

# LABOR LEGISLATION AND ITS ADVERSE IMPACTS ON TRANSACTION COSTS IN BRAZILIAN AGRICULTURE

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## Abstract

The objective of this paper is to analyze the inadequate pattern of labor absorption in Brazilian agriculture, focusing, specially, on the role of agricultural labor policy. While pointing out the negative role played by the so-called “labor surcharges”, the paper gives more emphasis on the “transaction costs” associated to this policy. For the analysis of the role played by agricultural labor policy, it is actually proposed that these “transaction costs” are more important than the “labor surcharges”. Finally, in order to allow for much freer contracting among the several parties involved in these markets, it is proposed a radical change in the current agricultural labor policy. However, this does not mean that the public sector should leave this labor market altogether; after all, public regulation is necessary for the enforcement of the contracts.

**Key words:** agricultural labor market, agricultural labor legislation, transaction costs, agricultural mechanization.

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## **1. INTRODUCTION**

The Brazilian agricultural sector has played a strategic role in contributing to an adequate domestic supply of food and raw materials and to fast growth in exports. However, agricultural production has been increasingly fueled by capital and skilled-labor-intensive technologies, leading to a slow absorption of non-qualified labor, which is the abundant factor in the economy.

In view of the growing problem of poverty and inequality problem in Brazil, it is important to evaluate the possibility of changes in this technological pattern by other more consistent with the reduction of poverty and inequality. This would require a technological change so that it could be absorbed a higher quantity of a type of labor considered less-qualified for the entire economy, but with the required qualification for this new agricultural technological pattern at a relative lower cost.

This paper proposes an explanation for this inadequate feature of Brazilian agricultural development, by arguing that this agricultural growth pattern started in the 1960s and resulted from agricultural labor, land and credit policies instituted in that decade. In other words, this pattern of growth leads to economic inefficiency due to a dubious government intervention in product and factor markets.

In addition to the introduction the paper includes other six sections. The next section points out the problems that arise in the agricultural labor market in Brazil due to agricultural seasonality as well as to labor market legislation.

Section three deepens the discussion of the seasonal agricultural labor market characteristics, based on a fieldwork conducted on the sugarcane industry in São Paulo. Thanks to this case

study, which included several interviews with the major agents involved, it became possible to better understand the role of the *empreiteiro* in Brazilian agriculture, how this agent arises and what kind of functions he actually performs. It is shown that this *empreiteiro* plays the same role as the “labor contractor” in the United States.

Section four extends the analysis of the *empreiteiro*, by discussing in detail the legislation that has served as the basis for declaring the *empreiteiro*’s activity illegal in Brazil. According to this legislation, the *empreiteiro* cannot be the direct contractor of labor, an attribute solely attributable to farmers.

Section five expands the temporary agricultural labor market discussion to several other alternatives that have been proposed, apart from the solution of the *empreiteiro* problem analyzed in section four. Emphasis is given in the fundamental differences between a temporary (agricultural) labor market, where employers work only some months or even some days of the year, and a permanent labor market (agricultural and non-agricultural) where employers work the whole year, extending it sometimes for several years.

Section six proposes a theoretical framework that allows a thorough investigation of the issues raised in the paper. It discusses the standard labor market analysis of the “tax wedge” created by the labor laws. At the end it explains how differently the labor laws affect the agricultural and the non-agricultural sectors in Brazil.

Finally, section seven presents a summary and the main conclusions of the paper.

## **2. AGRICULTURAL LABOR LEGISLATION AND ITS NEGATIVE IMPACTS ON FAMILY FARMING IN BRAZIL**

As a consequence of the seasonality that typifies agricultural production, the agricultural wage labor market is to a large extent temporary, which gives rise to the following problems: (a) low labor force qualification, since there is no incentive, both from employers and workers’

standpoint, to invest in labor qualification, due to the high turnover; and (b) uncertainty in respect to labor supply, sometimes as an information problem, since workers often live in distant regions. This last problem is particularly serious in continental countries like Brazil and the United States.

It should be noted that this seasonal labor market is also very inadequate from the *principal* family workers' point of view, since it offers work only in some epochs of the year, and even so in an uncertain manner. However, that which is disadvantageous to one type of worker becomes an advantage to another. And that is the case of family farmers from poor rural areas in Brazil – seen, for example, in Northern Minas Gerais state and the Brazilian Northeast –, since this seasonal labor market offers an alternative work that is *complementary* to their own agricultural production. This employment alternative is especially relevant in view of the fact that the gain derived by wage work does not bear the same risk as that of self-employed workers.

Note that the seasonal labor market can also be very important for *secondary* family workers, too. Thus, since this temporary agricultural labor market is an income source for social groups living in absolute poverty, it is very important to prevent this market from disappearing.

The seasonal agricultural labor market presents these same problems all over the world. As a consequence, an international literature arose that sought to attribute the family farming competitive advantage, in the developed countries, to the fact that family farming is less dependent on this agricultural labor market, since it is endowed with a labor self-supply. Besides, the limited endowment of this labor self-supply does not prevent this production form from reaching the optimal production scale, due to its facilitated access to credit, which allows mechanization, especially in the planting and harvesting activities.

Contrary to what has happened in the developed countries, however, family farming in Brazil ended up being more adversely affected by agricultural wage labor market peculiarities. This is due, in part, not only to higher contracting costs of labor in Brazil – a consequence of our labor legislation, as it will be seen later –, but, especially, to the fact that family farming in Brazil has not had, as a rule, access to credit and, consequently, to mechanization.

In order to understand why family farming has been affected in such a particularly adverse form by our labor policy, it suffices to consider that the obedience to labor legislation imposes relevant fixed costs to employers, such as the following ones (only to give some examples): a) to keep themselves informed about the legislation, or to hire an accountant for this purpose; b) to have to go to the bank and open individual accounts to regularize the employees' situation with the National Social Security Institute (INSS), and go back other times to make monthly deposits to the INSS; c) to maintain up-to-date registers for each employee, even if some of them have worked only a few days; d) to take the employees to the city in order to find a physician entitled to make an entrance examination and, afterwards, another one at their dismissal time.

It is these administrative costs, to a large extent invariant with the size of the labor force – being, therefore, fixed –, that end up making that labor unit cost not only becomes high, but also much higher for the temporary worker than for the permanent worker, and, within the employers group, higher for small farmers than for larger ones.

While bearing a higher cost for hired labor, family farming in Brazil, contrary to what happened in most capitalist countries, could not adopt mechanization due to restriction to credit access<sup>1</sup>. Note that this restriction is higher precisely in the case of investment credit, that is, the credit required for the agricultural machinery and equipment acquisition. Family farming in Brazil thus loses competitiveness *vis-à-vis* the capitalist agriculture for two reasons: first, for having to face a higher cost for hired workers; and second, for not being able to overcome, and through mechanization, the restrictions and uncertainty that temporary wage labor imposes in the phases of planting and harvesting.

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<sup>1</sup> The reasons accounting for the lack of access to credit by family farmers in Brazil are discussed in greater length in Rezende (2006b).

### 3. SEASONALITY AND THE ROLE OF THE *EMPREITEIRO* IN AGRICULTURE

Due to communication difficulties between the two sides of this temporary labor market, there arose the figure of the intermediary or middle man, better known as *empreiteiro*, who normally detains information on both sides and facilitates the operation of the labor market. Actually, this *empreiteiro* plays the same role as the “labor contractor”, object of Vandeman, Sadoulet & De Janvry’s (1991) analysis, in their Californian agricultural labor market study.

As a matter of fact, direct contracting of seasonal agricultural workers by individual farmers is a particularly difficult task in Brazil, especially in view of the fact that many workers are seasonal migrants from distant regions. Since they cannot bear the trip’s costs (including initial expenditures in the place of destiny) plus the advances left with their families, the costs of their contracting are very high, especially if borne entirely by a single farmer. In addition to high contracting costs, this seasonal agricultural labor market also presents serious selection problems, which becomes even more serious in Brazil due to the high costs of hiring and firing a worker, especially when considering short periods of time (three to four months). This makes errors in selection a more serious problem in Brazil than in the United States.

This problem is being solved, in Brazil and elsewhere, through contracting intermediaries to perform the needed task (sugarcane cutting, for instance) with a labor force directly hired by them, and using their own machinery and everything else that is necessary to perform the operation. This intermediary also performs the labor supervisor function, a crucial problem in agriculture. In this respect, it should be pointed out that the adoption of the piece-rate pay system for workers (*i.e.*, pay per cane cut amount) aims to reduce supervision costs, since it stimulates workers to work harder and without supervision. Hence, since this system increases labor productivity, it reduces labor costs with a possible increase in labor’s income, depending on labor demand and supply price-elasticities.

In this way, all the problems related to the selection and supervision of labor is borne by the intermediary, of course at a price previously set with the farmer. Therefore, there are two markets at work: the labor market, involving workers and intermediaries, and the *empreitada* market, involving farmers and *empreiteiros*. Considering the well-known problems related to labor selection and

supervision in agriculture, one can appreciate how important the role played by this intermediary is, relieving the farmer from having to deal with all these problems.

It is interesting to note that the American “labor contractor” performs the same role as the Brazilian *empreiteiro*; indeed, according to Glover (1984, p. 259), the “labor contractor” in the United States “relieves the grower of many burdens. [He] recruits and transports and supervises workers in the field. He also instructs workers. He keeps records and pays workers and payroll taxes. Often, he provides workers with food and lodging. He supplies drinking water and field toilets and may supply some implements of harvesting such as gloves, ladders, or clippers. He also is obligated to carry insurance. He may extend credit to workers or help them with personal problems.”

Of course, the American labor contractor is able to do all that thanks to a parallel contract with the grower, fixing, now, *his* payment for each task performed. By the way, it shows that associating this intermediary to the figure of a mere *broker*, as proposed by Okun (1981, p. 63) and adopted by Williamson (1985, p. 245), is totally inadequate.

According to Vandeman *et alii* (1991), in their analysis of the American case, it would be the ability of this intermediary to spread the labor contracting fixed costs over many farmers and to relieve farmers from these difficult problems of selection and labor supervision that would explain their prevalence in the Californian seasonal labor market; these factors may also be the main cause of the prevalence of this kind of intermediaries in most other countries.

In the case of Brazil, however, there is an additional reason for the prevalence of this *empreiteiro*'s activity: it is the high costs of hiring and firing workers in Brazil, especially when dealing with short periods. Indeed, our labor legislation raises dramatically these labor costs for the employer, especially in a situation like the one considered here, in which the worker would have to be hired and then fired over a short period, by several farmers, in succession.<sup>2</sup>

This certainly explains the important role played by this agent in Brazilian agriculture, despite the repression it suffers from the Labor Court, to be seen in the next section.

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<sup>2</sup>This was the situation discussed in Rezende & Tafner (2006).

#### 4. A CRITIQUE TO THE LEGISLATION THAT RESULTS IN THE ILLEGALITY OF THE AGRICULTURAL *EMPREITEIRO* IN BRAZIL

In a clear contradiction with the social and economic importance of the *empreiteiro*'s activity in Brazil, the existing labor legislation considers the *empreiteiro*'s direct contracting of agricultural labor illegal. Such illegality has for basis the so-called "Statement n° 331", of December of 1993, enacted by the Superior Labor Court.

As pointed out by Chahad & Zockun (2003), the purpose of this legislation was to restrict the "interposed" activities in the Brazilian economy, especially for the industry sector. Since normally the *empreiteiro* is considered an "interposed" firm, the result is that by this "Statement" it is illegal for the *empreiteiro* to hire agricultural labor to undertake a job (sugarcane cutting) in a farm, since this type of employment should be done by the sugarcane plantation owner.

Note that this "Statement" opens an exception for "temporary labor", according to the law.<sup>3</sup> This could be taken as benefiting seasonal agricultural labor. However, this is not the case, apparently for two reasons: (a) the legislation restricts the contracting of "temporary labor" to the urban world; and (b) even in the case of temporary labor, the activities of the "interposed firm" could not be extended to "*atividades-fim*", such as sugarcane cutting, for instance, but only to intermediary (secondary) activities, such as cleaning and security. Besides, the admitted time to contract temporary labor is only three months, and this could not be enough in some situations, such as sugarcane cutting.

Therefore, this legislation started to considerer similar all *terceirizações* of labor in the agricultural and non-agricultural sectors as well, without taking into account the specificities that distinguishes these sectors. In other words, in no moment there was an open space for especial treatment in agriculture, given the seasonal nature of its activities and the imperative of the *empreiteiro* activity, in view of the labor legislation itself in Brazil.

It should be noted that the use of Statement n° 331 implies, in particular, that tractor and machinery rental – a very important activity in Brazilian agriculture, especially relevant to small farmers – is also

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<sup>3</sup> Law N° 6019 of January 02, 1974.



considered illegal, since the workers involved (such as the tractor driver) are usually contracted by the machinery owner, not working, therefore, for the farmer and not being supervised by him, but by the machinery owner. Certainly, this legislation must be inhibiting the development of the machinery rental market in Brazil, the opposite to what is happening in countries like the United States and Argentina.

The extension to agriculture of this legislation restricts the economic activity of this *empreiteiro*. However, since this economic activity has great economic meaning both for the farmer as well as for the worker, the result is that it ends up taking place, but in a precarious form, since it cannot be legalized. This gives place to the formation of heavy transactions costs in the agricultural markets and other adverse consequences, as it will be seen later. This legislation leads, also, to an intense drive toward mechanization, as it will be pointed out later.

This legal recourse used to prohibit the *empreiteiro*'s activity in Brazilian agriculture has actually been the result of a long-standing resistance against the development of this kind of activity in Brazilian agriculture. In the particular case of the *empreiteiro*, the prevailing view is that this kind of intermediary, pejoratively called *gato* (cat in Portuguese), is a mere fake, an artifice created by the *latifúndio* in order to elude the Labor Laws.

However, as shown by the field research underlying this paper's analysis, the *empreiteiro*'s activity goes much beyond mere "intermediation of labor"; it is, instead, a kind of intermediation of *activities* or *tasks*, i.e., parts or stages of the process of production. This kind of intermediation, by the way, is a phenomenon that became very frequent in the urban sectors of the Brazilian economy after the opening-up of the economy in the decade of the 1990s, but which has always existed in the Brazilian agriculture. It just takes different shapes in industry and in agriculture. In the industry, such an intermediation of tasks (the so-called outsourcing or third-partying) usually takes place outside the firm, while in agriculture the "tasks" occur *within* the farm, giving the impression that the activity is actually commanded by the farmer himself.

To argue that the *empreiteiro* is just another form of "cat", at the (hidden) service of the *latifúndio*, is akin to admitting that farmers can, in fact, directly contract the labor force that they need and take on

all the responsibilities that today are assumed by the *empreiteiro*. This is simply untrue, especially in a continental country like Brazil. Thus, if the intermediary is a mere “cat”, a “fake”, it is a fake created not by the farmer, but by all those that strive to punish this activity - labeling it illegal, notwithstanding all positive social and economic roles that can be derived from it.

Finally, it is worth noting that the restriction imposed on *empreiteiro*'s activity affects much less larger farmers, such as those running sugar mills, than smaller farmers, for obvious reasons. But even large farmers, however, use the *empreiteiro*, as shown in the field research underlying this paper<sup>4</sup>.

## 5. “LABOR SURCHARGES” VERSUS “TRANSACTION COSTS” IN THE ANALYSIS OF BRAZILIAN AGRICULTURE

One way of synthesizing the analysis so far presented is by saying that the agricultural labor policy instituted in the 1960s introduced a distortion in the agricultural labor market. Labor suddenly became very dear to employers, although, from the worker's point of view, wages were kept low, or may even have fallen. This caused a great divergence (a “wedge”) between the labor social cost (the wage received by the worker) and the private labor cost (the labor cost to the employer).

It is interesting to note that standard analyses of urban labor markets usually work with the concept of “wedge”, to the point of estimating the magnitude of the difference between the cost of labor for the employer and the income actually accruing to the worker. Camargo (1996), for example, estimates this wedge in 99%, while Pastore (1995) estimates it in 102%. Since this difference is usually due to taxation on labor, this wedge is commonly called a “fiscal wedge”, as can be seen in Ulyseia & Reis (2006), for instance. Reis & Ulyseia (2005) present a synthesis of the literature on this and other issues related to labor markets in Brazil.

However, the “fiscal wedge” denomination is not totally adequate, since these labor charges are not taxes. As shown by Haddad (2005), these labor charges, even making labor cost much higher

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<sup>4</sup> Note that the issue of the inappropriate extension of Labor Legislation (CLT) to the seasonal agricultural labor market is not discussed here for the reason of space, but has been discussed in Rezende & Kreter (2007a).

than the “basic salary”, represents an advantage to workers, even if only for the future, as opposite to income tax, for example. Therefore, as demonstrated by Amadeo (2006) in a very clear way, the outcome of these labor charges is to lower the “basic salary” as a result of this “wedge”, making “employment rights” for workers a great illusion.

An issue closely related to the creation of this “fiscal wedge” by the labor laws is that of the informal labor market. According to the literature on the subject, the informality in the labor market would represent a kind of a “pact” between the firm and the worker, since, at the same time, it would reduce labor cost for the employer and increase the net salary earned by the employee.

This literature shows us that the informality in the labor market is usually associated to a more general informality of the firm as a whole, which includes lack of registration in competent agencies, absence of tax payments, etc. On the other hand, some labor market analysis usually defines agricultural labor market informality in a different way from that adopted in this paper, since they include autonomous agricultural producers, which are not employers or employees. However, there are several informality concepts in the labor market, as presented by Pinheiro & Saddi (2005, pp. 532-533). Nevertheless, in this paper a more restricted definition for labor market informality as employment with no labor card is used.

On the other hand, age retirement guaranteed by government – even with no workers’ contributions – also favors the increase of informality in the labor market. Rural worker, in special, would prefer much more an informal work, since the contract registration in his labor card would imply a lost in social benefits (*bolsa familia*, for example), and hardly would give him retirement rights, by contributions. Additionally, not contributing to the INSS does not prevent him from having access to rural retirement since the 1988 Brazilian Constitution, where the figure of the “segurado especial” has appeared; even with no contributions, he can receive the minimum wage after 60 years old (for men) and 55 years old (for women). Therefore, a couple can accumulate two retirements, by giving evidence of employment in any agricultural activity, which is very simple to do. In contrast with the urban sector, the 1993 Social Assistant Organic Law (LOAS in Portuguese), established for retirement “70 years or more”, age reduced to 67 years old and later on to 65 years.

The generosity in rural retirement's concessions since the 1988 Brazilian Constitution, along with other government expenditures with public servants, according to Gomes (2001), resulted in the creation of an "economy without production" situation in the rural Northeast. It should be noted that this "economy without production", that was inflated by an enormous quantity of "bolsas família" after 2003, will be reinforced by a new government program called "Territórios da Cidadania".

However, on the other hand, this literature on informality in the labor market is not taking into account that such informal labor market implies a risk to the firm, given the option that the worker has to receive for some time an increased income and later on accuse his employer in Labor Court, in order to receive all rights waived before. This opportunistic behavior by the employee must be very frequent during demission time, and therefore, should bring concern to the employer.

The complete absence in the consideration of this "hidden passive" risk in the informality analysis is clearly shown in Ulyseia & Reis (2006, p. 8). For example, they limit their study to a two sector model (formal and informal), where the only different institutional aspect among them is labor taxation. Pinheiro & Saddi (2005, cap. 10), as well as IPEA (2006, cap. 4), also present a didactic and complete analysis of how the Brazilian labor legislation foments informality in the labor market. However, almost no attention is given to additional "transaction costs" that arise in this labor market as a result of illegality, opportunistic behavior and everything else that gives place to "transaction costs". In reality, informality in the labor market is a synonymous of illegality; it is an institutional context completely different from a legal institutional context that prevails in the formal labor market, and this fact cannot be left out of the analysis.

All this discussion about the labor market helps us to better explain the "wedge" components created by the labor legislation in the Brazilian agricultural labor market, between the wage received by the employee and the cost of labor from the farmer point of view.

In the first place, one should point out the labor surcharges.

In the second place, it should be pointed out the administrative costs borne by the farmer in order to satisfy the CLT requirements; as it was noticed, the values of these costs, by labor unit, is greater for small farmers and also include the income lost resulted from farmer trips to nearby cities.

In the third place, as seen before, the labor legislation has created difficulties for the mere working of this market, to the extent that considers illegal the contracting of labor by the *empreiteiro* and creates, therefore, large costs for the farmer, the worker and the *empreiteiro* himself. These costs arise from the impossibility of the several agents to sign contracts among themselves and have these contracts enforced by the State himself. In particular, the farmers and the workers cannot sign contracts with the *empreiteiro*, since the latter is forbidden, by law, to contract directly the worker and, therefore, to establish contracts also with the farmers. The *empreiteiros* themselves, to the extent that cannot hire workers, also run risks, since in the case of Labor inspection, they lose the totality of the investments they have made for the transportation and the maintenance of the workers, not speaking of other items, such as instruments of work supplied to the workers, including *enxadas*, *foices*, and even machinery itself.

Finally, in the fourth place, the Brazilian farmer has been subject, as the Press has shown very frequently, to the charge of the practice of “slave labor”, whose probability of occurrence has become greater since 2003, with the Lula government. This accusation of “slave labor” has included the following consequences, for the farmers: (1) moral damage, involved in the very accusation of exploring “slave labor”, with widespread publication by the press, both national and international; (2) inclusion in the “dirt list” of the Ministry of Labor;<sup>5</sup> (3) absurd charges; (4) perspective of being arrested of the farmer; (5) and, finally, if it is approved a Constitutional amendment in Congress, this accusation would lead to the loss of the land on the part of the farmer, without no payment at all.

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<sup>5</sup> On the meaning of this “dirt list”, see Rezende & Kreter (2007a).

All these transaction costs, especially those associated to the accusation of “slave labor”, raise the labor costs for the employer over and above the mere “labor surcharges”, and are far from being appropriated by the worker.

## 6. SUMMARY AND CONCLUSIONS

While pointing out the negative role played by labor taxes also in agriculture, this paper gave more emphasis, however, to the “transaction costs” that the labor policies created in the agricultural labor market. In fact, it was proposed that these transaction costs may be causing more damage in the agricultural labor market than the “labor taxes”, which are the only aspects focused up to now in the Brazilian labor market, urban or rural. This would be due to the increase in the several forms of risks that this labor legislation is creating to all agents of this agricultural labor market, due to the impossibility of contracts among all these agents, let alone their enforcement.

It is the inadequate institutional setting that creates several forms of transaction costs in the Brazilian agricultural labor market, first and foremost due to the stimulus to opportunistic behaviors by all the agents involved. These transaction costs are borne, ultimately, partly by the farmer and partly by the worker. Whereas farmers have had the option to adopt mechanized techniques, workers have no alternative but to seek employment elsewhere – *i.e.*, in the urban labor markets<sup>6</sup>.

It was shown here, in addition, that in the seasonal agricultural labor market in Brazil, the attraction of informality is very strong, since, for the seasonal agricultural worker, the long run dimension is less relevant, except in very rare cases, like the access to the unemployment insurance. Actually, as it was argued in the paper, in general the non-compliance with the labor legislation is not always bad for the worker, since it is accompanied by a rise in the basic salary. Such informality, on the other hand, not necessarily prevents retirement, since the seasonal worker, besides developing another activity (including subsistence agriculture), has the possibility of retiring without any previous contribution. The concession of this retirement just by age can, however, be lost if the worker presents a formal

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<sup>6</sup> This rural mechanization incentive is a result of the prevailing labor legislation and also from rural credit policy. For a more detailed analysis of the rural credit policy in Brazil, see Rezende & Kreter (2007b).

employment, even if temporary. Thus, there arise two reasons for the worker to prefer informality rather than formality in the labor market, due to the certainty of the retirement by age – very generous, by the way, in Brazil, and extensive both to the man and to the woman individually, as well as to the couple!

It was also pointed out, however, that the situation of illegality in the labor market may stimulate an opportunistic behavior on the part of the worker, since nothing prevents that he, after some time working in an informal way, denounce the employer in the Labor Court. This creates “transaction costs” in this informal labor market that have not been object of analysis of the existing literature, that focus only on the so-called “labor charges”. In particular, these “transaction costs” limit the rise in the basic wage the worker could get due to informality, in view of the uncertainty that accompanies this informal situation and the risk the employer runs.

It was shown here, however, that, in the case of the agricultural seasonal labor market, this attractive of the informality is even greater, due to the fact that, for the seasonal agricultural worker, the dimension of the long run is less relevant, except in very few cases, as the access of the worker to the employment insurance.

This greater incidence of informality in the agricultural labor market, even though this might have an inferior quality of this labor market, makes it very easy for the labor inspectors to find illegal situations, including and especially due to the contracting of labor by the *empreiteiro*. Unfortunately, however, in the long run, the worker will end by being the one that will suffer more from this rigor of Government fiscal activities, for two reasons: first, because the activities that use more labor will tend to be replaced by others that require less labor; and secondly, because, when it is possible technically, this government action will lead to substitution of labor by machine.

The main conclusion of this paper is that changing the actual pattern of agricultural development, in order to reduce current poverty in Brazil, requires a radical change in the existing agricultural labor policy. Nevertheless, this change in labor policy should also be accompanied not only by changes in the land markets, but also by providing to small farmers a greater feasibility of accessing credit, accompanied by a sharp reduction in the rural credit subsidies.

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