

# Report on Policy Dialogue on Labour Market Inequality in Brazil and India

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## **Abstract**

This social dialogue took place at the ILO headquarters in Brasília on 28<sup>th</sup> October 2015. Apart from Cebrap and ILO staff, we had 12 participants: 2 from DIEESE, the Brazilian trade union movement's technical organization in charge of economic and social studies and research; 1 from CNI, the most important nationwide business organization; 3 researchers from IPEA, the main research organization of the central government; and 6 representatives from different ministries (Planning, Social Development and Labour and Social Security).

**Keywords:** labour markets, inequality, minimum wages, vocational education and training

## **Social Dialogue – Inequality, Labour Market and Public Policies: The Contrasting Cases of Brazil and India**

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The ILO officer Maria Carolina Aragão started with a welcoming message, noting this was the second ILO/CEBRAP social dialogue, as the first one happened in 2013 just after the joint research project on Brazil and India was launched. She also mentioned that a memorandum of understanding has been recently signed between both institutions as an outcome of the project.

Then the CEBRAP team – represented by Professors Maria Cristina Cacciamali and Alexandre de Freitas Barbosa – made 3 short presentations (20 minutes each) on the following subjects: “Growth Regimes, Labour Market and Inequality: the Brazilian and Indian Trajectories”; “The Role of Minimum Wage in Inequality Reduction in Brazil and India”; “Vocational and Educational Training (VET) in Heterogeneous Labour Markets: Is It Possible to Devise Policies Aiming to Reduce Inequality?”. The participants had around 30 minutes to discuss each of the presentations.

The order of the presentation – powerpoint files were prepared in Portuguese for each of them – was thought of in a way that the overall picture of the project and its main finding in terms of growth regimes and labour market inequalities came just before the discussion of the two main cases chosen for the policy reviews of the project: minimum wage and VET.

On the first presentation, the audience was quite interested to know more about the Indian case. Our impression is that the mirror image idea allows for contrasting the countries' experiences and also for digging into their specificities. The broad picture of inequality falling in Brazil and increasing in India was followed by an explanation of how caste/race, gender, educational and regional inequalities have assumed new forms in the recent period. The debate concentrated on gender and educational inequalities. Lots of questions were asked about the caste system in India. We tried to frame the discussion on how different patterns of segmentation arise in both societies and how they perpetuate although presenting new guises.

Most of the debate concentrated in the next two sessions, as they focused directly on policy issues. On the minimum wage, the business representative questioned the minimum wage formula in Brazil, as it pegs its value to past inflation and past rate of increase of the GDP. That is, minimum wage value is indexed by nominal GDP growth. In his view, the formula should consider the rate of productivity. The fiscal impacts on social security were also highlighted, as the minimum wage is the floor for pensions in Brazil, for which there is no mandatory floor in terms of minimum age of retirement in the private sector system regulated by the State. This point actually

echoes lots of concerns of important Brazilian policymakers today, usually with support of the financial and industrial sectors. On the other hand, DIEESE representatives pointed out that they agreed with the main point raised by CNI's representatives in technical terms. However, they pointed out to the gains – social and macroeconomic – of the minimum wage policy and to the possible dangers of changing it in the midst of a recession. At the moment, this is the only mechanism which may hamper a substantive worsening of inequality figures due to the ongoing fall of wages of non-registered workers and increasing informality.

A discussion was also held on the need to reform the Brazilian “social contract” in a way that the impressive amount – at least compared to the Indian figures – spent on social policies could be done more efficiently. Some reforms may be needed. However, social expenditures are still not enough to reduce inequality of access to public goods and rights. In this context, not only the resumption of economic growth is important, but especially a tax reform concentrating on direct and more progressive taxes.

The last session focused on VET policies and indicators in both countries. A point was made at the very start on the fact that “business everywhere and at any time complains about scarcity of labour skills”. This is part of the discourse both in India and Brazil. Nonetheless, there is some truth in this complaint. In Brazil, the economy grew in the years 2000 but productivity levels did not rise. Skills are part of the broad picture, but cannot be isolated from Brazilian low investment. In India, productivity peaked and the gains were not fairly distributed. Here skills are also part of the game as providing better skills will not solve the inequality issue.

The presentation stressed how Indian skills policy, started in 2008, launched a coherent plan in order to address the lack of skills in the long-term, with the cooperation of the private sector. Some results point to high placement rates but there is still no overall assessment of the results. In the case of Brazil, already existing institutions, like the S System and the Network of Federal Schools/Universities providing VET were expanded, without assessment of the results as well. Interestingly enough, Brazil was also able to implement a new programme, Pronatec, aimed at providing skills for the poor and more socially vulnerable workers under the Bolsa Família Programme. This is still a pilot programme, benefiting 5% of total youth considered poor in Brazil.

There was an agreement among the participants that despite the breakthroughs of Pronatec it still faces a huge challenge, that is providing skills for workers usually without basic education and confined to the worst-paid jobs in sectors and occupations characterized by high turnover rates and low skills. Should this programme reduce inequality in terms of VET access, the quality of the skills offered and the places available in the labour market would more than compensate this effort. As a conclusion, any attempt to enlarge the programme will require, not only an evaluation of its results, but a better connection with other employment policies; a new growth regime pushed by higher productivity activities; and the expansion of social policies with funds made available by the tax reform.