Key trends in growth, labour market outcomes and inequality: Brazil, China, India and South Africa

Michael Förster and Elena Arnal
OECD, Directorate for Employment, Labour and Social Affairs
www.oecd.org/els/social/inequality/emergingeconomies
An overview

1) Growth patterns
2) Employment and unemployment outcomes
3) Inequality and poverty
4) Policies
5) Challenges ahead
High levels of real GDP growth in BCIS countries ...

Dotted lines are forecasts.
... fostered by increased trade integration

Source: World Bank (2009), WDI indicators
GDP per capita gaps with OECD countries are closing, but they remain large.

GDP per capita in constant 2005 PPPs.
OECD lowest income countries are countries with below 20,000 USD: Hungary, Mexico, Poland, Slovak Republic and Turkey.
Main contributor to GDP/capita gaps is labour productivity (but less so in South Africa)

Source: OECD Going for Growth (2010)
Labour resource utilisation is measured as total employment as a share of total population. Labour productivity is measured as GDP per person employed, including estimated informal employment. OECD lowest income countries are Hungary, Mexico, Poland, Slovak Republic and Turkey.
Labour force participation and employment rates are higher in China and Brazil but low in India and South Africa.

Unemployment rates have been increasing, and are particularly high in South Africa.

Informal employment is one of the key challenges for people and policies in emerging economies.

**Shares of informal employment, various definitions**

![Chart showing shares of informal employment in Brazil, China, India, and South Africa.]

Informal employment remains persistent

- Since the mid-90s, it has decreased in Brazil, but increased in China (except recently), India and South Africa.
- Moreover, informality:
  - tends to be higher for women;
  - decreases with better educational outcomes;
  - affects youth and old-age workers more than prime-age workers;
  - is wide-spread among migrant workers.
Large country differences in levels of income inequality across OECD countries

Source: Growing Unequal?, OECD 2008; OECD 2010 (forthcoming)
How do emerging economies fit into this picture?


Gini coefficients based on equivalised incomes for OECD countries; per-capita incomes for Brazil, China and South Africa; and per-capita consumption for India.
Summary of trends in income inequality in four emerging economies

Brazil achieved a remarkable reduction in inequality recently which offset the increase over the former 25 years.

Source: OECD 2010 (forthcoming), Milanovic (2005)
Different trend patterns for top, middle and low income classes

Gains and losses of income shares by quintile, 1990s and 2000s

<table>
<thead>
<tr>
<th>Country</th>
<th>Changes 1990s</th>
<th>Changes 2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Extreme poverty is still high in EE countries

Poverty rates, two absolute poverty lines

Source: OECD-EU database on emerging economies, World Bank WDI indicators for China.
Children are at higher risk of poverty

Poverty rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Children early 1990s</th>
<th>Children late 2000s</th>
<th>Elderly early 1990s</th>
<th>Elderly late 2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>1.1</td>
<td>1.2</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.4</td>
<td>1.6</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>India</td>
<td>1.4</td>
<td>1.5</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.3</td>
<td>1.3</td>
<td>0.7</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: OECD-EU database on emerging economies.
Levels of social spending are generally lower in EE countries

Total public social expenditure, late 2000s

Source: OECD Social expenditure database, OECD Employment Outlook (2010, forthcoming),
In addition, coverage is often low.

Unemployment benefit recipients, share of total unemployed persons

Large differences across countries in the magnitude of public redistribution

Poverty reduction effect of public net transfers

Poverty defined with regard to 50% of national median income, for all countries.
But targeting efficiency remains an issue for cash transfers

Estimates of inclusion and exclusion errors for three selected cash transfer programmes

Summary and main challenges ahead

- Income inequalities are high in EE countries and decreased only in Brazil recently.
- Developments on the labour market are key in shaping the income distribution.
- Social protection is generally weak in EE countries, leaving households highly vulnerable to shocks.
- The various social protection schemes are often fragmented.
- Coverage and benefits rates are often low, too.
- High informality limits the impact of ‘traditional’ policy instruments.
Summary and main challenges ahead, II

- Countries with cash transfer programmes in place are in a better position to provide protection to the most vulnerable
- But such programmes face the challenge of balancing effectiveness and efficiency
- Public works programmes can provide an effective safety net to the newly unemployed during a crisis
- In the longer run, the main challenge will be to promote formal employment and sustainable social policy frameworks
Thank you for your attention!

More information:

- michael.forster@oecd.org
- elena.arnal@oecd.org

www.oecd.org/els/social/inequality/emergingeconomies