

Labour Market Inequality in Brazil and India: a Comparative Study

Panel 1

**Accumulation Regimes, Macroeconomic
Outcomes and Inequality**

São Paulo, 21st August 2014

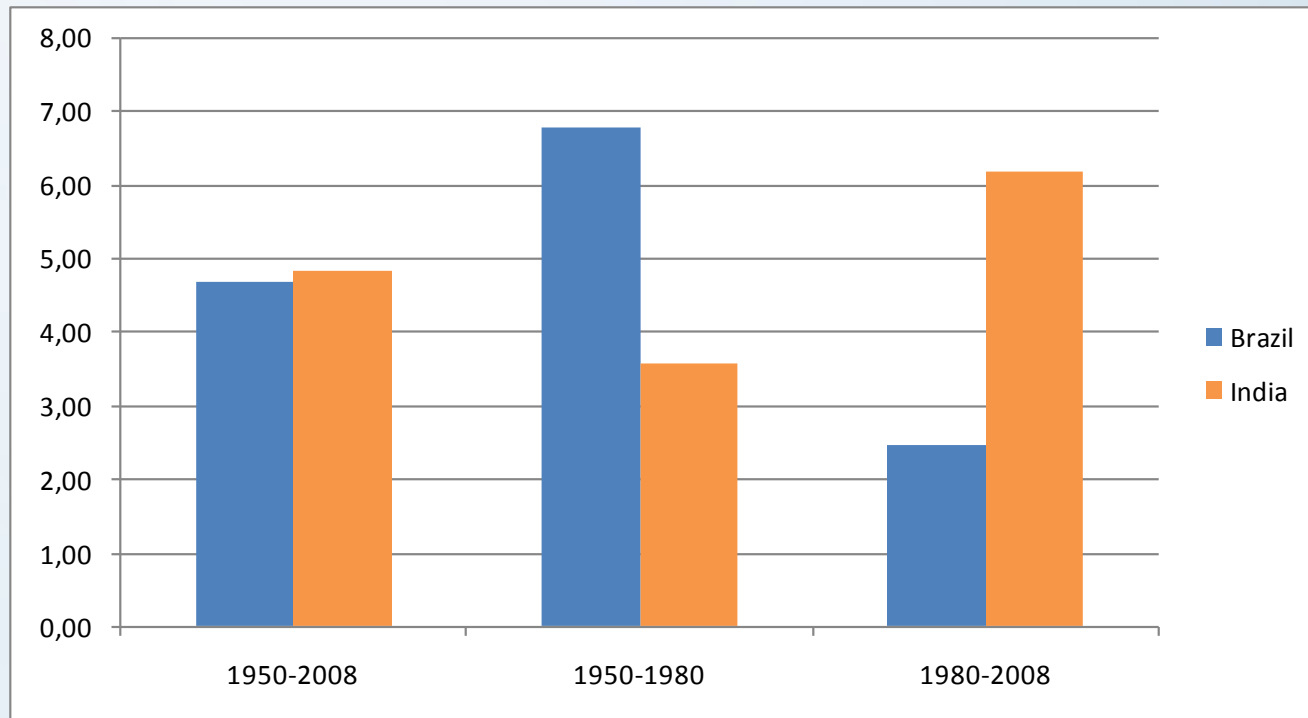


Structure

- 1. Brazil and India: One as Mirror Image of the Other
- 2. Growth Regimes: Basic Concepts
- 3. 1940 to 1980: Similarities and differences in growth regime
- 4. 1940 to 1980: Macroeconomic Outcomes and Inequality
- 5. 1980 to now: Similarities and differences in growth regime
- 6. 1980 to now: Macroeconomic Outcomes and Inequality

Brazil and India: One as Mirror Image of the Other

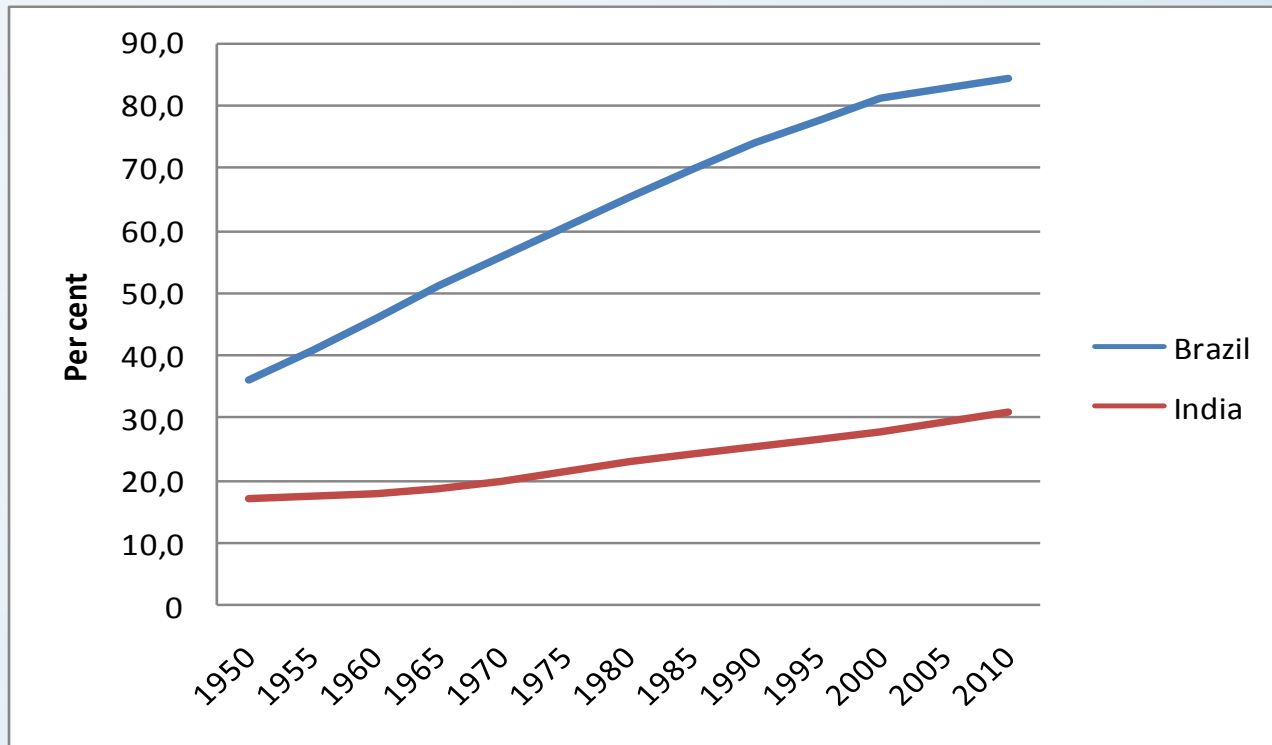
GDP Growth per year in %



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)

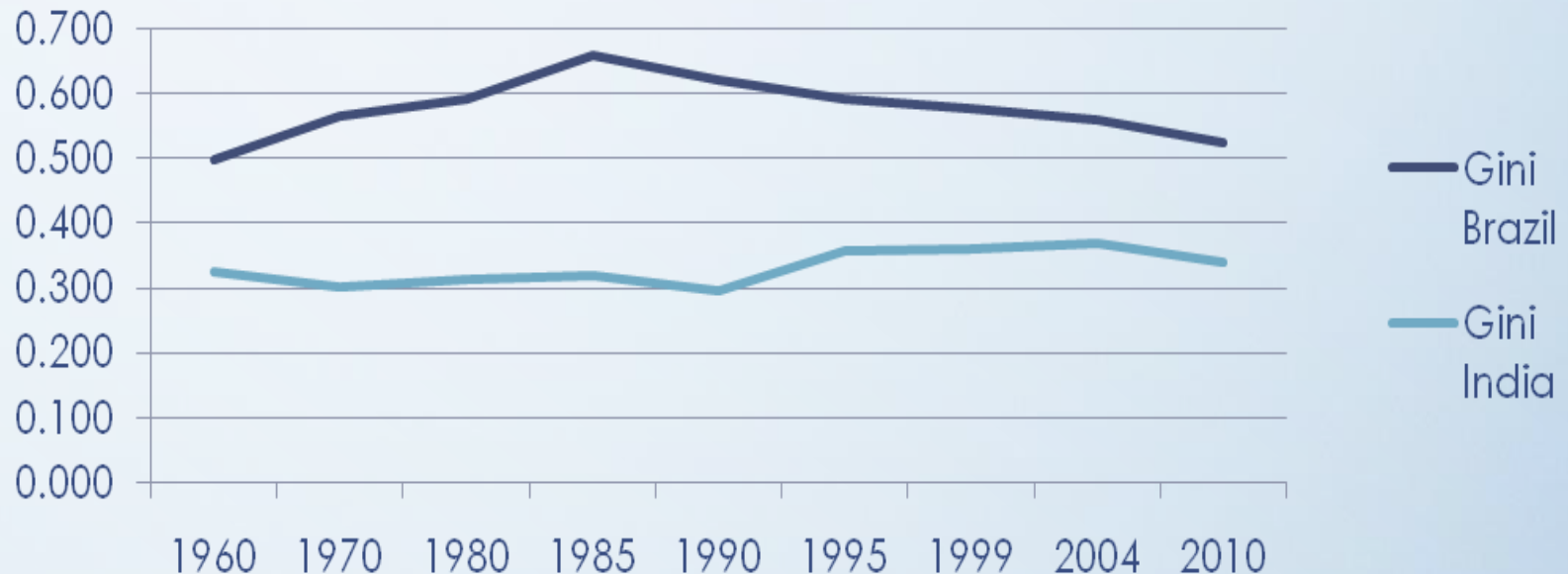


Brazil has become a very urbanized country

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 sectoral pattern, labour market structure, patterns of organization, process of accumulation, 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!
- Institutional forms lead to different modes of regulation, which can be expressed in macroeconomic terms: regimes of growth
- Key components
 - Integration in international economy
 - Competition regime
 - Wage labour relations
 - Agrarian system
 - Monetary/fiscal regime
 - Role of the State
- Attempt to use “regulation school” categories in order to have a common ground for comparison
- **See the effort in Charts 1 and 2!**

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 State-controlled industrialization
- 1967-1980 Rural development and poverty focus

1940 to 1980: Similarities and differences

Similarities

- 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

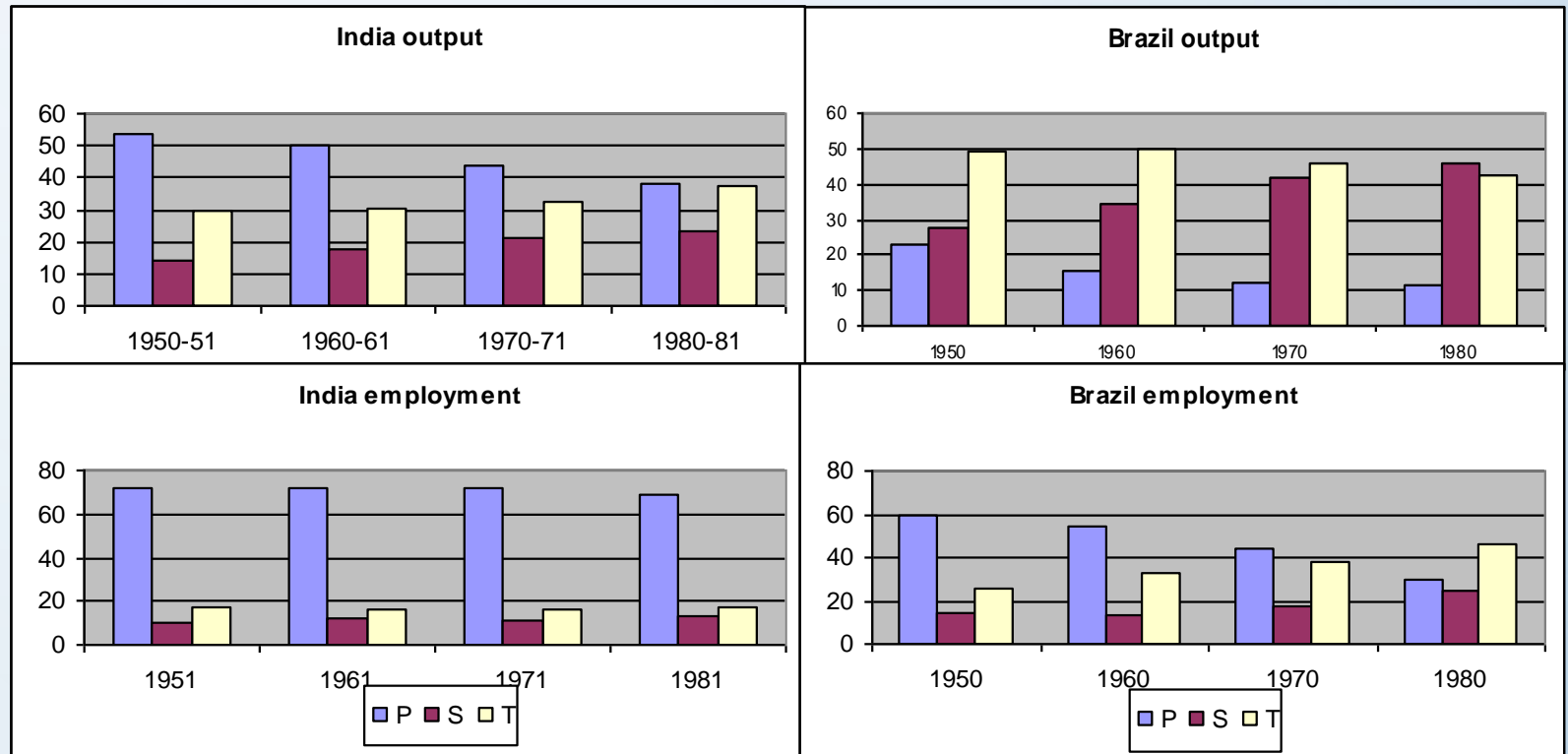
Differences

- **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, benefitting from union corporatist structure and low wage levels
- **Agriculture:** Limited agrarian reform and peasant production in India, agrarian reform postponed and agribusiness grows 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
- India, growing industrial sector, but narrowly based and mostly isolated from the world and the rest of the country
- Brazil, creation of jobs in the industrial and services sectors (70% of all jobs in 1980 as opposed to 40% in 1940)
- India, employment at the end of the period still mainly in the primary sector
- 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, poverty levels little changed with some decline in inequality, redistribution mostly from rich to middle classes
- 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

1980 to now: Similarities and differences

Similarities

- Both countries liberalized internally and 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

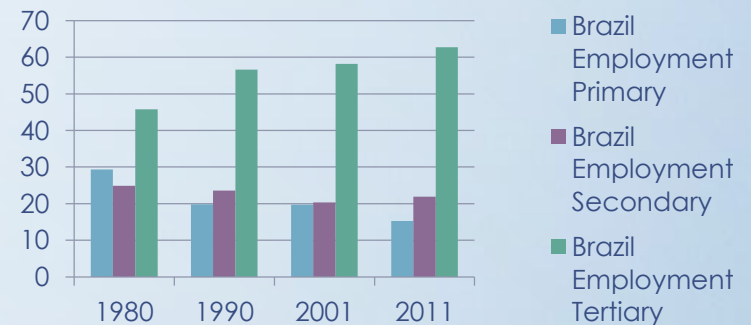
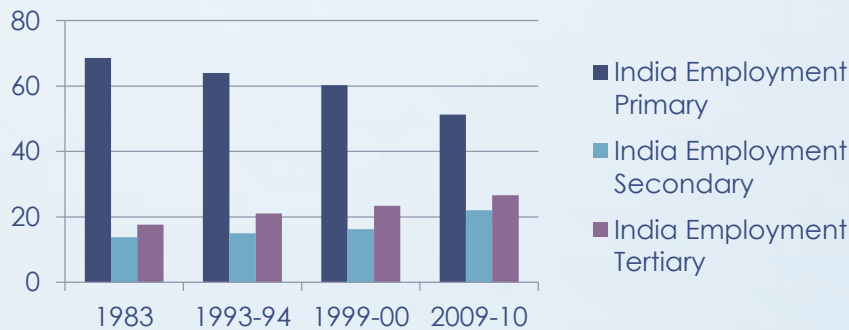
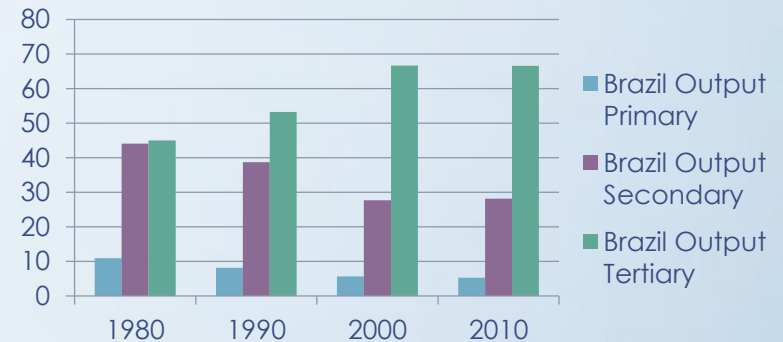
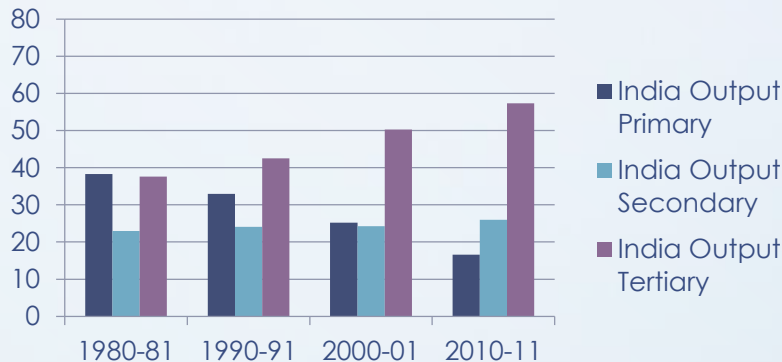
Differences

- 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 similar to Brazil)
- 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 “deindustrializes” with low and very uneven overall GDP growth mainly in services, also pulled by the agribusiness exports
- India booms, especially after 2000, maintains share of manufacturing but growth concentrated in services and construction
- Brazilian labour market in crisis until 2000 with high unemployment and stagnant wages, but steady creation of formal jobs after 2000
- India, weak job creation despite high growth and labour market remains dominated by casual work and informal employment
- Brazil, wage share starts to rise after 2003; India, wage share declines substantially and profit share rises
- 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, inequality rises, especially from mid 1990s to mid 2000s; but absolute poverty declines steadily over the whole period, especially after 2004-05

1980 to now: Sectoral composition of GDP and employment



Summing up

- Labour market structures, differentials and dynamics are a crucial link between the growth regime and the pattern of inequality overall
- The paths over time of poverty and of inequality are different, connected with differences in the growth regime and labour market outcomes.
- Before 1980 inequality increased in Brazil and declined in India; but poverty declined in Brazil and hardly changed in India
- In this period the state played a central role in capital accumulation and growth, but very different in the two countries. The state supported private capital in Brazil (mostly through loans by public banks), but invested directly in India.
- After 1980, inequality and poverty remained high in Brazil – facing a mild decline right after the Real Plan – and declining steeply only with state intervention after 2003. Meanwhile in India liberalization generated disequalizing growth but with declining absolute poverty.
- 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)