Growth and Inequality: Comparing India and Brazil

A Report on the Proceedings of the Panel Discussion held at the 55th Indian Society of Labour Economics Conference, held at Jawaharlal Nehru University, New Delhi, 18 December 2014

The session on Growth and Inequality in India and Brazil was held on the 18th of December 2014 at the Jawaharlal Nehru University in New Delhi. The session was organized under the project entitled 'Labour Market Inequality in Brazil and India' based at the Institute for Human Development, New Delhi and CEBRAP, Brazil; and being supported by the International Development Research Centre (IDRC) in Canada. The panel discussion was conceptualized by Prof. Gerry Rodgers, Visiting Professor at the Institute for Human Development.

The session was chaired by Dr. Edgard R. Rodriguez, Senior Programme Specialist, IDRC; the session had presentations by six panelists followed by questions from the audience. The panelists were:

- Prof. Gerry Rodgers, Visiting Professor, Institute for Human Development, New Delhi
- Dr. Rathin Roy, Director, National Institute of Public Finance and Policy, New Delhi
- Prof. K.S. Jomo, Additional Director General, Food and Agriculture Organisation, Rome
- Prof. Jayati Ghosh, Professor and Chairperson, Centre for Economic Studies and Planning, School of Social Studies, Jawaharlal Nehru University, New Delhi
- Dr. Santosh Mehrotra, Director, Institute for Applied Manpower Research, New Delhi
- Prof. Amaresh Dubey, Professor, Centre for the Study of Regional Development, School of Social Sciences, Jawaharlal Nehru University, New Delhi

Dr. Edgard Rogriguez opened the session and spoke about the widening gap between the rich and the poor, and the need to gain a deeper understanding of the processes driving inequality. He discussed the relevance of making comparisons, especially between Brazil and India, due to the size of these countries and the size of their economies, growth trajectories and divergent trends they are following with respect to inequality. He further spoke about how IDRC is keen to support academic enquiries such as these and is looking forward to the outputs and findings of the project.

The session began with a presentation from Prof. Gerry Rodgers, who stressed the need to focus on the larger picture of growth to understand inequality. He spoke about the divergent trends in inequality in both countries, where India (using expenditure Gini) has been historically less unequal than Brazil (using income Gini); but India's Gini seems to be increasing while Brazil's Gini seems to be declining. There also seems to be some convergence with respect to the Theil index. He discussed how both India and Brazil have powerful states and the liberalization process in both states began after the 1980s. However, in case of India, the period from 1950s till the 1980s was one of state led planning and investment, import substitution and slow growth; there was some attempt to bridge inequalities, but dualistic labour markets still developed. In Brazil, there was a state capital alliance, growth of a middle class, import substitution but also high growth and somewhat growing inequality. Post -2002 however, Brazil has seen a revival in labour institutions, implementation of innovative social policies, setting of a minimum wage and is also experiencing a reduction in inequalities. On the other hand in India, labour institutions have weakened further, role of the state has reduced, there has been high growth but job creation has been limited and to a large degree informal.

Prof. Rodgers also elaborated on the need to marry different approaches of (1) political economy,
(2) historical analysis and (3) empirical analysis of immediate determinants of inequality - to arrive at a more complete understanding of the processes driving inequality.

The second panelist, Prof. Rathin Roy, spoke from the financial perspective and from his work in both Brazil and India. He explained how both the countries have very different financial contexts. Brazil is fiscally healthier (in the traditional sense), it does not have high inflation, and has not run a large deficit in the last decade. On the other hand, India borrows much more than Brazil, that too mostly for consumption, but at the same time, saves and invests more; it has high inflation and that is how it has managed to keep down its overall level of indebtedness. Overall, government's gross debt is higher in India and so is India's level of saving and investment, while Brazil's government has higher revenue (as a percentage of GDP), and expenditure. He also spoke about the divergent trends in inequality in both the countries (i.e. declining inequality in high inequality Brazil, and increasing inequality in low inequality India).

In light of Brazil's recent achievement in reducing inequality, Roy, discussed the critical role of the legislated minimum wage and its enforcement and effectiveness in making a dent on inequality. He also highlighted India's dismal position compared to other BRICS and similar nations – where both Brazil and Indonesia have been able to reduce inequality in the last decade. Along with the enforcement of minimum wage, Roy also spoke about the role of strong social policies, especially the Bolsa Familia in reduction of inequality.

He made a specific mention of the gender gap which has seen significant reduction in Brazil, but not in India. However, even in Brazil, while indicators related to health, education and survival among women have improved, indicators related to economic participation have not.

K.S. Jomo, the third panelist, discussed the trajectory of Brazil's growth, political regimes and changes, and policies and legislations which have impacted inequality in the country. He started his presentation with how Brazil had the highest sustained growth rate in the 20th century, but by the end of the 20th century, it also had one of the highest levels of income inequality. It also happened to be the last country to abolish slavery in the 1880s. While affirmative action policies had been introduced in the 1990s, only about 10 per cent of the population claimed African ancestry, but after two years of Lula's rule, (even though the impact of affirmative action has not been large) about 80 per cent have claimed and acknowledged their African ancestry.

Jomo, like the previous speakers, also lauded the enforcement of the minimum wage in the country, which he said has also increased the reservation wages. He also discussed the social protection policies such as Bolsa Familia, the importance of the conditionalities attached to them, parallel initiatives for nutrition, the massive drive to end child labour and encourage families to send children to school. However, he also noted that Lula's regime has been criticised for not having done enough, and that apart from Lula's government, other institutions such as civil society movements at the end of the military regime, and new churches, have also been crucial in supporting progressive policy measures. He also described the opening of new resource frontiers in Brazil, the high production of soybean, modernization of agriculture in Brazil and the positive externalities of such developments.

Jayati Ghosh started with describing the massive underestimation of the level and trend of inequality (especially the poorest and richest tails of the income spectrum) in India. She suggested that if measures of inequality using income were calculated, it would resemble Latin American levels of inequality and that India's numbers would show long-term increasing trend in inequality.

Ghosh went on to discuss the relevance of understanding distribution in assets, primary income (wages, profits, rents) and secondary income (after tax, after fiscal transfers, etc.). She explained how both India and Brazil have been asset-unequal societies, and that in India, asset inequality has increased over time. She expressed concern at increasing asset inequality, because of the influence of assets on policy formation. Traditional theory suggests that a shift in asset distribution is required to see a shift in primary and secondary income, however she explained that in case of Brazil, a shift in primary and secondary income has preceded a shift in asset distribution. She credited the Lula regime for this shift, through its work such as the massive expansion of education, rising minimum wages, reduced skill premium, increased formalization of workers and universal secondary education.

She questioned whether the scenario in Brazil today, is part of a bargain, a Faustian pact with capitalists where the capitalists are given leeway in various domains, in return for introduction of some basic welfare provisions. She closed her presentation questioning whether such a pact with capitalists is possible in India.

The fifth speaker, Santosh Mehrotra, described the social policies and programmes in both Brazil and India and discussed some facts and the trends of inequality in both the countries. He explained that both labour inequality (such as reduced skill premium, minimum wage) and non labour inequality (on account of transfers made under Bolsa Familia and other social protection programmes which cover about 30 per cent of the population), has reduced in Brazil in the last decade. He described the improvements in educational attainments and the reduced skill premium. He also highlighted the reducing spatial segmentation of labour between metropolitan and non-metropolitan areas of the country and how despite the financial crisis which began in 2008, there has been an increase in cash transfers in Brazil.

He lauded the data collection efforts in Brazil and advocated the need for collecting better data and at an increased periodicity in India. He explained that in Brazil, the tax to GDP ratio has been increasing, however in India this ratio has not increased much with increasing GDP due to the penetration of crony capitalism.

He presented some interesting figures which document the degree of wealth concentration in different countries. While the top 10 billionaires in Brazil are worth about 6.5 per cent of its GDP, in India this figure is much higher, around 17 per cent of its GDP, another sign of the embeddedness of crony capitalism in India.

The last speaker, Amaresh Dubey, also spoke about the underestimation of inequality in Indian data due to the use of consumption data rather than income data, and also alleged that inequality is possibly higher in India than in Brazil. He spoke about the segmented nature of Indian society in terms of caste, region, religion, and spatial dimensions, and the prevalence of great heterogeneity even within these groups and sub groups. He therefore cautioned against excessive reliance on broad inequality trends in India, as they present a very coarse distribution of reality and heterogeneity. He explained that in the case of Brazil, the population is more homogenous and therefore policy issues are less complicated.

He described results of some district level inequality analysis in India, and spoke about the formation of inequality driven groups and movements such as naxalism and issues in the North-east of India. He said that spatial inequality in India is striking and also increasing. He concluded by saying that while India has also embarked on social transfers, they have not been effective and have been diluted versions (compared to Brazil); and that while growth has been inequality-inducing in India, inequality will be growth reducing.

The panel discussion was followed by a question–answer session. The questions generated some debate on the possibility of a Faustian pact in India. While some felt that a Faustian pact had already been attempted in India, and had failed, others felt that such a pact would be unsuccessful in India as the possibility of even a dialogue is bleak, and the pressure from the lower classes is not sufficient. Some also said that there is an implicit pact existing in India, with the corporate tax increasing, and social protection funding also increasing.

There was debate on the need for minimizing rent-capturing coalitions in India and how to manage and limit rents innovatively. Other issues that were discussed were the difference between registered and unregistered workers in Brazil and their definitions, the effect of demographic shifts on inequality, fluctuations in primary commodity prices and its implication for Brazil and the need for and possibility of inheritance tax in India.

Overall the panel discussion was eclectic in its coverage of issues, approaches and methodologies as well as the questions that it raised. As such there were some common threads – such as the positive outcomes of Brazil's efforts relating to minimum wage and social policy and the broad trends in inequality. Two speakers spoke about the problem of underestimation of India's inequality, and the need for better data to understand these processes was also raised. Another common thread was concerning the need to engage with the capitalist classes to broker some welfare policies. Other pertinent issues relating to heterogeneity, globalization, managing of rents and crony capitalism in case of India also stood out.