MERCOSUL: A COMPARATIVE OVERVIEW ABOUT THE NATIONAL INDUSTRIAL RELATIONS SYSTEMS

1) Introduction

This paper aims to discuss and characterize the elements of the Industrial Relations Systems (IRSs) of Mercosul countries. This initial characterization will serve as a starting point for a comparative IRSs study that will also considerate human resource policies and practices of corporations operating in the region.

We will use one of the approaches of the Varieties of Capitalism. Hall and Soskice (2003) used the lens of the Varieties of Capitalism (VoC) to identify and differentiate current models of economic organization and institutions within the set of developed countries. The authors point to five spheres of relationships: vocational training and education; industrial relations system; corporate governance; employee coordination; and inter-firm relations. These spheres, separately and also through complementarities between them, outline the models of either Liberal Market Economies (LME) or Coordinated Market Economies (CME).

Schneider (2009) undertakes similar effort, but with a focus on Latin America. It finds relevant five institutional spheres: labor relations; education/training for work (skills training); corporate governance; relationship between national firms; and relationship between multinational corporations (MNCs). The model designed by Schneider has features distinct enough to conform to what he calls Hierarchical Market Economies (HME). Latin America has history, culture and economic background quite different from that of developed countries. This region has characteristics and dynamics different from those registered in developed countries.

Schneider (2009) acknowledges the great diversity existent among Latin American countries. Nevertheless, he identifies common characteristics in these economies such as: family owned as well as diversified owned national business groups; presence of MNCs; low skilled labor force; and atomized workplace relationships.

According to Schneider (2009) the combined presence of large MNCs and national business groups with familiar roots produces a business environment often presenting negative complementarities to foster local development.

Aspects such as the low skills of the workforce and low presence of the unions in the plant level of the firms contribute to the high income inequality in the region. This, in turn, constitutes an obstacle to the development of local markets.

Regarding to the management of organizations, Schneider points to the high prevalence of the hierarchy as guiding corporate governance. The lack of dialogue with stakeholders outside the organizations or even within the closest circle of business owner groups leads to a kind of management that is not open to both the more competitive negotiations of the LME model and to the more socially structured negotiations of the CME model.

Especially about the human resources management (HRM) policies and practices in the region there is a chronic lack of researchs. Elvira and Davila (2006) already pointed out that, despite the economic importance of Latin America, there were few specific HRM studies about the region.

The rare studies usually deal with case studies of national firms that are taken as representing the country itself. In another line of studies, there is also scarce research on an isolated sector in a single country and almost none international comparative studies about the region. This situation is observed even when the regional approach is restricted to an already existing economic bloc in the region as Mercosul.

Our bibliographic review (for journals with an impact factor equal to or greater than 1.3 and without temporal restriction) on the production of papers combining the key words "HRM" or "SHRM" and involving all or part of the countries of this block - Argentina , Brazil, Paraguay and Uruguay - found only five articles (Friel, 2011; Arrau, Eades & Wilson, 2012; Bello-Pintado, 2015; Cristiani, Peiro, 2015; Ugarte, 2017).

Despite the scarcity of research and/or dissemination of studies on HRM, it is assumed that the HRM practitioners community is present and articulated in the countries of the economic bloc. The presence of national rankings regarding the quality of HRM management and / or job satisfaction in the four countries attest to this assumption (Great Place to Work, 2018).

Based on the approach of Capitalism Varieties as presented by Schneider and pointed out earlier the objective of this work is to demarcate the characteristics of the IRSs of the Mercosul countries. The characterization carried out here will provide a starting point for national comparative research on employment relations and HRM policies and practices of corporations operating in the region.

2) General overview of Industrial Relations Systems elements

We are talking about neighboring countries that differ in geographic dimensions, languages, population and economy. While Argentina, Paraguay e Uruguay suffered the colonization process under Spain, Brazil took it from Portugal. The driving force of the Mercosul region, Brazil´s GDP (the 9th in the world) is more than three times the Argentina´s GDP and more than thirty times Paraguay´s and Uruguay´s GDPs (see Table 1 further ahead).

On the other hand, Latin culture is a common ground to all these four countries. Brazil, Argentina, Paraguay and Uruguay also have experienced through their History long periods of dictatorships, populism, "caudilhos" (a deadly local mixture of dictatorship and populism) as well as dramatic and cruel liberal shocks on economy. The longest dictatorship among these four countries happened in Paraguay. The caudilho Alfredo Stroessner was the supreme dictator during 35 years until 1989. His Colorado Party, the main political force in Paraguay for the last 70 years, elected in 2018 Marito Abdo, a liberal oriented politician who is son of an old politician from the dictator Stroessner closed circle.

In Argentina, strong ties prevailed for most of the second half of the 20th century between trade unions and the State ruled by the Peronist Party (populist ruled by the caudilho Perón for decades on). The adoption of neo-liberal policies disrupted this political system, bringing fragility to unions during the 1990s (Levesque et al, 2015; González & D'Urso, 2018).

In Brazil, the same strong ties between trade unions and the State prevailed as in Argentina, from the beginning of the 20th century under the dictatorship of the populist caudilho Getúlio Vargas (1930s to 1945). The 19 subsequent democratic years were dominated by populists (among them the same Vargas again, now elected) very attached to official trade unions that went on depending heavily on the State (Carvalho Neto, Amorim & Fischer, 2016). The following military dictatorship repressed even the official populist trade unions. Following the end of the military dictatorship period the trade unions in Brazil lived a golden decade of reorganizing and significant rise in political power and bargaining power. As in Argentina, the adoption of neo-liberal policies brought fragility to unions during the 1990s.

However, since the early 2000s, the left turn in Argentina (Levesque et al, 2015) and in Brazil (Carvalho Neto, Amorim & Fischer, 2016) produced numerous labor policies favorable to workers dealing with income distribution, social security and legal protection. The left turn brought back the unions´ protagonism in Argentina (González & D'Urso, 2018) and in Brazil (Carvalho Neto, Amorim & Fischer, 2016). Brazil, Argentina, Uruguay (and Paraguay during a much minor period in comparison) experienced political changes towards regulation in economy under "neo –developer" governments that sponsored more State intervention on economy and labor relations. From 2000 to 2015 these four countries presented a huge improvement in their economies and a significant drop of unemployment rates as well as the strengthening of trade unionism (González & D'Urso, 2018).

From 2015 Brazil and Argentina once again have been experiencing liberal governments, with the impeachment of President Dilma Roussef and the election of Maurício Macri, respectively. In Uruguay the left front remained in power, winning new elections with Tabaré Vázquez succeeding to the charismatic José Mujica. In Paraguay for at least fifteen years a liberal economic policy has been maintained, and it has not been modified even during the brief rising of the left to power for a few short years (the liberal current is now ruling Paraguay again).

In both Argentina and Brazil, after the advent of the Macri and Temer liberal governments after 2015, the trade union movement has faced enormous challenges.

In Argentina, unbearably high inflation and the liberal shock in the economy coupled with the inclusion of labor rights flexibility and the establishment of wages increases below the inflation index have posed enormous challenges for trade unions, which, even if weakened in relation to the previous situation, managed to organize mass demonstrations of popular protest (González & D'Urso, 2018).

In Brazil, the approval by the national congress of the greater flexibility of workers' rights in the last seven decades represented a hitherto unthinkable and enormous defeat for the trade union movement in the private sector, and the policy of containing state spending has been strongly affecting workers in the public service.

3) Comparative economic features of the Mercosul countries´ IRSs

A common economic characteristic of these four countries is that they are all commodity exporters, having relatively high international trade exposure in goods and services with emerging markets such as China, India and Russia. They are not as dependent on industrialized economies from West Europe and USA as other Latin American countries (Izquierdo & Talvi, 2011). Table 1 shows the indicators in recent years, from 2015 to 2017.

Table 1. MERCOSUL countries main economic indicators 2015; 2016; 2017

Statistics		Brazil	Argentina	Paraguay	Uruguay
Population (million)		207,7	44,7	6,8	3,5
Gross domestic product – Annual growth rate (%)	2015 2016 2017	-3.5 (2015) -3.5 (2016) 0.9 (2017)	2.6 -2.2 2.9	3.0 4.0 4.0	0.4 1.5 3.0
Per capita gross domestic product - Annual growth rate (%)	2015 2016 2017	-4.4 -4.3 0.1	1.6 -3.2 2.0	1.6 2.8 2.8	0.0 1.1 2.6
Consumer prices - Annual growth rate (%)	2015 2016 2017	10.7 6.3 2.7	27.5 38.5 22.9	3.1 3.9 4.9	9.4 8.1 6.0
Open urban unemployment rate – Annual average percentage (%)	2015 2016 2017	9.3 13.0 14.5	6.5 8.5 9.0	6.5 7.7 8.7	7.8 8.2 8.4
Current account balance – (millions of US dollars)	2015 2016 2017	-59 434 -23530 -11938	-17 170 -14 533 -26 853	-301 415 -802	-395 888 1661
GDP Ranking value – (millions of US dollars)	2016	1 796 186	545 476	27 424	52 419
GDP Ranking – Position among 200 countries	2016	9	21	98	78

Sources: Economic Commission for Latin America and the Caribbean (ECLAC, 2017); World Bank GDP Ranking, 2016; IBGE, 2018.

The labor markets of Argentina and Uruguay during the last 20 years have moved from intensive manual tasks to performing cognitive tasks. The adoption of robotics permits the substitution of manual labor in certain tasks (Apella & Zunino, 2017). Brazil, as the main, most complex and most developed economy among these four countries, has moved in this direction even before.

The driving force of the Mercosur region, Brazil is one of the biggest and more complex economies in the world (the ninth). Following a deep recession in 2015 and 2016, there are signs that the contraction in Brazilian GDP has ended, with annual growth of 0.9% in 2017 (see Table 1). Inflation has reduced sharply (to 2.7%) and continued to decline, leading to a substantial reduction in the nominal basic interest rate. However, we cannot talk about a sustained improvement yet. Despite fiscal adjustment efforts, the public deficit remains high. Consumption and investment are still lower than the levels seen in 2014, before the crisis, and public investment has reduced sharply. The unemployment rate is too high (ECLAC, 2017).

The GDP in Uruguay has been growing during the past 15 years, as in Paraguay. The unemployment rate in Uruguay held at around 8%. In spite of that, real wages rose significantly. The GDP is expected to grow by about 3% in 2018 as result of the continuation of the favorable conditions that fueled the current year's growth in output and because of the recovery of public infrastructure investments (ECLAC, 2017). Uruguay is the only country among the four here discussed that still experiences a long term left oriented government.

GDP in Argentina expanded during 2017 (after a huge economic crisis) due to public social spending and investment as well as to the slight upswing in the Brazilian economy (Argentina depends on it heavily). Nevertheless, the inflation rate is still impossibly high. Unemployment is high and mounting (see Table 1). The fiscal as well as the current account deficits were financed by a marked increase in external borrowing in 2017, which also underpinned an increase in international reserves. The account deficit widened in 2017, standing at 4.2% of GDP in the first half of the year (ECLAC, 2017), what led in 2018 to the return of the country as a debtor of International Monetary Fund.

The GDP in Paraguay has been growing steadily during the last 15 years at a medium rate of 4.5% per year. Since 2003, poverty has dropped from 50% to 28%. According to ECLAC (2017), the soybeans exports and the “maquila” (same as the Mexican model) industries oriented to the Brazilian and Chinese consumer markets (foodstuffs, textiles and apparel, paper, chemicals and base metals) as well as the financial paradise for Brazilian and Argentinian capital investors are the cornerstones of the economic model, together with cheap and docile labor.

To sum up, at the macroeconomic level, the IRSs features of the Mercosul countries show some convergences, even if there are deep economic differences between the four countries.

All these four countries are commodity exporters and have strong ties with China. This common characteristic makes them more independent on industrialized economies from West Europe and USA than other Latin American countries.

Brazil, Argentina, Paraguay and Uruguay have experienced through their History periods of similar political turmoil: dictatorships, populism, “caudilhos” as well as dramatic (and sometimes cruel) liberal shocks on economy.

Since the early 2000s, the left government turns in Argentina and Brazil produced numerous labor policies favorable to workers and brought back the unions´ protagonism. From 2015 Brazil and Argentina have been experiencing liberal governments who produced labor policies against workers´ rights and cuts of public expenditure on social programs. Since 2015 unions are facing enormous challenges in both countries, such as sharp increase in unemployment and funding losses.

On the other hand, the GDP both in Uruguay and in Paraguay has been growing steadily during the past 15 years. In Uruguay the left that has been in charge is pragmatically market oriented but keeps social and developing programs while in Paraguay the liberal governments produced a highly deregulated economy.

These features found in the economic comparison presented here show Brazil and Argentina as experiencing acute economic crises (Argentina is even worse than Brazil), while Uruguay and Paraguay have been living through a decade and a half of economic growth.

4. Comparative labor regulation, union role and collective bargaining features of the Mercosul countries´ IRSs: Hierarchical-Market models in turmoil?

In view of the more general macroeconomic framework above presented, the following table shows the general characteristics of the IRS of the Mercosul countries in recent period. The chosen framework for the description is the role of unions, general characteristics of collective bargaining and aspects related to the legal and institutional regulation of labor relations. The last column shows important recent changes in the general rules of these IRS.

Table 2 – – **Mercosul - Industrial Relation Systems - Main Features**

Countries	Unions Role	Collective Bargaining	Labor Regulation (law and institutions)	Main recent changes
Argentina (Gonzales & D'Urso, 2018)	Centralized representation of workers in collective bargaining. Strong interaction with political parties.	Centralized collective bargaining and increasing number of agreements in the private sector until 2014.	Reorganization of legislation (2004) revitalizes centralized collective bargaining and labor rights (National Council of salaries)	Institutional reforms of liberal bias and flexibilization of industrial relations. Initiatives to weaken trade unions.
Brazil (Carvalho Neto & et al, 2016|)	Representation of workers by professional category and geographic region, low union presence at company level. Interaction with party political life intensified between 2003 and 2014.	Collective bargaining covers all formal contracts in the private sector.	Labor regulation (1943) defines labor rights and the way trade unions and labor relations operate. Beginning of flexibilization in the 1990s.	Labor reform (2017) of liberal bias, flexibilization of hiring rules and weakening of trade unionism. Reinforcement of individual forms of contracting.

Paraguay (LO,2014)	Fragmented representation at company level. Competition between unions.	Only reaches 4% of private sector workers.	Unprotective labor legislation for union action.	A general strike happens for the first time in 2013. Social dialogue begins to be practiced.
Uruguay (Cristiani & Peiró, 2015)	Collective bargaining with companies; participation in forums with companies; participation in national tripartite negotiations.	Reaches 75% of private sector workers.	Neo-corporatism Tripartite system (National Wages Council).	Labor Reform (2005) strengthened trade unions and collective bargaining.

Sources: Cristiani & Peiró (2015), LO (2014), Gonzales & D'Urso (2018), Carvalho Neto & et al, 2016|

A first aspect to be observed is that recent changes in the economic environment of Latin America and also in the Mercosul countries have reached the sphere of labor relations. As observed in the previous table, in all countries processes of reordering or re-arranging of labor contracting occurred at the individual and collective levels.

In Argentina, Brazil and Uruguay the leftist governments, more aligned with unions as political actors produced at least two concomitant phenomena: the expansion of union action and the reinforcement of the importance of labor relations. In the case of Paraguay, given the weaker presence of the unions on the national scene, this movement occurred much more timidly and without affecting the local IRS.

Another important aspect to be highlighted is that the two largest countries in the region have experienced significant changes after 2014 in the regulation of hiring and even labor relations in a more general sense. Argentina and Brazil, through different paths, experienced the change of their political orientation from 2016 with the beginning of the Macri and Temer governments, respectively.

Thus, while the smaller countries of the region - Paraguay and Uruguay - maintained the general characteristics of their IRS models, Argentina and Brazil underwent important changes in labor legislation.

In Argentina, the balance of power shifted strongly to the employers side through the more interventionist action of the State in the definition of the national minimum wage, in establishing limits to the wage clauses of the collective bargaining and even in the greater restriction of the strikes organized by unions (Gonzalez & D'Urso, 2018). In the Brazilian case, the changes were more radical and reached more than 100 laws of the old (since 1943) Brazilian labor code of law (Krein, 2018). The labor reform had a broad spectrum of measures in regulating flexible forms of hiring, restricting forms of union financing, reducing the scope of Labor Justice, and shifting labor legislation toward a liberal bias in which the employment relationship is more akin to a common exchange ratio in the market.

Within the scope of this paper it is interesting to compare the IRS of the region and its respective changes with the model described by Schneider as Hierarchical-Market Economy. As in the Hall & Soskice (2003) approach, in addition to analyzing the institutional spheres of the countries, it is important to observe the complementarities arising from them.

The table below shows the hierarchical and market characteristics presented in Table 2 in each country. In addition, from a longitudinal perspective, the complementarities possible from the changes in the respective IRS are also presented.

Table 3 – Mercosul - Recent Changes – Institutional Complementarities

Countries	**Hierarchy**	**Market**	**Complementarities (positive/negative)**
Argentina	State interferes by creating barriers to union action or limits to negotiated contents.	Flexibilization of labor rights.	Commoditization of labor, fall of workers' income, concentration of income.
Brazil	Reinforcement of the position of the companies in the labor market, reduction of protection to union activity by the Labor Court.	Flexibilization of labor rights, reinforcement of the individual hiring of labor.	Commoditization of labor, more sudden adjustments in the labor market, concentration of income.
Paraguay	Companies in a position of predominance in the definition of forms of hiring labor.	Recent changes are insufficient to attenuate market orientation in labor relations.	Persistent economic growth, but with persistent concentration of income.
Uruguay	Less hierarchical labor relations due to	Recent changes have introduced more	Persistent economic growth is accompanied

	the existence of coordinated negotiation spaces.	mechanisms of economic coordination (decreasing market-oriented relations).	by per capita income growth.

Table 3 shows that the recent changes in the IRS of Argentina and Brazil reinforced the hierarchical and market aspects previously perceived in Schneider. This is because, on the one hand, the reforms carried out, especially at a time of economic crisis, have made the balance of institutional bargaining power shift strongly in the direction of the employers (Brazil) and in the direction of the State itself (Argentina) to the detriment of the union actor. In this way, the reforms carried out in the two countries reinforced the market features normally associated with the functioning of labor markets in Latin America, as well as the hierarchical traits associated with the institutions in their more general sense.

It follows from this picture that the complementarities expected in these two countries also accentuate the negative bias observed by Schneider. This negative bias is accentuated by the fact that the prevalence of market logic without a combat or attenuation of the hierarchical profile of societies is strongly inducing social inequality and income concentration.

With regard to the other two countries - Uruguay and Paraguay - it is interesting to note that both countries have a positive economic period. In the case of Uruguay, the observed complementarities have a positive bias, since at least in terms of per capita income the country's behavior has been positive. In the Paraguayan case, per capita income growth has also occurred, but at a pace that is systematically lower than that found in the country's economic growth, that is, without the condition of reducing inequality occurring in an expressive way.

There is great disparity in the size of the four economies of the Mercosul region. It is possible to consider that, in a more general sense, between Argentina and Brazil, preserving its specificities, there is a kind of alignment in the labor relations environment in terms of greater flexibility in the hiring of labor.

Final considerations: consequences for HRM?

In the attempt of this paper, it is important to verify what kind of consequences these institutional characteristics bring to HRM in the four countries studied. On a preliminary basis, the available initial evidence points to an ongoing dissemination of HRM practices (Elvira & Davila, 2005; Bello-Pintado, 2015).

Evidence is given by the ever stronger presence of MNCs from outside Latin America in the region. As reported by the literature, MNCs are strong drivers of the dissemination and standardization of HRM policies and practices (Elvira & Davila, 2005; Friel, 2011).

Initially, MNCs operating in the region originated in the United States and in the United Kingdom. More recently one can see the arrival of MNCs from Spain, Portugal and, most decisively, from Asia, particularly from China. As discussed previously in the economic features, China has been more and more a major economic and commercial partner of Brazil and Paraguay.

In addition, in another recent phenomenon, there has been a strong movement of MNCs originated in Latin America operating in the Mercosul region. The Brazilian, Argentinian, Chilean, Colombian and Mexican MNCS have gradually become more present in the region's business environments (Arrau, Eades & Wilson, 2012; ECLAC, 2018).

Another evidence of the spreading of HRM policies and practices in the Mercosul region can be found by the mounting presence of rankings of companies organized according to the quality and quantity of their best policies and practices (http://greatplacetowork.com). These rankings attest to at least the existence of a market of knowledge about the HRM area between the companies that operate in the region. The simultaneous presence of some of these MNCs in the rankings of best place to work in the four countries reinforces this perception.

The issues to be further investigated from the data discussed in this article are several. One could be whether the dissemination of HRM policies and practices in an institutional setting that emphasizes the hierarchical and market characteristics of labor relations will also produce some kind of convergence in these practices.

For example, in Brazil and Argentina, two countries that are experiencing drastic changes related to the flexibilization of labor legislation and in reducing State protection to union action, would HRM produce more diverse or similar policies and practices?

A second question would be whether the rather different institutional environments presented in Paraguay and Uruguay would generate diverse or similar HRM policies and practices.

A third question could be, since Paraguay has been already a rather liberal economy without labor rights for decades on, in what measure will Brazil and Argentina follow the trend of liberalization from Paraguay?

These findings lead us to conclude that these frameworks may produce different ways of operating companies in these four countries and will serve as a starting point for national comparative research on HR policies and practices of large companies in the Mercosul region.

References

Apella, Ignacio & Zunino, Gonzalo. (2017). Technological Change and the Labor Market in Argentina and Uruguay: A Task Content Analysis. *World Bank Policy Research Working Paper* 8215, Social Protection and Labor Global Practice Group, October 2017.

Arrau, Gregorio Perez; Eades, Elaine & Wilson, John (2012) Managing human resources in the Latin American context: the case of Chile. *The International Journal of Human Resource Management*, 23:15, 3133-3150

Bello-Pintado, Alejandro (2015). Bundles of HRM practices and performance: empirical evidence from a Latin American context. *Human Resource Management Journal*, Vol 25, no 3, 2015, pp 311–330

Carvalho Neto, A., Amorim, W. A. C., & Fischer, A. L. (2016). Top Human Resources Managers Views on Trade Union Action in Brazilian Corporations. *Brazilian Administration Review*, 13(4), 1-23.

CEPAL/ECLAC. (2018) O investimento estrangeiro direto na América Latina e Caribe. Santiago: CEPAL.

Cristiani, Alvaro & Peiró, José María. (2015) Human resource function strategic role and trade unions: exploring their impact on human resource management practices in Uruguayan firms. *The International Journal of Human Resource Management*, Vol. 26, No. 3, 381–400

ECLAC (CEPAL). (2017) - Economic Commission for Latin America and the Caribbean. *Preliminary Overview of the Economies of Latin America and the Caribbean*.

Elvira, Marta M.; Davila, Anabella (2005). Special research issue on human resource management in Latin America. Int. J. of Human Resource Management 16:12 December 2164–2172

Friel, Daniel (2011). Forging a comparative institutional advantage in Argentina: Implications for theory and praxis. *Human Relations* 64(4) 553–572

González, Cecilia Senén & D'Urso, Lucila. (2018). Relações laborais na Argentina logo após o kirchnerismo (2003-2015): Entre a participação e o retrocesso sindical. *Tempo Social, Revista de sociologia da USP*, v. 30, n. 1, pp. 129-155, Abril 2018.

Hall, P.; Soskice, D. (eds.)(2003) Varieties of capitalismo – The institutional foundations of comparative advantage. Oxford: Oxford Press.

Izquierdo, Alejandro & Talvi, Ernesto. (2011). *One region, two speeds?* : Challenges of the new global economic order for Latin America and the Caribbean. Inter-American Development Bank.

Krein, D. (2018). O desmonte dos direitos, as novas configurações do trabalho e o esvaziamento da ação coletiva: consequências da reforma trabalhista. *Tempo Social*, *30*(1), 77-104.

Levesque , Christian; Bensusán, Graciela; Murray, Gregor; Novick, Marta; Carrillo, Jorge & Gurrera, Silvana. (2015). Labour relations policies in multinational companies: A three country study of power dynamics. *Journal of Industrial Relations*, vol. 57(2) 187–209, Australian Labour and Employment Relations Association.

LO/FTF Council (2014). Paraguay – Labor Market Profile. Danish Trade Union.

Schneider, B.R.. (2009) Hierarchical market economies and varieties of capitalism in Latin America. Journal of Latin American Studies, 41. pp 553-571.

Ugarte, Sebastian M. (2017). The gender pay implications of institutional and organisational wage-setting practices in Banking – a case study of Argentina and Chile, *The International Journal of Human Resource Management*