



LABOUR MARKET INEQUALITY AND GROWTH

PROJECT LINK MEETING 2019

17-19 JUNE 2019, NEW YORK

INTRODUCTION

- Inequality is a hot topic
- Expanding databases (World Inequality Database)
- Outline
 1. Inequality and growth
 2. Labour markets as source of inequality
 3. Decent work agenda to reduce inequality and promote growth

INEQUALITY AND GROWTH

- Empirical research on inequality and growth inconclusive
 - Wilkinson and Pickett (2010): people in more equal societies are healthier
 - OECD (2014): inequality reduces growth through human capital accumulation channel
 - Gerber, Klemm, Liu, Mylonas (2018): no significant evidence of tax progressivity harming growth
- Beyond equity-efficiency trade-off in neoclassical model
 - Demand-driven model: differential propensity to consume
 - Volatility effect in DSGE models: more binding credit constraint when households are poorer
 - Current negative real interest rates sign of demand shortage?

SOCIAL JUSTICE



- Inequality is incompatible with social justice
- From the preamble of Part XIII of the Treaty of Versailles from 1919 (constitution of the ILO):
“Whereas universal and lasting peace can be established only if it is based upon social justice; ...”
- Social injustice can become disruptive for the economy
- Social justice is desirable

LABOUR MARKETS AS SOURCE OF INEQUALITY

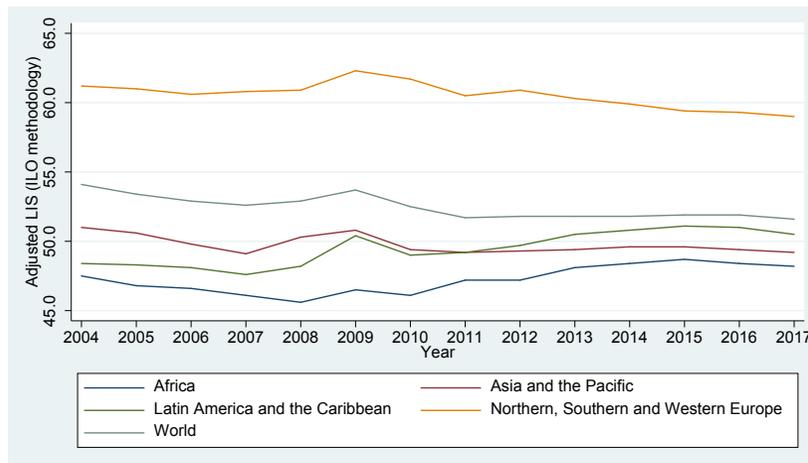


International
Labour
Organization



1. Labour income share: capital income is a lot more concentrated
 - Diminishing collective bargaining power
 - Big capital versus micro capital
2. Horizontal inequality
 - Unequal opportunities and outcomes on the labour market
 - Discrimination by sex, age, ethnicity, disability,...
3. Vertical inequality
 - Large differences in pay across occupations, sectors, firms,...
 - Education (skill) wage premium rising
 - Excessive executive pay, unicorn firms in tech sector, financial sector

ADJUSTED LABOUR INCOME SHARE



Source: ILO preliminary estimates

GENDER INEQUALITY IN THE LABOUR MARKET



	Women	Men
Labour force participation rate	47.9	74.9
Employment-to-population ratio	45.3	71.4
NEET	30.4	12.7
Segregation in sector, occupation and status		
Proportion in managerial position	3.3	5.7
Share in total managerial positions	27.1	72.9
Contributing family workers	18.1	6.4
Part-time work and unpaid care work	Much higher	
Factor-weighted gender pay gap (Global wage report 2018/19)		
Hourly wages		18.8
Monthly wages		21.2

Source: ILOSTAT

DISTRIBUTION OF LABOUR INCOME



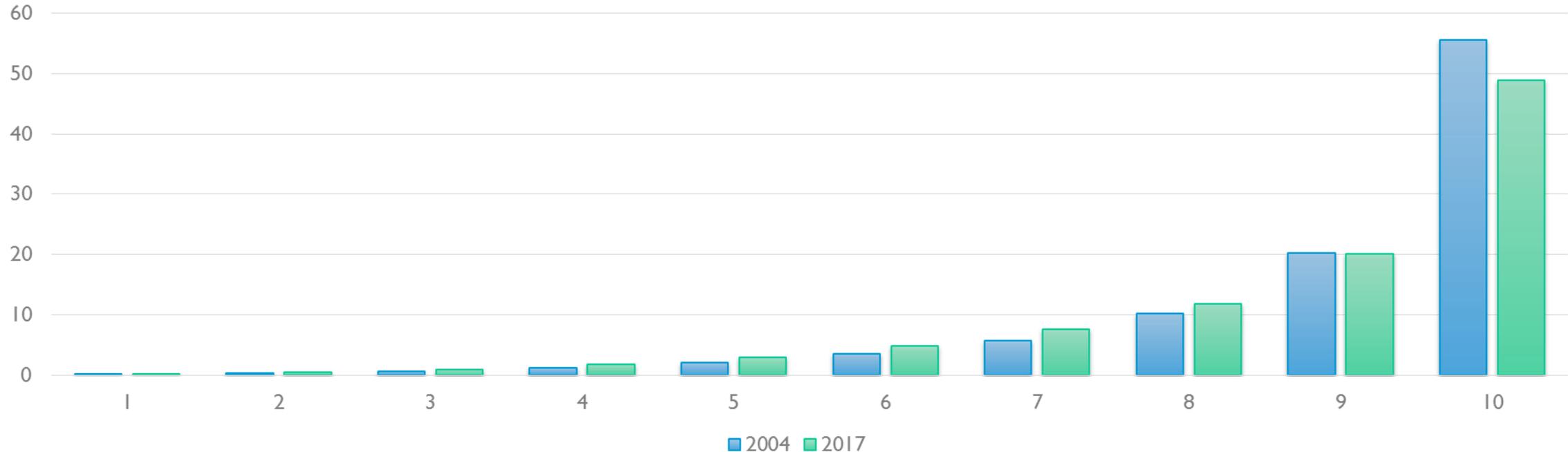
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- New ILO database
- Estimate distribution of labour-related income
- Include both wages and labour income of self-employed
 - More comprehensive than the wage distribution
- Allows view of income inequality abstracting from returns to capital and wealth
- Usual problem of underrepresented tails in survey data: top income share underestimated

LABOUR INCOME DISTRIBUTION

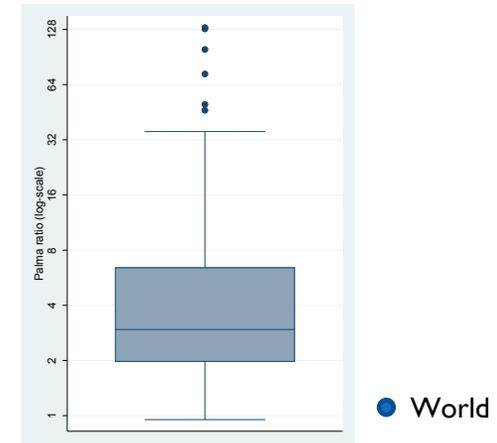
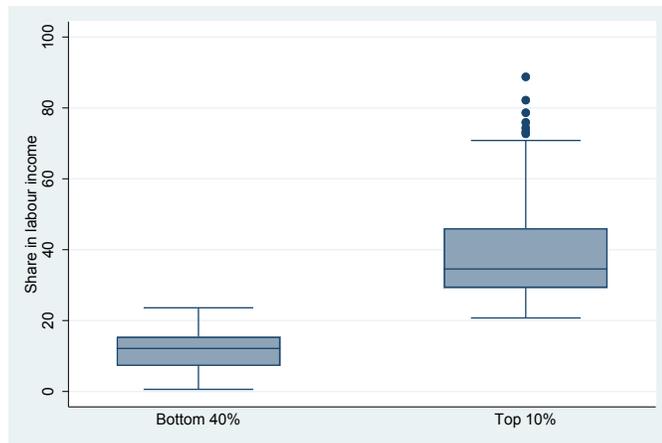
Labour income distribution by decile, World



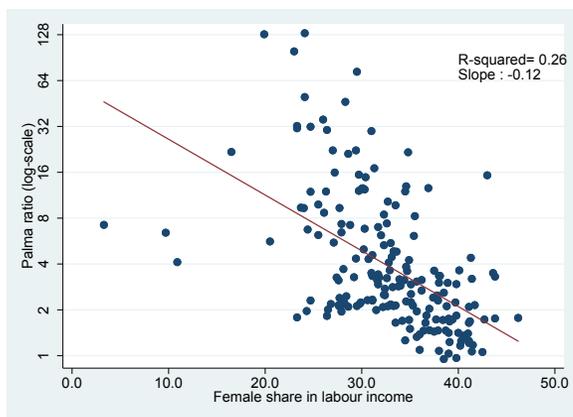
Global inequality measure: top 10% / bottom 40 % (Palma ratio)= 14.4

Source: ILO preliminary estimates

DISTRIBUTION ACROSS COUNTRIES



INEQUALITY AND GENDER INEQUALITY



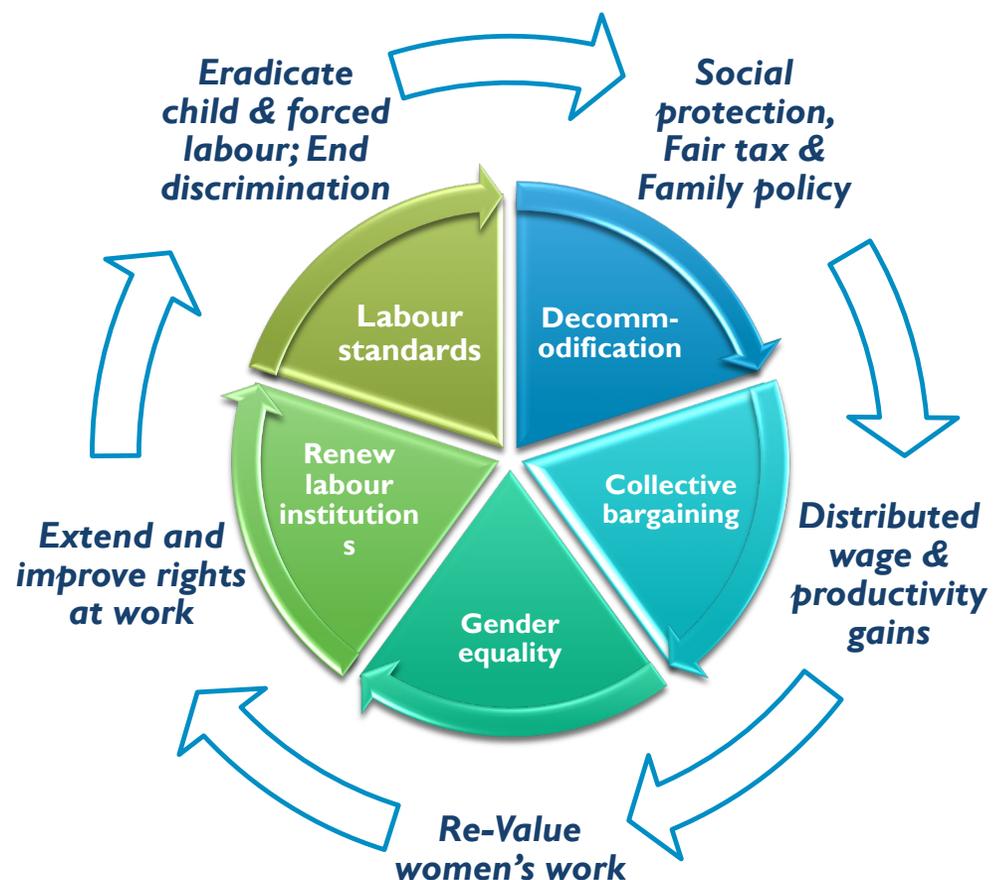
- Female share in labour incomes always below 50%
 - Gender pay gap
 - Lower employment rates
- Higher female share ↔ lower overall inequality
 - Societies with more gender equality are more equal overall

THE CHALLENGES



- Labour market inequalities in three dimensions
 - Labour markets contribute to unequal distribution
- Potential risk to growth and social cohesion
- ILO Decent Work Agenda works along all three dimensions

DECENT WORK AS A DISTRIBUTIVE FORCE



- Decent jobs and social protection encourage skill development
- Labour standard compliance in GSCs to move up the value chain
- Gender equality to utilize full potential of labour force (aging)
- Better employment contracts to reduce health risks
- Lower inequality to increase growth

REFERENCES



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