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Sonia Rocha

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DISCUSSION PAPER

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SUMMARY

INTRODUCTION

1. POVERTY AS INSUFFICIENCY OF INCOME

2. LABOR MARKET INDICATORS

3. POVERTY AND THE MINIMUM WAGE

4. FINAL REMARKS

REFERENCES

POOR AND NON-POOR IN THE BRAZILIAN LABOR MARKET

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ABSTRACT

Time and locally specific poverty lines for Brazillian metropolitan areas, which concentrate a third of the country's population, are used for examining the proportion of poor along the short-term cycles, typical of the economic evolution in the 80's. Although the sensibility of poverty to the cycle is high, its long-term effect was neutral in terms of incidente of poverty from the income point of view, but clearly adverse when labor market indicators were considered. National Household Sampling Survey data combined with poverty lines allowed for the construction of labor indicators both for poor and non-poor subpopulations, which are clues to understanding income earning strategies under changing economic and demographic conditions.

INTRODUCTION

In the early seventies, there was an awareness, in the academic milieu as well as among the institutions involved in development financing, that the basic questions concerning social inequality and poverty were not being considered as result of economic growth. Empirical evidence already points out, unmistakenly, to the fact that the fruits of growth did not spread automatically. In view of that, the reduction of poverty should be the explicit objective of development policies [Adelman (1975, p. 301-309)].

Yet, Brazil's economic policy in the decade continued tacitly geared to the attainment of high growth rates as an objective in itself. Meanwhile, however, exogenous factors such as the rise in oil prices and international interest rates compounded by indecisions in the adjustment policies, led to the unstable path of product growth.

The eighties were characterized by short-term cycles, with alternating recession and expansion phases (Table I). Fighting the crisis in the foreign sector led to a

Table I
Selected Economic Indicators - 1980/90
(%)

	Indicators				
Years	GDP Growth Rate	Per Capita GDP Rate	Inflation Annual Rate (1)	Trade Balance (US$ Million)	Investment Rate (2)
1980	9.2	6.8	100.20	-2.823	22.9
1981	-4.4	-6.5	109.90	1.202	21.0
1982	0.6	-1.7	95.46	780	19.5
1983	-3.4	-5.5	154.53	6.470	16.9
1984	5.3	3.0	220.62	13.089	16.3
1985	7.9	5.6	225.52	12.486	16.4
1986	7.6	5.3	142.25	8.305	18.7
1987	3.6	1.5	224.82	11.173	17.9
1988	-0.1	-2.1	684.62	19.184	17.0
1989	3.3	1.2	1782,90	16.120	16.7
1990	-4.0	-5.9	1476,6	10.753	16.0

(1) General Price Index (Getulio Vargas Foundation).
(2) Gross Capital Formation/GDP (1980 prices).

recession that started in 1981 when, for the first time, a fall in the product was registered since the

beginning of social accounting data in Brazil, in 1947. The recession reached its rock-bottom in 1983 and, in the following year, the upswing was pushed by exports. In an attempt to control inflation, the Cruzado Plan was launched in 1986. By combining a price freeze with a generous wage policy, it caused an explosion in consumption that refueled inflation. In 1987, more orthodox economic measures were adopted, but proved incapable of checking inflation. A new set of economic measures was enforced in January 1989 (the "Summer Plan"), a combination of price freeze and a restrictive wage policy, which proved itself unsuccessful in keeping inflation under control. The confiscation of monetary assets by the new government virtually paralysed economic activity in the first semester of 1990, leading to declining production and further deterioration of labor market conditions in that year.

This pattern resulted in no growth at all when the decade is considered: the stagnation of per capita income - there was actually a 2% reduction between 1980 and 1990 - was compounded by increased inequality from already very high levels.[1] If economic growth is not a sufficient condition for alleviating poverty and inequality, its absence led to a clear deterioration of the economic fabric, particularly of labor market conditions for both poor and non-poor.

The purpose of this article is twofold. The first is to show how economic instability and the short-term cycles that characterized the last decade had a direct effect on the incidence of poverty as insufficiency of income. The proportion of poor in metropolitan areas, where a third of Brazilian population lives, followed closely the ups and downs of economic activity. As a result, at the end of the decade, no noticeable progress had been made in terms of reduction of the relative number of poor (29,1% in 1981; 28,9% in 1990) and the absolute figure had evolved from 10.4 to 13.4 million. The second aspect to be considered is the unambiguous deterioration of labor market conditions during the decade, which can be traced to low investment rate and declining share of manufacturing in GNP. Sustained expansion of informal occupations in low productivity/low paying jobs and increased underemployment at higher participation rates are ever-present tendencies which occured in all metropolitan areas, affecting both poor and non-poor subpopulations. The empirical evidences show that, if the incidence of poverty has not increased along the so-called "lost

[1]The Gini coefficient for the active population evolved from 0.56/0.57 in 1981 to 0.61 in 1988 [Bonelli and Sedlacek (1988)].

decade", labor market conditions have certainly deteriorated.

It is worth mentioning that a substantial portion of the empirical results presented here derive from the use of specific poverty lines for the Brazilian metropolitan areas. Those lines take into account consumption structure, differentials in income and price levels among the nine areas under analysis. The methodology employed in the construction of poverty lines, similar to that proposed by Thomas (1982), aims at circumventing difficulties found when comparing the areas, which are due to differences in "cultural preferences, climatic conditions, availability of products and relative price levels" [Webb (1976, p. 2)].

The present text is made up of four sections, besides this introduction. In the first section, indicators of poverty incidence are presented from the viewpoint of income, bringing into focus its high sensitivity to the economic cycle and the effectiveness of economic growth as a means of reducing the proportions of poor. Section 2 analyses labor indicators for 1981 and 1990, which show more adverse conditions at the end of the decade both for poor and non-poor. In Section 3 low wages, and particularly the minimum wage, are associated to poverty, since a large proportion of those who work regularly at full time jobs do not earn enough to keep their families above the poverty line. Section 4 summarizes the main evidences relating poverty, economic activity and labor market characteristics in the last decade.

1. POVERTY AS INSUFFICIENCY OF INCOME

The most usual way of considering poverty as insufficiency of income is utilizing the confrontation between income[2] and poverty line, to establish the proportion of poor in the total population. Through the use of poverty lines differentiated by year and metropolitan areas, so as to consider local specificities in consumption structure and cost of

[2]The Household Survey (PNAD) individual income variables were used to calculate the per capita family income that will be used as the variable to be in the confrontation with the poverty line. So the comprehensive consideration of both population and income as a single variable preserves the role of the family as a solidary consumption and income unit.

living,[3] the proportions of poor presented in Table II were obtained. The most immediate finding is that these proportions of poor are high, even in the best year, 1986. Considering all areas - where 30% of the Brazilian population was concentrated in that year - 23% of their inhabitants, or 9.6 million people, were poor.

Table II
Proportions of Poor in The Metropolitan Areas, in Selected Years
(%)

Metropolitan Areas	1981	1983	1986	1987	1988	1989	1990
Belém (N)	50.9	57.6	45.9	45.1	46.6	39.6	43.4
Fortaleza (N)	54.0	56.2	30.1	37.8	35.8	40.7	41.5
Recife (N)	55.6	56.6	39.9	42.8	43.9	47.2	48.5
Salvador (N)	43.1	43.8	37.5	39.4	33.9	39.9	39.2
Belo Horizonte (S)	31.3	44.1	26.4	27.7	28.9	27.2	30.3
Rio de Janeiro (S)	27.2	34.7	23.2	25.9	25.1	32.5	32.7
São Paulo (S)	22.0	34.4	16.9	20.0	17.5	20.9	22.2
Curitiba (S)	17.4	29.6	10.5	10.9	10.7	13.5	12.3
Porto Alegre (S)	17.9	29.7	16.3	18.7	21.2	21.0	21.2
Total	29.1	38.2	22.8	25.5	24.4	27.92	28.9

Note: N indicates location in North or Northeast.
S indicates South or Southeast.

In can also be seen that the proportions of poor are higher in the North and Northeast, with a gradual reduction as one looks southwards. The difference between the proportions in Recife and Curitiba - it was three times larger in Recife in 1981 - is another evidence of the well-known regional disparities in Brazil.

However, the fundamental issue regarding the proportions of poor obtained is their strong variability over time. In fact, the proportions prove to be extremely sensitive to the oscillations of the economic cycles, especially important in Brazil in the eighties, a fact that is reflected in the indicators shown in Table I. The truth is that the proportions for 1981 already give evidence of an economy in crisis, as in that year occurred the first drop in the real GDP since official national accounting began in 1947. There is a clear worsening of poverty until 1983, when the crisis reaches its peak. In 1985, the effects of the export-led growth that started in the preceding year are already visible. The poverty reduction process is

[3]For a more detailed description of the methodology for the construction of poverty lines, see Rocha (1988).

maintained in 1986, when the anti-inflation shock (Cruzado Plan), followed by significant real wage increases, led to a consumption boom, that impelled the economy until it was checked by the re-erupting of inflation and new short-term cycles in late years.

The sensitivity of the proportion of poor to the cycle is remarkable, and it is quite differentiated, according to metropolitan areas. In those located in the Southeast-South, where the productive structures are more closely linked to the dynamic industrial system, the proportions of poor, although relatively low, react more quickly and intensely to the oscillations of the economic cycle. In the Northern and Northeastern metropolises, on the contrary, there is a large portion of chronic poor that remain as social and economic outcasts, independently of the cycles, which results in a higher inertia of the proportion indicator.[4]

It seems evident that a good economic performance is the most direct and effective way of fighting poverty as insufficiency of income. The upsurge started in 1984 allowed for the number of poor in the metropolitan areas to be reduced from 14.5 million in 1983 to 13.5 in 1985. It should be noticed that this reduction was relatively small and happened exclusively on account of the job expansion, as the average real wage deteriorated in the period. On the other hand, the 30% reduction in the number of poor between 1985 and 1986, when they totalled 9.5 million, was significant because it resulted from the added effects of job expansion and real wage gains. Those factors had a greater impact on the income of the poorer classes due to the redistributive characteristics of the economic adjustment program of March 1986 (Cruzado Plan).

These data on the incidence of poverty are instrumental for distinguishing in each year two subpopulations - poor and non-poor - for the Brazilian metropolitan areas taken together. The next sections presents empirical evidences concerning labor market indicators for the two subpopulations in 1981 and 1990. Since in these years similar levels of economic activity and

[4]This difference in sensitivity to the cycle could be better evaluated for the period 1985/87, as in 1981/83 the intensity of poverty in the Northeastern metropolises was a result of the accumulated effects of the recession cycle and regional climatic problems (draught).

income were observed, the comparison of the respective indicators well reflect a qualitative change operated during the decade because of economic stagnations.

2. LABOR MARKET INDICATORS

In this context, the labor market indicators have two functions. The first is to qualify poverty as insuficiency of income, since the relationship between the way how people participate in the labor market is closely related to their earned income. The second function is to show, through labor indicators inadequate living conditions. Some indicators do not necessarily affect income in a negative sense: labor in non-agricultural activities by those aged from 10 to 14 years old is unanimously considered undesirable, though income earned can eventually pull the family out of poverty. Alternatively, some indicators encompass cumulative negative effects: informal employment means not only that the worker earns less for the same job in the formal market [Barros **et alii** (1992)] - thus having a higher probability of being poor from the income point of view -, but also that he does not benefit from the institutional safety net (paid holidays, health insurance, unemployment and retirement benefits) that contribute to his feeling more secure.

The indicators presented in Table III and analysed below are derived from the National Household Sampling Survey, which in 1990 investigated 87 thousand Brazilian households. Poor and non-poor subpopulations were defined in each year according to the family per capita income associated to each person, that is, depending on its value being below or above the specific poverty lines.

a) Precocious labor-proportion of youngsters aged 10 to 14 years old who work.

The incidence of labor among youngsters is constant when we consider the years of 1981 and 1990. It is specially remarkable that these indicators are practically at the same level for poor and non-poor, which is due to the fact that those who work have per capita family income close to the poverty line. This means that youngsters from very poor families are unable to participate in the labor market. As a consequence, in metropolises like Fortaleza and Recife, the indicator is lower. Conversely, it is higher than average in São Paulo where, besides better job opportunities and physical accessibility, cultural factors and average income level for the poor contribute to a higher proportion of youngsters who work.

Although precocious labor is undesirable from the quality of life point of view, it has an unambiguous effect in terms of per capita family income, reducing current poverty. In São Paulo, where the contribution of precocious labor to family income is stronger both because of higher participation rates and of better earnings, the proportion of poor evolves from 21.8 to 23.4% in 1980 when these earnings are excluded from family income. This effect is more expressive than the one derived from the recent oscillation in the level of economic activity: in 1989, under conditions of moderate expansion, the proportion of poor in São Paulo was 20.9% and it evolved to only 21.8% in 1990 despite of the strong fall of GDP (-4%) in this last year.

Table III
Labor Market Indicators for Poor and Non-Poor in Brazilian Metropolitan Areas - 1981 and 1990
(%)

Indicator	Category	1981	1990
Precoccious Labor	Total	7	7
	Poor	8	8
	Non-Poor	7	7
Informal Employment	Total	25	28
	Poor	36	36
	Non-Poor	23	26
Informal Self-Employment	Total	59	66
	Poor	75	84
	Non-Poor	53	61
Underemployment	Total	16	19
	Poor	18	19
	Non-Poor	16	19
Unemployment	Total	7	5
	Poor	16	13
	Non-Por	4	3
Activity	Total	53	55
	Poor	42	45
	Non-Poor	57	59
Female Participation	Total	35	38
	Poor	33	35
	Non-Poor	36	39
Female Underemployment	Total	29	30
	Poor	34	29
	Non-Poor	28	30

b) Informal labor-proportion of employees without official register and proportion of self-employed not insured by social security.[5]

In the eighties there has been a clear and strong tendency towards growing "informality" in the labor market, which is closely associated to declining employment in the secondary sector and consequent "tertiarization" in low productivity/low paying activities (trade and non-specialized services). Nevertheless, the evolution of the informal employment indicator shows only a slight increase between 1981 and 1990, since most of the effect was absorbed by the informal self-employed indicator. This means that part of those who lost their jobs, both formal and informal, during the decade migrated to occupations in the condition of self-employed: while employees represented 83% of the total of employees plus self-employed in 1981, they accounted for only 80% in 1990. For this reason, the self-employed indicator shows a much stronger tendency towards informality.

When we distinguish between poor and non-poor, it is clear that poor informal employment seems to have attained a ceiling, since the indicator is at the same level in 1981 and 1990. This ceiling is nevertheless very high: more than a third of employees - already deprived in terms of income - do not benefit from official safeguards (minimum wage and social security net). Very high and still increasing indicators of informal self-employment show both an income crunch - it is indeed difficult for those around the poverty line to put aside around 20% of earned income as social security contribution -, and a lack of confidence in the social security system.[6]

c) Underemployment - proportion of those who work less than 40 hours a week in relation to total working population.

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[5]Access to social security and other benefits, as well as the guaranteed minimum wage, is limited to registered employees; to be insured, self-employed must pay monthly contributions to the social security system.

[6]Partly because of new constitutional guidelines, the system has been plagued by a rapidly increasing number of beneficiaries who have not contributed to it. The resulting financial crisis has caused decaying health assistance and declining real value of pension and retirement benefits.

Growing underemployment is a steady tendency which affects both poor and non-poor in all metropolitan areas. Nonetheless it presents different implications in the two subpopulations. While shorter working hours is a frequent choice among non-poor, expressing their preference between additional income or leisure (or family care in the case of married women), for the poor it is generally an undesirable condition: it results from the impossibility of finding a full-time job because of lack of skills or poor assiduity, which are associated to defficient education, poor health, lack of day-care facilities and other adverse factors. In this context, it is remarkable the reduction of underemployment among poor women, probably related to the increased number of female-headed households, which have a high probability of being poor [Sedlacek (1992)].

Increased underemployment is related to the economic characteristics of the decade. In the absence of economic growth, the declining income for the large majority has led additional people to enter the labor market, specially women, as a means of fighting the reduction of family income. These trends are clear through the rate of activity indicator, which measures the percentage of active population in the total population (10 years old or more), and the female participation in total labor force. Under sluggish economic conditions, these increased rates of participation have resulted in lower earnings, specially for the less skilled workers. Household survey data show that from 1981 to 1990 average earnings in constant prices fell a strong 15% for those in the lowest 30% bracket of the earnings distribution. More generally, earnings declined for all, except for those in the highest 20% bracket. This explains the increase of the Gini coefficient for the earnings distribution, which evolved from an already high value of 0.56 in 1981 to 0.60 in 1990.

d) Unemployment - Proportion of unemployed - defined as those who are not working, but who are actively looking for a job - in relation to active population.

The observed decline in unemployment rates in the context we have been describing is not good news. Although unemployment in itself is an undesirable condition, it has been previously noted in cross-section studies of Brazilian metropolitan areas that it is directly related to the labor market degree of modernization [Rocha and Villela (1990]. For this reason São Paulo always presents the highest unemployment rates (in 1990, 0.19 for poor and 0.04 for non-poor), while Belem, where metropolization lags far

behind,[7] unemployment is relatively low (in 1990, 0.08 for poor and 0.02 for non-poor). Since 1981 and 1990 present similar levels of economic activity, which in the short term is the most important variable affecting unemployment, the decrease in the rate can be associated to "informalization", higher participation rates and adverse conditions in the labor market as a whole. Even for non-poor, the declining level of earnings makes unemployment a luxury, so that the once unemployed are soon involved in a new job, even if it is inadequate in terms of required skills and remunerations.

It is important to observe that, although most of the unemployed in metropolitan areas are poor - 51% in 1990 -, this is not the main cause of poverty as insufficiency of income. Clearly poverty is most directly related to the level of economic activity and to the consequent availability of better paying jobs.

3. POVERTY AND THE MINIMUM WAGE

Although the participation rate is lower for the poor, as already discussed above, poverty is widespread even among families whose adults have full-time jobs. This is due to the fact that a large proportion of wage earners - and most of the poor depend exclusively on wages as income - work for wages that are lower than the minimum necessary income for one person, which we defined as poverty line.

The minimum wage policy, which was introduced in Brazil in the late forties, has been understandably inneffective, by itself, in raising wages. Whenever a real increase in the minimum wage violates the law of supply and demand in the labor market, the consequence in further "informalization" at lower wages. Under the adverse economic conditions of the 80's, and particularly because of decreasing employment in manufacturing, which traditionally concentrated the best paying jobs for less-skilled workers, the real value of the minimum wage actually declined an astonishing 43% between 1981 and 1990. Nevertheless this decline was not sufficient to shun informal employment for wages lower than the minimum. As a

[7]Belém was classified as a metropolis essentially for geopopitical reasons: when the metropolitan areas were stablished, it was the urban center which came closer to the required conditions in the Northern Region.

result, in this last year approximately 30% of wage earners in Brazil earned less than the minimum wage.[8]

Since the relationship between the nationally determined minimum wage and the poverty line varies locally as indicated in Table IV, let us consider the case of São Paulo, where 37% of the Brazilian metropolitan population live.

Table IV

Poverty Lines (Per Capita Values) for Brazilian Metropolitan Areas, Expressed in Terms of the Minimum Wage

Metropolitan	1981	1983	1985	1986	1987	1988	1989	1990
Belém	0.63	0.73	0.72	0.81	0.976	0.906	0.85	1.22
Fortaleza	0.59	0.56	0.52	0.49	0.588	0.545	0.51	0.72
Recife	0.60	0.60	0.62	0.54	0.679	0.648	0.62	0.93
Salvador	0.63	0.63	0.64	0.66	0.809	0.743	0.74	1.02
Belo Horizonte	0.52	0.61	0.63	0.58	0.700	0.668	0.65	0.96
Rio de Janeiro	0.58	0.68	0.74	0.62	0.770	0.758	0.75	1.11
São Paulo	0.68	0.83	0.79	0.77	0.992	0.936	0.90	1.29
Curitiba	0.43	0.54	0.53	0.48	0.593	0.566	0.57	0.77
Porto Alegre	0.59	0.69	0.71	0.64	0.788	0.754	0.73	1.03

As for 1990, the poverty line in São Paulo was estimated at 1.29 minimum wage per person, which means that the legal minimum was clearly insufficient to guarantee the basic necessities of the worker himself in that metropolitan area. Considering that poor families have on average 4.1 persons (average size is 3.5 for non-poor families) and 1.88 children aged less than 14 years old (0.93 in non-poor families), it is

[8]Wage earned in one or more jobs per person. Rural Northern Regions excluded. Source: National Household Sampling Survey, 1990.

evident they are trapped in poverty even if they present ideal conditions such as two able-bodied adults who work and earn two minimum wages each.

4. FINAL REMARKS

Economic short-term cycles that afflicted Brazilian economy in the 80's and the government emphasis in adjustment policies, resulted in stagnant per capita income, unchanged incidence of absolute poverty and deteriorating conditions in the labor market.

The decline of investment associated to the debt and fiscal crisis, high financial costs and economic instability crippled the manufacturing sector, which was clearly the engine of growth of Brazilian economy in the last decades. The declining share of manufacturing in GDP does not reflect a new stage towards economic maturity, but a step backwards: an increased share of the tertiary under lower productivity conditions.

This adverse evolution is clearly reflected, on labor market indicators, which suggest that unfavorable conditions, like higher participation rates combined with underemployment at lower earnings, represent family strategy to maintain its previous level of income. From the income point of view, this strategy has been successful since there has not been an increase in the relative number of those living in abolute poverty. On the other hand, it is indisputable that an increased participation rate for the same level of per capita income means deteriorating quality of life, specially for those in the low end of the economic scale. It is important to observe that although deteriorating conditions have generally affected both poor and non-poor, for most indicators the adverse evolution departed from sensibly different levels. In certain cases, the indicator for the poor is so high - like informal employment - that it seems to have attained something like a resistance celling, which is probably associated to a subsistance level wage.

Declining wages, and more generally, declining earnings are part of this whole picture. Since having its members working regularly at full-time jobs is not necessarily sufficient to keep a family above absolute poverty, it is remarkable that the deterioration of the minimum wage has not resulted in increased poverty incidence. New demographic conditions, particularly a sharp decline in fertility, contributed to increased participation in the labor market, specially among women, and resulted in lower dependency ratios. It is

indubitable that had demographic growth maintained its 1980 pattern, social and economic conditions would have been far worse at the end of the decade.

Today there are clear evidences of restructuring of the manufacturing sector that could lead to a new phase of growth, if certain macroeconomic variables are kept under control. The recent increases in labor productivity in manufacturing indicate that the sector is better equipped to face market conditions both domestically and abroad. An export-led upsurge could lead to a sustained cycle of economic growth, which could trickle down to other sectors, reversing the present unfavorable conditions in the labor market.

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