centro brasileiro de análise e planejamento

LABOUR MARKET INEQUALITY IN BRAZIL AND INDIA

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BRIEFING NOTE 1

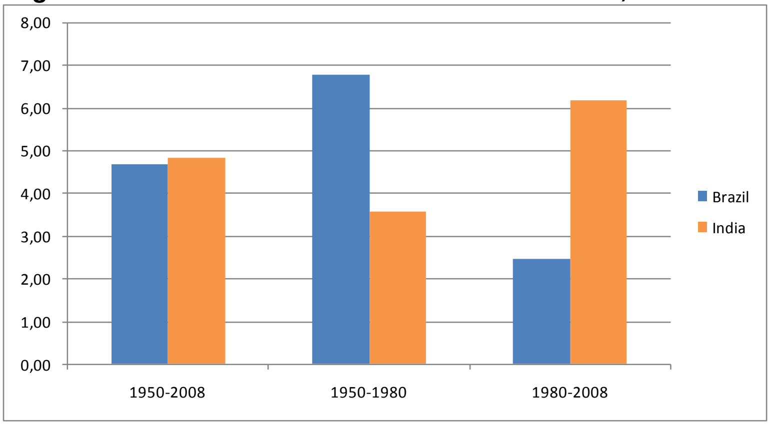
Inequality and growth: the contrasting stories of Brazil and India

Concern with inequality used to be confined to the political left, but today it has spread to a wide variety of economic and social actors. A growing concentration of income and wealth in many parts of the world is seen as a source of economic stagnation, political unrest and social exclusion. This is a global issue, but one that is receiving particular attention in large middle income countries such as India and Brazil as they gain in importance in the world economy.

In the past, Brazil reported one of the highest levels of inequality in the world. On the other hand, India, despite its embedded inequalities due to caste and the colonial legacy, seemed to share its poverty more evenly. Views of inequality and development were greatly influenced by the work of Simon Kuznets, whose “inverted U-shape” of inequality suggested that growing inequality was likely in the early stages of industrialization and urbanization, but that once a certain level of development had been reached inequality would start to decline. However, the secular experience of India and Brazil does not support the idea that there are general laws. Inequality is bound up with the nature of the growth path and the economic and social institutions that underpin it. The recent opening up of both economies to global markets was accompanied by improving income distribution in Brazil and worsening in India. A comparison of the two countries, despite their very different histories and social and economic structures, or perhaps precisely because of these differences, can help to illustrate the mechanisms involved.

In some important ways, the experiences of Brazil and India are mirror images of each other. Since the middle of the twentieth century, both countries have had a similar average rate of growth of between 4 and 5 per cent per annum. But Brazil grew rapidly up to 1980 while India grew slowly; and then after 1980 the pattern was reversed (Figure 1).

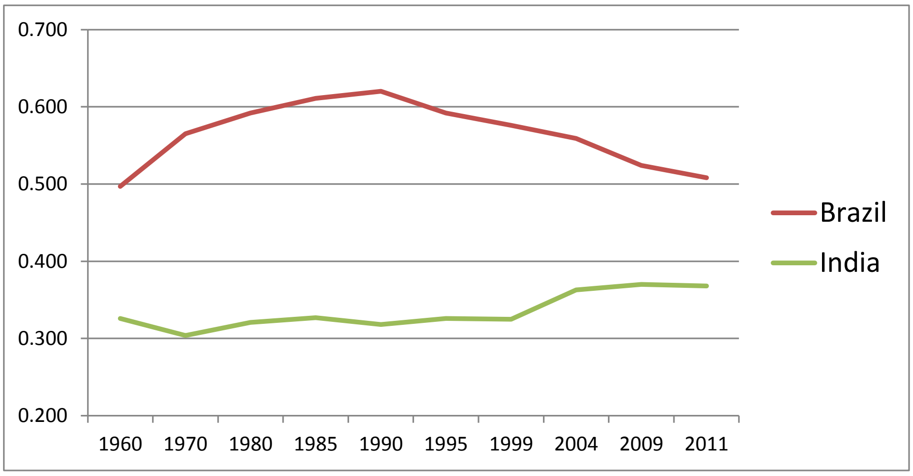
Figure 1: Annual GDP Growth in Brazil and India, 1950-2008



Source: Maddison database (http://www.ggdc.net/maddison/oriindex.htm); Statistics on World Population, GDP and Per Capita GDP, 1-2008 AD (1990 International Dollars).

The mirror image can also be seen in the long term trend of inequality. Income inequality in Brazil rose rapidly until the 1980s, but then started to decline in the 1990s and more steeply after the turn of the century. Inequality in India showed little change until the 1990s, but then started to rise (Figure 2). The reasons for these differences lie more in the nature of growth than in its pace. To explain them we need to understand the “growth regime” in each country as a whole, embracing economic structures, labour market institutions, agrarian systems, the functioning of markets, the pattern of international integration, monetary and fiscal relations and the role of the state.

Graph 2: Gini coefficients of income (Brazil) and expenditure (India), 1960-2011



Sources: India – National Sample Survey, various years; UN-Wider World Income Inequality data base WIID V3.0B for earlier years (http://www.wider.unu.edu/research/Database/en_GB/database/); *India Development Report, 2011* (IGIDR, Mumbai); and calculations from unit level data.
Brazil - prepared by authors based on PNAD/F.IBGE data.
Notes: Indian data refer to household expenditure per capita. Brazilian data refer to individual income. For 1980 to 1995 the Indian data relate to one or two years earlier than the date indicated in the graph.

The two countries have very different economies. To start with, per capita GDP in Brazil is almost three times that in India.[1] Brazil is highly urbanized: over 80% of the

[1] After taking into account purchasing power differences.

population is urban compared to 30% in India. Half of India's workers are still employed in agriculture, against only 13% in Brazil. Both economies have large service sectors, but India's has been growing faster than Brazil's and the Indian economy is widely described as service-led – manufacturing has hardly grown as a proportion of GDP in the last half century. Brazil had a much larger industrial base than India in 1980, but its share in GDP has been declining, and is now similar to India's at just over a quarter. Both countries have large informal economies, but while India's dominates the labour market, since half of workers are self-employed and only 7% are in regular formal wage employment, in Brazil only a quarter of workers are self-employed and 45% are in registered wage work. On the other hand, open unemployment is higher in Brazil than in India, where underemployed workers are mainly absorbed in informal work.

Despite these differences, many similar issues arise in the two countries. The impact of globalization, discrimination and segmentation in labour markets, the quality of jobs created, persistent social exclusion, regional differences, poorly specified regulation and endemic corruption, insufficient investment in social infrastructure, huge disparities in productivity and many other key determinants of inequality are found in both countries, even if they manifest themselves in different ways.

To understand inequality today it is necessary to examine the historical pattern of growth. Both countries embarked on a state-led development process in the mid-twentieth century, though with different forms and different results. Up to 1980, Brazil had a successful period of import substitution-led industrialization, promoted by both democratic and military regimes. Growing inequality reflected differentiation among workers, with the creation of an industrial proletariat, but also the persistence of a largely impoverished informal workforce, oligopolistic production structures subsidized by the state, and the growth of a well-off middle class. These structures then persisted through the economic crisis of the 1980s and changed only slowly during periods of stabilization and liberalization in the 1990s, but inequality fell more rapidly after 2002 as a result of stronger redistributive policies and the positive performance of the labour market.

In India, a comparable process of heavy industrialization in the early years after Independence ground to a halt after the 1960s, and while inequality did not increase there was little reduction in poverty during a period when overall growth was low. As in Brazil, the 1980s were a turning point. A shift to first internal and then, in the 1990s, external liberalization generated higher rates of growth, reaching over 8 per cent for several years in the decade of the 2000s. There was a positive impact on wages, but the benefits were concentrated, the profit share in modern industry rose sharply, formal employment creation was limited and wage differentials grew. The impacts on inequality can be seen in Figure 2.

Although Figure 2 shows inequality in India to be always lower than Brazil, the Indian data refer to expenditure, which is less unequally distributed than the income measures used for Brazil. Income inequality in India in 2005, which is the only year for which national household income data are available,[2] was almost as high as in Brazil. And these aggregate figures only tell part of the story, for there are large income differences between social groups and regions. It is possible too that inequality in India is more concentrated at the top than in Brazil.

[2] From the National Council of Applied Economic Research Human Development Survey.

These changing patterns of inequality have to be analysed as part of a complex of economic, political and social forces that are historically intertwined. The point of departure is to stress the divergent stories. But the ultimate goal is to go beyond the divergence to highlight the underlying forces that produce these different outcomes. This requires both a historical approach, which is essential to understand the long term dynamics, and a quantitative approach which can investigate the sources of economic and social differentiation.

What are some of the key ideas, propositions and observations that emerge from the comparison of the two countries?

- Periods of high growth in both countries were associated with declining absolute poverty but increasing inequality, so in these periods relative poverty increased. This is true of both Brazil before 1980 and India more recently, at least up to 2005.
- The sectoral pattern of growth and the volume and type of employment it has created have played a key role in generating differentiated labour markets. Brazil had created an industrial workforce by the 1970s and an emerging middle class, but also a considerable urban labour surplus; in India the shift towards a service-led economy has resulted in a heterogeneous urban workforce with little class identity, while the large agricultural sector serves as a labour reserve even today. These patterns provide the foundations of the overall structure of inequality.
- The distribution of income between wages and profits shows very different trends between India and Brazil. There was a sharp shift away from wages to capital incomes in India after the 1980s but a recovery in the wage share, from very low levels, in Brazil since 2002. This seems to be an important factor in the recent trend in overall inequality.
- Real labour income has been rising fast in Brazil since 2003, though in 2012 it was still not much higher than in the mid 1990s or the late 1970s. In contrast, real wages have been rising for all categories of wage workers in India since the 1980s, though this rise was much less than the growth of GDP since the 1990s. So rising wages can be associated with both rising and falling inequality.
- In Brazil, an increase in GDP growth after 2000 was associated with a more than proportionate increase in formal job creation; in India the opposite occurred, to the point where there was much concern with “jobless growth”.
- Liberalization and deregulation clearly contributed to the growth of labour market inequality in India, but this was much less evident in Brazil. A part of the difference lies in stronger institutions for the representation of workers and social protection in Brazil, which were reinforced after 2002. However, in neither country have trade unions effectively represented the interests of informal workers.
- Another reason may be found in the role of the internal market, which in Brazil relied on rising wages as an engine of growth, while India was more dependent on increasing middle class consumption.
- Labour market segregations and segmentations play an important role in inequality in both countries. This is partly a question of the difference in income and vulnerability between formal and informal employment, but simple dualistic models do not capture all the factors involved. Formal production systems use informal workers through outsourcing and other means, and there are large variations in wages, employment security, protection and vulnerability in both formal and informal work. Labour markets are also segmented by sex, caste, race and other dividing lines, which gives rise to complex patterns of inequality and exclusion.
- There have been recent reductions in income inequality in Brazil between formal (registered) workers on the one hand, and informal workers and the self-employed on the other. Inequality also has moved downwards within each group. This true for

casual workers in India as well, suggesting that unskilled labour markets are becoming more integrated in both countries. In India wage differences between casual and regular workers widened in the wake of liberalization in the early 1990s, but the trend has been reversed in recent years.

- The gaps between skilled and white collar occupations on the one hand, and casual or production workers on the other have continued to widen in India. In Brazil, the opposite has occurred due to the rapid increase in the minimum wage.
- Education is associated with large wage differentials in both countries. But rising average education levels have not reduced these differentials; instead, they lead to lower returns to each level of education as the supply of educated workers increases, while the differentials are reproduced at higher levels of education than before.
- Regional inequality is large in both countries, but there is a clear difference in the trends. Regional differences in wages and employment have widened in India and narrowed in Brazil in the last two decades. However, at least in Brazil, wage inequality has fallen less rapidly within the poorest states.
- Recent reductions in labour market inequality in Brazil are quite broad based, whether we look at differences by region, sex, or race (colour). The picture in India is much more mixed; some differentials have reduced, while others have persisted or increased. For instance, caste differentials in wages have not declined significantly in recent decades, in contrast to a fall in wage differences by race in Brazil. However, gender wage differentials have declined in both countries.
- With respect to gender equality, though Brazil has moved faster in terms of fertility reduction, urban job opportunities and education, women workers in both Brazil and India continue to face similar challenges: how to reconcile work and family responsibilities, labour market segmentation and social norms. A disproportionate number of women workers are found in precarious and low quality employment in both countries.
- In Brazil, the changes in government in recent decades have been accompanied by more substantial changes in social policy than in India, where policies have been more evolutionary (despite political rhetoric to the contrary). Even the adoption of innovative schemes such as NREGA and the Right to Food and Education Acts has been a result of decades of advocacy by social movements.
- Brazil has progressed towards a near universal social safety net (especially through non-contributory pensions and cash transfer mechanisms). In India, social policies have been more targeted and less efficient, while conventional social security has largely been limited to the formal sector.
- Minimum wage regulation in Brazil worked as an engine of inequality reduction because it sets an effective national floor for the income of unskilled workers. Minimum wages in India do not play the same role because they are complex, varying from region to region and from one category to another, and subject to widespread violation and non-compliance.
- In both countries it can be seen that different policy instruments affect different parts of the income distribution. Cash transfers, wage policies, education policies, employment policies and effective labour market regulation do not reach the same populations, so multiple measures of inequality are needed to capture and compare their impacts.

This is just a selection of conclusions that emerge from the comparison of the two countries. The overall picture of increasing inequality in India and decreasing inequality in Brazil is in reality the result of a complex set of different social and economic relationships and structures. They come together in overall regimes of growth and capital accumulation, which themselves change over time.

In these regimes there are a number of common factors. Globalization plays an important role in both countries, because depending on the pattern of integration in the world economy, it limits policy options, strengthens competitive forces in the labour market, and makes national economies more vulnerable to the international economic fluctuations. The state always plays a central role in both production and distribution, partly conditioned by its alliances with powerful economic actors – whether business, finance, trade unions, landed elites, nationalist forces, international creditors or others. It also plays a crucial role with respect to some key determinants of inequality – education, discrimination, social protection. But beyond the state there are also deeper, embedded patterns of organization of society that are reflected in labour market institutions, in the extent of gender inequality, the exclusion of particular groups, patterns of participation and representation, the sense of community and the extent of solidarity. Above all, the distribution of wealth – on which data are scarce - changes very slowly, and sets the basic parameters for the distribution of income.

In both India and Brazil the global economic crisis led to a fall in growth rates in 2008-09, decelerating further since 2011 after a brief recovery. The recessions of the 1970s and 1980s ultimately led to shifts in the growth regime in both countries, with opposite effects on inequality. It is too early to tell whether today's economic crisis will also lead to new institutional configurations. In both countries there are diverse and often competing economic interests, between labour and capital of course, but also between different categories of workers and social groups. New class structures are emerging, and new connections between domestic and international capital. The credibility and effectiveness of state regulation of the market is questioned in some quarters. Whether Brazil's recent experience of declining inequality will be sustained, and whether India's experience of increasing inequality can be reversed, depends on how the struggles and contradictions between these different forces and trends are resolved in each country.

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For more details of the project on labour market inequality in Brazil and India see the project website: www.ihdindia.org/lmi/

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