

Report on the Policy Conference on

Promoting Inclusion and Reducing Disparities in the Labour Market in Brazil and India

14 March 2015, New Delhi

The Institute for Human Development (IHD), New Delhi, organised a Policy Conference on the 14th of March, 2014 at New Delhi entitled “Promoting Inclusion and Reducing Disparities in the Labour Market in Brazil and India” in collaboration with the International Labour Organisation (ILO), New Delhi. The Conference was organised as a part of the project on “*Labour market Inequality in Brazil and India*” carried out by the Institute for Human Development (IHD), New Delhi and the Brazilian Centre for Analysis and Planning (CEBRAP), São Paulo, with support from the International Development Research Centre (IDRC), Canada. The main objective of this Conference was to make a valuable contribution to the prevalent policy debates on inclusive development by considering labour market policy measures that can widen access and reduce disparities. The research project, ‘Labour market inequality in Brazil and India’ has examined the patterns and trends of labour market inequality in the two countries. The project, apart from exploring a wider range of policy issues, has critically examined two specific policies with the potential to promote labour market inclusion: minimum wages, and vocational training and skills development. This policy dialogue aimed to generate a debate around these issues, drawing on the research undertaken in the project. Panellists in this Conference consisted of representatives from government, business, trade unions, non-governmental organizations, ILO and academia. Members of both the Indian and Brazilian research teams were the key presenters in this Conference.

Opening Session

The session was chaired by Prof. S.R. Hashim, Chairman, IHD, and Former Member Secretary, Planning Commission and Former Chairman, Union Public Service Commission. The welcome address was given by Prof. Alakh N. Sharma, Director, IHD following which Professor Gerry Rodgers, Visiting Professor, IHD presented broad findings from the IHD-CEBRAP project. Dr. Anindya Chatterjee, Regional Director, International Development Research Centre, Asia delivered the special remarks in this session.

Prof. Hashim emphasised on the importance of different policies for reducing inequality in the context of Brazil and India. He pointed out that initially Brazil was one of the most unequal countries in the world. However, in recent years, Brazil has successfully reduced its levels of inequality through social policies, particularly cash transfer programmes.

In his opening remarks, Prof. Sharma spoke about the importance of social protection policies and pointed out that apart from such broad policies, the policies of vocational training and minimum wages often act as effective policy instruments for reducing inequalities. In this regard, he emphasised on the need for a comparative study between India and Brazil in order to understand the different roles played by the policies in both countries.

Prof. Rodgers started his presentation by comparing the historical and institutional structure of the economy in both countries. Brazil experienced high growth and increasing inequality in the 1970s. But inequality was reduced significantly from the 1990s on. Inequality in India, on the other hand, rose especially from the mid 1990s to the mid 2000s. He added that the study concentrates specifically on labour market inequalities and emphasized the importance of the various social policies initiated in each country and on the adverse impacts of unequal distribution of resources on the general level of inequality in both countries. He further added that outcomes from the project are intended to be useful for future policy intervention in the two countries.

The special remarks in this session were given by Dr. Anindya Chatterjee, Regional Director, International Development Research Centre, Asia. Dr. Anindya Chatterjee talked about the widespread problems of job creation and employment in the global economy and questioned if job creation is beneficial for reducing inequality in an environment where workers do not have minimum wages, mandatory health insurance or job protection. He added that social protection policies should follow a rights based framework and target the vulnerable workers, such as the women workers. He further emphasised the need for creating a favourable environment for the growth of small businesses through investments in small and medium enterprises (SMEs). He emphasised the need for a better policy framework across countries with equal wage for equal work and added that skills and vocational training are the drivers for better job opportunities for the youth.

Session 2: Growth and Social Policies in Brazil and India and their impact on Labour Market Inequality

This session was chaired by Prof. Gerry Rodgers, Visiting Professor, IHD. The principal presentation was given by Prof. Alexandre F. Barbosa, University of Sao Paulo, CEBRAP. Panellists in this session included Dr. A Santhosh Mathew, Joint Secretary, Skill/IT Division, Ministry of Rural Development, Government of India; Ms. Renana Jhabvala, National Coordinator, Self- Employed Women's Association and Prof. Ravi Srivastava, Centre for the Study of Regional Development, Jawaharlal Nehru University, New Delhi.

Prof. Barbosa unfortunately could not be physically present in the Conference and instead gave an online presentation through Skype. In his presentation, Prof. Barbosa compared the growth processes in India and Brazil. He started by identifying the various similarities in both economies. He pointed out that both countries adopted policies of liberalization since the 1980s; both have large numbers of unprotected workers and in both the service sector has proved to be important. However, there are also some crucial differences in the growth processes. Since the 1980s growth in India has 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 by these crises until 2008, which also had consequences for differences in the levels of poverty and inequality between the two countries. While inequality in Brazil stabilized until mid 1990s and then declined; India faced the reverse trend. Further, he compared certain key social security and income transfer programmes like the Bolsa Familia in Brazil and MGNREGA and PDS in India which have played a significant role in transferring resources to the poor in both countries. He also emphasized that different social policy designs in each countries reflect a distinct response to different problems faced by the countries. Unlike India, in Brazil along with conditional cash transfers, minimum wage policy also acts as an important social policy instrument. Further, he compared the education and skill related policies in both countries and pointed out that providing equal access and the maintenance of good quality education is one of the key challenges faced by both countries while skill training has not received adequate attention in either country. Brazil primarily follows a rights based approach which aims to provide universal social protection, on the other hand, India only provides effective social protection to the organized sector. Labour market inequality cannot be removed by any single policy as it is dependent on other factors such as economic structures, levels of productivity and process of economic growth.

In his comments, Dr. Matthew raised certain important questions about the processes of growth and nature of social policies in both countries. He wanted the project to provide specific recommendations for future policy design. He questioned whether high growth actually leads to high inequality or was it the other way around? Ms. Jhabvala questioned the policy interventions adopted for raising the skill of the informal workers. She discussed the extent to which higher wages were paid to the informal workers with better skill levels. She also raised questions on the availability of social protection scheme for women workers. Prof. Srivastava

pointed out that social protection schemes in India rely on an employer-employee relationship, as a result, the large numbers of self-employed workers are not covered and there is an urgent need to adopt newer approaches and improve the policy designs. In this regard, he highlighted the possible effect of labour mobility on social protection policies. He also pointed out that the vulnerable sections of the workforce especially the women workers face restrictions in acquiring greater skills. Questions were raised as to whether informal training should be replaced by formalized training with specific skills requirements to meet the industries' demands.

The session concluded that the economic growth and social policies in each country depends on historical experiences and other macro economic factors and for this reason it is not possible to simply transfer these policies across countries.

Session 3: The Potential of Skill Development and Vocational Training to Promote Labour Market Inclusion

The third session was chaired by Prof. Ramgopal Agarwal, Honorary Senior Fellow at NCAER, and the principal presentation was made by Ms. Nandita Gupta, Senior Research Associate, IHD, New Delhi. Members of the panel included Mr. Rajib Majumdar, Chief Operating Officer, Association of Skills Training Companies; Ms. Sangeeta Singh, Principal Secretary to the Government, Revenue Department, Government of Gujarat; Mr. Partha S. Banerjee, Director, DEFT Advisory and Research, New Delhi; Ms. Gouri Gupta, Head Monitoring Unit, National Skill Development Corporation and Ms. Anjali Sinha, Project Manager, iMOVE, India.

In her presentation, Ms. Gupta first discussed the relationship between skills, training and inequality which was followed by a comparative overview of the vocational training systems in both countries. This was followed by a discussion on the extent of coverage in the two countries, and the nature of exclusions and inclusions. The presentation graphically showed the pattern of returns to VET in both Brazil and India. Subsequently it discussed the impact of training on the labour market and labour market inequality. The discussion then moved to the recent policy shifts in the 2000s in both the countries, and their relevance and potential role as a tool to combat inequality. It emerged that in both countries there are common problems related to quality, relevance of course and curriculum, duration, accreditations, industry-institution linkages and placement and employment. Both countries have in the past had exclusionary requirements to access formal VET. The returns to formal VET are significant in both countries and in turn they perpetuate status quo, as largely it is the relatively better-off that are able to access them. Both countries have also embarked on a process of greater coordination and linkages between different departments and ministries, and have invested greater resources post mid-2000s. Brazil's recent focus has been a public funded pro-poor targeted programme; at a national level in India, the focus has been on incentivizing non-government players to deliver VET, though public programmes continue to operate, and

innovative public programmes have also been launched. Given this context, the presentation ended with 6 key questions that emerge vis-à-vis inequality, namely: whether India should develop targeted programmes like Brazil for skill development? How important is it to streamline or formalize informal training? Is it better to invest in good quality general education than in VET? How much of the employment problem is the general lack of jobs and job growth, and how much is it the result of a shortfall in the capabilities of workers?

The first panellist, Mr. Rajib Majumdar, raised questions regarding the possible incentivisation that may be given to employers to only hire those having formal accreditations. He added that while this may lead to inequality initially it would eventually lead to better standardization, and greater faith of employers in those vocationally trained. He questioned whether such incentivisation exists in Brazil. The second panellist, Ms. Sangeeta Singh, discussed the importance of flexible and versatile training given the context of rapid change in technology. She proposed that training should not be watertight in differences of formal-informal, part-time, full-time, rural-urban etc.; it should be more decentralized, and movement should be made possible between these options. She gave examples of the recent innovative programmes being implemented in the state of Gujarat (in India), and gave some examples of possible measures that are likely to be more effective: such as voucher systems, better recognition of previous skills, credit based systems, and using existing physical infrastructure for delivery of VET. The third speaker Mr. Partha Banerjee also emphasized the importance of recognition of prior learning. He went on to indicate gaps in the general understanding of skills and training and raised questions such as the role of migration, the lack of quality teachers, geographical and regional inequality in training, the possible role of the MSMEs. He maintained that the outcome of the amended apprenticeship act in India cannot be ascertained, but it could be useful by linking it with minimum wage. The fourth speaker Mr. Arbind Singh, said that he finds that youth are often reluctant to undertake formal training and this is owing to the fact that 'people do not want to spend time getting formally trained, when they earn more or less the same with informal training'. Therefore it is the low returns that affects demand for training, this is also tied to a lack of a 'career orientation' perspective. Ms. Gouri Gupta, the fifth panellist described some of the initiatives of the National Skills Development Corporation in India, such as the sector skills councils, voucher programmes; and especially their attempt at making 'being skilled' aspirational for the youth, such as through participation in the World Skills Competition. The last panellist, Ms. Anjali Sinha briefly compared the Indian system and the German dual education system.

The interventions by panellists were followed by comments and questions from the audience and were related to the possibility of asserting more clearly the relationship between training and inequality, given the available data.; and whether the number of formally trained is actually as low as indicated by the sample survey data.

Session 4: The Role of Minimum Wages

This session was chaired by Dr. Subesh Das, Additional Chief Secretary, Planning West Bengal. The presentations in this session were given by Ms. Taniya Chakrabarty, Research Associate, IHD, New Delhi; and Dr. Uma Rani, ILO Switzerland who also delivered an online presentation through Skype. Special remarks was delivered by Prof. T.S. Papola, Honorary Professor, Institute for Studies in Industrial Development, New Delhi; Chairman, Uttarakhand Finance Commission and Chairman, Giri Institute of Development Studies, Lucknow. Panellists in this session were Mr. Sanjay Prasad, Principal Secretary to Government, Labour and Employment, Government of Gujarat; Dr. R. C Khuntia, National Trade Union Congress; and Mr. Michael Dias, Secretary, The Employers Association, Delhi.

The presentations in this session were divided into two parts; while Ms Chakrabarty discussed the historical and institutional structure of minimum wages in India, the process of fixation of minimum wages, their coverage, compliance, enforcement and implementation; Dr. Rani discussed the effect of minimum wages on employment and wage levels, the potential impact of minimum wages on reduction of poverty and inequality and finally provided some conclusions and recommendations for making minimum wages an effective policy instrument in India.

At the start of her presentation, Ms. Chakrabarty pointed out that minimum wages are useful for not just setting wages at the bottom of the wage pyramid, but in some countries, it is also used for higher paid workers whose wages are set at multiples of the minimum, like in Brazil. The presentation highlighted the different roles played by minimum wages in both countries. It first compared the structure of minimum wages and traced the evolution of minimum levels in both countries. It then showed the number of workers legally covered under the Act in India in comparison to Brazil, which provides coverage to all workers. The presentation also highlighted that over the years the rate of increase of minimum wages has been less than the rate of increase of average wages in the labour market, arguing that the existing levels of minimum wages are insufficient for providing a decent standard of living to the poor and vulnerable workers. With this backdrop, the presentation graphically compared the rates of actual compliance with minimum wages in both countries using different criteria such as the employment status, region, gender and social groups. The presentation pointed out that while non-compliance is a problem for both countries, it is a bigger problem for India than for Brazil because large numbers of workers in India, especially in the unorganised sector, get sub-minimal wages. In contrast minimum wages in Brazil have a multiplier effect with many workers being paid wages in multiples of the minimum; more importantly, minimum wages in Brazil serve as the floor level for social security benefits, unemployment insurance and some cash-transfer programmes; minimum wages in India do not play a similar role. In both countries, however, rates of non-compliance are higher among the low skilled workers, women workers and socially vulnerable groups. In the given context, the presentation concluded that 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 has implemented policies which have strengthened the minimum wages.

Following on from the previous presentation, Dr Rani discussed the actual and potential impact of minimum wages on levels of employment, poverty and inequality. Through various simulations undertaken in several of her previous studies, she pointed out that imperfect compliance is a greater problem among workers located at the bottom of wage distribution since it is these workers who are generally more vulnerable with low unionisation, insecurity of jobs, inadequate information and insufficient skill levels. She further added that if set at the right level then minimum wages can help in reducing inequality by lifting those at lower end of the wage distribution. Better enforcement could also help in increasing the potential impacts of minimum wages on reduction of poverty and inequality. Her simulations clearly showed that minimum wages do not lead to disemployment effects in developing countries. Further, she argued that NREGA has had a beneficial impact on the implementation of minimum wage policy as it gave rise to greater compliance through greater transparency in payment of wages. She concluded that there is a need to make the system less complex. She also recommended a binding state-level minimum wage for all workers irrespective of whether they are covered in the schedules of employment. Further, there is a need to adopt a coherent enforcement strategy with greater awareness among both employers and workers, backed with effective labour inspections and sanctions in case of violations.

In special remarks, Prof. Papola said that the process of fixing minimum wages in India needs to be changed at two levels – at the absolute level, it should be revised such that it meets the needs of the workers; at the relative level, it should change over time keeping in mind the changes occurring in the labour market and in the economy at large. He pointed out that while in India, minimum wages are useful for creating some norms for unorganised sector wages, in Brazil on the other hand, they serve as a yardstick for all wages. Drawing from the earlier presentations, he said that in a situation of minimum wages being less than average wages, there is an implicit risk of minimum wages becoming the maximum wage as employers can now pay wages lower than the market and yet claim to comply with minimum wages. Following the argument of NREGA having a beneficial impact on minimum wage enforcement, Prof. Papola argued that the degree of compliance across states is directly related to the performance of NREGA, so states which demonstrated greater success in implementation of NREGA possibly had higher rates of compliance. To conclude he reiterated the need for removing the system of multiple minimum wages and instead of having a national minimum wage.

Dr. Khuntia argued that the presence of a national minimum wage will also prevent migration of unskilled and low-skilled workers and can act as a social security mechanism for informal workers. Mr Dias from his experience as a member of an employers' association argued that the fixation of minimum wages in reality is directly related to political factors and said that often

before elections, a whopping increase in the minimum wage is given but without any definite criterion. He added that the practice of paying wages directly through cheques, as adopted by some governments like Gujarat among other, can be helpful for improving transparency and generate greater compliance. Although he supported the idea of a binding national minimum wage, he was sceptical of having a uniform and binding state-level minimum wage and felt that for certain sectors like the brick industry, etc such an initiative might prove to be a huge financial hurdle.

Mr. Prasad using a graph depicting the evolution of minimum wages in Brazil pointed out that the minimum wages in 2014 have reached, in real terms, the same level as they were in 1954; thus, despite good compliance and strong legislations, minimum wages in Brazil have not really risen as much. He further argued that Brazil has witnessed high rates on inflation and instability and there is thus a need to analyse the effects of inflation on minimum wages. Further he pointed out that other studies showed that the indexation formula used by the Brazilian government for fixing minimum wages has in fact pushed down the minimum wages because it was based on a normative expectation of inflation, while in reality the inflation rates were much higher than the expected rates; this in turn gave rise to primitive accumulation in terms of an increase in the gap between the actual real wages and nominal wages. He further added Brazil at one point had very high rates of Gini, highest in the world, but during that period, Brazil also showed high rates of compliance; so he questioned the possible reasons behind this phenomenon as it raises questions about the impact of good labour compliance on inequality levels. Thus it seemed that good labour law compliance resulted in higher Gini and greater inequality and alternatively India with low labour law compliance had lower rates of Gini and lesser inequality, which would then seem like a better-off situation. In order to avoid such incorrect conclusions, Mr. Prasad suggested further disaggregation of the available data. He suggested for undertaking a disaggregated study of the role of minimum wages for agriculture, construction and outsourcing. In his comments Dr. Das suggested that one should also look at the effect on casual and regular workers within the organised sector.

Concluding Session: The Way Ahead

The panel in the concluding session was chaired by Dr Nagesh Kumar, Director, Economic and Social Commission for Asia and Pacific, South and South-West Asia office, New Delhi. Prof. Gerry Rodgers presented the main highlights from the day's deliberations and presented his concluding remarks from the project. Panellists in this session included Dr. Sher Verick, Senior Employment Specialist, ILO Decent Work Team, New Delhi; Dr. Rathin Roy, Director, National Institute of Public Finance and Policy, New Delhi.

Dr. Verick while commending the project for undertaking such a complicated comparison between two very different countries like India and Brazil argued that there are greater

evidences of secondary impacts of minimum wages in Brazil through its impact on pensions and other social security benefits.

Dr. Roy in his comments questioned as to what should be the real purpose of minimum wages. He said that having a national minimum wage floor is not useful if we have sectoral differences because then it would not be possible to move workers out of agriculture, thus such a recommendation would prove to be inconsistent with other policy recommendations. He added that a minimum wage essentially tries to correct the dynamics of economic growth – if all was right then we would not need minimum wages. He also pointed out that Brazil adopted a policy for systematic rise in wages during the recession and later research shows that this pro-cyclical policy proved to be most useful. Talking about the relation between labour productivity and minimum wages; Dr. Roy pointed out that while China had five times higher productivity than India, its wages is 2.5 times that of India's wages. The question that he then raised was whether low productivity growth driving was wage inequality and manifesting itself in low minimum wages or is it the other way around?

The discussion in this session was mainly focused on the various factors that determined the levels of inequality in the labour market such as informality; skill and formal education. It was felt that there is a need to assess the process of transferring workers from the informal to the formal sector and on the need for greater access to high quality formal education. The panel believed that the foundation of good skill development is a good system of education and strong institutional structure.

At the very end, Prof Alakh Sharma, IHD New Delhi thanked all participants for enriching the discussion and making the conference a success.