 & 2014-2016, PNAD 2008-2009, IBGE; authors' calculations.

The patterns of adjustment in previous crises are different. In 2014-2016, while the total number of hours worked is also down (a combination of job losses and the reduction in the working day of those who have kept their jobs), the mass of real earnings continues to rise (+4%), due to a significant increase in the average real hourly earnings of workers (+7%). Finally, in 2008-2009, the mass of earnings is also on the rise, as is monthly earnings (+2%). Finally, only the COVID-19 crisis resulted in a decline in real wages. During the previous crises, real wages continued to rise on average: more strongly for formal jobs than for informal jobs, whose incomes stagnated. To conclude this detailed analysis of the last three crises, we will look at atypical forms of employment, in particular to test the hypothesis often put forward of the casualisation of formal employment during crises. The available data make it possible to identify three forms of casualisation: jobs lasting less than 40 hours a week (part-time), those paid less than the minimum wage, a type of contract authorised by the labour market reforms under certain conditions, and finally underemployment linked to working hours, i.e. the proportion of those whose actual working hours are less than 40 hours and who declare that they want to work more. Only the COVID-19 crisis shows a systematic deterioration in job quality, both in formal and informal employment, with the latter systematically showing much higher levels of

degraded employment. In contrast, none of the three indicators show significant changes over the two previous crises. If we add to these results the lower share of informal jobs in the formal sector, due to their poaching, we are not able to identify a movement of casualisation of the formal sector for these two crises with these indicators.

2.3 An overview of all the crises since 1980

In fact, one may ask: has there ever been a 'canonical' crisis in Brazil? Table 3 attempts to summarise the main results of the detailed analysis of the three crises of the 2000s and to extend it to those of the 1980s and 1990s. The diagnosis will be less detailed for the earlier crises due to the lack of detailed information. More generally, it can only be qualitative, for the same reasons, but also because of a variable time step and intensity of the macro shock. The main lesson that emerges is the irreducibility of each crisis. For each indicator considered (activity, unemployment, informality, wages), the impact is either positive, negative or neutral. The only common denominator to all these six crises is the rise in the unemployment rate, albeit with very variable elasticities to GDP. This is our second lesson: unemployment has been a central adjustment variable in the labour market since the early 1980s. Finally, the third lesson is the change observed over time in the role of informality. In the 1980s-1990s, informal employment seemed to play its role as an anti-cyclical "safety cushion". This property gradually disappeared from the 2000s onwards, with the COVID-19 crisis appearing to be the most atypical from this point of view.

Table 3: Main adjustment mechanisms during crises (1980-2020)

	Main indicators						
	GDP/t	Activity rate	Unemployment rate	Informality rate	Actual remuneration	Ratio EFJ/EIJ	Inequality
Generic :							
Developed countries	/	-	+++	/	+/ \approx	/	+
PED (Canonical crisis)	/	+	+	+++	\approx /-	++	++
Brazil:							
2019-2020	-5,1%	---	++	--	-	\approx	\approx
2014-2016	-8,2%	+	+++	\approx	++	+++	\approx
2008-2009	-1,1%	\approx	+	-	+	+	\approx
1997-1999	-2,3%	\approx	++	+	-	?	\approx
1988-1992	-7,7%	++	++	+	--	?	\approx
1980-1983	-13,4%	+	+	++	---	+	?

Sources: NADP and NADP-C, 1979-2020, various publications; author's elaboration.

Note: EFJ, EIJ: Average Earnings of Formal Jobs (resp. Earnings of Informal Jobs).

It seems that we have to go back to the debt crisis of the early 1980s to find the most canonical trace of the 'canonical' crisis. Saboia's (1986) analysis is illuminating. Following a 13% decline in GDP per capita between 1981-1983, while the participation rate increased slightly, as did the unemployment rate (from 2.8% in 1979 to 4.9% in 1983), the informal employment rate rose by 6 percentage points, from 47% to 53%. On the formal side, the decline in the rate of job creation is mainly due to a reduction in admissions, rather than redundancies. However, the informalisation movement is entirely due to informal employees, who rise from 25% to 31%, while the share of own accounts remains at around 22%, whereas the "canonical" crisis would have predicted the opposite.

Conclusion

In this article we have analysed the adjustments of the Brazilian labour market over a long period of time, especially during periods of macroeconomic crisis, which in this case occupy almost half of the last forty years and result in three "lost decades" (1980s, 1990s and 2010). A first lesson that can be drawn from this is the great resilience of the labour market, whose structures deform only very slowly despite this exceptionally volatile context. One of our main objectives was to put the different theories of informality to the test, and in particular the hypothesis of the counter-cyclical role attributed to it by the dualist thesis (which we have termed a 'canonical' crisis). The two approaches adopted here (at the macro level in a historical perspective, and then by narrowing the focus to only the finest crisis periods) converge to show the main mechanisms at play. Firstly, it is surprising to note that each crisis is unlike any other, neither in its manifestations nor in its mode of resolution. This is especially true of the current COVID-19 crisis, which is characterised by both a shock of unprecedented magnitude and, for the first time, a massive destruction of jobs, mainly informal. This forced withdrawal from the labour market is reflected in a collapse in activity rates. While the fall in informality can be easily explained *ex post* (containment measures, limited opportunities for teleworking and the role of the *Auxílio emergencial* in survival strategies), no analyst had anticipated it. Secondly, since the 2000s, the informal sector no longer plays its role as a shock absorber in times of crisis. While this property could still be observed at the beginning of the 1980s, it gradually disappeared during the 1980s and 1990s. Today, the main adjustment mechanisms are the casualisation of formal jobs, unemployment and the bending of activity rates. The last two modalities are the result of forced and non-voluntary choices by the individuals concerned: the regulation of the labour market therefore increasingly involves the exclusion of a part of the workforce. In the Brazilian case, the main transformation occurred in the PT years, with a general improvement in income and working conditions, but also with a major process of formalisation of jobs, which the recession and then the stagnation of the following years did not succeed in erasing. The liberal reform of 2017, aimed at making the labour market more flexible, failed in two of its main objectives: it did not succeed in reducing mass unemployment and it resulted in a resumption of informalization.

How can these changes be explained, and above all, why the informal sector no longer plays its role as a shock absorber during crises? A first factor can be invoked: the structural heterogeneity of informal employment is primarily due to the distinction between informal salaried jobs in the formal sector and informal self-employment. While the latter are likely to develop during crises, in the form of survival strategies, the former are, on the contrary, the main adjustment variable, which companies seek to get rid of first. They therefore play a pro-cyclical role. Secondly, three types of complementary arguments can be put forward, mainly by way of conjecture in the absence of data, to understand this limited absorption capacity of the informal sector in Brazil. The first is based on the determining role of formal incomes in the demand for informal products and thus in the creation of informal jobs. The second is the changing pattern and type of consumption (formal and informal products are only imperfectly substitutable, so demand for formal firms cannot easily be met by informal firms). Finally, individuals who are unable to enter the labour market are not necessarily ready to engage in any informal survival activity (supposedly without barriers to entry) if they can be taken care of or benefit from transfers (family or institutional, but also religious or even mafia).

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