

Labour Market Inequality in Brazil and India

Can Minimum Wages Help to Reduce Labour Market Inequality? Experiences in India and Brazil

by

**Maria Cristina Cacciamali, Taniya Chakrabarty,
Gerry Rodgers and Fabio Tatei**

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Minimum wage policy seeks to establish wage floors in order to protect vulnerable workers from exploitation and to establish norms to help ensure equal pay for equal work. Minimum wages may also act as a macroeconomic policy tool because of their impact on aggregate demand.

The role played by minimum wages in Brazil and India is very different due to the contrasting nature, coverage, structure and implementation of the systems. Brazil has an annually adjusted unique national minimum wage for all workers. This not only provides a floor wage for formal workers, but also acts as a reference for informal workers, with a comparatively high level of enforcement. In India, in contrast, there are large numbers of minimum wages for different occupations, varying between States, which makes the system of minimum wages extremely complicated, and enforcement is very uneven. A national floor wage exists but is not binding. In Brazil, minimum wages have a multiplier effect and act as a benchmark for other payments such as social security benefits, pensions, etc., while in India, minimum wages are not connected to other payments in this way. In Brazil, the minimum wage plays a central role in labour market policy and in collective bargaining; in India, it receives little political attention.

The role played by the minimum wage is also affected by the level at which it is set, and how this compares with average wages. In Brazil, the minimum wage was 788 Reis per month as of 1 January 2015. In India national floor wage is currently set at Rs 160 per day (as from 1 July 2015), though there is a higher minimum in the majority of states. When we compare national minimum wages in purchasing power parity terms, the minimum wage in Brazil is a little over double that in India, but of course average wages are also higher in Brazil. The minimum wage in Brazil is now almost one half of average wages, up from 30 per cent in 1999. In India, the national floor minimum wage is now close to the average casual wage in urban areas, although it is only about one third of regular wages. Unlike in Brazil, the ratio has not changed much since the 1990s, and in recent years it has declined.

The minimum wage is of course much more effective in formal than in informal work. In Brazil, the group earning less than the minimum wage has practically disappeared among registered (formal) workers, though it remains significant - 35% - among non-registered (informal) workers. In India, on the other hand, almost 39% of casual workers and approximately 22% of regular salaried workers received wages below the state-level minimum in 2011-12. It is important to bear in mind that while in Brazil only about one third of wage workers were in informal employment, in India the proportion was closer to 80 per cent. So overall the effective coverage of minimum wages is much greater in Brazil than in India. Moreover, while in neither country is there a mechanism for imposing minimum wages in the unorganized sector, in Brazil, the minimum wage clearly affects the determination of basic wages in the informal sector.

Graph 1:
Percentage of Workers Receiving Wages Below the Minimum Wage



Source: Calculated from PNAD (Brazil) and NSSO (India). Brazil – national minimum wage; India – lowest minimum wage in each State

There are quite considerable differences between different groups of the population, especially in India. The proportion of women workers receiving less than minimum wages is much higher than that of men in India, though there is little difference in Brazil. In India, among social groups, Scheduled Tribes are particularly disadvantaged. In Brazil white workers are less likely than non-whites to fall below the minimum wage.

Minimum wages in India suffer from some inherent problems, including insufficient inspection and enforcement. The complexity of the minimum wage system makes it difficult to administer and thereby results in low compliance. Brazil, on the other hand, has maintained a higher rate of compliance, which has been possible because of the strength of trade unions and due to considerable investments made by the government in the enforcement machinery. In Brazil there is an automatic mechanism to ensure that minimum wages rise in line with inflation and growth. There is no corresponding mechanism in India; in recent years minimum wages have been rising much more slowly than average wages.

Several scholars have argued that in India the implementation of the Mahatma Gandhi National Rural Employment Guarantee Act, in which wage payments are determined by the national minimum wage floor, has had a positive impact on rural wages. Such schemes, which are specifically targeted towards the lower end of the income distribution, have helped in fixing a reserve price for labour in the market, and so ensure that there is a stable floor below which wages cannot be pushed down on account of excess labour supply. There is no similar policy in Brazil.

Can minimum wages make a real contribution to reducing inequality? In Brazil there is evidence from the last decade that rising minimum wages have compressed the wage scale, and in association with other policies have made a significant contribution to reducing inequality of household incomes. In India, if minimum wages were respected they would also make a significant contribution to reducing inequality, bringing the Gini coefficient of wages down from 0.47 to 0.44 with current minimum wages, or to 0.37 if there were a 50 per cent increase in the minimum wage (estimates for 2011-12). In Brazil too, although compliance is already high, full respect for the minimum wage would reduce the Gini coefficient of wages from 0.40 to 0.37.

The effect on inequality of course depends on the level at which the minimum wage is set, and this is even more true of the effect on poverty. In India, the current national floor wage is not high enough to bring most households above the poverty line. Nevertheless, receipt of minimum wages brings vulnerability to poverty down by 7 to 10 percentage points. In Brazil, the effect is larger, about 13 percentage points, in particular because the gap between the minimum wage and average incomes is high in the poorest region of the country, the North-east.

Recent research suggests that an effective minimum wage does not substantially affect employment in either country. While in India there might be some negative impact on total working days among casual workers, this would be modest; in Brazil, because a rising minimum wage has been part of a wider strategy for growth and redistribution it has been associated with rising levels of effective demand, income and employment. Even if a high minimum wage has some adverse effect on employment, the overall impact is to reduce poverty and inequality. However, there is clearly a limit to how far minimum wages can be raised.

Non-compliance is an important problem for both countries, but is a greater problem in India than in Brazil; further, the extent of the informal economy, which is much bigger in India than in Brazil, largely remains beyond the reach of labour inspection. Thus, one of the most important challenges is to build a coherent enforcement strategy based on provision of information, effective labour inspection and sanctions in case of violations. The experience in Brazil suggests that policy in this area can be effective if it has sufficient political support and union backing. The Indian experience suggests that excessive complexity is to be avoided, but successful implementation in some states shows that there is no fundamental reason why minimum wage policy cannot be effective in this country as well. But it would certainly help if the national floor wage were to be made binding, while permitting states to set higher minima if they wish.

Key Points for Discussion on Minimum Wages:

- The nature and extent of non-compliance in both countries
- The impact of minimum wages on employment, poverty and inequality
- The role of minimum wage policy as an instrument for reducing inequality between men and women, and between social groups
- What is the appropriate level for the setting of the minimum wage?
- The role of social actors (business, labour) in regulating minimum wages and ensuring greater compliance.

This note is drawn from a longer paper: "Minimum Wage Policy in Brazil and India and its Impact on Labour Market Inequality", by Maria Cristina Cacciamali, Taniya Chakrabarty, Gerry Rodgers and Fabio Tatei, with contributions from Vidhya Soundararajan, Uma Rani and Alexandre de Freitas Barbosa, a working paper issued by the Institute for Human Development, New Delhi.



INSTITUTE FOR HUMAN DEVELOPMENT

NIDM Building, 3rd Floor, IIPA Campus, IP Estate, Mahatma Gandhi Marg, New Delhi - 110002, India

Phones: +91 11 23358166; 23321610; Fax: +91 11 23765410; Email: mail@ihdindia.org; Website: ihdindia.org