

Labour Market Inequality in Brazil and India: A Comparative Study

Minimum Wage Policy in Brazil and India and its Impact

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Outline of the Presentation

- Introduction
- Historical Framework
- Coverage of Minimum Wages
- Fixation of Minimum Wages
- Issues of Compliance
- Enforcement and Implementation of Minimum Wages
- Conclusion

Introduction

- With rising wage inequality, the introduction of a legal minimum wage has become an important policy issue in many countries
- In countries with an expanding low wage sector, a minimum wage prevents ‘unfair’ competition
- Earnings of people working full-time should be sufficient to cover at least the basic minimum. For this, a minimum wage is a means to prevent the emergence of the so-called ‘working poor’.
- Minimum wage in some countries are not only for setting wages at the bottom of the wage pyramid, but also for higher paid workers whose wages are set at multiples of the minimum
- Minimum wages could contribute to the reduction of poverty and inequality by increasing the incomes of those affected by the legislation

Structure of Minimum Wages in India

- The Minimum Wages Act (1948) – lays down wages for all categories of workers – applicable for both formal and informal sector provided the industry is enlisted under the Schedules of the Act
- No specific criteria for fixing minimum wages - fixed by both Central and State governments – multiple rates of minimum wages for different employments in each state
- Wide range of institutions influence mechanisms for fixing minimum wages in India – Pay Commissions, collective bargaining, Industrial Wage Boards
- There is a non-binding national minimum wage floor but no legally binding national minimum wage
- The number of scheduled employment has increased over the years; presently, the Central government sets minimum wages for 48 different categories of scheduled employments and the state governments set wages for 1,679 job categories making a grand total of about 1,727 different minimum wage rates in India.
- Revisions made to state-level minimum wages over time are adjusted to inflation; it is however not known if there are any other economic factors that influence these adjustments

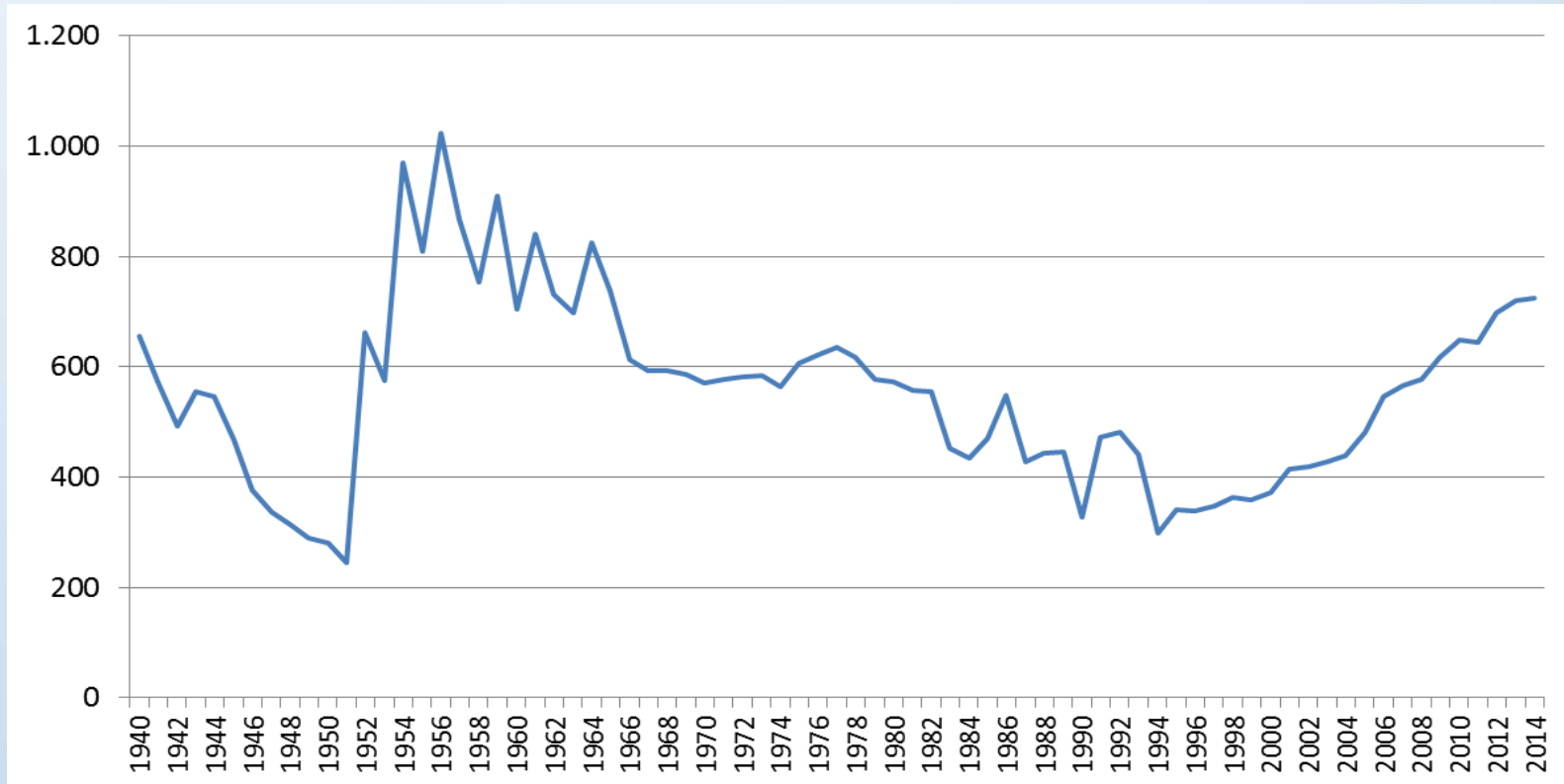
Range of Minimum Wages in Different Sectors across States in India (in Rs)

	Bihar	Gujarat	Kerala	Punjab	Tamil Nadu	West Bengal	Delhi
Agriculture							
1998	39	40	40	66	32	51	75
2005	66	50	72	94	N.A.	67	122
2011	120	160	150	160	100	167	247
2013	170	120	150	250	100	173	311
Brick Kiln Industry							
1998	51	63	80	63	42	64	75
2005	68	89	154	90	N.A.	99	122
2011	125	160	262	154	123	134	247
2013	176	200	304	240	188	149	311
Construction of Building and Roads							
1998	51	65	75	63	67	56	75
2005	68	90	162	90	N.A.	90	122
2011	125	176	308	154	194	195	247
2013	176	217	368	240	262	205	311
Stone Breaking and Crushing							
1998	51	63	65	63	N.A.	58	75
2005	68	87	162	90	N.A.	64	122
2011	125	173	308	154	N.A.	195	247
2013	176	213	368	240	N.A.	205	311
Oil Mills							
1998	51	66	113	63	41	75	75
2005	68	91	136	90	N.A.	100	122
2011	125	177	212	154	141	195	247
2013	176	217	250	240	192	205	311
Public Motor Transport							
1998	51	69	N.A.	63	74	80	75
2005	68	94	N.A.	90	N.A.	120	122
2011	125	182	N.A.	154	230	196	247
2013	176	222	N.A.	240	358	207	311

Structure of Minimum Wages in Brazil

- The 1988 federal constitution in Brazil legally established a “nationally unified minimum wage” for the formal sectors which is used by the informal sector as a benchmark for bargaining.
- The current rules for setting the minimum wage establishes a machinery for the pro-cyclical increases, which compensates for inflationary losses and GDP growth.
- Minimum wages also serve as the floor for the social security benefits, unemployment insurance and some cash-transfer programmes
- Due to the formalization process that Brazil underwent in 2000s, minimum wage became most important for non-registered workers; sub-minimal wages among formalized workers became practically non-existent
- Unlike India, Brazil sets legally binding wages at both the national and state levels. Comparison between the two levels show that the various state level minimum wages are in fact higher than the national minimum wages. So, while the national minimum wage in 2009 was R\$ 465, the state level wages varied between R\$ 605-630 in Parana, between R\$ 485-950 for Rio de Janeiro and between 505-550 in São Paulo

Real Evolution of the National Minimum Wage in Brazil, 1940-2014 (in 2014 Brazilian Reals)



Source: Ipea

Fixation of minimum wages in India

Comparing Minimum Wages with Actual Wages

National Average for Minimum Wages			Actual (Mean) Wages Paid		
Year	Minimum	Maximum	Year	Casual Rural Wages	Regular Urban Wages
1991	21	33	1993	21	76
1999	44	75	1999-00	40	165
2004	69	112	2004-05	49	194
2011	129	221	2011-12	139	450

- The minimum wages fixed are often less than the average wages prevalent in the market
- The rise in real wages for casual workers was initially slower than the rise in minimum wages; post 2004-05 however, the rise in real wages was significantly higher than the minimum wages

Proportion of Wage Workers legally covered by Minimum Wage legislations in India and Brazil

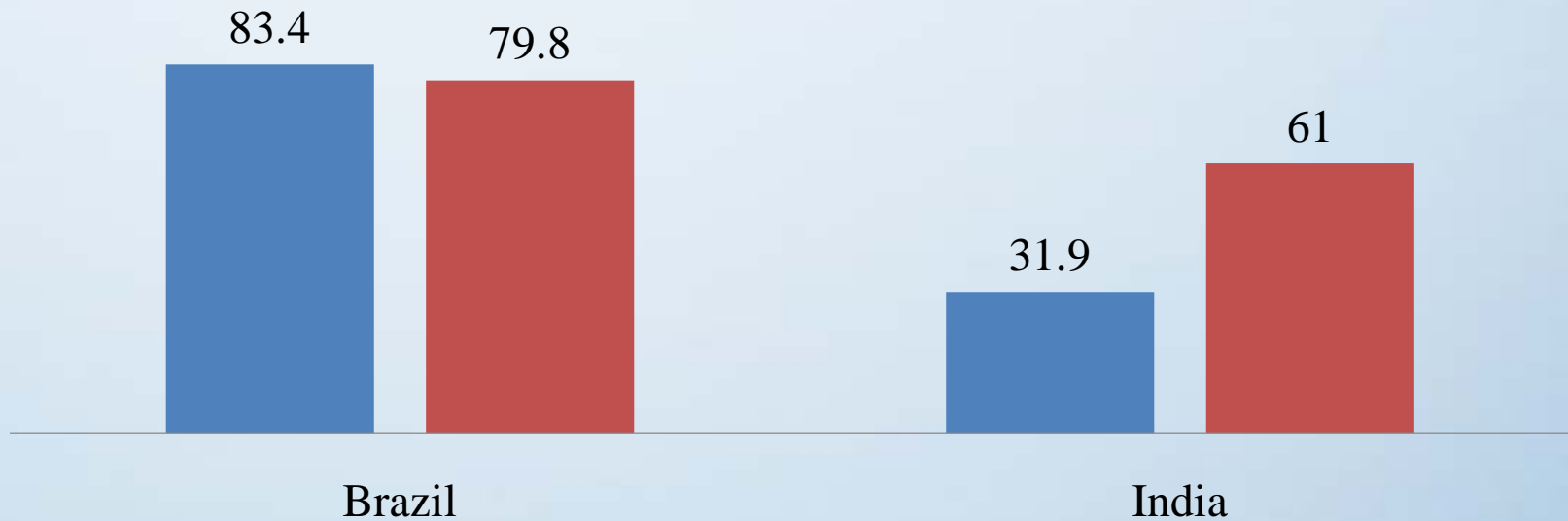
		Mid-2000s		Late 2000s	
		Brazil	India	Brazil	India
Overall		100	60.8	100	70.7
Region	Rural	100	43.7	100	76.1
	Urban	100	46.9	100	58.0
Sex	Male	100	59.5	100	65.3
	Female	100	63.8	100	85.6
Industry	Agriculture	100	80.7	100	93.4
	Mining	100	58.6	100	68.7
	Manufacturing	100	44.0	100	48.7
	Construction	100	15.5	100	30.5
Skill	Low Skill Services	100	36.3	100	66.5
	High Skill Services	100	75.8	100	68.6
Sector	Formal	100	57.4	100	65.7
	Informal	100	62.4	100	73.1

Source: Rani, Uma, et al (2013), "Minimum wage coverage and compliance in developing countries", *International Labour Review*, Vol. 152, No. 3-4, pp. 381-410.

Actual Compliance of Minimum Wages

Overall Compliance

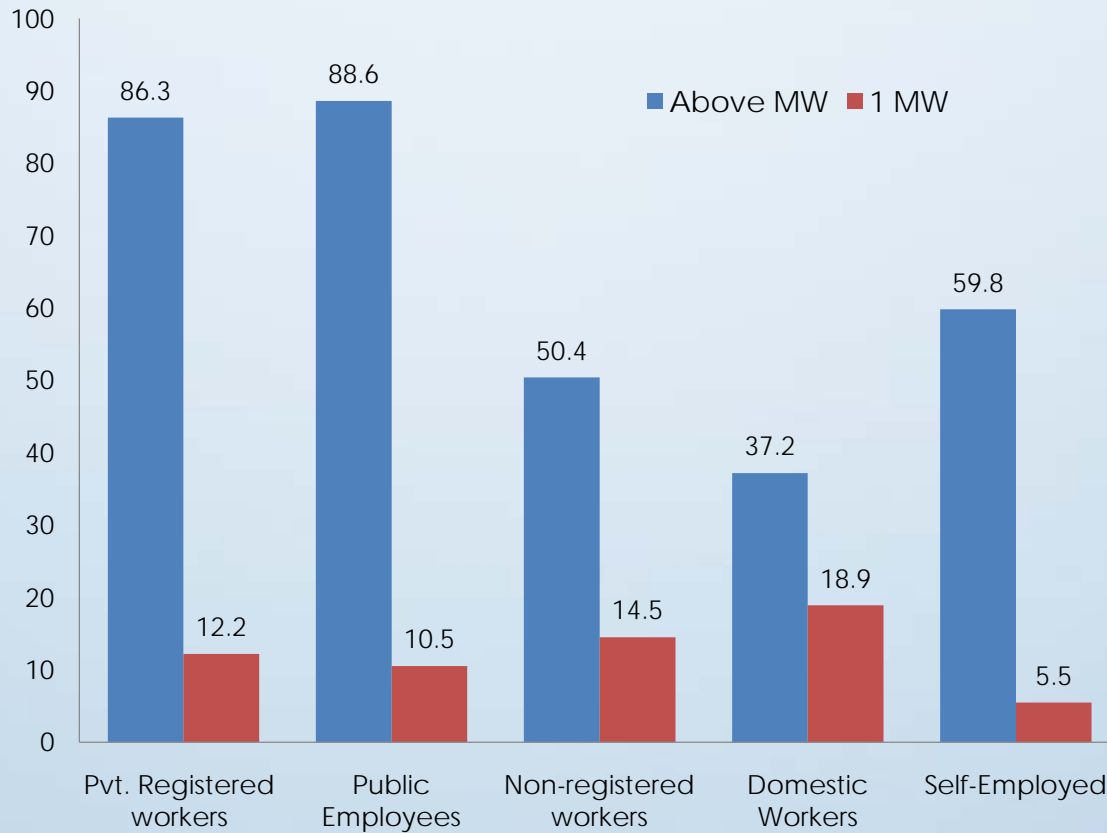
■ 2004-05 ■ 2009-10



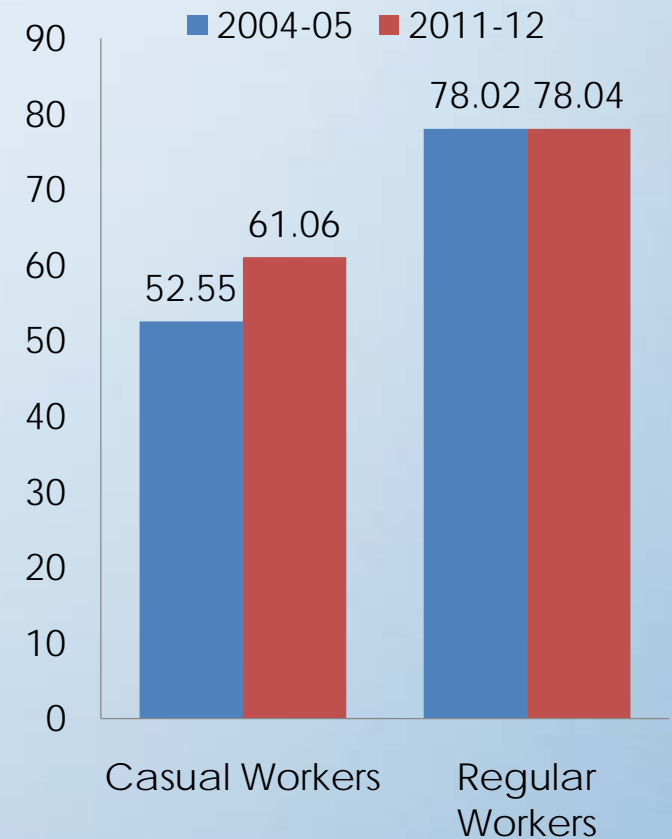
Source: Rani, Uma, et al (2013), "Minimum wage coverage and compliance in developing countries", *International Labour Review*, Vol. 152, No. 3-4, pp. 381-410.

Minimum Wage Compliance by Employment Status

Brazil, 2013

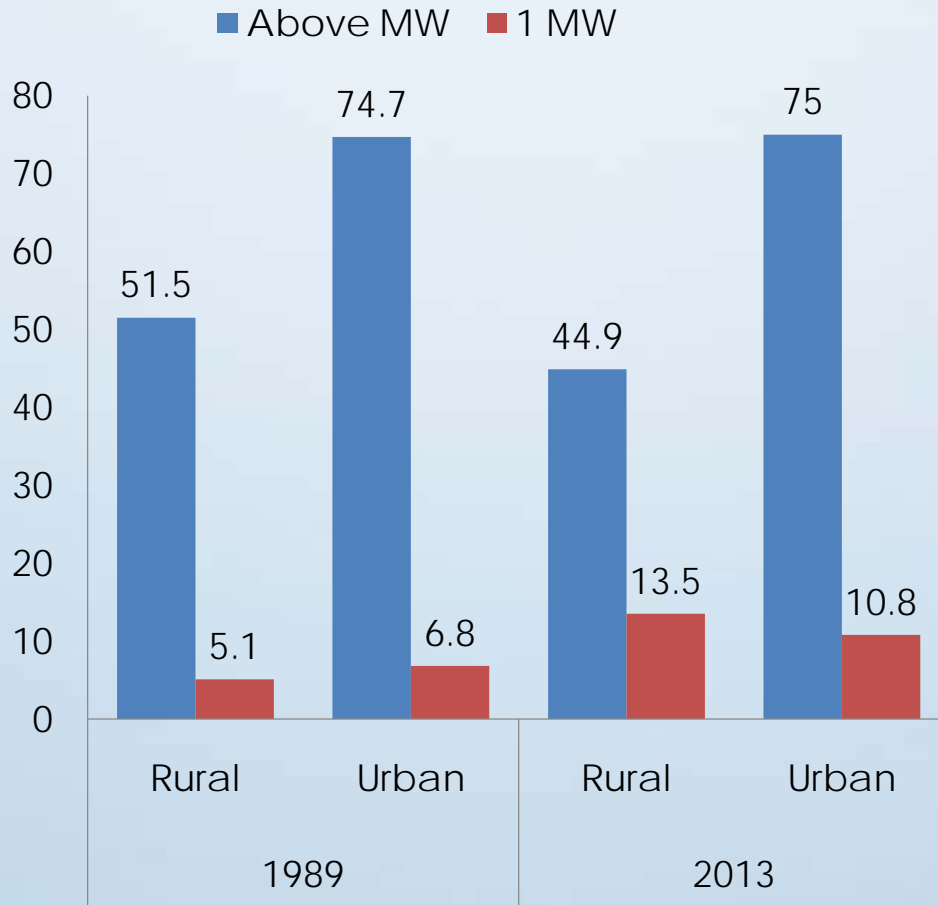


India, 2004-05 and 2011-12

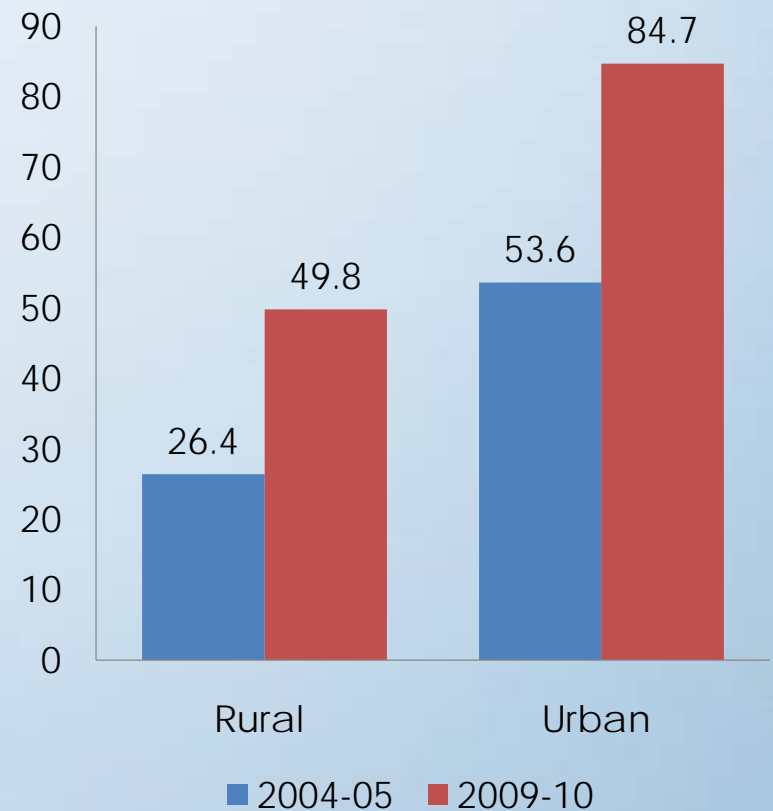


Minimum Wage Compliance by Region

Brazil, 1989 and 2013

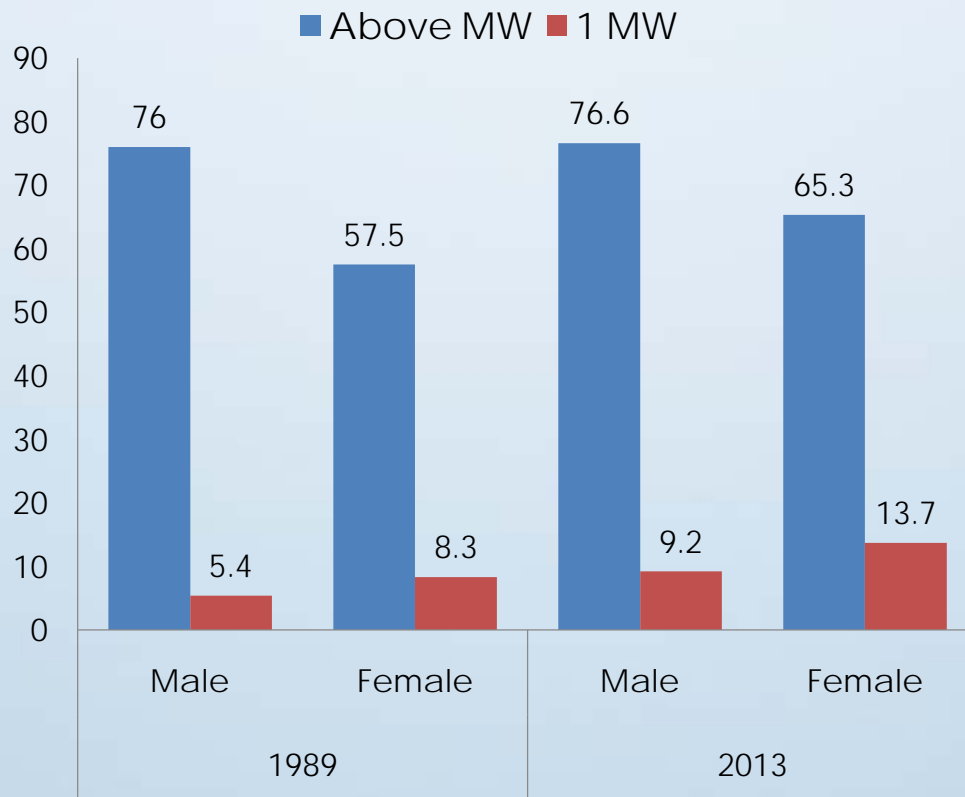


India, 2004-05 and 2009-10

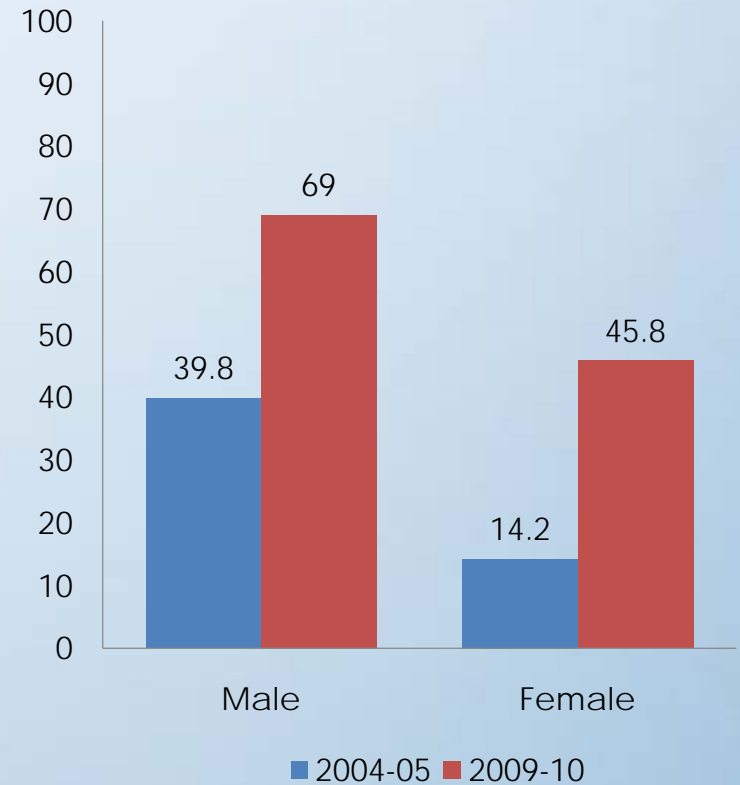


Minimum Wage Compliance by Gender

Brazil, 1989 and 2013

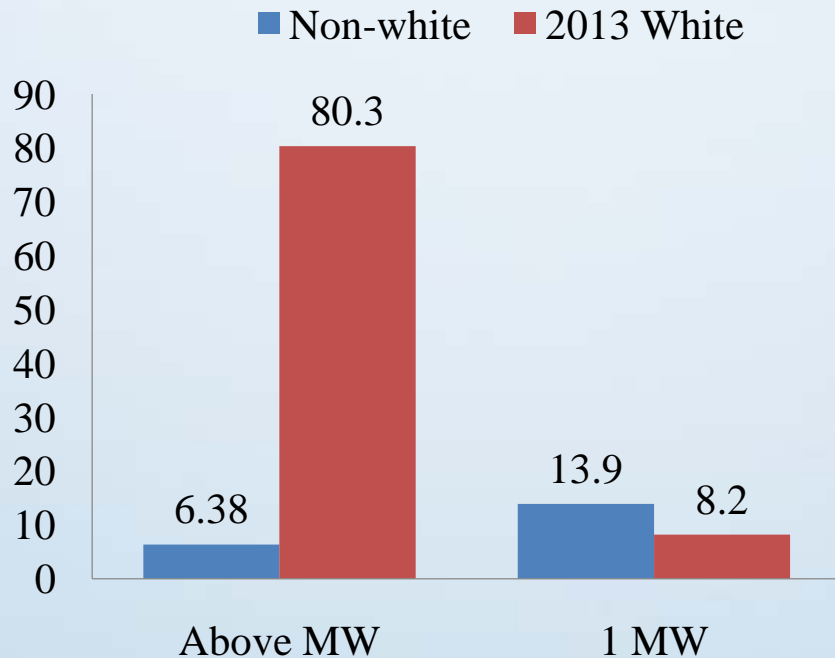


India, 2004-05 and 2009-10



Minimum Wage Compliance by Social Groups

Brazil, 2013



India, 2009-10



Enforcement and Implementation of Minimum Wages

- Large proportion of wage workers legally covered by the Minimum Wages Act are, in reality, paid wages less than the minimum wage levels
- Non-compliance continues to be an important problem in both countries, more for India than for Brazil
- Rates of non-compliance are higher among the low skilled workers, women workers and socially vulnerable groups.
- The complexity of the minimum wage system in India, with multiple rates, poor levels of enforcement and inspection has rendered minimum wages ineffective as a labour market instrument
- Brazil, on the other hand, with a simple national minimum wage system, higher rate of compliance, strong trade unions and strong political backing have implemented policies which have strengthened the minimum wages