

Labour Market Inequality in Brazil and India: a Comparative Study

# Growth Regimes and social policy in India and Brazil

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**CEBRAP**

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# Structure

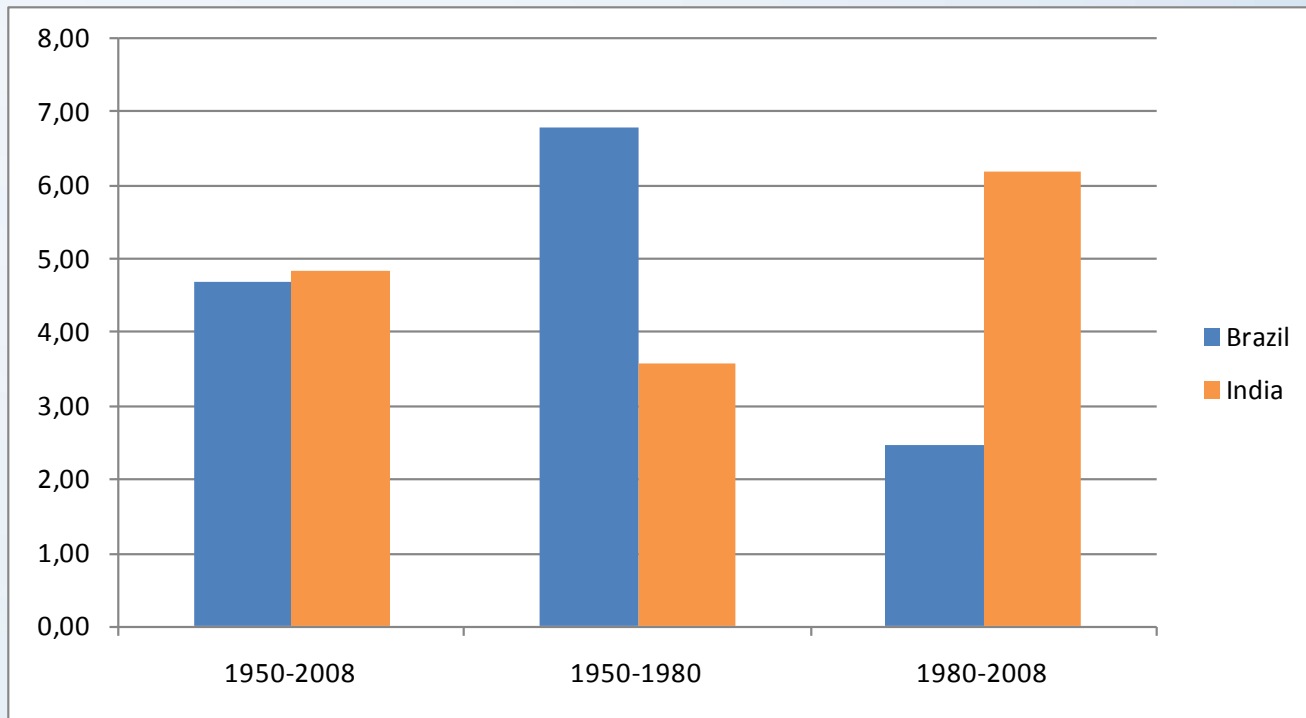
- Research Methodology
- Brazil and India as Mirror Images
- The Period up to 1980s
- Growth Regimes in Brazil and India since 1980
- Overall Trends in Poverty and Inequality
- Social Policies
- Some Priorities for Research and Debate
- Back to the Big Picture: Challenges Ahead

# Research Methodology

- Comprised of **different tools**: historical/comparative approach, in-depth quantitative work for the recent period, policy reviews (minimum wage and vocational training) and policy dialogue with civil society
- **Leading idea**: Brazil and India, one as mirror image of the other. Reciprocal comparative method: there is no unique growth regime, changes over time can be looked by having one country as a frame of reference for the other.
- The outcomes are not defined from the outset: economics, politics and history intertwined!
- Key components of growth regimes
  - Integration in international economy
  - Competition regime
  - Wage labour relations
  - Agrarian system
  - Monetary/fiscal regime
  - Role of the State

# Brazil and India: One as Mirror Image of the Other

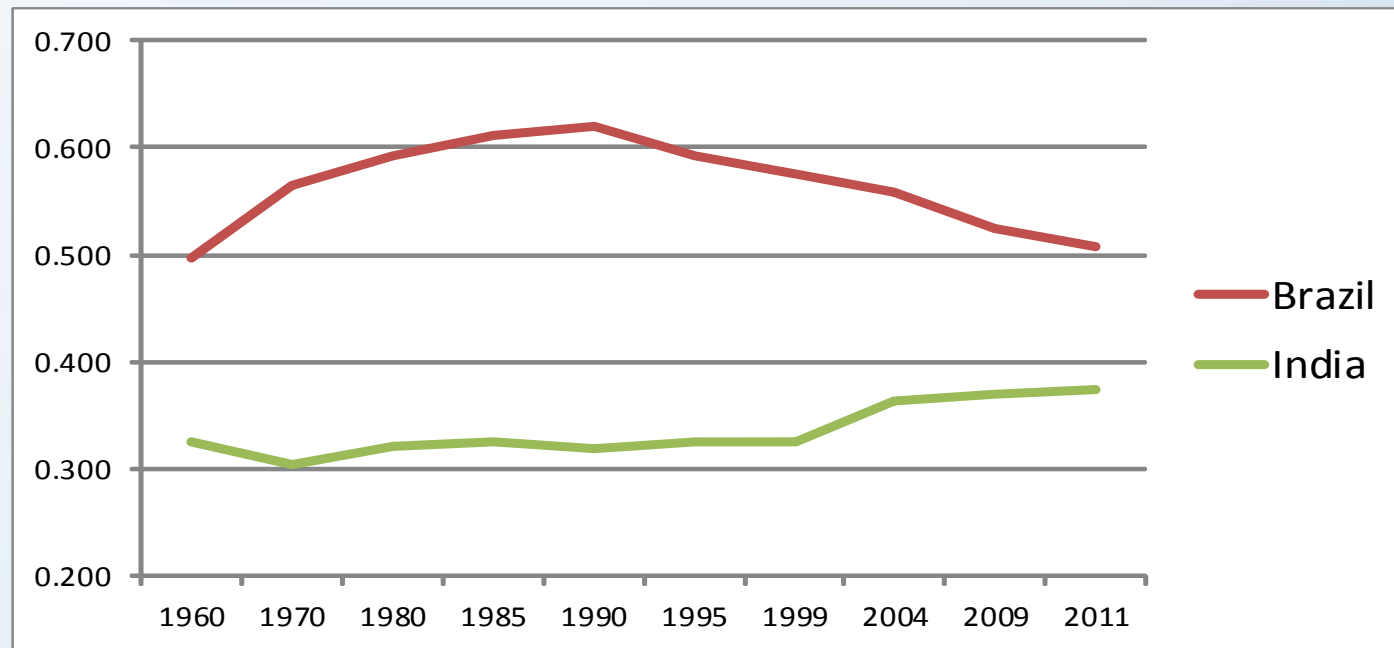
## Real GDP growth (% per year)



From 1950 to 1980: Brazilian high growth and the “Hindu rate of growth”; from 1980 onwards: the opposite!

# Brazil and India: One as Mirror Image of the Other

## Inequality and growth regimes



- Gini coefficient Brazil – income; Gini coefficient India - expenditure
- Inequality depends on labour market structure, capital accumulation, role of the state and social policy

# The period up to 1980

- There was high growth over several decades in Brazil. By 1980 it was a very diversified economy, the large industrial park of the developing world, leading to selective modernization of agriculture and services
- There was significant creation of jobs in the industrial and service sectors (70% of all jobs in 1980 as opposed to 40% in 1940)
- A fall of absolute poverty coincided with increase in personal and functional income inequality (most unequal country in the world at its per capita income level!)
- In India, in the decades after after Independence, industrial growth was initially rapid but slowed after the 1960s, narrowly based and not much linkage with the world and the rest of the national economy
- Employment in 1980 still mainly in the primary sector
- Some redistribution mostly from rich to middle classes, but little change in poverty
- In Brazil, increasing inequality within both urban and rural areas, while in India growing inequality between urban and rural areas

# Growth Regimes in Brazil and India since 1980

## Brazil

- 1981-1989 Economic Crisis
- 1990-1999 Economic Liberalization
- 2000-now Internal recovery with redistribution

## India

- 1980-1991 Transitional towards internal liberalization
- 1991-now Liberalizing internally and externally

# 1980 to now: Similarities

- Both countries liberalized externally (India also internally – Brazil had already largely liberalized internally)
- Shift from public to private capital in India - increasingly aligned with Brazil, in which country FDI prevailed in the most dynamic sectors since the late 1950s
- Persistence of large unprotected labour force
- Increasing importance of services
- Oligopolistic production structures especially in industry



# 1980 to now: Differences

- Growth in India accelerated while it declined in Brazil
- Brazil was deeply affected by global economic crises in the 1980s and 1990s while India was not much affected until the 2008 crisis (in this case the impact was somewhat similar to Brazil up to 2013, but weaker)
- FDI remains small in India but important in Brazil
- Inequality in Brazil stabilized until mid 1990s then declined; the reverse in India
- Important social and redistributive role of the state in Brazil from 2003, less prominent in India but some social policy innovations after 2005

# Macroeconomic outcomes, labour market and inequality

- Brazil maintained low and very uneven overall GDP growth mainly in services, also pulled by agribusiness exports (share of manufacturing goes down)
- Brazilian labour market in crisis until 2000 with high unemployment and stagnant wages, but steady creation of formal jobs after 2000 due to the increasing speed of the internal demand
- Brazil, inequality high and stable until late 1990s, declined steadily especially after 2003; poverty rose in the 1980s but then declined slowly until 2003, falling rapidly thereafter
- India boomed, especially after 2000, maintained share of manufacturing but growth concentrated in services and construction
- India, weak formal job creation despite high growth and labour market today remains dominated by casual work and informal employment
- India, inequality rose, especially from mid 1990s to mid 2000s; but absolute poverty declined steadily over the whole period, especially after 2004-05
- in Brazil, wage share started to rise after 2003; in India, it declined substantially and profit share rose

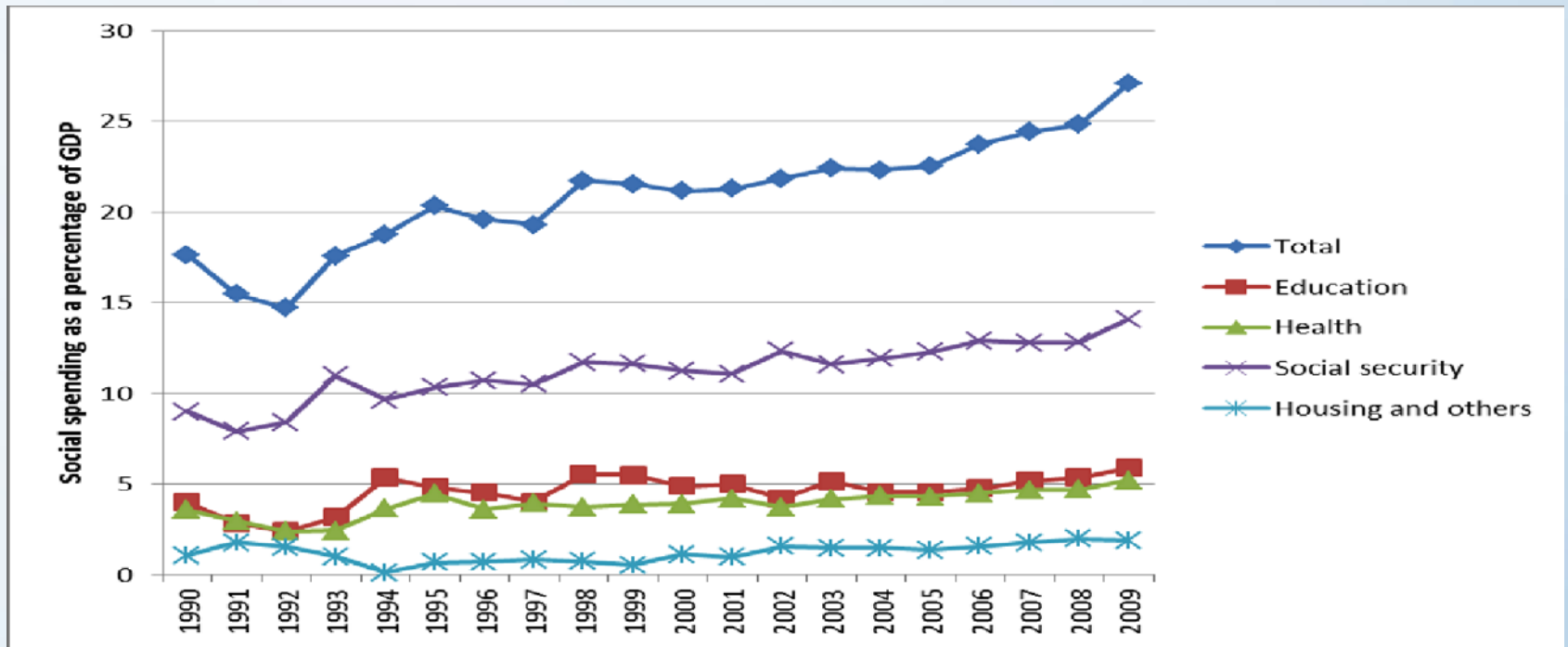
# Overall trends in poverty and inequality

- **Brazil:** GDP per capita resumed growth after 2000, with a rising wage share. Faster rise in incomes of informal workers and self-employed than of formal workers. Due to the increase of minimum wage, formal wage incomes were more evenly distributed. Overall fall of income disparities between whites and non-whites, men and women, rich and poor regions, skilled and non-skilled workers.
- **India:** high GDP growth with declining wage share but also rising real wages. Wages of casual workers, in a more integrated market, rose faster than regular workers, especially after 2005. Gap between urban and rural wages reduced, but inequality increased within each region. Uneven wage pattern across labour market groups – skill and regional gaps increased, caste gaps little change, gender gaps declined.
- **Overall:** The paths over time of poverty and inequality were different in the two countries. Brazil, once the world champion of inequality, reduced disparities after 2000. In India, a rapid increase of GDP led to rising incomes for the majority of the population, but the most disadvantaged regions and groups fell behind in relative terms. These outcomes reflect differences in the growth regime, labour markets and social institutions/policies.

# Social policies

- Difference between India and Brazil in social policy reflects differences in real income levels but also structural differences (Brazil is more urban, more formal) and political economy (political party in power, role of unions, international integration)
- Social policy includes not only social security, education and health but may also include labour market interventions (minimum wages, skills development), actions to protect citizenship rights, etc.
- More resources devoted to social policy in Brazil but approach also different. Some comparisons follow

## Social spending as a percentage of GDP, Brazil, 1990-2009

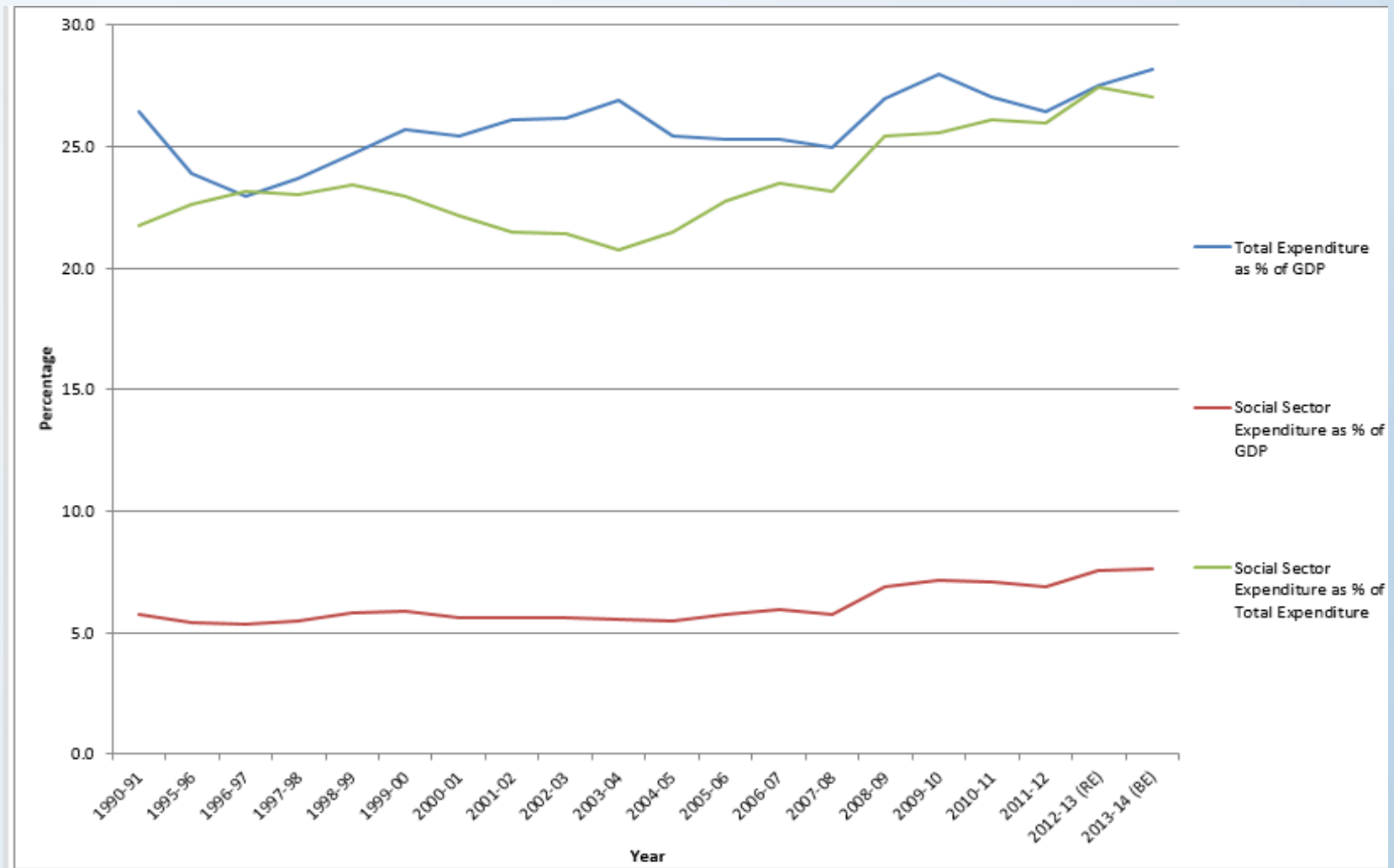


90s saw rising expenditures on social policy, especially on social security.

Years 2000, further shift towards more comprehensive and universal policies and enlargement of the social safety net with “Bolsa Familia Programme” (2003) and others.

Steady rise in GDP devoted to social policy – 18 per cent in 1990 to 27 per cent in 2009, social security from 9 per cent to 14 per cent (compared with total expenditure on social policy in India in 2013 around 7.5 per cent).

# Total government expenditure and social sector expenditure as a proportion of GDP; and social sector expenditure as a proportion of total expenditure, India, 1990-91 to 2013-14



## Social Security and Income Transfers

- **Brazil:** Contributory pension systems and other social insurance for formal workers from the 1930s on, reaching majority of workers by 1980s (growth of industrial working class) but many excluded; shift to universal health coverage and pensions for all since 1988 Constitution
- **India :** Contributory social security for employees since the 50s but limited to small formal sector (less than 10 per cent); non-contributory pensions for older persons, disabled, widows (targetted to poor, quite small amount). Social policy mainly targeted rather than universal
- **Bolsa Familia, the NREGS and the PDS:** Many programmes transfer resources to the poor in both countries, but the Bolsa Familia in Brazil and the NREGS and PDS in India have been especially significant, although playing different roles.



## Bolsa Familia, the NREGS and the PDS

- BF: Targeted Conditional Cash Transfer Programme for poor. Almost 95 per cent coverage. Given to women. Conditions: Health and Nutritional check-ups, enrolment in school, attendance. From 7 \$ to 80\$. In some regions such as Northeast it is particularly significant. One household in four receives some kind of transfer from the government
- NREGS: Guarantees hundred days of employment at set wage, self-selecting, around 2134 million days of work in 2011-12, public works component. Improved participation of backward groups such as SCs and women. Other multiplier effects such as raising wages, awareness of minimum wage. Significant impact on rural poverty, despite issues and regional variations.
- PDS: Subsidised food and other essential items at about 10-20 per cent of actual cost, since independence (but has evolved), targeted at poor. The bedrock of anti-poverty policies in India. Regional variations in implementation.
- Different designs in the two countries, responding to different problems, different perceptions, different forms of mobilization. Both appear to be viable but risk being palliatives and experience probably not transferable. Note the importance of complementary policies such as minimum wages in Brazil



# Rights, Access and Participation: Education and skills

- **Brazil:**
  - Primary education was universalized during the 1990s. Goal of universalization above this level not yet achieved.
  - Quality is an issue at all levels of education, and linkages between different levels of government are not efficient.
  - In the 2000s, increasing investment in vocational training at secondary school and university levels; in addition, some limited pro-poor VET.
- **India:**
  - Near -universal primary education only recently attained. Quality always an issue. Social barriers have continued to exist. Girls still disadvantaged
  - Right to Education 2009 – expansion has affected quality. Inequalities accumulating at the level of secondary and higher education
  - Private schooling accompanied by some improvements in learning, but out of reach for the poorer/ poorest.
  - Vocational training: always on the agenda but fragmented policies not reaching the bulk of workers. Recent interest since the late 2000s may now lead to expansion

Both Brazil and India have faced difficulties maintaining quality and equal access while expanding education systems. And education remains a mechanism for transmission of inequality. Policies for skills have received too little attention and are focussed on a minority of better educated workers

# Rights, Access and Participation: Health and Affirmative Action

## Affirmative action

- In Brazil, affirmative action for blacks, poor and public school students has been introduced at the university level since 2000. Universities have some autonomy in setting rules, but at federal level government is trying to standardize the quota policies. But affirmative action not a major policy instrument, partly because there is no official racial identity
- In India, reservations (caste, community, gender) widespread and growing in Public Jobs, Higher Education and Legislative Assemblies. Highly politicized and effectiveness questioned but deeply embedded

## Health

- In Brazil, health security for formal workers expanded to universalized health system after 1988, though with funding and management problems and the better-off buy in private services
- In India, health facilities are in principal universal but problems of quality and access, insurance limited to formal sector, concentrated in urban areas, focus on family planning. As in Brazil private sector used intensively by those who can pay.

## Summing up

- Insofar as social security is delivered through formal labour market, reach in Brazil has been greater, along with larger resources in general. Non-contributory schemes especially for the rural poor, disabled and elders have risen since the 1990s.
- There is a rural bias in redistributive policies (PDS, NREGS) in India, focus on poverty reduction; but without them inequality would have certainly been greater.
- In Brazil the rights based approach now predominates and has given rise to a near universal social safety net (made up of non-contributory pensions, and cash transfer mechanisms). In India, formal social security has been more or less limited to the organized sector.
- Policies in India have been more targeted with a mixed impact; move towards universalistic (rights based) approach has been slow and partial.
- The State has not delivered in many sectors, leading to a proliferation of private sector services, e.g. in health, education, which provide better services to those who can pay

## Some priorities for research and debate

- Many of these areas have been subject to considerable research (especially NREGA, Bolsa Familia, which have attracted a lot of international attention)
- It is apparent that there is no silver bullet – no one policy is sufficient to deal with problems of labour market inequality and exclusion, a combination of different types of social policy is required
- There are many dimensions of inequality (gender, caste, community, region, etc.) which need particular treatment and are examined in other work under this project
- Strategic role of labour market policies such as minimum wages and skills training in reducing inequalities.

## Back to the Big Picture: Challenges Ahead

- Growth regimes come to an end, meaning they face a crisis and are transformed; or forces within them may, by a process of mutual interaction, lead to a new growth regime;
- Inequality is crucial to understand the challenges faced by overall growing regimes in the two countries;
- In the case of Brazil, internal market has lost its power as an engine of growth and exports are stagnated; Rise of productivity is the main challenge, but it may either deepen or reverse the inequality reduction process. It depends not only on the economic policies undertaken but mostly on the structural changes channelled through the political process.
- While in India, the recent resumption of the high economic growth may either bring about a worsening of inequality, due to the falling of labour share and more income concentration in urban and rural areas, or unleash new policies and institutions that would alter the very nature of the growth regime.