

Labour Market Inequality in Brazil and India: A Comparative Study

# Panel 2

## Labour Market, Institutions and Social Policies

São Paulo, 21st August 2014



# Structure

- 1. Labour Market Structure
- 2. Workers movements and the State
- 3. Labour Laws and Wage Policies
- 4. Social Security and Income Transfers
- 5. Rights, Access and Participation
- 6. Some Synthesis

# Labour Market in Brazil and India

- **Similarities:**

- During 1940 -1980, both countries maintained a large informal sector and substantial wage differentials.
- Inequality within the labour market was a critical aspect of overall inequality in the period.

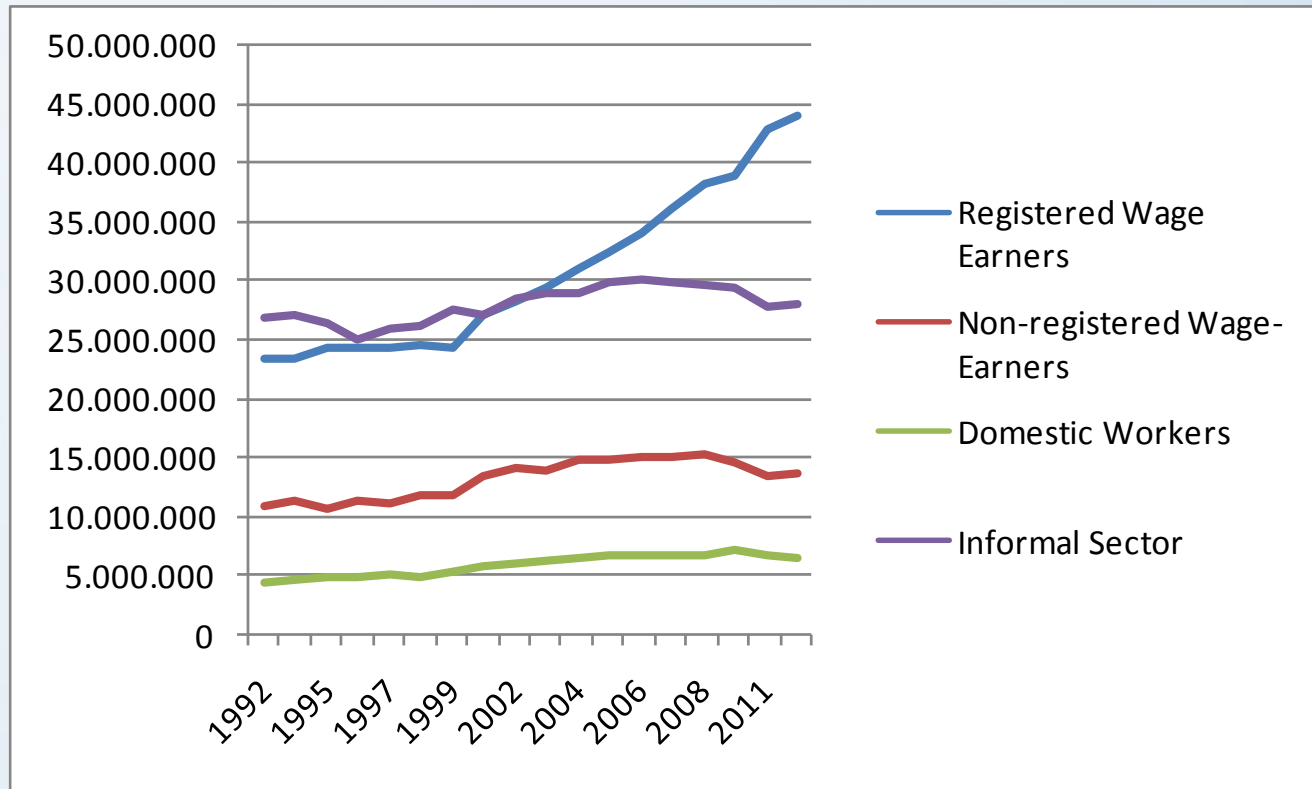
- **Differences:**

- Although regular wage employment has increased in India recently, the unorganized sector still represents 83% of total jobs in the country.
- In Brazil, after a negative net growth of formal jobs in the 1990s, the reverse happened in the years 2000, with formal jobs taking the lead (representing around 50% of total jobs).
- In Brazil, income differentials between registered wage earners and non-registered and self-employed fell substantially in the recent period, while in India wage gap between regular and casual workers is larger than Brazil, and increased till 2004-05, after which declined somewhat.
- The role the minimum wage has played recently in both countries is strikingly different.
- The nature of the labour surplus in both countries has changed. In India even though the wages are growing, the gap with productivity is widening. In Brazil, the reverse happened in some sectors, and the labour surplus is unevenly distributed.

# Labour Market in Brazil in the end of the industrialization period (1976)

	Registered Wage-Earners	Non-Registered Wage-Earners	Informal Sector	Total
Rural Brazil	1.633.525 11,9%	3.207.947 23,4%	8.866.712 64,7%	13.708.184 100,0%
Urban Brazil	12.465.900 52,3%	6.505.447 27,3%	4.874.972 20,4%	23.846.319 100,0%
Brazil	14.098.815 36,9%	10.358.852 27,1%	13.742.010 36,0%	38.199.677 100,0%
São Paulo Metropolitan Region	2.507.485 56,5%	1.049.579 23,6%	881.450 19,9%	4.438.514 100,0%

# Labour Market in Brazil from 1992 to 2012 – Total Jobs according to Labour Status



## Share of Total Employment by Status of Employment (UPSS), for India, 1983 to 2011–12

Share (%) in total employment of:	1983					2004-05					2011-12				
	Male	Female	Rural	Urban	Total	Male	Female	Rural	Urban	Total	Male	Female	Rural	Urban	Total
Regular wage employment			7.2	39.9				7.1	39.5				8.7	43.3	
	17.7	5.4			13.5	17.2	8.3			14.3	19.8	12.7			17.9
Regular-formal	-	-	-	-	-	7.0	2.9	2.4	16.9	5.6	7.7	4.4	3.0	17.5	6.8
Regular informal	-	-	-	-	-	10.2	5.5	4.6	22.6	8.6	12.1	8.2	5.7	25.8	11.0
Casual wage employment			31.6	18.2				32.8	15.0				35.4	14.8	
	26.2	34.5			29.0	28.1	30.3			28.9	29.4	31.2			29.9
Self-employment			61.2	42.0				60.2	45.4				55.9	41.9	
	56.2	60.1			57.5	54.7	61.4			56.9	50.7	56.1			52.2
Organized sector	-	-	-	-	-	13.3	6.6	6.1	28.5	11.1	17.5	13.6	10.1	33.8	16.4
Unorganized sector	-	-	-	-	-	86.7	93.4	93.9	71.5	88.9	82.5	86.4	89.9	66.2	83.6

?

# Workers Movements and the State

- **Presence of strong political linkages – differs in nature:** unions in Brazil were created under anarchist and communist parties and then, after the 1930s, subordinated - although with some autonomy during 1946-1964 - to the state especially the ones linked to the industrialization process; in India the linkages were in the form of political affiliations with political parties .
- **Role of the State:** In the early period, the Indian government played a major role in determining wages and working conditions; the exercise of collective bargaining was also greatly politicized. Collective bargaining was restricted and politicized by the government for most of the unions in Brazil until 1964, but during the military regime interveners appointed by the government occupied the boards of the unions, union activities were restricted and salary levels were defined by law.
- **Labour legislations and rules** in Brazil, each formal employee or employer should be in the respective trade union, being funded by a compulsory union tax, which provided legal backing, that was absent in Indian laws which only provided for union registration but not recognition.

# Workers Movements and the State

- Since the 1970s, **the Indian state has shifted its focus to a more business friendly approach**, while Brazil saw the rise of the “new trade unionism”, demanding the right of collective bargaining and criticizing the corporatist union structure, which eventually led to the democratization of the country;
- **Multiplicity of unions and decentralized bargaining in India:** rise of independent unions with no political affiliations – gave rise to differences in wage and labour negotiations within industries across plants; employers also preferred decentralized bargaining
- **Policy of liberalization in India-** made it a priority to reduce labour costs and used different labour contract modalities for a flexible workforce
- In Brazil, **flexible labour rules** had little impact on the market because of **union resistance**; whereas in India, increasing “informalization” of employment gradually eroded the strength of trade unions by reducing the space for collective bargaining in India.
- The increasing weakness of trade unions in India contrasts with the growth of trade union influence in Brazil, which became part of a broad political coalition under Lula government.
- **Coverage of unions** – Union membership in both countries is limited to mostly the organized sector, which is much larger in Brazil; in India, there are informal sector unions but with limited membership.



# Labour Laws and Wage Setting Institutions (1)

- **Similar structure of labour laws** enumerating basic conditions at work, minimum wages, working hours, overtime, safety and health at workplace, dismissal and stability etc.
- **The Vargas administration (1930 - 1945)** in Brazil created a labour code which was mainly applicable for urban registered wage workers. The **Indian constitution (1950)** under Part III and IV, only provided a structure of basic rights and freedoms for all workers based on the principle of sharing of powers between the Centre and the State governments in matters related to labour which in turn gives rise to differences between states
- **The 1988 constitution in Brazil** introduced a new and inclusive social policy framework which added income security, universal services (like health) and cross-cutting labour welfare programs to it.
- The Indian Government has also introduced several protective legislations such as the system of insurance for employees in cases of sickness, maternity, injury and death and a system of pensions and provident funds for some groups of workers; but **India has no system of unemployment insurance to date.**

# Labour Laws and Wage Setting Institutions (2)

- It can be argued that in both countries, labour laws may have contributed in worsening inequality as their implementation proved limited and incomplete; while this is true for Brazil up to 1988, in India this is still valid
- **Definition and Coverage:** the premise of an employer-employee relationship for a person to be considered as a worker leaves out large section of informal workers. The same is true for Brazil as well.
- But in Brazil, workers are registered with one of the occupations established by law; this helps in the inclusion of some non-registered wage workers within the domains of labour laws
- The **Unorganized Workers Sector Social Securities Act 2008:** for the first time lays down a formal definition for informal sector workers but it does not clearly lay down the social security rights to which the workers are entitled, and also failed to create any forum for dealing with grievances
- **Labour Flexibility:** the government's agenda made it a priority to reduce labour costs for a flexible workforce - In Brazil especially during the 1990s and in India it is related to Section V-B of the Industrial Disputes Act (1947) in India – Rajasthan Government labour reforms

# Labour Laws and Wage Setting Institutions (3)

- In India, the **Minimum Wages Act, 1948** which allows the Central and State governments to fix minimum rates of wages for different agricultural and non-agricultural occupations; these stipulations further categorize workers in each industry on the basis of his/her level of skill training.
- **This Act applies to all sections of the workforce**
- The Minimum Wages Act does not provide any specific criteria for fixing the rates; in the absence of any definite criteria, the Indian Labour Conference in 1957 had decided on certain norms
- **India also has other wage fixing institutions like Pay Commissions in the public sector, Wage Boards in some sectors and Collective bargaining in the private sector**
- **The machinery for fixation of minimum wages in India has not been uniform:** Different rates in different regions for different categories of workers often make the structure of minimum wage very complex. Also, different wages are fixed for the same work in different sectors
- **In Brazil, minimum wage** introduced in 1940 which was regionally based up to late 1980s, when it became national. After the rise of its consumption power in the years 2000, it **worked as and engine of inequality reduction setting the bottom level of income for unskilled workers.**
- **Minimum wages in India however** does not play such a regulatory role as they are mostly violated and lack implementation

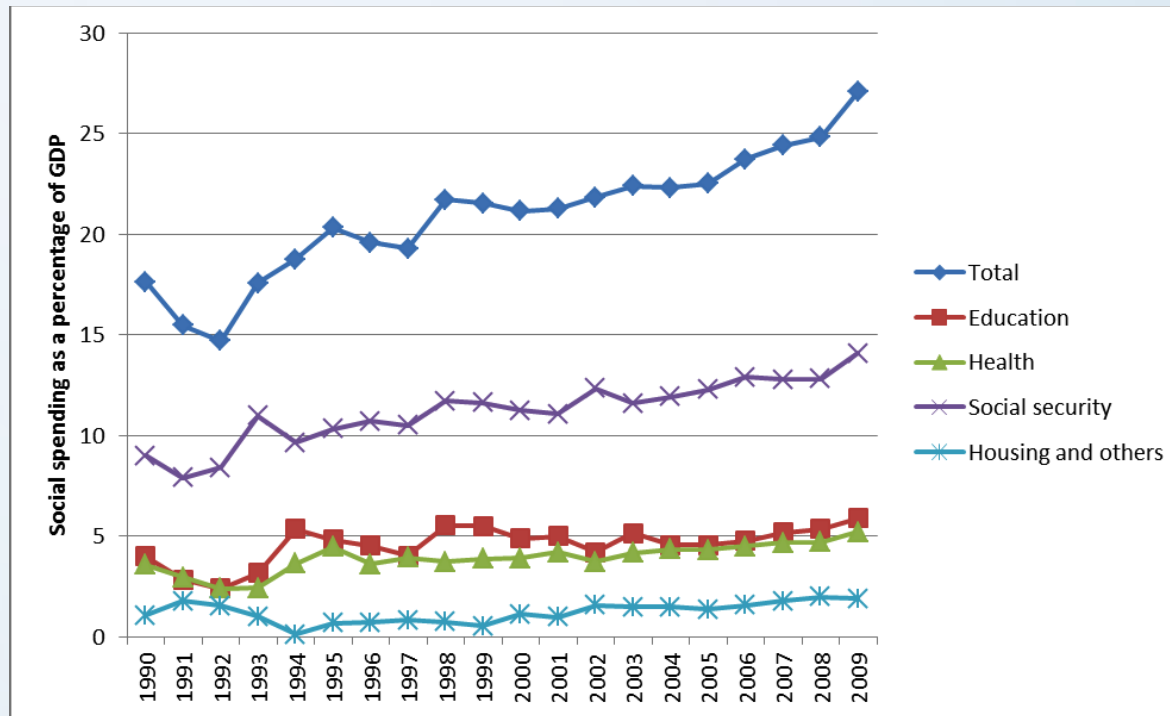
# Labour Laws and Wage Setting Institutions (4)

- **System of Wage Indexation in Brazil:** only price fixed by law is the minimum wage. The other wages being defined through collective bargaining without government intervention
- In the 1990s, some collective bargaining agreements established “hour banks” and “profit-sharing schemes”
- **Violation of Minimum Wages Act:** Employers have time and again violated the norms of this Act and have denied workers their right to a basic minimum wage. Lack of awareness among the workers about the provisions and entitlements listed under the Act has increased the vulnerability of workers
- **Lack of compliance and effective enforcement of labour laws as a whole:** evidence suggests that there has been very low level of inspection and enforcement of labour laws. Compliance is worse in scattered and unorganized sectors. By including or excluding certain categories of workers, labour laws have contributed to the existing inequalities in the labour market
- The past decade in Brazil has witnessed a substantial rise in inspection and enforcement of labour laws.

# Social Policies in Brazil and India (1)

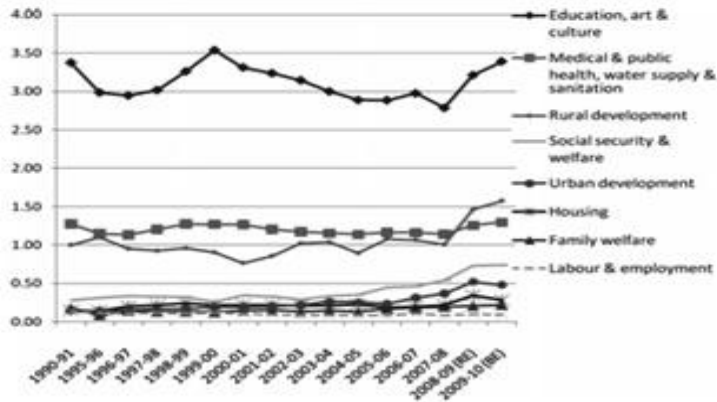
- Many measures such as the food rationing system and affirmative action had already been in place during colonial times.
- Structuring of the Indian Constitution: Critical role in defining the 'idea' of social policy
- Three phases up till 1980:
  - 1950s: Largely ignored social policy, depended on economic growth to address social growth
  - 1960s: Realisation for the need for social policies due to the famines and the failure of 'growth. However little was done during this period. Measures at this time mainly addressed rural poverty.
  - 1970s: Some action was taken to study requirements vis-à-vis development policies and also to implement them
- In Brazil, till 1988 it was a segregated social security system, health and pensions for formal sector, and education was universalised (but the poor could not access it, especially secondary education)

## Social Policies in Brazil and India (2)



- Post – 1988 Brazil restructured the framework of social policies, making education, health, pro-poor policies during this period
- Micro- credit policies in Brazil were also expanded in this period

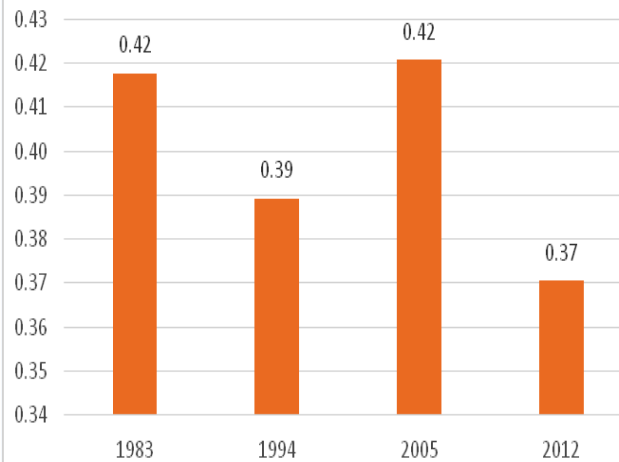
Figure 2. Expenditure on Social Sector as a Proportion of Gross Domestic Product (GDP)



Note: For GDP upto 2003-04, base year is 1999-2000; for GDP from 2004-05 onwards, base year is 2004-05.

Source: Computed from Ministry of Finance Public Finance Statistics (various years), and Reserve Bank of India Handbook of Statistics on Indian Economy (various years).

Gini index of rural wages



- 1980s: Policy development and implementation of new programmes continued. The programmes of the 70s were restructured and expanded. Shift from a welfare perspective towards an empowerment perspective vis-à-vis women, some discussion on ‘quality’ of education.
- 1990s: The restructuring and expansion continued during the 90s. The liberalisation process led to increasing inequalities, once again, there was some hope that the ensuing growth would address some social issues. Greater decentralisation (73<sup>rd</sup> and 74<sup>th</sup> amendment) were seen as tools for greater efficiency in policy making and implementation.
- 2000s: This decade was marked by a movement towards rights based policies, after 2004-05, there has been a resurgence in social policy spending and may have had a role to play in the declining Gini in rural areas (which is the target of most social policies) and increasing Gini in urban areas.

# Social Security and Income Transfers

- **India** : Social security introduced for employees in the 50s but limited to small groups of industrial and public sector workers, contributory schemes for formal sector and occupational groups in informal sector
- Non contributory pensions for older persons, disabled, widows (poor): Have good coverage but amount of pensions is extremely small, supports subsistence
- Food Rationing/ PDS: Subsidised items. Targeted at poor households. State-wide differences
- NREGS – Right to work, guarantees 100 days of employment/ year in rural India, sets minimum wage, around 2134 million days of work in 2011-12. High participation of women and SC, STs. Significant impact, multiplier effects.
- **Brazil**: Contributory pension systems, health coverage for workers since the 1930s = proportional to contribution
- Universal health coverage for all since 1988
- Non contributory pensions for old persons, workers and disabled since 1988 = 1 minimum wage
- Since the late 90s, cash transfer programs launched (some are conditional), significant increase in these programs since Lula (2003) = less than one minimum wage
  - One in four receive some kind of transfer from the government



# Rights, Access and Participation: Affirmative Action

- In India, in Public Jobs, Higher Education and Legislative Assemblies
  - Highly politicised, conceptualized as an exception for SCs and STs, expanded to cover the OBCs (requirement is debatable), some groups perhaps more deprived left out. Reservations of women in jobs, education, as well as PRIs, but not in legislative assemblies
  - Have had some positive impact, affected by imbalances in access to education, to some degree appropriated by middle classes (OBCs)
- In Brazil, affirmative action at the university level for blacks, poor and public school students has been introduced since 2000. States have some autonomy in setting rules.

# Rights, Access and Participation: Education

- India:
  - Initial focus on quality higher education, confusion vis-à-vis primary education (but expansion in primary and secondary education during the first three decades)
  - Attempts to universalise primary education since the 1960s, but marked by various limitations. Quality always an issue. Social barriers have continued to exist.
  - Privatisation in schooling accompanied by some improvements in learning, but expensive for the poorer/ poorest. May affect quality of education accessed by these groups. Right to Education 2009 – expansion affected quality. Inequalities accumulating at the level of secondary and higher education
  - Vocational training: some discussion since the 70s, but policy designs not meant to work. Recent interest since the late 2000s but is ambiguous.
- In India, both Affirmative Action and Education Policies have benefitted the more deprived groups, but seem to have been designed/ ultimately benefitted the middle classes more.
- Brazil:
  - In Brazil, primary/ fundamental education has been universalised during the 70s-90s. Secondary universalisation is still a goal, and so is university education.
  - Quality is an issue at all levels of education, and linkages between different levels of government are not efficient.
  - Vocational training for those dropped out of secondary school and university have been set up since 2000, in addition, some limited pro-poor affirmative action.

# Social Policy Synthesis

- Agrarian orientation of policies in India, large majority of policies respond to poverty.
- Policies in India have been more targeted, but in the last decade, social policies have been slightly more universalistic and have also moved towards a Rights-based approach.
- States in India have greater autonomy, both de jure and de facto, to influence social policies and their outcomes. In Brazil, autonomy does exist but it is subordinated to a somewhat coherent federal policy.
- In Brazil, the change in governments has been accompanied by more radical changes in social policy. In India policies have been more evolutionary. Even the adoption of schemes such as the NREGA, and the Right to Food and Education Acts has been a result of decades of advocacy.
- In Brazil the rights based approach has predominated and given rise to near universal social safety net (made out of non-contributory pensions, and cash transfer mechanisms). In India, social security has been more or less limited to the formal sector.