

Labour Market Inequality in India and Brazil:

Comparing Labour Market Institutions in India and Brazil

Taniya Chakrabarty

18th December 2014

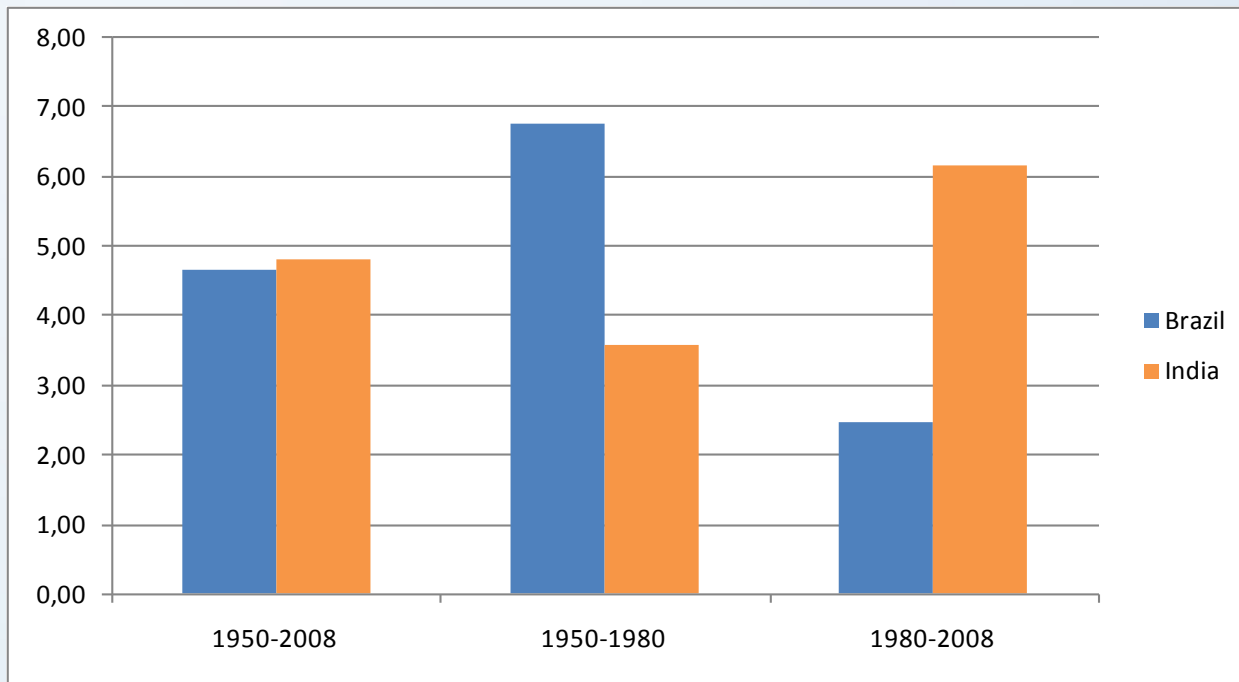


Why study India and Brazil?

- In the past, Brazil reported one of the highest levels of inequality in the world. On the other hand, India, seemed to share its poverty more evenly
- The two countries have very different economies, however there are many similarities in both countries in terms of the nature and forms of inequality
- The experiences of India and Brazil are, in some ways, mirror images of each other

India and Brazil: One as mirror image of the other

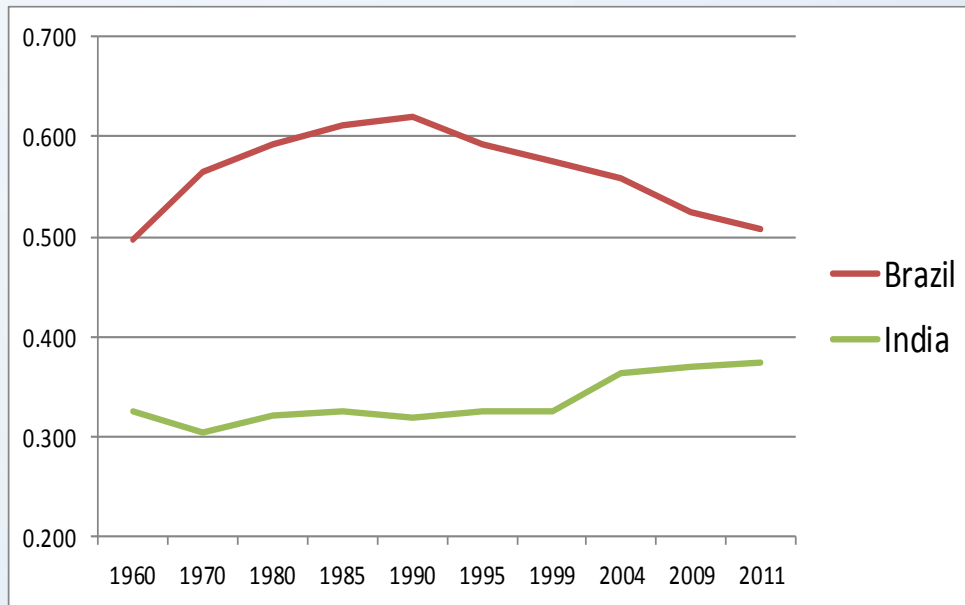
- Annual GDP Growth in Brazil and India, 1950-2008



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)

Mirror Image: Long Term Trend of Inequality

- 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 up to 1980 (http://www.wider.unu.edu/research/Database/en_GB/database/). Calculation by authors from unit level data for later years except 1999-2000 from *National Human Development Report, 2001* (Government of India, 2002) and 2009-10 from *India Development Report, 2011* (IGIDR, Mumbai).

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.

Labour Market in Brazil and India

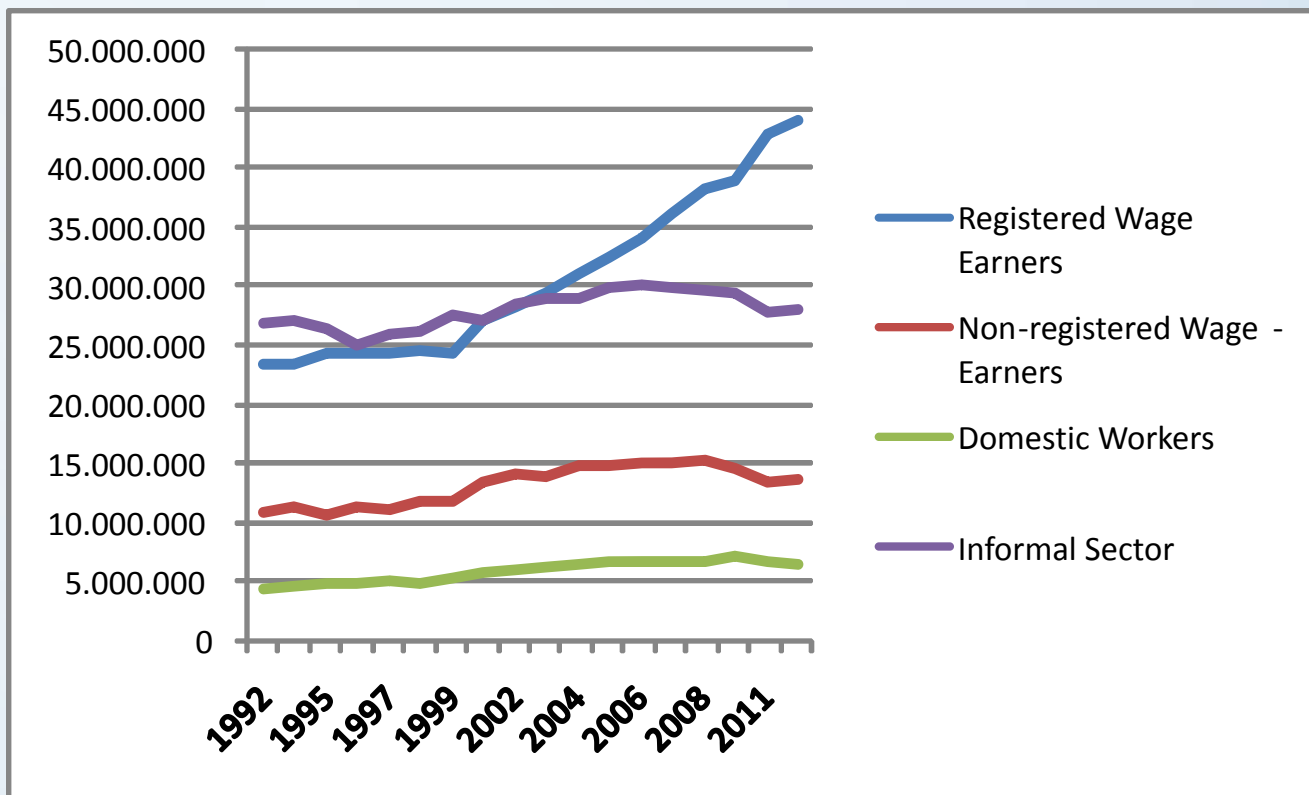
Similarities:

- During 1940 -1980, both countries maintained a large informal sector; but, the informal economy in India is greater than that of Brazil
- This period also exhibited substantial wage differentials between different categories of workers
- Inequality within the labour market was a critical aspect of overall inequality in the period.

Differences:

- In Brazil, after a negative net growth of formal jobs in the 1990s, the reverse happened in the years 2000, with formal jobs taking the lead (representing around 50% of total jobs).
- In Brazil, income differentials between registered wage earners and non-registered and self-employed fell substantially in the recent period; India witnessed slow growth of regular formal employment and the wage gap between regular and casual workers is larger than Brazil (increased till 2004-05, after which somewhat declined)
- The role the minimum wage has played recently in both countries is strikingly different.

Labour Market in Brazil from 1992 to 2012 – Total Jobs according to Labour Status



Source: Based on PNAD/IBGE micro-data

Share of Total Employment by Status of Employment (UPSS), for India, 1983 to 2011–12

<i>Share (%) in total employment</i>	1983			2004–05			2011–12		
	<i>Rural</i>	<i>Urban</i>	<i>Total</i>	<i>Rural</i>	<i>Urban</i>	<i>Total</i>	<i>Rural</i>	<i>Urban</i>	<i>Total</i>
Regular wage employment	7.2	39.9	13.5	7.1	39.5	14.3	8.7	43.3	17.9
<i>Regular-formal</i>	-	-	-	2.4	16.9	5.6	3.0	17.5	6.8
<i>Regular informal</i>	-	-	-	4.6	22.6	8.6	5.7	25.8	11.0
Casual wage employment	31.6	18.2	29.0	32.8	15.0	28.9	35.4	14.8	29.9
Self-employment	61.2	42.0	57.5	60.2	45.4	56.9	55.9	41.9	52.2
Organized sector	-	-	-	6.1	28.5	11.1	10.1	33.8	16.4
Unorganized sector	-	-	-	93.9	71.5	88.9	89.9	66.2	83.6

Source: Computed from Various NSSO Rounds

Workers Movements and the State

- Presence of strong political linkages – differs in nature:
- Role of the State
- Labour legislations and rules
- The Indian state has shifted its focus to a more business friendly approach, while Brazil saw the rise of the “new trade unionism”
- Multiplicity of unions and decentralized bargaining in India
- Policy of liberalization in India- made it a priority to reduce labour costs and used different labour contract modalities for a flexible workforce
- In Brazil, flexible labour rules had little impact on the market because of union resistance; whereas in India, increasing “informalization” of employment gradually eroded the strength of trade unions by reducing the space for collective bargaining in India.
- Coverage of unions

Labour Laws

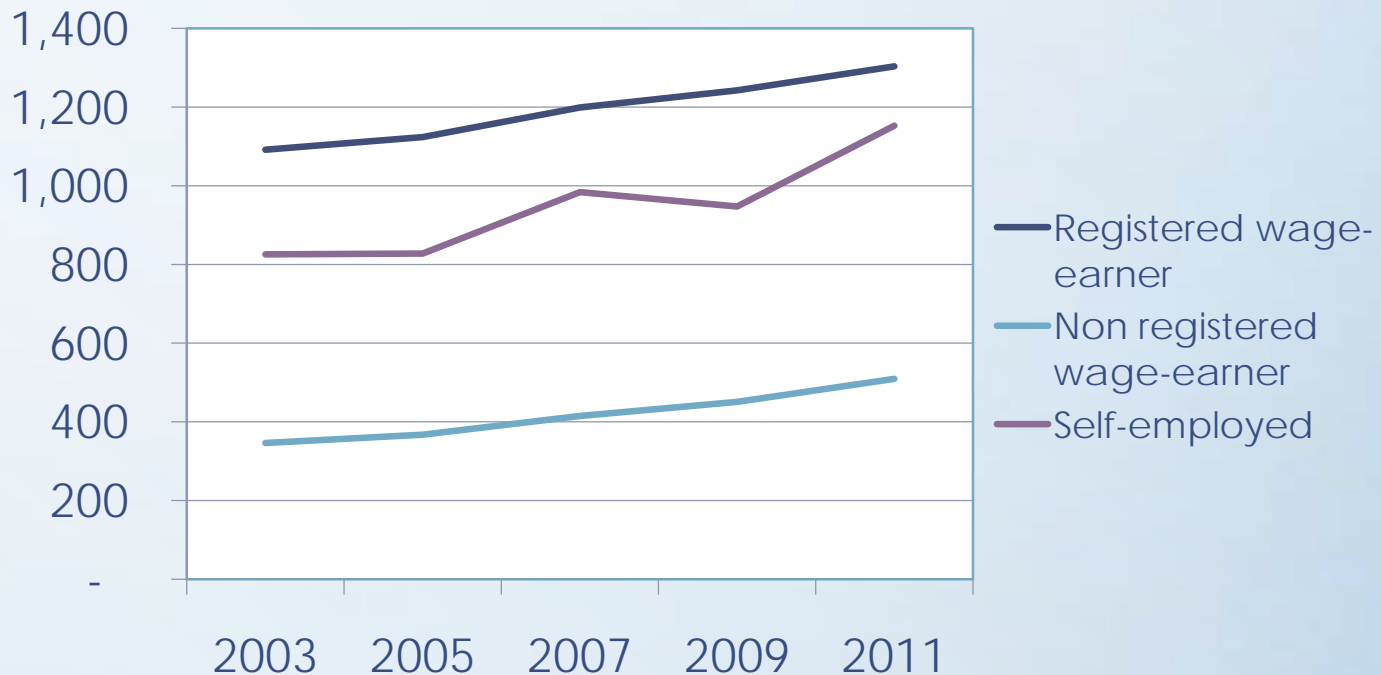
- Similar structure of labour laws - the Vargas administration (1930 - 1945) and the Indian constitution (1950)
- The 1988 constitution in Brazil
- Protective labour legislations – FAT in Brazil; India has no system of unemployment insurance to date.
- It can be argued that in both countries, labour laws may have contributed in worsening inequality as their implementation proved limited and incomplete; while this is true for Brazil up to 1988, in India this is still valid
- Definition and Coverage
- The Unorganized Workers Sector Social Securities Act 2008 in India
- Labour Flexibility
- Lack of compliance and effective enforcement of labour laws as a whole:

Wage Setting Institutions

- The Minimum Wages Act, 1948
- India also has other wage fixing institutions like Pay Commissions in the public sector, Wage Boards in some sectors and Collective bargaining in the private sector
- The machinery for fixation of minimum wages in India has not been uniform
- Violation of Minimum Wages Act
- System of Wage Indexation in Brazil
- The importance of minimum wages for Brazil

Wage and Income Differentials

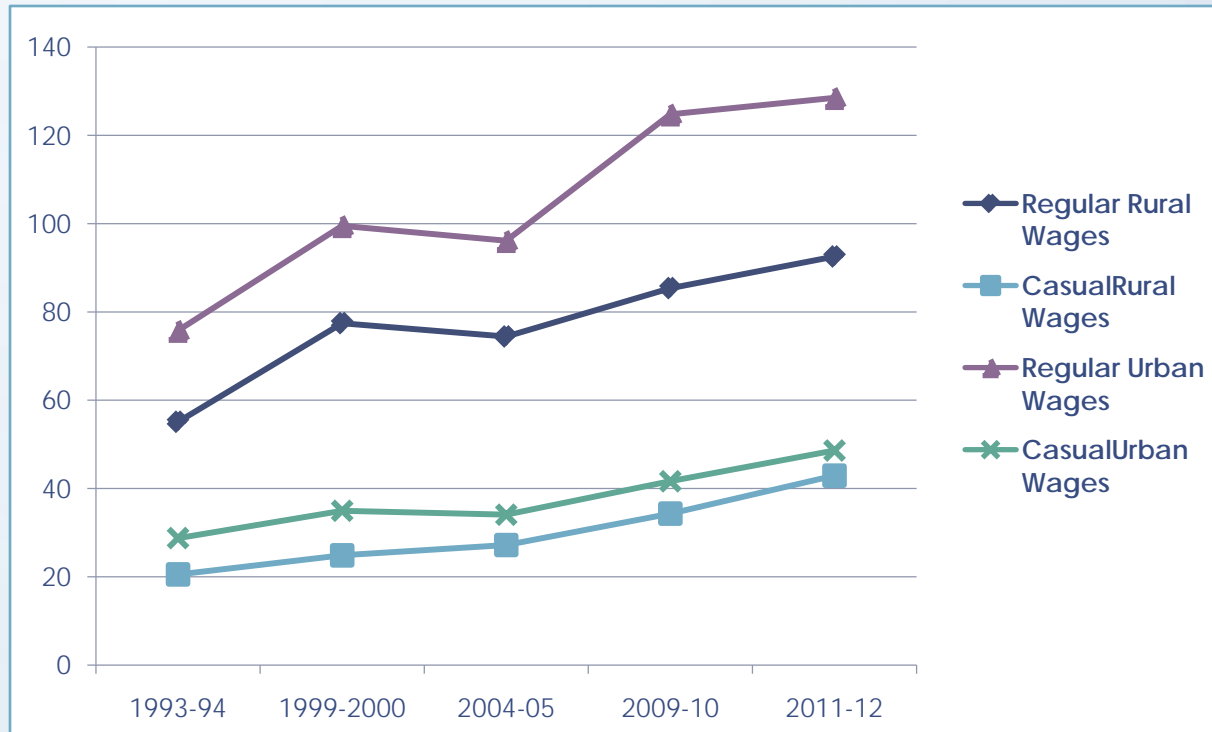
- Real incomes for different types of workers from 2003 to 2011 (in 2011 Reais), Brazil



Source: Computed from PNAD/IBGE microdata

Wage and Income Differentials

- Real Wages of Regular and Casual Workers in Rural and Urban Areas, India, 1993-94 to 2011-12



Source: NSS Reports of several years

Conclusion

- India and Brazil have some issues in common and many differences
- In the recent period of higher growth in both countries, Brazil has been much more successful in converting growth into good, protected jobs.
- Wages are rising in both countries, but wage differentials are falling in Brazil while they are rising in India
- They face similar challenges in terms of the need to further strengthen collective bargaining and to include the informal sector which is yet to be included under the legal framework of laws and social security; though Brazil has made more progress than India
- These findings need to be analysed taking into account the nature of the new growth regimes under way in both countries.

Thank you