

November 2010

Tackling Inequalities in Brazil, China, India and South Africa

Introduction

Greater integration into the world economy and important policy reforms have made Brazil, China, India and South Africa major actors in the globalisation process, with impressive results in terms of economic growth, social development and poverty reduction. But the benefits of stronger growth have not always been shared equally, and income inequality has remained at very high levels, or even increased further.

The evolution of the distribution of income in the four countries is the result of many forces, including growth patterns, demographic changes, internal and international migration, access to education, the size of the informal sector, labour market regulations and their enforcement, social norms and the specific historical legacies. These driving factors are often interlinked and mutually reinforcing, but labour market outcomes play a crucial role, as employment is the primary source of income for most households.

The economies of Brazil, China, India and South Africa grew above the OECD average over the last decade and are continuing to do so even after the economic downturn in 2008. During the fifteen years preceding the crisis, the Chinese and Indian economies grew by 10% and 7% per year on average, whereas the Brazilian and South African economies grew at around 4%, with more volatile growth patterns. Real GDP per capita more than doubled in the four countries since 1990, significantly closing the gap with the OECD countries. Nonetheless, in 2008, GDP per capita was still at 30% of the OECD average in Brazil and South Africa, 17% in China and 9% in India.

With the exception of South Africa, labour productivity has been the main driver in catching up to the GDP per capita of the OECD countries. Labour force participation rates in China and Brazil already exceed the OECD average, although in India and South Africa they are still significantly below it. Labour force participation increased during the past decade in Brazil and South Africa, mainly due to the growing participation of women and youth. Nonetheless, the participation rate in South Africa remains very low due to weak employment prospects of the African population.

Strong economic growth and supporting labour market and social policies have helped to reduce extreme poverty significantly in these countries in the past fifteen years, especially in Brazil and China where the number of people with less than USD 1.25 per day dropped by more than half. But levels remain high, with roughly 5% in Brazil, 16% in China, 18% in South Africa and 35% in India, for a combined total of approximately 630 million people still living in extreme poverty in the four countries (Figure 1). According to national poverty estimates, absolute poverty still strongly affects certain groups of the population. For example, in Brazil, the poverty rate is higher in rural areas and varies widely geographically (three times higher in the North-East than in the South-East). China has made impressive reductions in poverty in the countryside, but much less progress has been made with regard to poverty in urban areas. In India, poverty rates, and in particular poverty depth, decreased faster in rural areas than in the cities, and by the mid-2000s had equalised the proportions of the poor in the two. Finally, poverty incidence remains strongly geographically and racially concentrated in South Africa, mainly as an inheritance from the country's recent history.

Strong economic growth since the mid-1990s has helped reducing extreme poverty...



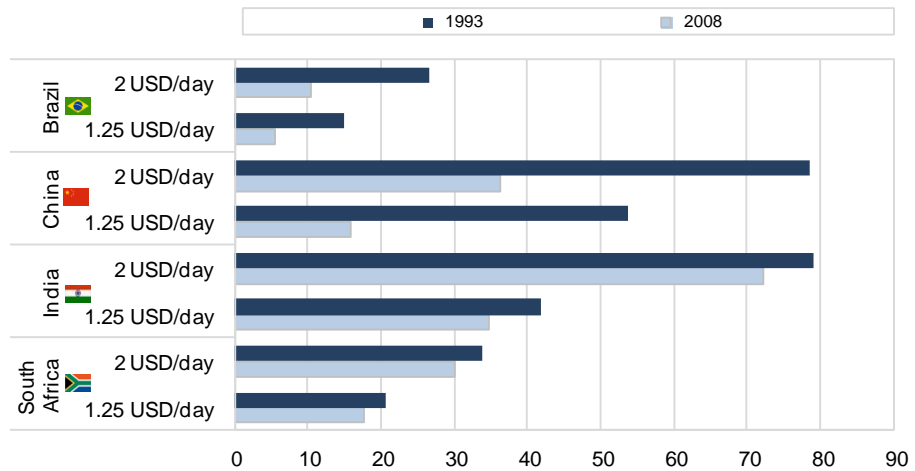
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... but poverty still remains at high levels.

Figure 1. Share of population living in households below the poverty line^{a,b}



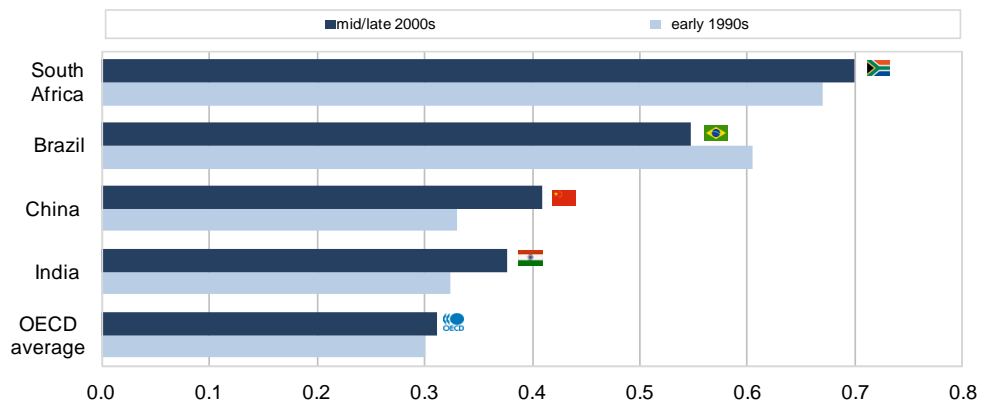
- a) 2008 data refer to 2005 figures for China and India.
 - b) Population living in households with consumption (India) or income (remaining countries) per person below the poverty line of USD 1.25 or USD 2 per day, in purchasing power parities.
- Source: OECD-EU Database on Emerging Economies.

Children remain at a higher risk of falling into poverty than any other group in Brazil, India and South Africa. Since 1993 the proportion of children below the USD 2/day poverty line decreased only in Brazil, and remained quite stable in India and South Africa. In relative terms, poverty among children has worsened in the three countries compared to the total population. On the other hand, old-age poverty has been reduced considerably in the three countries.

While progress on overall poverty reduction has been made, income inequality has often increased. Compared to OECD average, the levels of inequality in income and consumption remain higher, and apart from a remarkable reduction in income inequality in Brazil since 2000, which offset the increase over the previous 25 years, the levels have increased in the other three countries (Figure 2). Real income growth in Brazil substantially benefited the lowest income classes, whereas in the other three countries income has become increasingly concentrated at the top of the distribution, favouring an increase in high earners' share of total income.

What is more, income inequality has increased, except in Brazil.

Figure 2. Change in inequality levels, early 1990s versus mid/late 2000s^a
Gini coefficient of household income^b



- a) Data for early 1990s refer to 1993 for the BCIS countries and to around 1990 for OECD. Data for mid/late 2000s refer to around 2005 for OECD, China and India and 2008 for Brazil and South Africa.
 - b) Gini coefficients are based on equivalised incomes for OECD countries; per capita incomes for Brazil, China and South Africa; and per capita consumption for India.
- Source: OECD-EU Database on Emerging Economies. OECD (2008), *Growing Unequal?*

Jobless households are at high risk of poverty. Despite this, access to employment for a member of the household does not necessarily allow them to escape poverty. Indeed, being unemployed is generally unaffordable for the majority of the population in the BCIS countries, and to make ends meet many low-skilled workers are obliged to take any job available, often in the informal sector. Informal employment has significantly decreased only in Brazil since the mid-1990s, while it has increased in China, India and South Africa. Depending on the definition used, informal employment represents between 15%-30% of total employment in China, 25%-35% in South Africa, 35%-50% in Brazil and 55%-85% in India. Moreover, informality tends to be higher for women; decreases with better educational outcomes; affects youth and old-age workers more than prime-age workers; and is widespread among migrant workers (especially in China). Workers in the informal sector tend to be paid less and have less social protection than those in the formal sector, perpetuating the low income / low productivity poverty traps. On the other hand, income from sources other than work (*i.e.* public transfers, remittances, etc.), although representing a low share of total household income, have recently played a non-negligible role in reducing poverty.

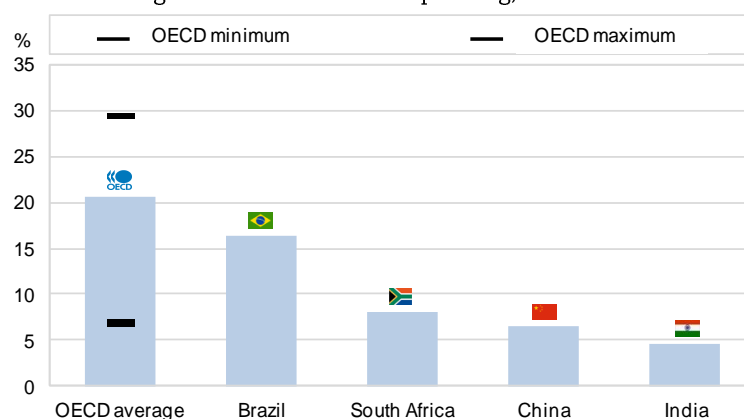
Labour market regulations and policies – such as employment contract regulation, hiring and firing conditions, working hours, wage setting and wage flexibility, collective bargaining and active labour market policies – differ significantly across BCIS countries, but tend to be underdeveloped compared to most OECD countries. Moreover, the BCIS countries have limited administrative capacities, making it difficult for the government to take and monitor action. These constraints clearly affect the key objectives of labour market and social policies *per se*, as well as their key target groups and outcomes.

The impact of “traditional” labour market policy instruments – such as unemployment compensation schemes, minimum wage provisions or the existence of contributory retirement pensions – which in most OECD countries have an important poverty reduction impact, are clearly limited by the high levels of informality. To be more effective, labour market policies should be designed and reinforced to reduce disparities in access to jobs, working conditions and pay. To this end, labour markets need to be more inclusive and provide incentives for firms to become formal through, among other things, enhancing human capital, favouring labour market flexibility, simplifying the tax system and reducing the often burdensome regulations on product markets.

Social protection is also generally weak in BCIS countries, leaving households highly vulnerable to shocks. Social expenditures as a percentage of GDP are lower than in most OECD countries (Figure 3). Moreover, there are large cross-country differences in the division of social spending between social insurance and social assistance, with social insurance accounting for the bulk of non-health public social expenditure. As coverage to social insurance is related to formal job contracts, many workers in the informal sector are excluded.

Social protection is relatively weak...

Figure 3: Levels of social spending, late 2000s^a



a) Data are for the latest years available. Social spending covers old-age, survivors, incapacity-related benefits, family, health, active labour market policies, unemployment, housing and others.

Source: OECD (2010), OECD Employment Outlook.

In addition, social protection schemes are often fragmented and their coverage and benefits rates are also low. However, in the last decade, some social protection measures – such as public works programmes (PWP), conditional cash transfers and other non-contributory social assistance programmes – have contributed to poverty reduction in the BCIS countries. The evidence on their impact on tackling income inequality seems, however, to be less conclusive.

...but new and powerful social and labour policies are being developed

Public works programmes (PWP) can provide an effective safety net to the unemployed and under-employed. They are targeted to the unemployed (as in South Africa) or to vulnerable workers (such as farmers in India). They are temporary in nature and are designed not to create disincentives for the beneficiaries to search for private sector jobs. In most countries, indeed, PWP wages are set at the level of the minimum wage so as to attract the most vulnerable workers and avoid displacing jobs. The potential of these programmes can be explored further. Accompanying the scheme with further training to improve the participants' skills seems to be one promising avenue. This would not only offer participants a temporary income but, by providing them the skills necessary to enter the labour market on a more sustainable basis, it would also be a better strategy to effectively break out of poverty and inequality traps.

Cash transfer programmes targeted to the poorest households are another powerful poverty reduction tool. They may be conditional on household behaviours such as investing in education and health (as in Brazil) or they may not (as in South Africa). In Brazil, conditionality has been a valuable prerequisite not only to assuring more effective transfers to the target population, but also to securing better acceptance of the programme amongst the whole population. Conditionality has mainly been oriented to improving children's access to health and education services, an objective that has been reached for many poor households. However, breaking the intergenerational transmission of poverty requires additional efforts to improve the quality of the educational and health services offered.

Overall, to reduce poverty and promote a more level playing field for all members of society, labour market and social policies need to be strengthened and further developed. Yet the possibility of scaling-up the existing programmes, not only in times of economic crisis but on a permanent basis, depends on the financing constraints imposed by each country's fiscal policy. When weighing all this, it must be kept in mind that social protection policies are an investment for the future that clearly pays off in the medium and long term.

Further information

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Related reading

OECD (2010), *Tackling Inequalities in Brazil, China, India and South Africa: The Role of Labour Market and Social Policies*, OECD Publishing, Paris.

OECD (2010), *Employment Outlook*, OECD Publishing, Paris.

OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD Publishing, Paris.

See also: <http://www.oecd.org/els/social/inequality/emergingeconomies>