

Labour Market Inequality in Brazil and India: a Comparative Study

Panel 1

Growth Regimes, Macroeconomic Outcomes and Inequality

IHD-JNU Workshop on Understanding Inequality in Brazil and India

Delhi , 17 February 2015



Structure

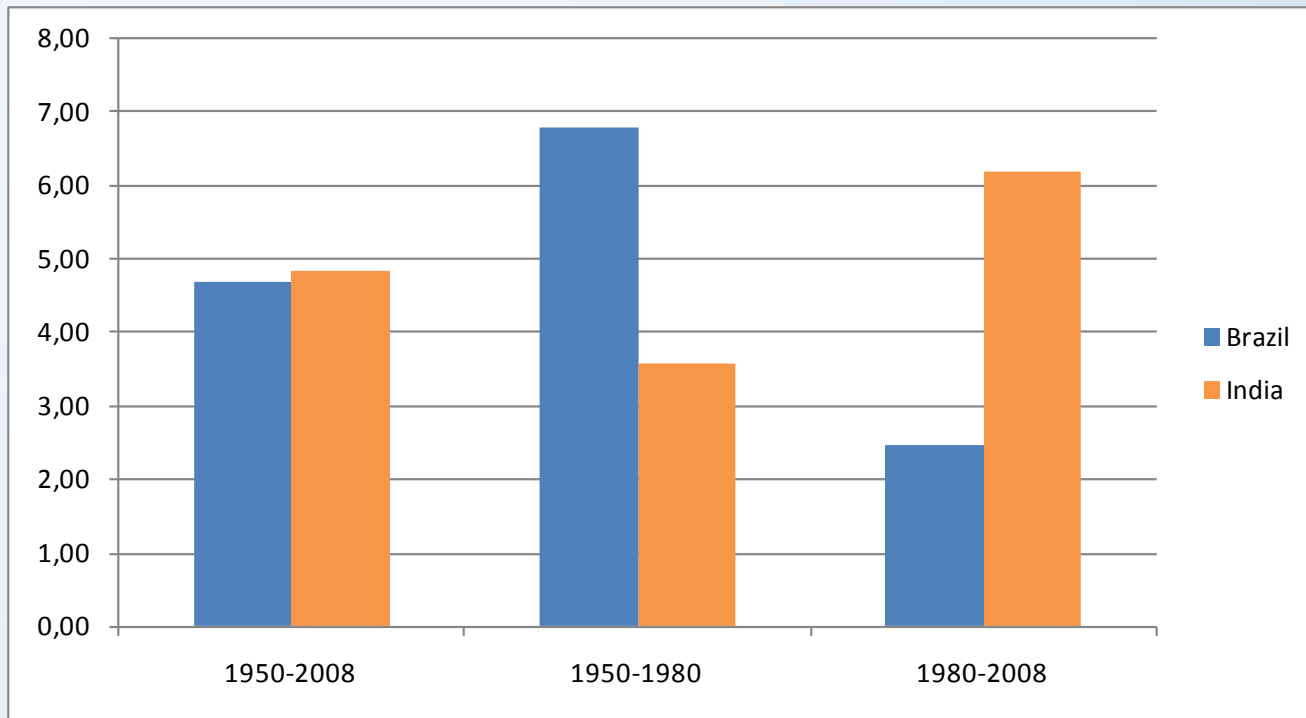
- 1. Main Questions
- 2. Brazil and India: One as Mirror Image of the Other
- 3. Framework For Comparative Analysis
- 3. 1940 to 1980: Similarities and differences in growth regimes
- 4. 1980 to now: Similarities and differences in growth regimes
- 5. Changing Patterns of Inequality over Time
- 6. Challenges Ahead

Main Questions

- Is India the mirror image of Brazil?
- What have been the primary forces driving changes in income distribution in the two countries at different points in time?

Brazil and India: One as Mirror Image of the Other

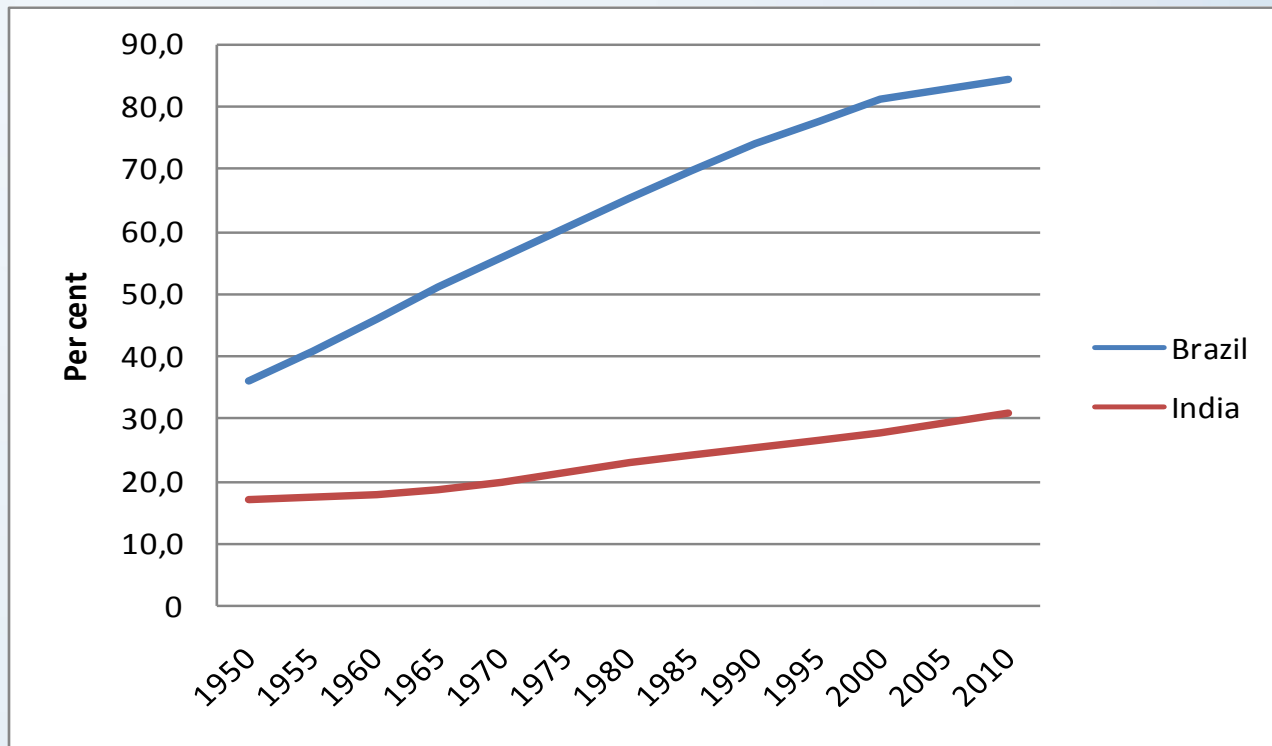
GDP Growth per year in %



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

Rate of Urbanization (Urban as % of total population)

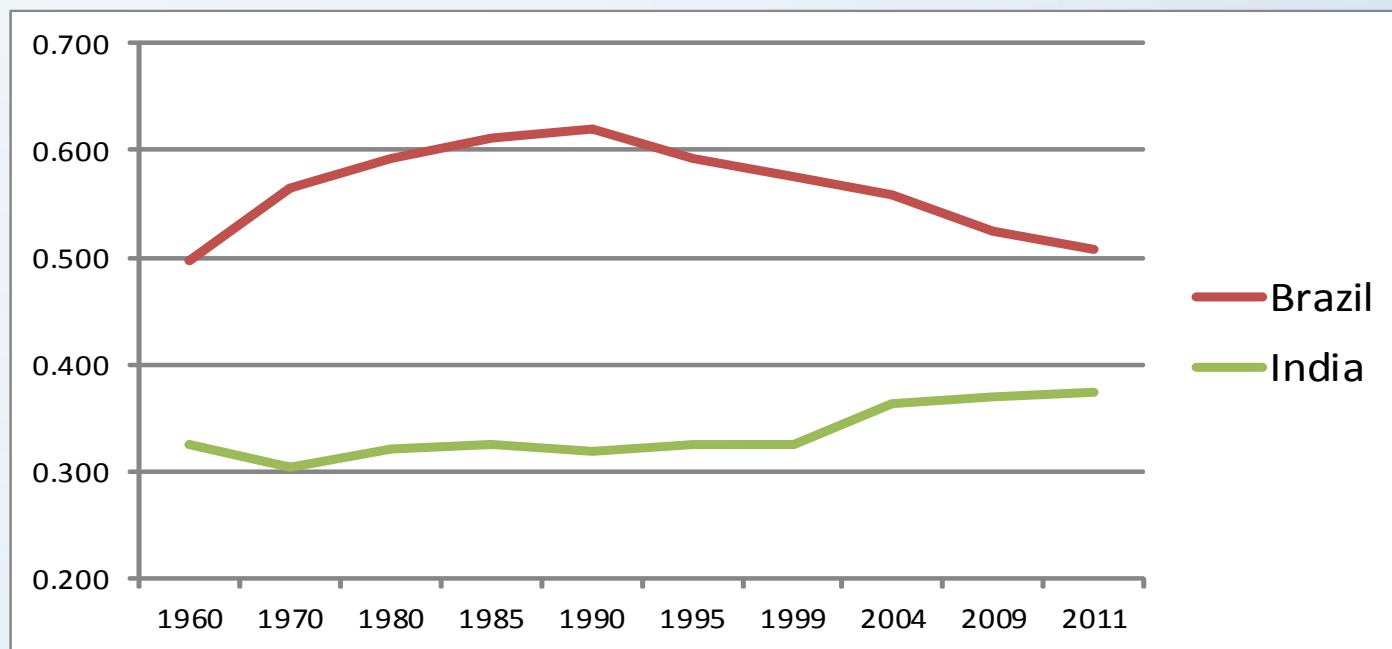


Brazil has become a very urbanized country

In India, today only 1/3 of the population lives in urban areas

Brazil and India: One as Mirror Image of the Other

Inequality and growth regimes



- Gini Brazil – income; Gini India - expenditure
- Inequality is embedded in the growth regime
- Depends on labour market structure, capital accumulation processes, role of the state and social relations

Growth Regimes: Basic Concepts

- Approach to understand different patterns of capital accumulation in different times and spaces
- The outcomes are not defined from the outset: economics, politics and history intertwined!
- Attempt to use “regulation school” categories in order to have a common ground for comparison
- Combination of Institutional forms lead to different modes of regulation, which can be expressed in macroeconomic terms: growth regimes
- Key components
 - Integration in international economy
 - Competition regime
 - Wage labour relations
 - Agrarian system
 - Monetary/fiscal regime
 - Role of the State

Growth Regimes in Brazil and India: 1940 to 1980

Brazil

- 1930-1955 Constrained industrialization
- 1956-1963 Heavy industrialization I
- 1967-1980 Heavy industrialization II

India

- 1947-1967 Post-Colonial Industrialization
 - 1967-1980 Populist
-
- See Charts 1 and 2 of joint paper C!

1940 to 1980: Similarities

- Capital accumulation endogenous
- Important role of the State in promoting economic growth
- Growth based on import-substituting industrialization
- Both countries faced a change in growth regime in the mid-sixties

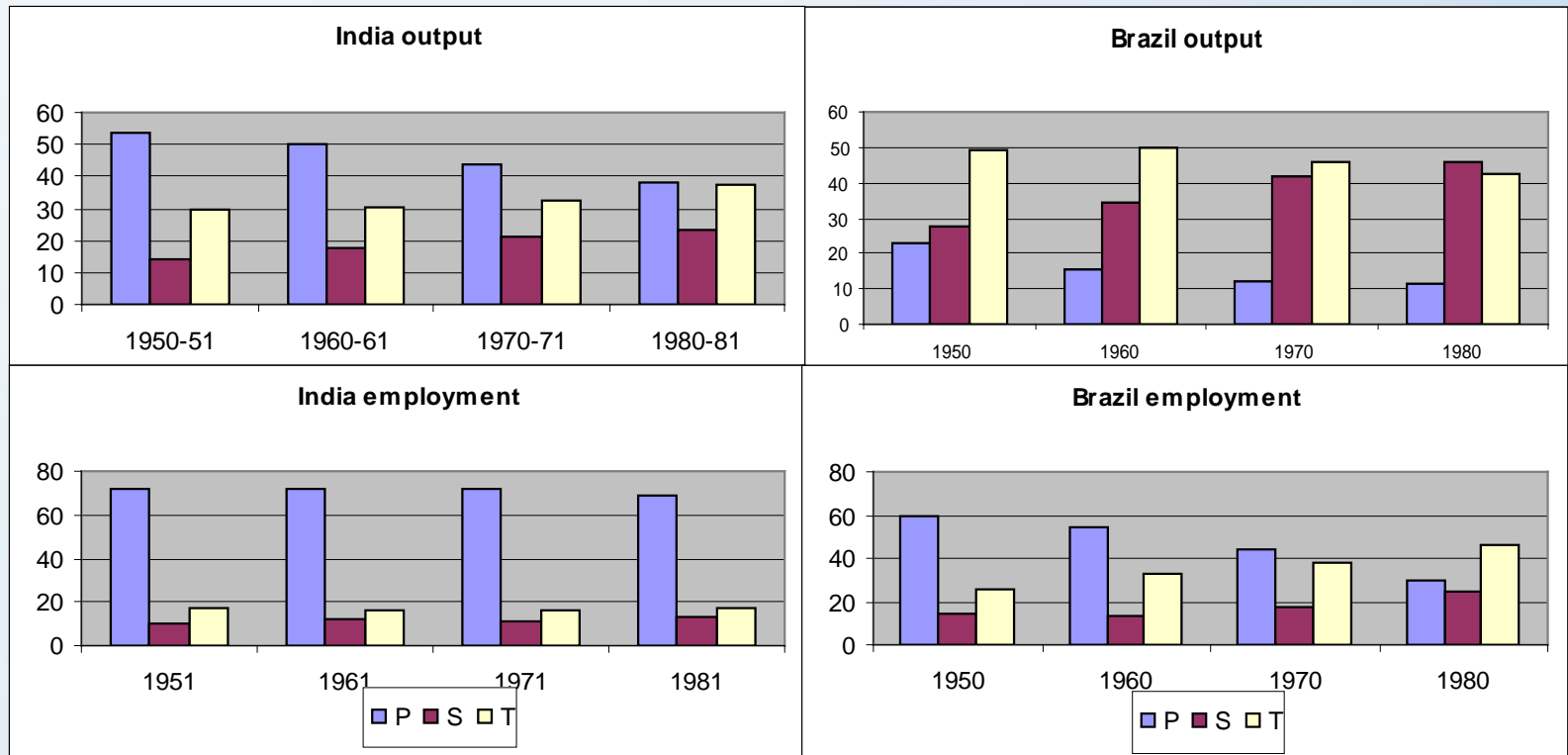
1940 to 1980: Differences

- **Capital accumulation:** The State in Brazil paved the way for national and foreign capital, while capital accumulation in India led by the State with no foreign investment; different patterns of integration in the world economy
- **Type of industrialization:** in India concentrated in heavy industry and faltered after 1965 but expanded in Brazil with durables and capital goods until 1980, driving growing urbanization
- **Growth of industrial workforce:** small in India with rising wage gap with other workers; growing faster in Brazil under a union corporatist structure and facing low wage levels compared to productivity gains
- **Agriculture:** Limited agrarian reform and peasant production in India, agrarian reform postponed and agribusiness growth in Brazil
- **Change after crises in mid-1960s:** Brazil opted for more capital intensive industrialization, while India resorted to programmes aimed at reducing poverty in rural areas in a context of low economic growth

Macroeconomic Outcomes and Inequality

- Brazil, a very diversified economy, the large industrial park of the developing world, leading to selective modernization of agriculture and services
- Brazil, creation of jobs in the industrial and services sectors (70% of all jobs in 1980 as opposed to 40% in 1940)
- Brazil, fall of absolute poverty with increase in personal and functional inequality (most unequal country in the world at its per capita income level!)
- India, growing industrial sector, but narrowly based and mostly isolated from the world and the rest of the country
- India, employment at the end of the period still mainly in the primary sector
- India, poverty levels little changed with some decline in inequality, redistribution mostly from rich to middle classes
- **urban/rural inequality patterns:** In Brazil, increasing inequality within both urban and rural areas, while in India growing inequality between urban and rural areas

1940 to 1980: Sectoral composition of GDP and employment



Growth Regimes in Brazil and India: 1980 to now

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

- See Charts 3 and 4 of joint paper C!

1980 to now: Similarities

- Both countries liberalized externally
- Growing dependence on private capital in India increasingly aligned with Brazil
- Persistence of large unprotected labour force
- Increasing importance of services
- Oligopolistic production structures especially in industry

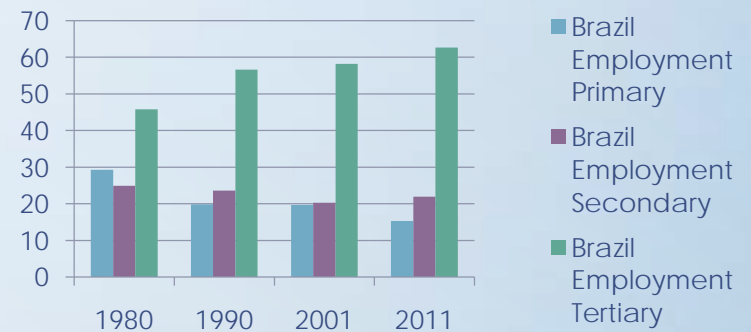
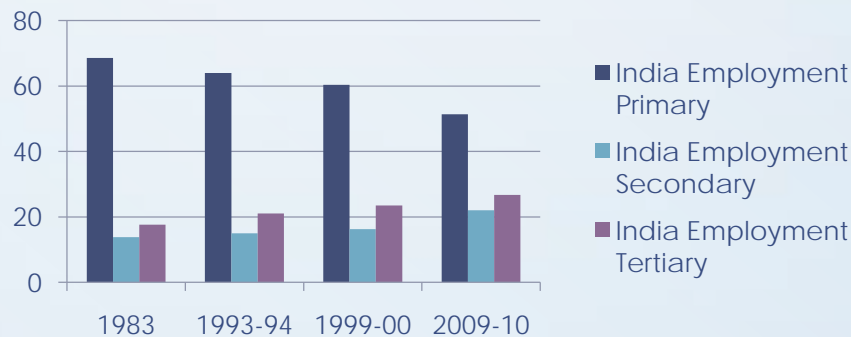
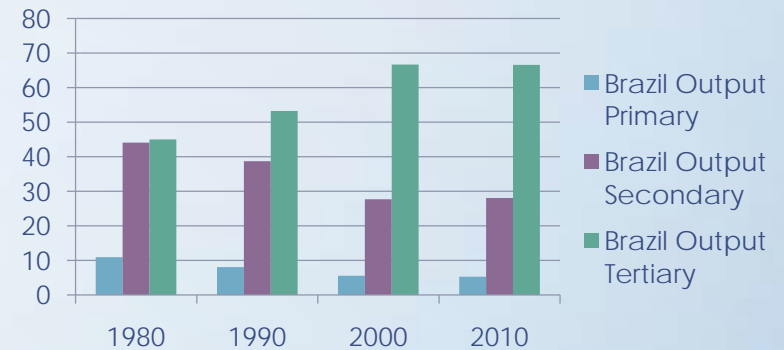
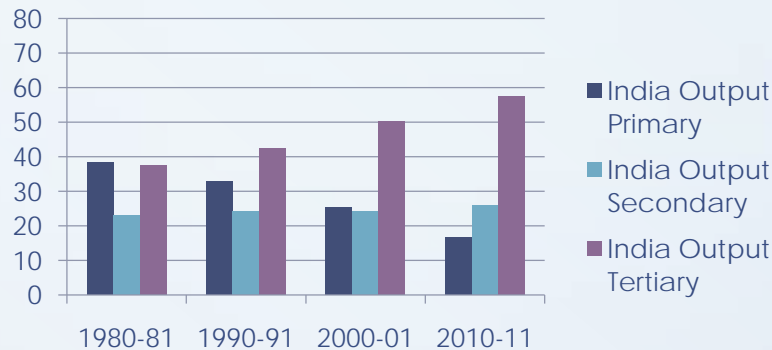
1980 to now: Differences

- Growth in India accelerated while it declined in Brazil
- Brazil deeply affected by global economic crises in the 1980s and 1990s while India not much affected until 2008 crisis (in this case somewhat similar to Brazil up to 2013)
- FDI remains small in India but important in Brazil
- Inequality in Brazil stabilizes until mid 1990s then declines; the reverse in India
- Important social and redistributive role of the state in Brazil from 2003 only weakly echoed in India after 2005

Macroeconomic Outcomes and Inequality

- Brazil holds low and very uneven overall GDP growth mainly in services, also pulled by the 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
- Brazil, inequality high and stable until late 1990s, declines steadily especially after 2003; poverty rises in the 1980s but then declines slowly until 2003, falling rapidly thereafter
- India booms, especially after 2000, maintains share of manufacturing but growth concentrated in services and construction
- India, weak job creation despite high growth and labour market remains dominated by casual work and informal employment
- India, inequality rises, especially from mid 1990s to mid 2000s; but absolute poverty declines steadily over the whole period, especially after 2004-05
- **Wage share:** in Brazil, it starts to rise after 2003; in India, it declines substantially and profit share rises

1980 to now: Sectoral composition of GDP and employment



Patterns of Inequality: Brazil and India

Period 1940-1980:

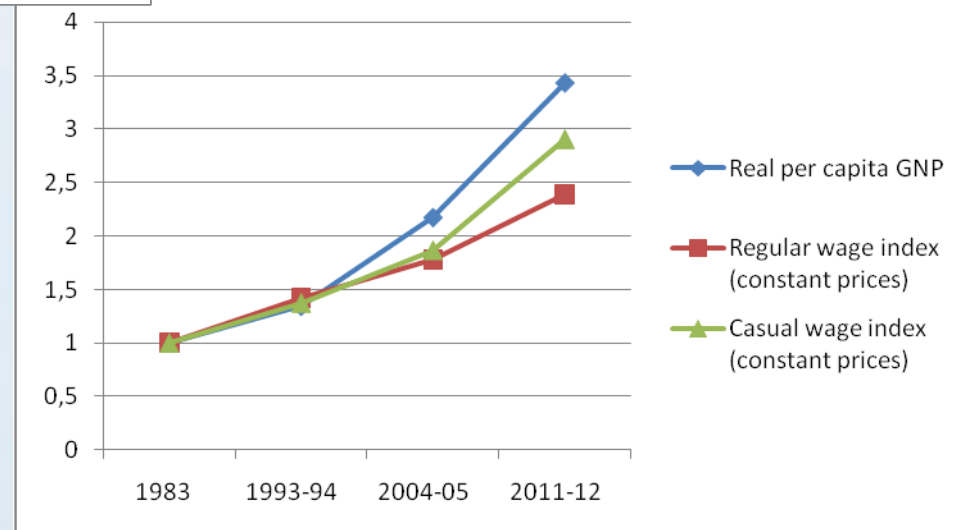
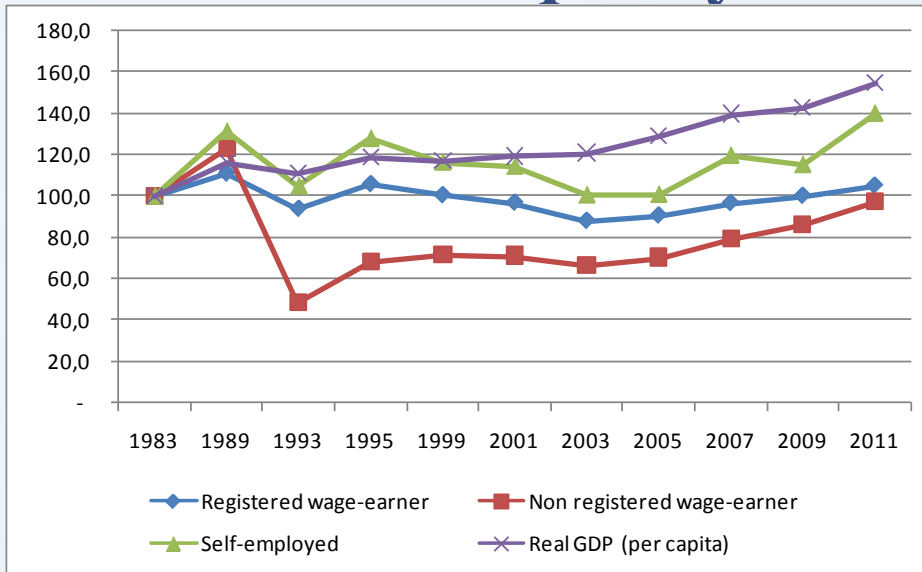
- **Brazil:** inequality rose everywhere, but mostly in urban areas and especially between formal and informal workers, whites and non-whites, men and women, rich and poor regions, as the whole territory has seen the expansion of the market mechanisms, amplifying the segmentation within the labour market. Wealth became more concentrated and middle classes got wider and better off, holding new positions in the social structure.
- **India:** inequality remained at low levels due to the size of the rural areas, where real levels of living did not substantially change, even though capitalist relations were spreading in agriculture. Both in urban and rural areas there was a redistribution benefitting mostly the intermediate social groups.

Patterns of Inequality: Brazil and India

Period 1980-2010

- **Brazil:** GDP per capita only resumed growth on the years 2000, when there was an increase of the wage share, as well as non-registered workers' and self-employed's income rose faster than registered workers' wages. Due to the increase of minimum wage, formal market revenues were also more evenly distributed. These trends led to a fall of income disparities between whites and non-whites, men and women, rich and poor regions, skilled and non-skilled workers.
- **India:** high GDP levels followed by declining wage share but also rising real wages. Casual workers, in a more integrated market, saw their wages going up faster than regular workers, especially in the second half of the years 2000. Also the urban/rural divide in terms of expenditures was reduced. However, within each area, inequality increased, maintaining the relative distance between social groups (by caste, sex, skills and regions).

Patterns of Inequality: Brazil and India



Summing up

- The paths over time of poverty and inequality are different, connected with differences in the growth regime, labour market outcomes and main social institutions
- Noteworthy that periods of high growth in both countries were associated with declining absolute poverty but increasing inequality, hence increasing relative poverty. This was the case during Brazil Heavy Industrialization II (1967-1980) and India Liberalizing Internally and Externally (1991-2014)
- The inequality patterns changed over time in both countries: Brazil, once the world champion in inequality, managed to reduce it during the years 2000, in a urban based and marketized economy in which the poor and the less advantage groups – even though still far behind – got better off in terms of income;
- While in India, rapid increase of GDP led to rising incomes for the majority of the population, but most disadvantage regions and groups fell behind in relative terms.

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.