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## CONJUNTURA, PENSAMENTO POLÍTICO E MÉTODO

# Brazil: the institutional changes in the recent period and the new government<sup>1</sup>

*Brasil: as alterações institucionais no período recente e o novo governo*

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**ABSTRACT** – This text discusses institutional changes implemented in the recent period in Brazil. If they are not reversed in a future government, they will have, on the one hand, redefined the place of the state in the economy and society, resulting, among other consequences, in the shrinking of public policies in general, and especially of social policies; on the other hand, they will have substantially altered the country's labor market, expanding the presence of the already important and structural segment of informal workers. They consist of the Constitutional Amendment 95 (EC 95) and the set of articles and provisions of the Consolidation of Labor Laws (CLT) that were amended by the labor reform. In the first section, aspects concerning the conditions inherited by the new government are analyzed; in the second one, we discuss the Constitutional Amendment 95; in the following section, we go over the labor reform and the labor market, both inherited from Michel Temer's government. In section four, some of the ongoing measures of the new government are presented into detail.

**Keywords:** Temer Government. Bolsonaro Government. Labor reform. Constitutional Amendment 95. Social politics.

**RESUMO** – Este texto discute as alterações institucionais que foram realizadas no período recente no Brasil. Caso elas não sejam revertidas em um futuro governo, terão, de um lado, redefinido o lugar do Estado na economia e na sociedade, resultando, entre outras consequências, no encolhimento das políticas públicas em geral e, especialmente, das políticas sociais; de outro, terão alterado substancialmente o mercado de trabalho do país, ampliando a presença do já importante e estrutural segmento de trabalhadores informais. São elas: a Emenda Constitucional 95 (EC 95) e o conjunto de artigos e dispositivos da Consolidação das Leis Trabalhistas (CLT) que foram alterados pela reforma trabalhista. Em sua primeira seção, são analisados alguns aspectos das condições herdadas pelo novo governo; na segunda, discutimos a Emenda Constitucional 95 e, na seguinte, vemos a reforma trabalhista e o mercado de trabalho, ambas herdadas do governo de Michel Temer. Na seção quatro, detalhamos algumas das medidas em curso do novo governo.

**Palavras-chave:** Governo Temer. Governo Bolsonaro. Reforma trabalhista. Emenda Constitucional 95. Políticas sociais.

## Introduction

Following the parliamentary, media and legal coup that removed Dilma Rousseff from the presidency of the Republic, two significant institutional changes were made during Michel Temer's administration. Such changes, if not reversed in a future government, will have, on the one hand, redefined the place of the state in the economy and society, resulting, among other consequences, in the shrinking of public policies in general, and especially of social policies; on the other hand, they will have substantially altered the country's labor market, broadening the presence of the already important and structural segment of informal workers. They consist of the Constitutional Amendment 95 (EC 95) and the set of articles and provisions of the Consolidation of Labor Laws (CLT) that were amended by the labor reform.

Before advancing into the institutional changes, it is necessary to highlight the previous conditions inherited by the current government and that still persist today. First and foremost, the political basis of the economy, constituted by the tripod<sup>2</sup> inflation targets, primary result and fluctuating exchange rate, instituted in 1999, still exists today, even though it was flexed during the first Dilma government. Secondly, an extremely regressive tax system base has its origin in the military government, even though it has undergone major changes and reforms. These have been implemented mostly for the benefit of the capitalists and to the detriment of the workers. Third, some of the constitutional changes, such as the suppression of the distinction between national and foreign capital, instituted in 1995, or laws such as the one exempting distributed profits and dividends from income tax, from 1996, still apply. Finally, the economic discourse of the current government, through the Minister Paulo Guedes, remains the same as the mainstream discourse; for him, the main issue of the economy is the public sector deficit, especially the one pertaining to the central government.

Therefore, this text approaches a few aspects concerning the conditions inherited by the new government in its first section. Then, in the second one, we discuss the Constitutional Amendment 95. In the following section, we go over the labor reform and the labor market, both inherited from Michel Temer's government. In section four, some of the ongoing measures of the new government are presented into detail.

### 1 Debt, deficit and the macroeconomic tripod

One of the main points of the recent economic debate about the Brazilian economy is the issue of the deficit in the public sector<sup>3</sup> and its role in the increase of the public debt. The prevailing answer among economists, journalists, politicians and analysts is that public debt stems from the public sector deficit and this is the result of excessive public spending. This response has been widespread and constantly repeated, being accepted by large sections of the Brazilian population. We consider this answer to be misleading, either due to lack of knowledge, bad faith or to particular interest or interest groups.

If we analyze the official data published by the Central Bank of Brazil (BCB)<sup>4</sup>, the primary result<sup>5</sup>, between 1997 and 2013, was always positive, and it only started to be negative in the end of 2014. It thus raised from BRL7.6 billion in 1998 to BRL31.6 billion in 2002, the last year of Fernando Henrique Cardoso (FHC) government. It continued to grow until it reached BRL91.8 billion, in 2011, and BRL72.2 billion in 2013, in the Luís Inácio Lula da Silva and Dilma Rousseff governments. Primary deficit appeared in the end of 2014 and closed the year at BRL23.5 billion. From then on, it has risen, and it reached BRL 120.2 billion in 2018.

In addition, the gross general government debt (central government, states and municipalities) in 2001 was BRL885.9 billion, and it increased to BRL2.7 trillion in 2011, to BRL3.2 trillion in 2013, reaching BRL 5.9 trillion in 2018. As a proportion of the gross internal product (GDP), it went from 67.3% to 60.3% and 86.4% in the same years. In net terms, the net debt dropped from 49.3% of the GDP in 2011 to 31.1% in 2013 and went back on to 55.8% in 2018. Thus, even with a favorable fiscal result, between 2001 and 2013, the gross debt continued to grow in absolute terms, but it fell in relative terms as a proportion of the GDP.

Considering the new methodology<sup>6</sup>, with data estimated from 2006 on, the general government gross debt went from 55.5% of the GDP, in 2006, to 51.5%, in 2013, and 76.7% in 2018, that is, lower than

what was estimated through the old methodology<sup>7</sup>. In those same years, the net debt represented 45.3%, 31.1% and 55.8%.

As of July 1999, the Brazilian government formally adopted the inflation targets policy, following the conditionality of the International Monetary Fund (IMF). According to this model, based on the old quantitative theory of money, whenever the inflation expectation estimated by financial market representatives increases, the interest rate is raised and vice versa. Thus, the interest rate would be the variable to maintain monetary stability and create an environment favorable to stable economic growth. As throughout the whole period after the implementation of the Real Plan, the Brazilian economy suffered inflationary pressures, the monetary policy has been characterized by the maintenance of interest rates at very high levels, with few moments of reduction, as in 2012/2013, and after the end of the year of 2017. Since the beginning of the inflation targets policy, inflation estimated by the Extended National Consumer Price Index (INPA) has rarely been near or below the target, always requiring a high interest rate.

This policy presented, as a first consequence, a very high interest bill to be paid. The second was fiscal policy committed to high primary outcomes, specifically for the payment of this interest bill. Thus, as an inflation target was set, the IMF agreement, established in 1998, also set a target for primary surplus. Between 1999 and 2002, this target went from 2.6% of the GDP to 3.0% and, later, it was raised to 3.75%. After the end of the IMF agreement, the government started to establish fiscal targets in the Federal Government Budget.

As seen above, between 1999 and 2013, the general government presented successive primary or fiscal surpluses. However, the surpluses have not been enough, in any moment of this period, to pay the public debt interest. Thus, despite obtaining high primary surplus, a higher or lower portion of the interest has always been paid with the new debt.

## 2 The Constitutional Amendment 95<sup>8</sup>: its characteristics, motivations and implications

On December 15, 2016 the Brazilian Senate approved the project of Constitutional Amendment 55 (before 241). The resulting amendment assumed the number 95. Considering the content of its form, which changes the tax system in the country, its approval happened within record time, as the Treasury Minister at the time, Henrique Meirelles, submitted the project on June 15, 2016.

EC 95 provides for federal spending (excluding interest on public debt) to be frozen for twenty years, based on the actual spending in 2016. Budget values for subsequent years are only updated by the inflation index and their actual values may, depending on the results obtained in terms of fiscal balance, be reviewed after ten years. Needless to say that this initiative was strongly opposed by the social movements, trade unions, left-wing parties and by the organized civil society. In spite of that, its approval happened by the broad majority, both in the Congress and in the Senate<sup>9</sup>.

The introduction of a cap for public spending is not something new in capitalist countries. However, in a study published by the IMF that deals with the fiscal rules applied in 89 countries, it is possible to see that EC95, approved in Brazil, does not have parallels in the rest of the world (BOVA *et al.*, 2015). The practices carried out in some countries illustrate the specificity of the Brazilian proposal.

In the case of the Netherlands, that has limited its spending since 1994, the cap established has a four-year validity and includes spending concerning the payment of interest of the public debt, which also has fixed limits. After the definition of the expenses, increases are allowed, as long as the existence of resources is proven. In 2007 and 2010, due to the international economic crisis, the limit for the payment of debt interest was abandoned, and the same happened in 2009 and 2010 in the case of assistance programs and unemployment insurance. In Denmark, in the same year as in the Netherlands, the real growth of public expenditure was limited to 0.5% a year, being raised to 1% from 2002 to 2005. In 2014, however, limits valid for four years were approved, applied to all government spheres. In Sweden, in 1997, a cap system was created that does not allow alterations as the one in the Netherlands, but the validity period is of three years. In Finland, the terms is of four years and it reaches 75% of federal expenditure. In these last two countries, there is not a limit for expenses with public debt interest. In Japan, since 2011, it is forbidden to

increase the federal expenditure from one year to another. In addition to these, other countries tried to introduce containment rules for public spending, but they were unsuccessful. There are also the countries that are part of the European Union and that, in general terms, limit the increase of the expenses to a percentage equal to the GDP growth and exclude unemployment insurance spending from the cap. Of all the countries covered by the study, only the small countries of Denmark, Georgia, and Singapore include the rules concerning expansion of public spending in the Constitution. In others, this is done through ordinary acts or political agreements.

In contrast to these experiences, the EC 95 stands out for four reasons. First, in none of the countries is the time horizon long-term, whereas in Brazil the duration of its application covers the time of a generation. Secondly, it does not include interest expenses on public debt, indicating that, differently from what was stated in the reasons accompanying the submission of PEC 241, it is not a matter of containing public expenditure (whose alleged escalation was identified as the great evil of the Brazilian economy), but to reduce spending to ensure the continuous payment of interest on public debt. The third reason that makes the Brazilian experience different from others is the fact that it promoted change in the Constitution, indicating that the restriction of the expenditure is not temporary, but definitive, thus changing the tax system of the country. Lastly, the Brazilian experience does not safeguard social expenditures. Despite the marked social inequality and the structural character of extreme poverty in the country, EC 95 does not present any concerns in protecting income transfer programs, such as the Bolsa Família Program and those aimed at the elderly and the disabled, as well as unemployment insurance, besides expenditure on public health and education.

In the world, mechanisms for controlling public spending were adopted in the 1990s, when the neoliberal thinking emerged as the only legitimate consideration in the field of economics and the long-term fiscal balance was raised to the broader goal in public administration. To complement this control and to actively follow up with their application, the adoption of Independent bodies to define budget rules (*Independent Body Sets Budget Assumptions*) and independent monitoring bodies (*Independent Body Monitors Implementation*) was proposed. The aforementioned study points out at the existence of these committees in certain countries.

As previously identified in a similar discussion (MARQUES e ANDRADE, 2016), the existence of independent committees, defining budget parameters and/or monitoring their execution, not only restricts the political initiative of the executive power but, specially, assumes the position as a legal/political obstacle so that organized sectors can make themselves heard in the definition of public policies and intervene in the state political practices. Such committees constitute centers of power that, in the name of economy, hover above the will expressed by popular vote and are impervious to the demands of society that can express themselves during the executive's term of office. Dardot e Laval (2016, p. 272 and 273) described how neoliberalism implemented "the transformation of public action by turning the state into a sphere that is also governed by competition rules subject to efficacy demands similar to the ones private companies are subject to" [...] with the "establishment of an evaluating and regulating state that mobilizes new instruments of power and, with them, structures new relations between government and social subjects".

These authors complement their thought later on saying that [...] the state governance borrows an important characteristic from company governance. Company managers were put under shareholders' surveillance within the scope of the predominantly financial corporate governance, and so were state leaders, for the same reasons, subject to control of the international financial community, expertise bodies and risk rating agencies (DARDOT e LAVAL, 2016, 276).

In Brazil during the FHC governments, there were strong initiatives to make the state apparatus more effective and efficient, mirroring large companies. In the first FHC term (1995-1998), and administrative reform was carried out, created by the Ministry of Federal Administration and State Reform (MARE), which aimed at replacing the bureaucratic model at the time with a more managerial one. Summing up its proposition, results instead of routines, because the bureaucratic public administration was associated with inefficiency and therefore wasteful of resources. This initiative was complemented by the Fiscal Responsibility Act (LRF) (101/2000)<sup>10</sup>, which had the balance of public accounts as an explicit goal. This Act also determined the

integration between the planning instruments (Pluriannual Plan – PPA, Budgetary Guidelines Law – LDO and Annual Budget Law – LOA). With EC 95, this trajectory of public expenditure containment reached its peak.

However, according to the lessons by Dardot and Laval, mentioned previously, the financial community interests push the public administration into adopting efficiency criteria as in the private sector, as defined by the parameters from where the macroeconomic policies in the country are established. In the case of EC 95, freezing public spending for twenty years aims to ensure the implementation of primary surpluses, despite what it may cause in terms of deterioration of employment and income generation capacity in the country, and despite its impacts on social policies, since, even assuming that the current spending is adequate (which is not), it disregards the fact that the population will continue to grow and age within these twenty years<sup>11</sup>. As has been evident in other countries, especially Greece, the state's only priority under the new order is to pay creditors. For interest-bearing capital (often referred to as financial capital in the media), which is convinced that its high profitability can be maintained *ad aeternum*, unrelated to output, reducing employment level, compressing wages and cutting social spending is just contingency arising from the need to comply with the contracts. This capital thus reveals its total lack of commitment to the needs of the population. When this lack of commitment is evidenced, the observation made by Chesnais (2005, p. 48) gains strength: holders of shares and significant volumes of government debt securities should be defined as owners in a place exterior to production, and not as *creditors*. The contemporary accumulation regime is characterized as *patrimonial*. This term refers to economic and social relations that the term *creditor* cannot encompass.

It is possible to say that EC 95 fully subjects the operation of the Brazilian state to the interests of debt holders. The state that is being gestated in these years of the new fiscal rule is a state that presents itself without mediation, revealing, in a crude way, that its institutions are only instruments of perpetuation of the domination of the ruling classes, especially of its part that is closer-related to the world of finance. That is why there is no place for the maintenance of the existing ones. It is not by chance that, at the same time that the freezing of public spending was proposed, proposals that deepen the commodification of health, education and social security have been presented. Over the course of twenty years of EC 95, little will be left of the state's presence in these areas, if anything at all.

If we add to this possibility the tendency to incorporate into public service the logic of private companies' administration, there is nothing left of what we call public affairs. Nothing in form or in content. Instead of collective interest or people's interest, fulfilled through actions and policies that allow for its maintenance and reproduction (employment, salary, income deriving from social policies and other public policies), the defense of the *creditors'* interests, that is, the interest-bearing capital, and the strengthening of its legal and repressive apparatus to keep the order and private property. But to the extent that the state will be primarily focused on the defense of the rentier interest, it can be said that it ceases to express the whole of the ruling classes and proceeds to defend that fraction of the class that best represents it, formed by the holders of interest-bearing capital. Undoubtedly, this conformation of the bourgeois state to the interests of interest-bearing capital, with all its implications in terms of employment and income, will not be done without reactions and without deepening contradictions within the ruling classes. However, it is important to remember that, in contemporary capitalism, it is unlikely to find capitals that only act on goods production or on trade. Several researchers have already shown how intertwined are the three autonomous forms of capital studied by Marx<sup>12</sup>: productive capital, commercial capital and interest-bearing capital (PLIHON, 2005; CHESNAIS, 2012).

At the political and most immediate level, the freezing of public spending for twenty years will have the effect of destroying any remaining shadow of bourgeois democracy and of the possibility of the executive, elected in general elections, being free, even relatively, to implement the program for which it was elected in case they want to increase certain expenses. As known, in a bourgeois democratic regime, the executive is elected by the majority of votes, and thereafter executes their program in theory, which is mediated by the representation of the other political forces in the National Congress and the demands of the organized popular social sectors. The synthesis of different interests, present in society, are expressed in the federal government budget, as amendments and suppressions presented by parliamentarians are added to the

initial proposal presented by the government. Everything changes with the implementation of a spending cap. In certain ways, it will no longer matter who the president is or which program they defend. It will not matter, everything will be defined for twenty years. The correlations of forces that allowed Dilma Rousseff's impeachment and the approval of EC95 will be eternal for the lifetime of a generation.

The only solution would be to revert this situation, revoking the constitutional amendment. If this is not done, for the next twenty years, politics will be excluded from the fiscal sphere and the president will become a mere executor of interests that are part of EC95. With that, the last degree of freedom that the executive still had in this globalized world is lost under the dominance of interest-bearing capital. Without a real ability to work on exchange rate policy against international capital movements (note the Central Bank's ineffectiveness in containing the devaluation of the real at various times); without a real capacity for monetary policy, other than the one dictated by the international financial community, now, with EC 95, the fiscal policy possibility is lost.

### 3 Labor reform and the future of the labor market

Workforce management adequate to the conditions of contemporary capitalism (of low growth and investment level, with large idle capacity and geared towards gains in the financial sphere of all kinds) is increasingly designed, much different from that of from the years following the end of World War II, the so-called *golden years*. It has been the object of several researchers and approached in Marques e Ugino (2016)<sup>13</sup>. Here it is enough to reiterate that the new labor force management, especially adopted by, but not limited to, oligopolized companies, maintains a *hard core* of workers, for whom there is a salary valorization policy in addition to a career path and, around it, depending on the need of the company, outsourced workers, temporary and/or part-time contracts hover. At the same time, there is always the possibility of company relocation, so that other arrangements between stable workers and workers *without rights* can be developed. At the social level, the result of this is increased exclusion in countries where social protection is guaranteed via meritocracy, that is, when access occurs through prior worker contribution.

In the case of Brazil, the Brazilian market has never approached, even from far away, the outlines of what was built, especially in European countries, during the *golden years*. It was the opposite; it has always been segmented at least in two: a formal labor market, in which the workers had labor and social security rights guaranteed by law, and an informal one, in which salaries, work hours, and work conditions did not have the legal support and in which the workers did not have access to social security benefits. The presence of this market, which accounts for around 50% of the working population, is one of the characteristics that approximates us to other countries in Latin America, and makes it so part of the labor market structurally presents a certain level of flexibility. Nonetheless, it is important to bear in mind that the workers who integrate each segment are not completely interchangeable, and it is just one part that rotates among the two segments; also, the interchangeability capacity depends on the necessary requirements demanded by the activity sector that provides employment to the worker. The percentage of informal workers was only significantly reduced during the Lula and Dilma governments, but it has increased again in the recent crisis and it remains that way, as we can in the **Box 1**<sup>14</sup>, forward.

In spite of that, the Temer government approved a radical reform, significantly changing the capital/work relationship in the country. The labor reform approved changed 117 articles and 200 devices of the CLT (Consolidation of Labor Laws). Its primary objective is to provide safety for the foreign capital, for capital that is interested in buying or investing in business offered for sale in the country through privatization processes (the Temer government has resumed the privatization process, especially of Petrobras and Eletrobrás, and privatization is a priority in the Bolsonaro government). Of course, this benefits the set of capitalists who are or are not currently present in the Brazilian economy. Thus, the general meaning of labor reform is to provide legal assurance so that the large international capital, especially the financial capital associated with industrial and commercial capital, will complete the integration of the Brazilian economy with the world economy. Thus, the cost of labor will be under control, so that the capital set up here can compete

with that of other economies, in which it is very small. Data released by the Superior Labor Court (TST) confirm this interpretation: there was a total of 2,630,522 labor claims received in 2017, and 1,726,009 in 2018. The drop in the total of labor claims, attributed to the labor reform, should deepen in the next few years (APÓS REFORMA..., 2019).

### Box 1 – The recent labor market (Brazil)

#### THE LABOR MARKET IN THE RECENT PERIOD

Rosa Maria Marques and Aline Fardin Pandolfi<sup>15</sup>

##### Unemployment

After registering, in December of 2014, the lowest average unemployment rate (4.8%, according to PNAD and 6.8% according to Continuous PNAD, 2019), unemployment has returned to high levels, as a reflect of the recession that has afflicted the country. This was how from July 2015 to July 2019 unemployment rates were on the rise and, even in years when the GDP presented a positive but slight growth, it remained extremely high. Inactivity rates were of 8.6%, 11.3%, 12.7%, 11.6%, for 2015, 2016, 2017 and 2018, respectively, according to The Continuous National Household Sample Survey (PNAD Contínua), carried out by IBGE (The Brazilian Institute of Geography and Statistics). In the quarter ending in July 2019, this rate was at 11.8%.

The persistence of high unemployment rates have reinforced the growing presence of workers in long term unemployment situation, that is, for over two years, that are not entitled to employment insurance, even if they had been workers in the informal market before. According to a study by LAMEIRAS, et alii (2019), the percentage of inactive people in this situation raised from 17.4% in the first quarter of 2015 to 24.8% (3.3 million workers) in the same period of 2019. The participation of those unemployed, in the first quarter of 2019, was higher among women (28.8%), between adults older than 40 years old (27.3%) and among workers with complete high school education (27.4%). The study also highlights that, when compared to the situation in the first quarter of 2015, the groups that had a higher increase of inactivity for over two years were men, younger workers and those with complete high school education, whose proportions in relation to the total of each segment rose from 11.3%, 15%, and 18.5%, respectively, to 20.3%, 23.6%, and 27.4% in the period examined.

In general terms, in the quarter ending in July 2019, unemployment has affected women more than men: 14.1% and 10.3% respectively; it has also affected black or brown people (24.5%) more than white (9.5%).

##### Occupation

According to IBGE, in the quarter ending in July 2019, the number of employed workers hired with a formal contract in the private sector (domestic excluded) remained constant; the expansion of the occupation was due to the growth of workers without a formal contract (11.7 million workers) and the ones working autonomously (24.2 million). The expansion of the number of workers without a formal contract and working autonomously was record; for the latter, it was the highest: workers without a formal contract increased from 3.9% (441 thousand) when compared to the previous quarter and from 5.6% (619 thousand) in relation to the same period of 2018. The ones working autonomously accounted for 1.4% (more 343 thousand people) when compared to the previous quarter and 5.2% (more 1.2 million people) in relation to the same period in 2018.

In the quarter ending in July, the average yield of main work, received monthly, of active workers older than 14 years old was R\$ 2,214 (R\$ 1,923.00 for women and R\$ 2,439.00 for men). The average yield of main work was, for the same period in 2014, R\$ 2,228.00, being R\$ 1,862.00 for women and R\$ 2,494 for men (IBGE, 2019).

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Source: Partial results of the Project “Contemporary political and economic changes in Latin America and impacts on social assistance, health, social security, unemployment insurance and education policies: the case of Brazil, Cuba and Chile.” Project funded by CNPq, process no. 433020/2018-0, validity period from Feb. 18, 2019 to Feb. 28, 2022.

As the Inter-Union Department of Socioeconomic Statistics and Studies (DIEESE, 2017a) has emphasized, the changes introduced by the reform end the labor liability, which has always been a problem

for business people planning their costs related to workforce hiring. This is because, for the Brazilian formal labor market, justice eventually imposed compliance with the law, which generated a labor liability of often unpredictable value. With the reform, workforce cost is calculable, and it can be estimated in advance. The level of this cost, with the application of the set of changes, and without considering labor liability, tends to be lower than the current one.

The basis for this to happen is derived from the fact that labor justice has practically lost its function, since everything that arises from the capital/labor relationship is likely to be negotiated between the worker and the employer, except for situations that threaten life and health of the worker, or payment below the minimum wage, which is guaranteed by the Constitution. This results from the institution of what is negotiated over what is legislated<sup>16</sup>, so that the salary may be lower than the wage floor (be it defined for a category or a company), as long as the worker so agrees.

Negotiation between the boss and the individual worker never happens in equal conditions, and the latter is subject to enter in agreements that are unfavorable to him (OFFE, 1994). Based on this premise, that is, the supremacy of what is agreed upon over what is legislated, one fails to recognize that the relationship between employer and employee (when isolated) is unequal, because the worker is completely dependent on his job. Under the threat of losing his job if salary reduction is not accepted, he will accept an agreement with the employer, which would not happen if the union was the one negotiating on his behalf. Inequality of condition between the worker and the employer at the time of negotiation is an undisputed fact and that is why, in the world, mechanisms of worker defense have been created.

Seen from a different angle, what is agreed upon over what is legislated develops into the fact that, differently from what used to happen in labor justice, now the worker may let go all rights, so there is not the possibility of going to court in the future and claiming labor liability. The study of the application of this precept is that companies may adopt a set of contract possibilities, depending on their interest. Instead of strict rules, resulting from the application of laws and negotiation with the labor union, there is a complete flexibilization of the labor force. If demand increases, the company may hire for a certain time, for partial time, use intermittent work or outsourcing. It maintains a *hard core* of workers and increases employment volume through the use of these contract modalities. Characteristics of the activity sectors will define which hiring forms will be more used on each one. It is possible that intermittent work will be more present in trade and services, but sources attest that it has been used in the industry sector already. In terms of the object to be negotiated, it is also important to remember that the contracts involve, in addition to salaries, the work conditions. Now it is possible to negotiate the time for lunch break, pregnant women's work situation, work hours per day. So, everything is negotiable.

Along with the labor justice, the unions also lose power with the reform. It ceases to be the negotiating agent in the agreements. In a situation of worker fragility, such as the current one, due to the high level of unemployment, the negotiation will tend to be done by workplace and with the individual worker. This will pose challenges for the workers' movement, which will need to put in efforts to take coordinated action at various plants or workplaces. The idea that the union represents all workers, whether unionized or not, is severely weakened in the context of labor legislation arising from the reform.

Another important aspect of the reform is the fact that it approved outsourcing for any activity in the private and public sector, either in support or target activity. In the specific case of the public sector, this change is aligned to the goal of reducing the size of the state. In the case of city halls, there are several that have already organized to hire companies for the area of education through open outcry trading.

Here only the major aspects of the labor reform have been addressed, highlighting the interests that have been served and the results that have already been presented. It is important to also note the impact it will have on the labor market, increasing the weight of informality. This is because, for large sectors of workers, formalized contract time (at best) will be interspersed with periods of non-work. And depending on how long formal employment lasts, the worker will not even be entitled to unemployment insurance.

Changes in the labor market will have consequences of all kinds in the social sphere. In Social Security, it will erode collection capacity; in health, it will increase the demand on the public service; in Assistance, it will potentially increase *vulnerability* conditions of larger contingents, with an increase in poverty level.

#### 4 The new government and expense restrictions of 2019

The election of Jair Bolsonaro, in 2018, along with the arrival of new far-right politicians to the Congress and Senate, is deeply modifying the institutional framework of the Brazilian state.

The new government has taken office without showing to the nation its project or program. This is due to the fact that Bolsonaro did not participate in any debate with the other candidates. Except for previous assertions given as a congressman, only generalities about him were known, based on his words referring to behavior and hatred manifestations against the left, especially against the Worker's Party. In the composition of their ministries, as well as of autonomous bodies, there are three main groups: the military, the neoliberal and ultraliberal economists and a so-called ideological group, known as *olavetes*. These are the followers of Olavo de Carvalho, along with the president and his family. In addition, in part of the first, second and third echelons, common characteristics are to be against the Worker's Party, anticommunism, and religiosity. In the first six months of the year, the president had already dismissed three ministers and about 30 second and third level ministerial staff (ABRÃO, 2019). The main characteristic of the ones dismissed was the lack of full submission to the president's wishes.

The first months of the government seem to suggest widespread incompetence and political inability, yet the government is doing some of what it has promised and, in certain aspects, it is moving beyond electoral promises. It reinforces the interpretation that his *government style* is part of a strategy of diversion on the one hand and control of discussion agendas on the other. The announced measures, which do not involve legislative approval, denounce their government project. They are related to the field of economics, environment, public safety, moral and behavior.

In economics, it is an attempt to return to the liberal and wild nineteenth-century capitalism, closely aligned with the interests of US imperialism and under the cover of supposedly new politics. Concerning the environmental issue, the uncontrolled exploitation of natural resources from environmental protection areas and indigenous and quilombola reserves is leading to the destruction of existing resources in the region and threatening to destroy the environment itself. As for security, morals and behavior, there is an even greater regression, being defended and taken as the foundation of measures, obscurantist values, extremely violent racism, repressive manifestations of gender, support for militias and for the unbridled right to buy guns, and the right to possess and use them.

In this text it is not possible to detail the set that has already been modified (and still is), which encompasses all these aspects. Therefore, we draw attention to the most important ones. From January to August, the Presidency of the Republic issued 355 decrees, 26 provisional measures (MP) and 14 bills (PL), in addition to proposals for constitutional amendment (PEC) of the social security reform and the legal nature of professional councils. This indicates that the government already had a team of technicians and advisers, capable of massive production of decrees and regulations, staff that were already in government or were incorporated with the new administration. While the PEC, PL and MP should be approved in the Congress, and may be rejected or modified, decrees are adopted immediately, without the need for approval. They "are edited by the President of the Republic, and they regulate the laws and provide for the organization of public administration" (BRASIL, 2019a). The most important ones have been the subject of debate about their legality or unconstitutionality, but there has not been any effective measure to suspend them. As they are presidential decrees, which are below the level of law, what the government is doing is acting within the bounds of the law with important changes in institutionality and in more specific and concrete forms, that is, the government acts slowly and unnoticed in doing that.

This was how Bolsonaro government has introduced important modifications in the area of Health, in June 2019, which entail an inflection in relation to the previously adopted procedure, restructuring the National Council on Drug Policy (Conad) and extinguishing society participation, such as the Brazilian Bar Association (OAB), the Federal Board of Medicine (CFM), the National Board of Psychology (CFP), the Federal Board of Social Service (CFESS), the Federal Board of Nursing (Cofen) and the Federal Board of Education (CFE), among others. The same happened with the National Board of Environment (Conama) and with the Superior Board of Cinema. The change in relation to Conad is the expression of the change in the

National Policy of Mental Health, Alcohol and Other Drugs, which provides for the return to compulsory hospitalization, among other aspects.

In the field of economy and social security, there are several articulated actions being carried out integrating politics and ideology of the current government. The discourses and the arguments to justify the social security reform, the labor reform and the austerity macroeconomic policy remain the same, since the Real Plan crisis in 1998. They provided political and ideological support to the measures approved in the Michel Temer government, to EC 95 and to the labor reform. Now they are repeated in the current government.

There is something new, assuming it can be seen as new, which is the destruction of the social security system aiming at the transfer of individual savings to the financial sphere, through the privatization and financialization of social security. At the moment, the PEC is still being considered by the Senate, but it has already passed in the Congress, without the financial liberalization being inserted into the reform.

In addition to the social security PEC, a second line of attack, with the same discourse since FHC, is state-owned companies. On August 21, 2019, Bolsonaro announced the kick off program, which would start with the following 9 state-owned companies: Telecomunicações Brasileiras S/A (Telebrás, responsible for the generation and transmission of electricity in the country), Empresa Brasileira de Correios e Telégrafos (Postal Service), Companhia Docas do Estado de São Paulo (Codesp), Empresa de Tecnologia e Informações da Previdência Social (Dataprev), Serviço Federal de Processamento de Dados (Serpro), Empresa Gestora de Ativos (Emgea), Centro de Excelência em Tecnologia Eletrônica Avançada (Ceitec), Companhia de Entrepósitos e Armazéns Gerais de São Paulo (Ceagesp) and Agência Brasileira Gestora de Fundos Garantidores e Garantias (ABGF). The feasibility and the conduction of the privatization process will be a responsibility of the Brazilian Development Bank (BNDES) which, from a bank that financed the expansion of national and foreign companies, went back to being mere administrator of the sale of national assets. It is necessary to note, however, that for the program to be taken forward, it is necessary the approval of the Congress, which has not happened yet.

However, the traditional policy of emptying and drying up companies is already at work, either as a justification for their privatization or as a way to reduce their market price on the final sale. Early in the government, the presidents appointed to Petrobras, Banco do Brasil and Caixa Econômica Federal (CEF) explicitly stated that their dream is to privatize the companies they had started to preside over (SEMINÁRIO..., 2019). Minister Paulo Guedes has continually stated that he intends to sell everything he can, which has already been widely disseminated in the press and is well known by all. Petrobrás, in particular, has been undergoing privatization for a long time, with the sale of subsidiaries in the areas of distribution, gas and oil products, as well as oil exploration blocks it had acquired. The CEF has been letting go assets since the beginning of 2019, as its new president announced in the seminar of Fundação Getúlio Vargas (FGV). Everything that does not need approval in Congress is on the way to privatization. Therefore, we find another general characteristic of this government, the control of the main state companies is contrary to their very own existence. We also find ministers that are against the purpose of existence of the ministries themselves, such as the minister of education and the minister of environment.

In addition to the social security reform, the ministry of economy is preparing a tax reform project, whose content is not fully known yet. However, considering the statements of the minister and some subordinates, this is a reform for the capital, that is, it is even more regressive, in which some privileges, such as the exemption from personal income tax for distributed profits and dividends, as well as taxation to major fortunes and agribusiness will not be changed. The return of the old CPMF (Provisional Contribution on Financial Activities), was the most recent point of apparent disagreement inside the government and it generated the dismissal of Marcos Contra, federal revenue secretary<sup>17</sup>. This new tax will replace the payment of the Social Contribution on Net Profit (CSLL) by business people, which funds social security and would be extinct. This new benefit to business people would generate a massive creation of new jobs, according to the promise by minister Guedes.

The third line of attack is the management of the Federal Budget. On February 15, 2019, the government edited the presidential decree no. 9,711, in which it maintained the budget plan provided in Law No. 13,707

(BRASIL, 2018), of August 14, 2018. However, on March 29, with decree 9,741 (BRASIL, 2019b), it started expenses restrictions in a total amount of almost R\$ 35.0 billion, according to Appendix 13 of the same decree. The ministry of education was the one with more cutbacks, with R\$5.83 billion, or 23.7% of its budget or 16.6% of total cutbacks. The second was Defense, with R\$ 4.13 billion; and the third was Mines and Energy, with R\$ 3.75 billion. The ministry of Science, Technology, Innovations and Communications, to which CNPq is subject, suffered a cutback of R\$ 1.06 billion, that is, 28.4% of its budget. It is also important to highlight the cutbacks in the Program of Growth Acceleration (PAC), in the amount of R\$ 7.02 billion, or approximately 20.0%.

In July 2019, after pressure, mobilization and massive demonstrations that took place all over Brazil, the government issued decree no. 9,943 giving back part of what had been cut off from the budget. In total, cutback reductions represented only R\$ 1.6 billion. An insignificant amount compared to the original numbers.

There is no space in this text for details on the interests, pressures and limits that refer to changes in budget management. However, it should be noted that these cuts profoundly and negatively affect the entire education and research system in the main public and private universities of the country. First, budget cuts for custody expenses such as energy, communication, lighting, cleaning and security are profoundly affecting the Federal Higher Education Institutions (IFES). All universities and federal institutes have suspended expenses related to cleaning and security, laying off outsourced workers. Also, there have been cutbacks in scientific initiation stipends, master's and doctorate programs, post-doctorate fellowships, public calls to fund research and for dissemination through events; all of this is reducing the development of research and graduate studies. Therefore, the main agencies fostering research and graduate studies have been affected through the cutbacks on thousands of scholarships for graduate *strictu sensu* students and researchers, as well as undergraduate students. Partial recomposition of scholarships suspended since July and carried out in September 2019, all without readjustment since 2013, does not meet the maintenance and development needs of higher education, research and extension in Brazil.

In addition to these cuts, the Ministry of Education has designed a project for the Federal Institutions called Future-se. This project makes it easier for the IFES to seek private financing by selling services and even advertising space. Presented as a project in which each institution freely chooses whether or not to participate, this freedom is false for two reasons. The first is the direct interference in the appointment of new Presidents where in most cases community choices are not respected. The second is related to expense reductions or cutbacks in maintenance and funding of the IFES<sup>18</sup>; those cuts will lead institutions to be obliged to try to obtain extra financial resources in their budget through Future-se.

## Final considerations

The new government, up to the moment, is taking seriously the assertion made by the President in a dinner in Washington, when he said "We have to deconstruct many things" (NÓS..., 2019). As we have seen, the economic policy is being managed based on the LRF, on the EC-95 and on the ultraliberal ideology of excess of state that imposes tax burdens and spends poorly. With this management, the current ministry is removing the participation of the government in public investment, one of the determinants of economic growth. Continued privatizations at any cost, as a means to obtain resources to reduce the public debt, consist of another fallacy and destroy what is left of state assets. Regarding the reduction of the public debt, it is a continuously repeated promise by the liberal governments and neoliberal and ultraliberal economists, and it will never be fulfilled, as its growth is a need determined by the capital. Public debt is the foundation of overnight repurchase operations, in which all excess monetary capital is remunerated overnight.

The supposed end of subsidized capital credits was initially mentioned, but so far they have not been effectively touched. The total stock of government-subsidized loans to fund companies, rural credit and real estate credit continues to average more than 45% of total credit created by the banking system in the first

semester of 2019. The average rate of subsidized interest between January and July 2019 was 8.37% per year, while free credit without subsidy was 38.42%.

Fiscal budget management is driving the government into an almost disastrous situation of utter impossibility of management. This, as we have already seen, is reflected in the operation of SUS (the public health system), the impossibility of maintaining universities and, as reported, even in the military. And this, coupled with discourse on the right to self-defense, easing guns' rules, and the immunity of police and militias, is increasing the daily violence and frustrations felt by the population.

With all this, the government has not failed to try a populist measure, playing with the forced savings of the workers themselves, with the partial release of deposits in the FGTS. This seems to be a desperate measure to try to recover a minimum of the effective demand so that the economic performance this year is not even more disastrous than

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## Notas

<sup>1</sup> This text is the result of the project “Contemporary political and economic changes in Latin America and impacts on social assistance, health, social security, unemployment insurance and education policies: the case of Brazil, Cuba and Chile.” Project funded by CNPq, process no. 433020/2018-0, validity period from Feb 18, 2019 to Feb. 28, 2022.

<sup>2</sup> We approached this point in Nakatani and Oliveira (2010).

<sup>3</sup> This issue was mentioned in the Letter of Intent of Brazil to the International Monetary Fund (IMF) on November 13, 1998, in which it announced: “[...] a fiscal adjustment program with a significant part of its effort implemented within its first year.” In the same document, it was stated that the control of public debt “will be [carried out] through the Fiscal Responsibility Act, which the government will submit to Congress by December” (BRASIL, 1998, p. 4-5).

<sup>4</sup> Statistic data were obtained in the Time Series Management System of the BCB. Some have been discontinued due to the methodology change in 2008 and others started later on. For this reason, not all of them are comparable. It is possible to view them in the following address: <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>. These data, and all that follows, have been obtained from the same source, except in the case of other references.

<sup>5</sup> These data were calculated for the central government in the above-line concept (name given to separate the fiscal from the monetary sphere) and computed based on the competence criteria (expenses and revenues are recorded at the time they are generated). It means that it consists of a purely fiscal result, without monetary effects. That is, the payment of interest and the rollover of public debt is not computed in the primary surplus calculation.

<sup>6</sup> The old methodology for calculating public debt followed international standards and included all securities issued by the national treasury. After the approval of the Fiscal Responsibility Act, the Central Bank was prohibited from issuing securities, which were used for monetary policy, and started to include in the gross debt the BCB’s portfolio securities used to back repurchase commitments (GOBETTI e SCHETTINI, 2010, p. 11).

<sup>7</sup> According to the old calculation methodology, the gross debt was 64.6% of the GDP in 2006, 59.6 in 2013 and 86.4% in 2018.

<sup>8</sup> This item comes from a modified part of the paper by Marques e Andrade (2016).

<sup>9</sup> Constitutional Amendments can only be approved if they have the support, in two terms, of 3/5 of the members of the two Houses of the National Congress.

<sup>10</sup> As known, one of the consequences of the LFR was the expansion of the use of Social Organizations in the field of health, passing on to the private sector the hiring of personnel and the management of a substantial part of public health.

<sup>11</sup>Which would necessarily demand an increase in the area of health, for instance.

<sup>12</sup>Marx (1985) develops this point in section I of volume II of *Capital* "The Metamorphoses of Capital and Their Circuits".

<sup>13</sup>This item comes from a modified part of a paper by these authors.

<sup>14</sup>The box is on page 246 of this text, it consists of an analysis of the labor market in the recent period. This is also the result of the project "Contemporary political and economic changes in Latin America and impacts on social assistance, health, social security, unemployment insurance and education policies: the case of Brazil, Cuba and Chile" (2019-2022). The publication has been authorized by the authors.

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<sup>16</sup>The first effort to introduce this change in the CLT was carried out with the Bill 5,483 of 2001 (Brasil, 2001), which gave rise to an important debate. The origin is suggested in the Letter of Intention of the Brazilian government to the IMF on November 13, 1998, under items 33 and 34, which deal with the flexibilization of the labor market. (BRASIL, 1998, p. 9-10). This matter was strongly criticized by Senator Inácio Arruda in the text "Governo quer reduzir direitos dos empregados" (Government wants cutbacks on employees' rights) (MUDANÇA..., 2002). The bill was approved in Congress, but not in the Senate, and it was filed in June 2004.

<sup>17</sup>It seems clear that, behind the apparent difference on the creation of a new tax over financial transactions, is the control of the old Council for Financial Activities Control (COAF) and of federal revenue inspection sectors. This disagreement is evident in the dispute for the allocation of COAF; the minister of justice wanted it, but it ended up being transferred to the Central Bank, under the new name of Unit of Financial Intelligence. COAF and the federal revenue inspection are behind the investigations of the Flávio Bolsonaro case, and of ministers of the STF, of the government, congress members and senators.

<sup>18</sup>Appendix 13 of Law 9,741, indicates in its footer that "it includes expenses addressed by Art. 59, §12, item I of LDO-2019". LDO-2019, or Lei 13,707 in §12 of Art. 59, states that: "In the case of own revenues, agreement and donations obtained by federal educational institutions, the following provisions must be observed: I - the expenses borne by such revenues shall not be considered for purposes of calculating the amount referred to in paragraph 1 of this article, nor to limit commitment and financial movement", however, weirdly enough, they have been included in the cuts of Law 9,741. That is, the IFES can have extra budget resources, but they suffer budget cuts and cannot use those resources.

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