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Item 3: High-level segment Tackling inequality through trade and development: A post-2015 challenge

Speaker: ILO

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Reducing inequality for balanced and sustainable growth : a global perspective

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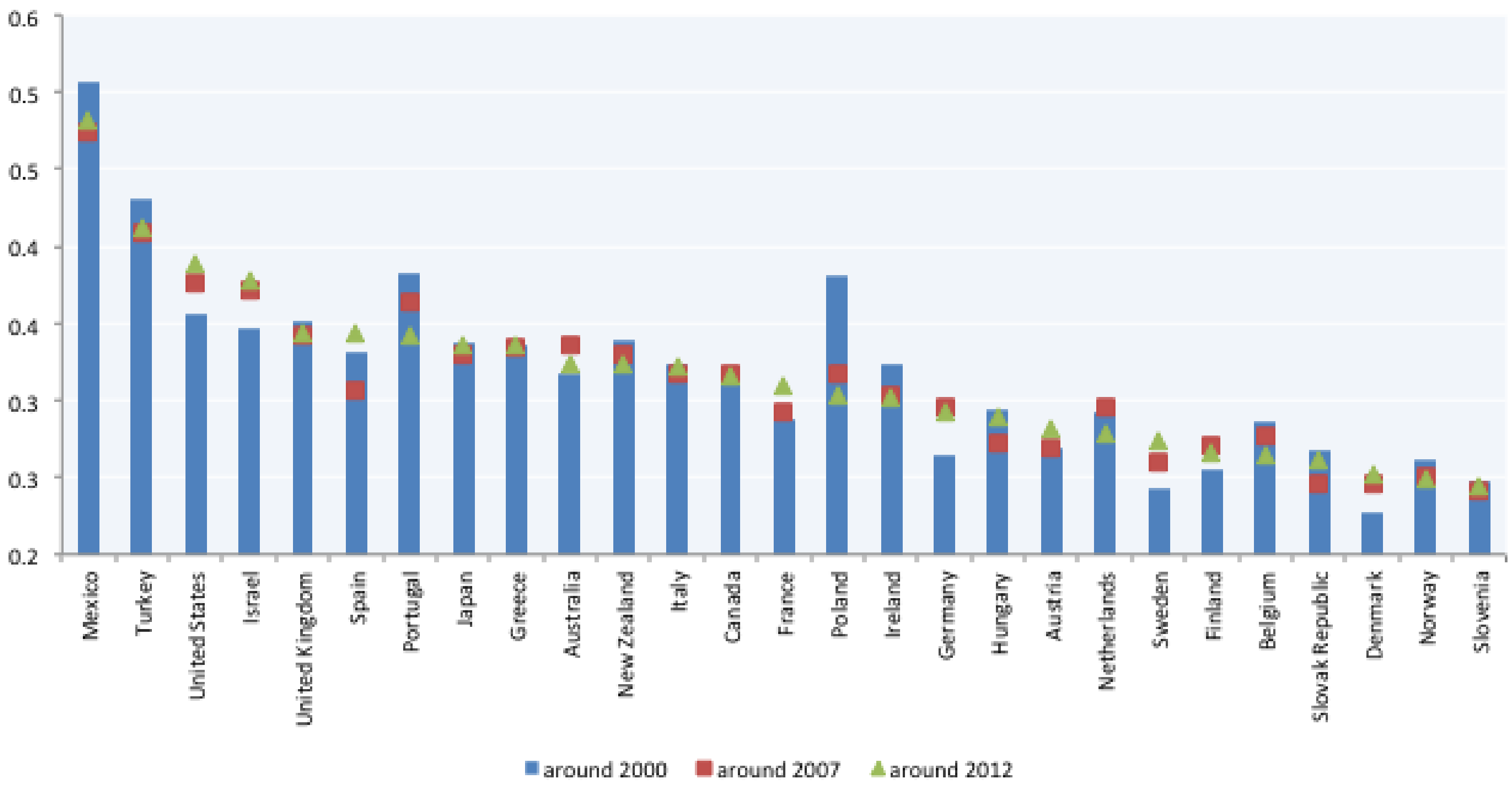
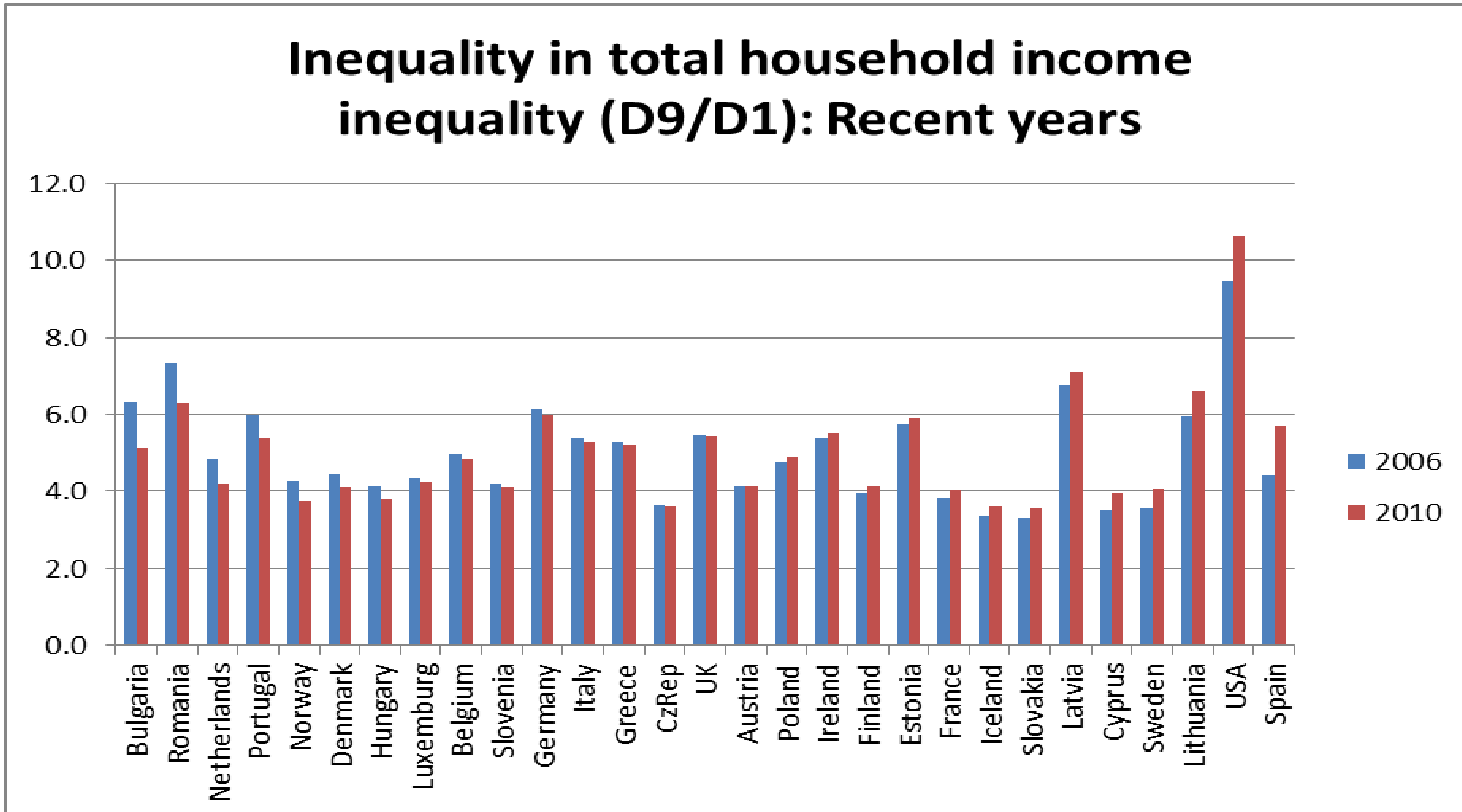
Taking a first look:
Income inequality remains high in many OECD countries, even after taxes and transfers.

Gini index **(at disposable income, post taxes and transfers)**



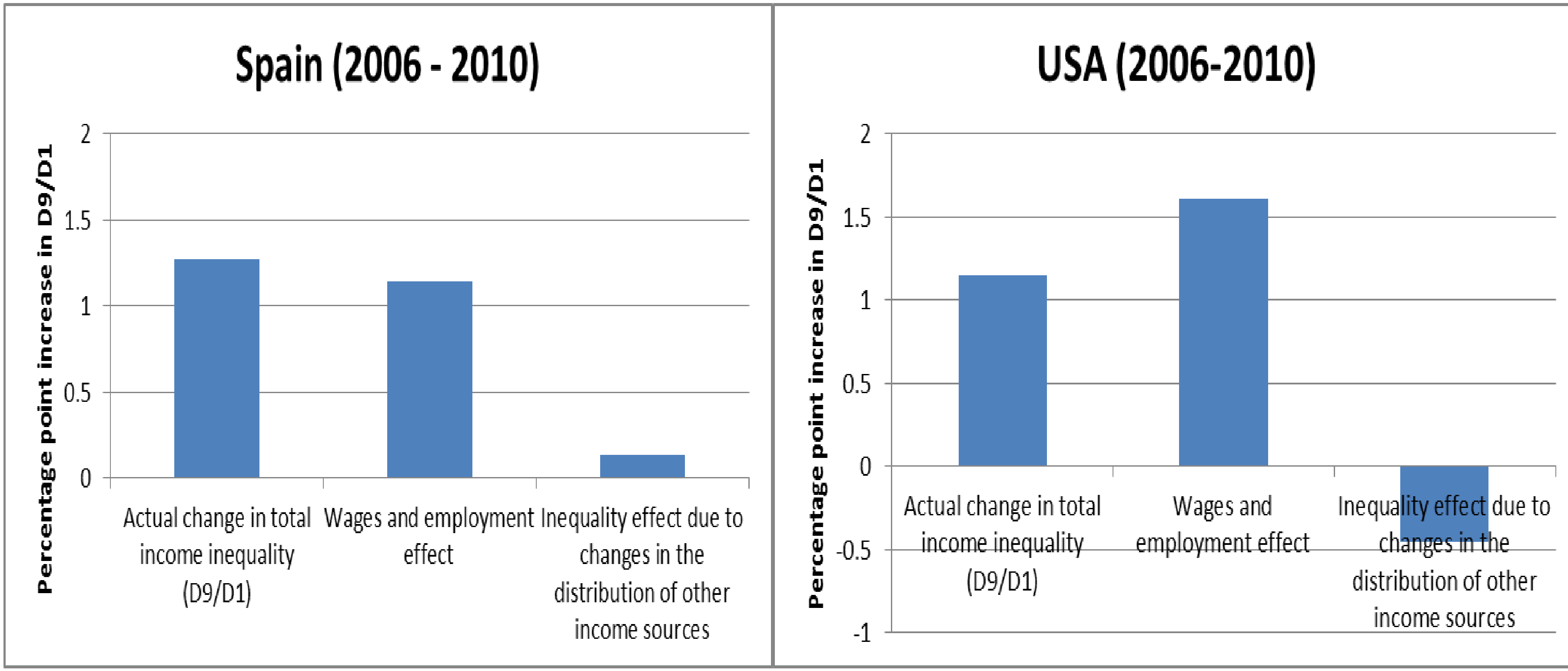
A closer look:
About half of EU countries and the US have seen an increase in the ratio of D9/D1 since the crisis



Source: *Global Wage Report 2014/5,* forthcoming; ILO preliminary estimates based on EU-SILC and US PSID using equivalence scales. Total household income is before deduction of current transfers paid. Only households with at least one member of working age were considered.

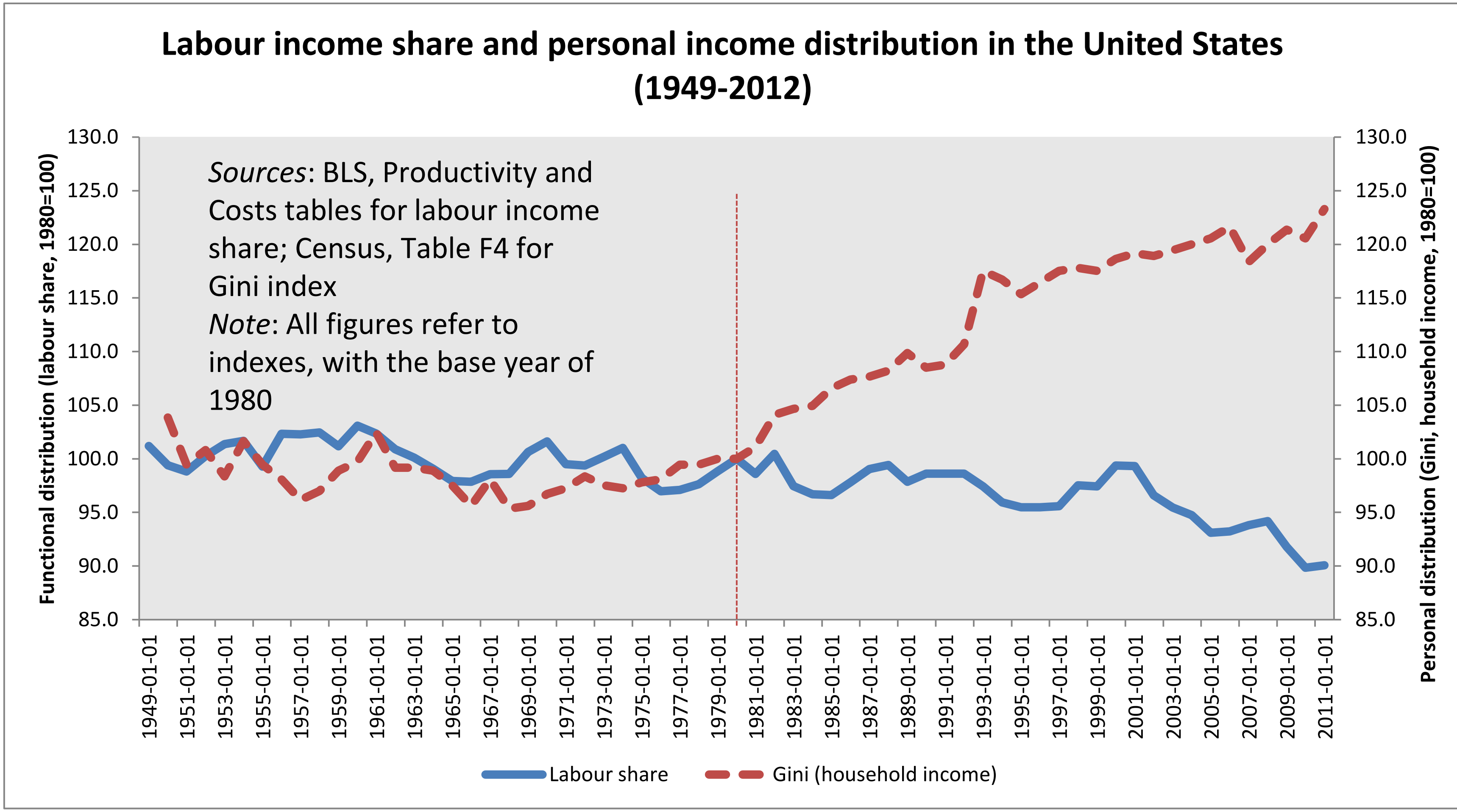
Looking behind the outcomes:

Where inequality is increasing, it comes mainly from the labour market: examples of Spain and the US



Source: *Global Wage Report 2014/5,* forthcoming; ILO preliminary estimates based on EU-SILC and US PSID using equivalence scales. Total household income is before deduction of current transfers paid.

Labour income share as a key determinant of inequality: the United States

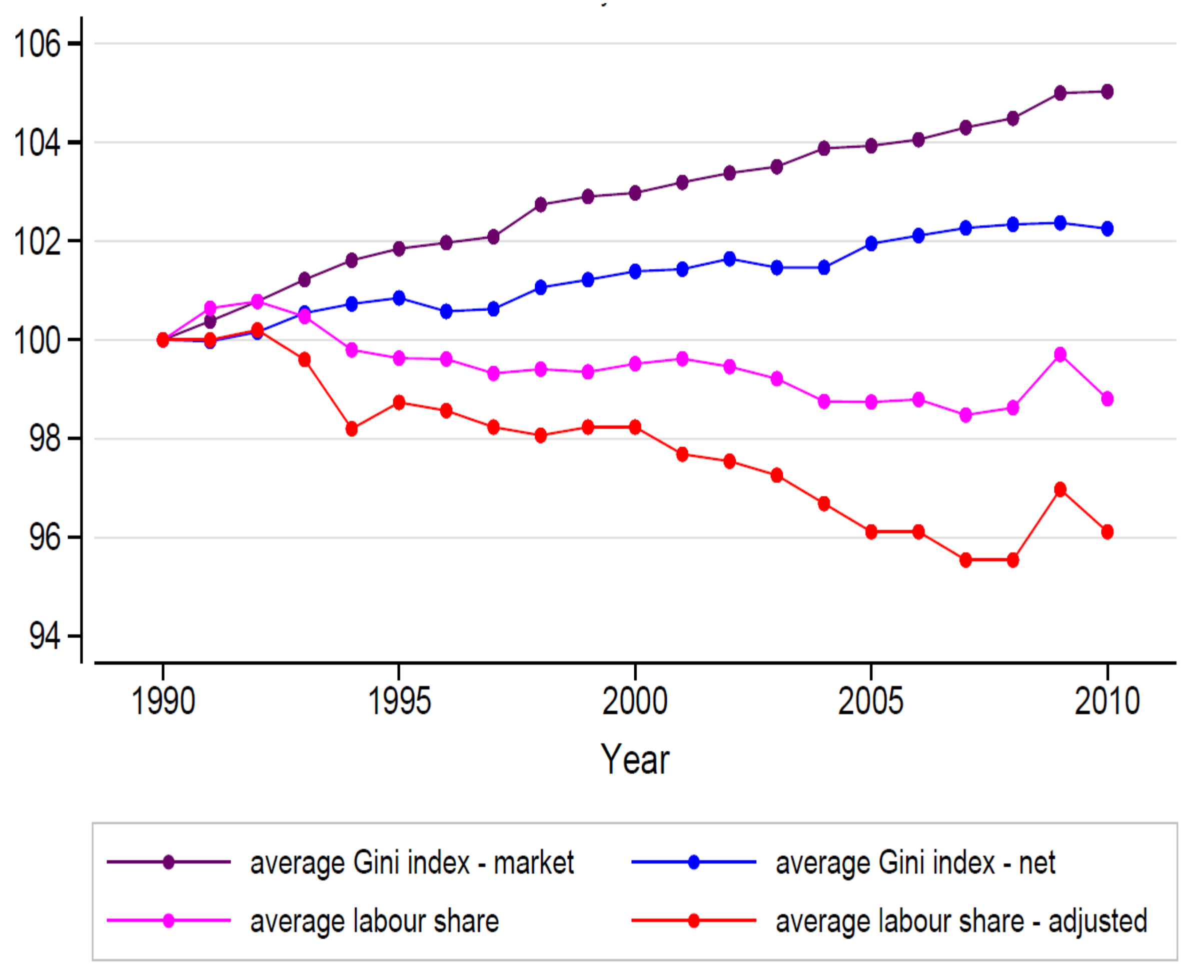


Labour income share as a key determinant of inequality: the G20 countries

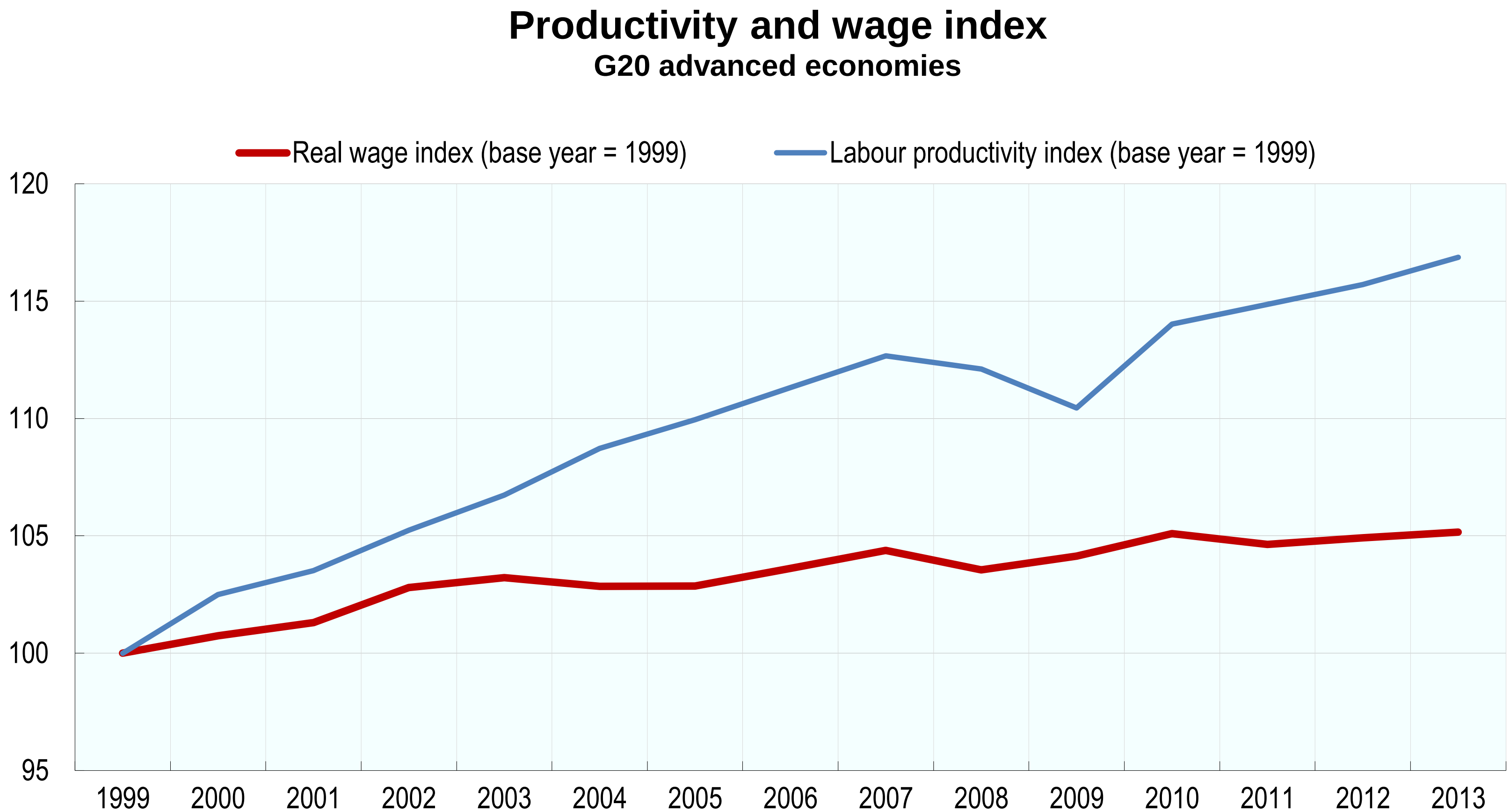
Trends in income distribution:
Labour income share, gross (market) and net income inequality in G20 countries (simple average)

Base year=1990

Source: ILO staff estimates

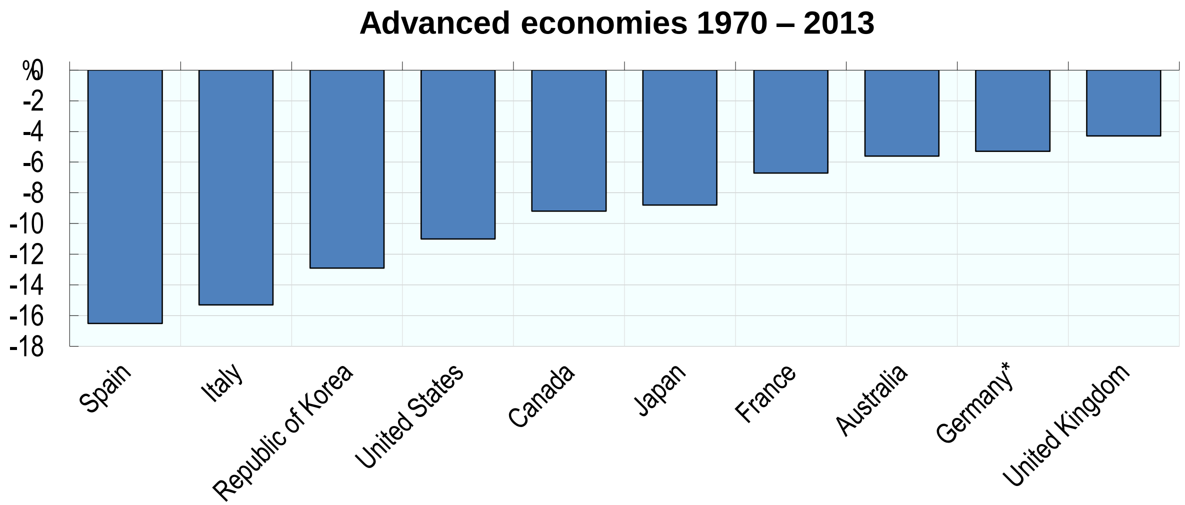


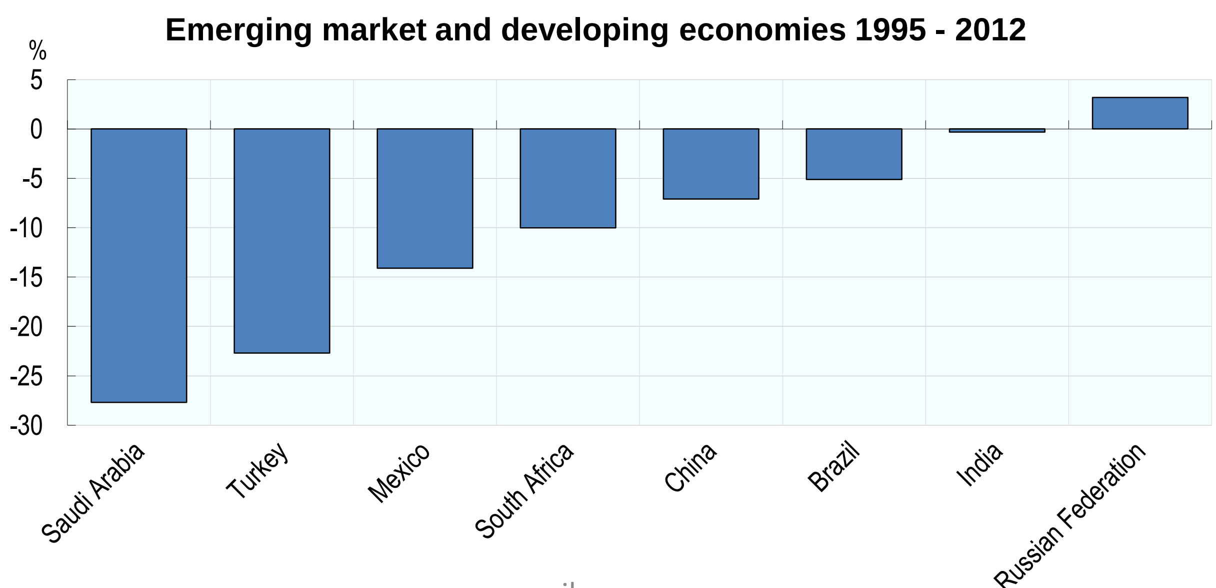
Labour productivity has grown faster than wages, especially in the advanced G20



Source: ILO, forthcoming, *Global Wage Report*

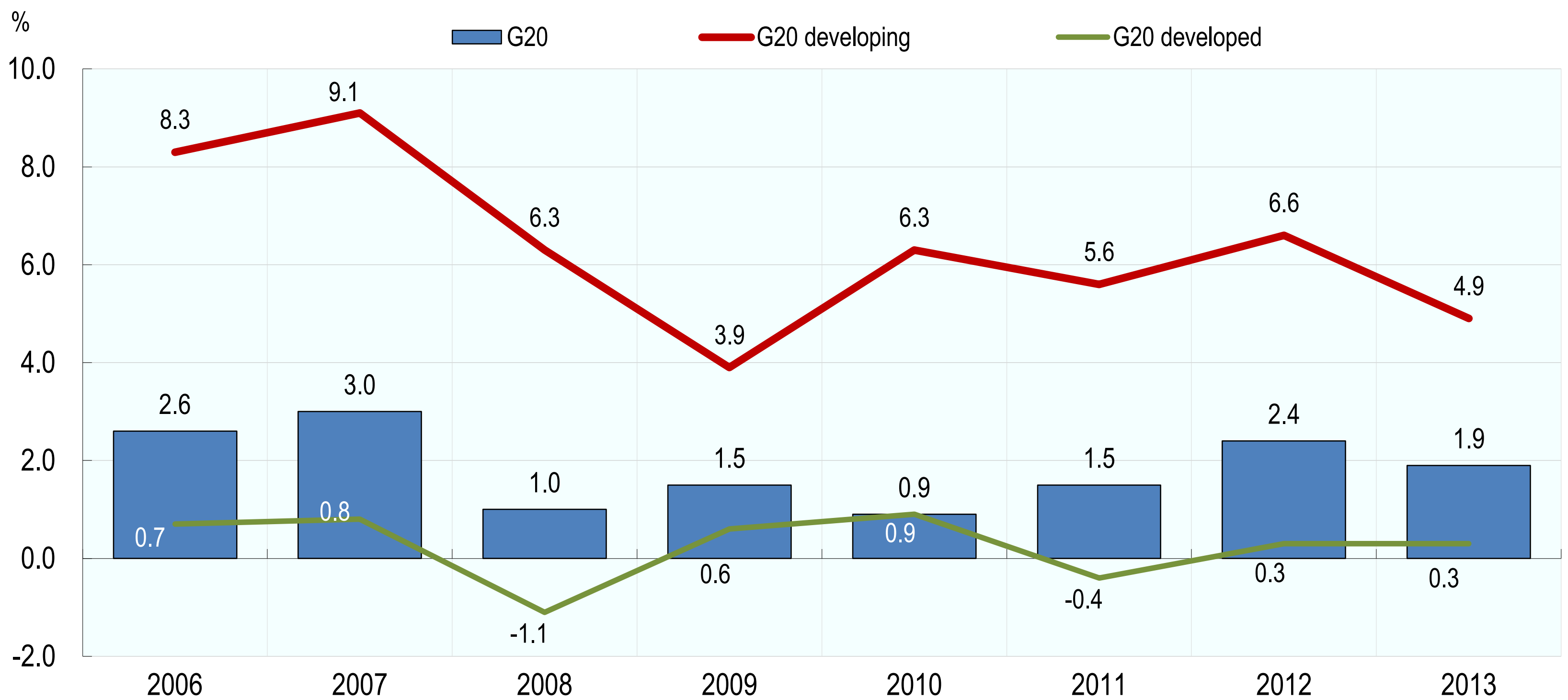
The labour income share has fallen in all G20 countries, except Russia





Since the crisis, wage growth has been weak, especially in advanced G20 economies

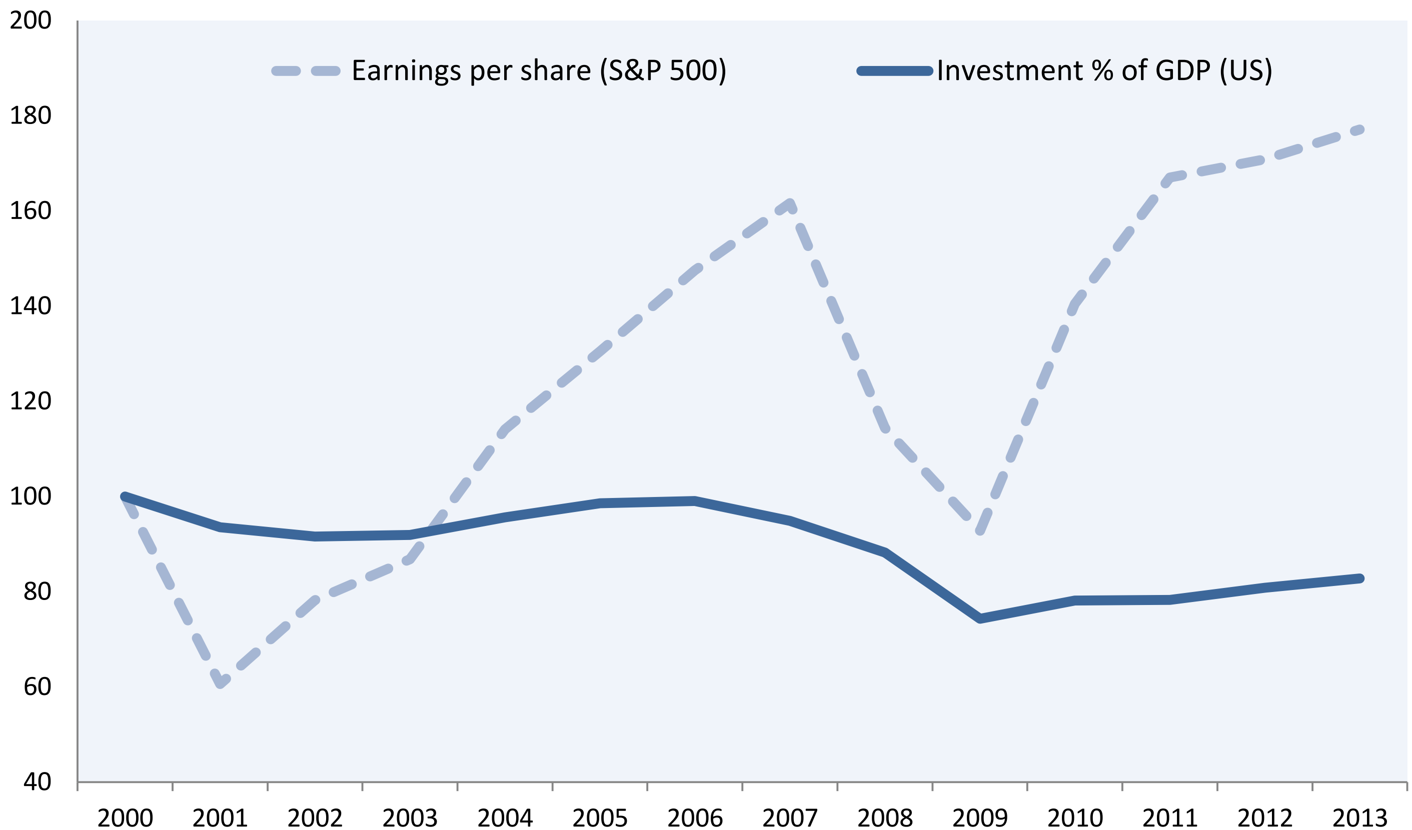
Trends in real average wages, 2006-2013
(year-to-year change, %)



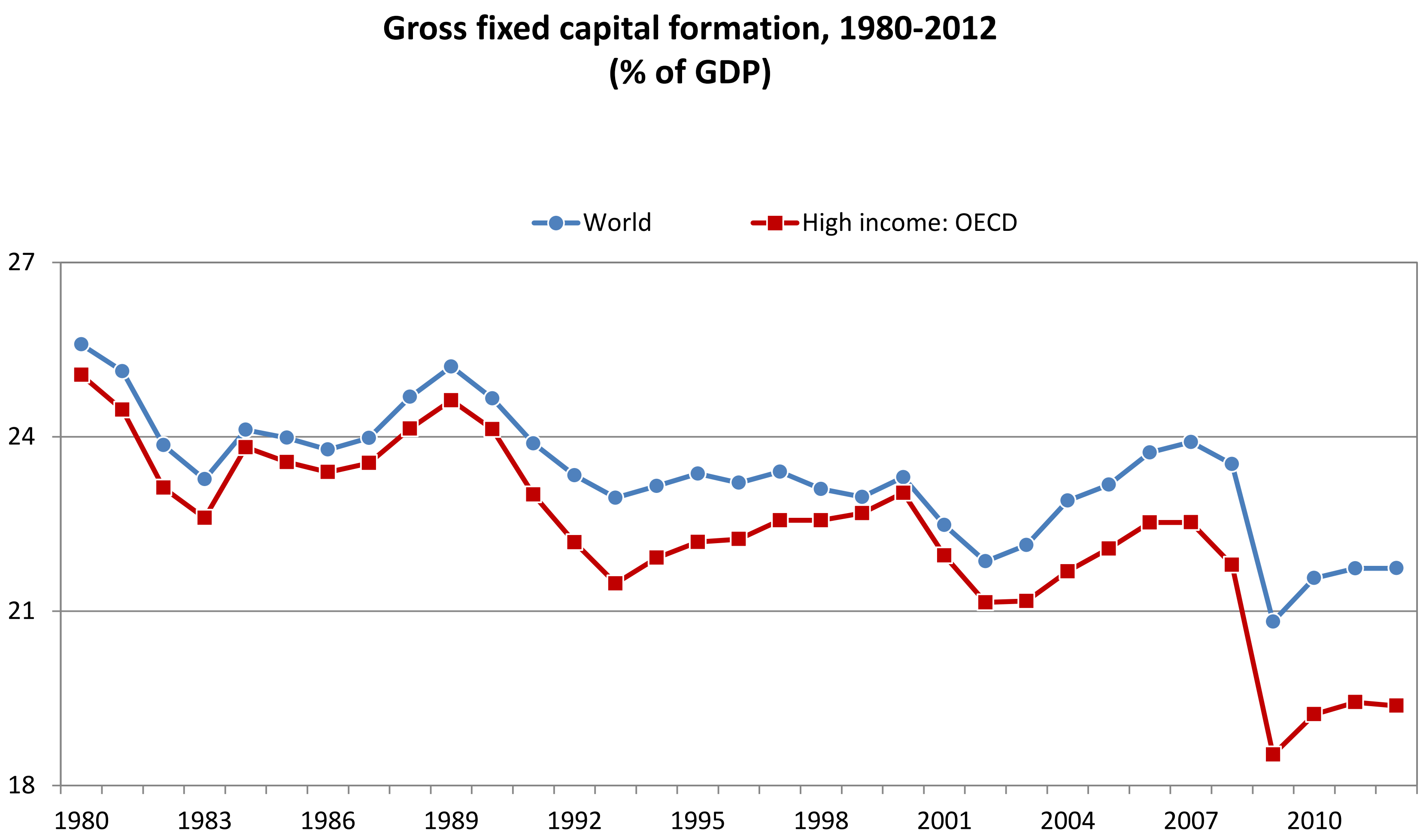
Source: ILO, forthcoming, *Global Wage Report*

Has the rising share of GDP going to capital increased investment? The case of the US

Earnings per share (S&P 500) and investment in the United States, 2000=100



Investment gaps remain large at the global level as well as in advanced economies

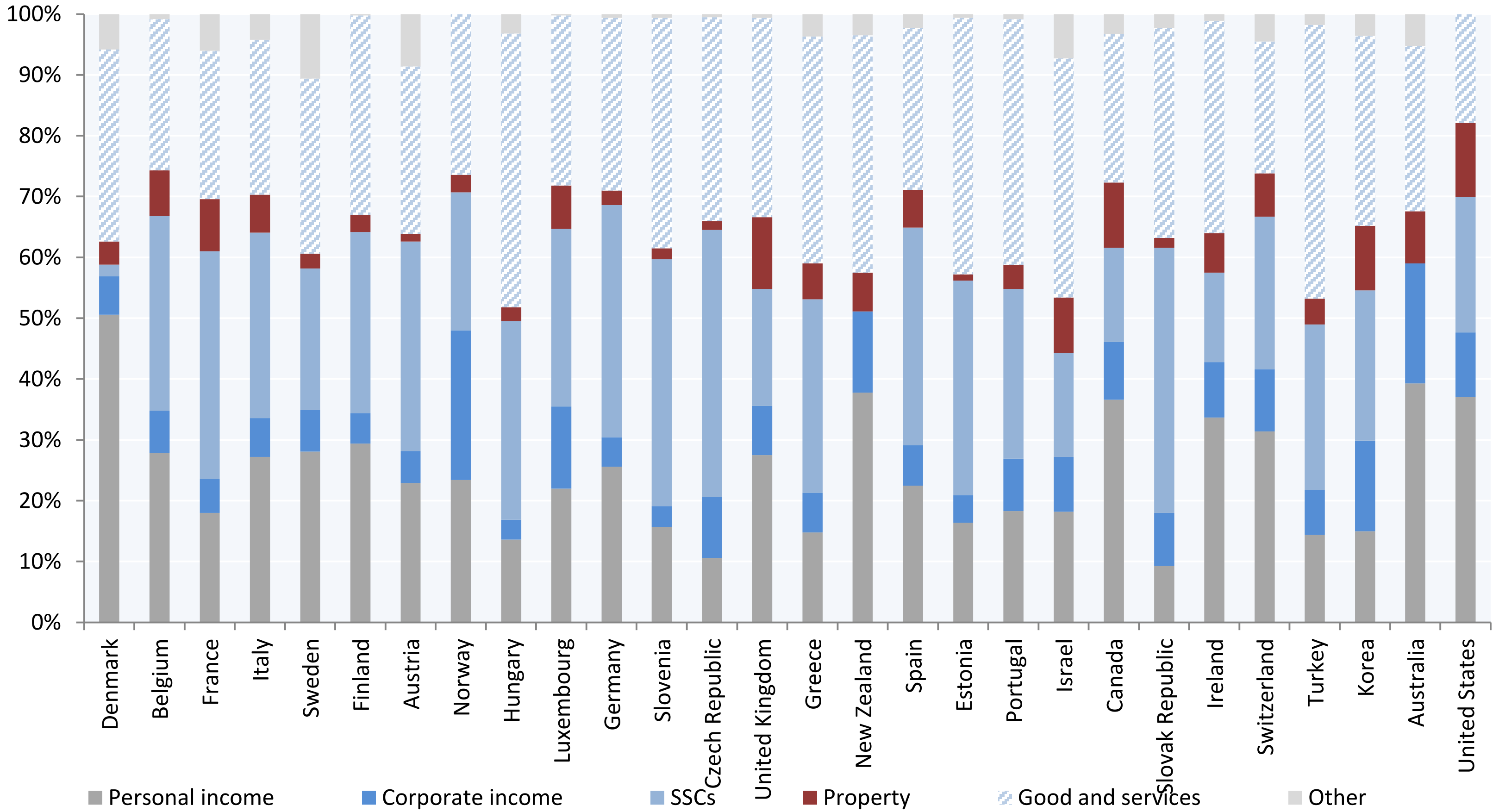


Why does inequality matter?

- A matter of values—equity, decency and social solidarity
- Inequality is associated with higher crime rates and social and political tensions—the quality and stability of life for all citizens
- Inequality dampens economic growth through several channels or "feedback loops":
  - Constrains aggregate demand: lower income groups spend more of their income
  - Investment-led growth has limits without increased consumption and has not occurred since the crisis
  - The risk of financial instability is increased when profits lead to financial speculation rather than investment in the real economy, as has been the case in recent years
  - Contributes to global imbalances as domestic consumption constrained economies turn to export-led growth

The labour income share is also important for tax revenues: well over half of total revenues in nearly all OECD countries comes from labour taxes

Tax revenues structure by main tax type, 2012 or latest available (percentage of total taxation)



*Figures in bold indicate total tax revenues as a % of GDP.

With labour shares declining, efforts to raise government revenues have focused on heavier labour tax rates and value-added taxes on consumption(VAT)

Between 2010 and 2013, the following countries have increased taxation on:

- **Personal income:** Australia; Austria; Belgium; Canada; Czech Republic; Denmark; Finland; France; Greece; Iceland; Ireland; Israel; Italy; Korea; Luxembourg; Netherlands; Portugal; Slovak Republic; Spain; United Kingdom; United States.

- **Social security contributions:** Austria; Belgium; France; Greece; Iceland; Israel; Portugal; Slovak Republic; United Kingdom; United States

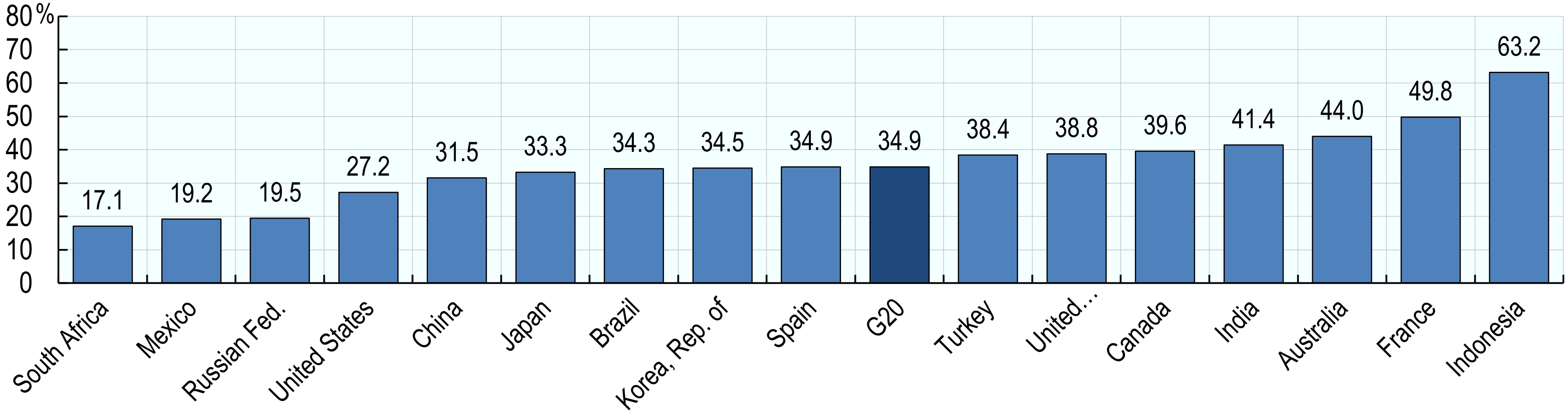
- **Good and services consumption:** Austria; Belgium; Czech Republic; Denmark; Finland; France; Germany; Greece; Iceland; Ireland; Israel; Italy; Luxembourg; Netherlands; New Zealand; Portugal; Slovak Republic; Slovenia; Spain; Switzerland; United Kingdom; United States.

Where do we stand now?

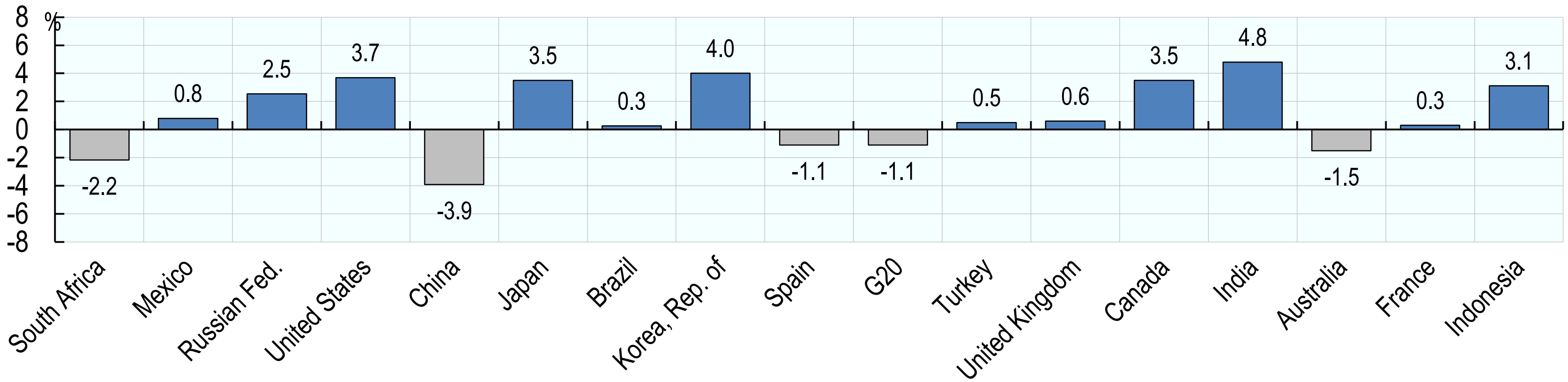
- The risk of secular stagnation, affecting growth rates in both advanced and developing economies, is very real.
- Shortfalls in aggregate demand remain substantial at the global level and in most countries and these shortfalls are driven by weak household consumption, which is aggravated by inequality.
- Deflation is present risk in the EU and Japan, with global consequences and wage stagnation or declines is a main contributor.

How do we move forward?
First, on the primary distribution: labour income

Minimum relative to average wage in 2012 (percentage)



Change in minimum relative to average wage in 2007-12 (percentage point change)



Note: (2007-)2010 for Argentina, China, India and Indonesia, and (2007-)2011 for Brazil, the Russian Federation and South Africa.
Source: ILO, OECD and World Bank (2014)

Then, on the secondary distribution: income taxes

- Improve the progressivity of personal income tax rates: many countries' tax systems have become more regressive in recent years.
- Corporate taxation:
  - Avoid the race to the bottom in corporate tax rates
  - Participate in international coordination across advanced and emerging economies to avoid tax evasion and base erosion
  - Encourage the G20 to play its full role as a coordinator of international economic policy
- Improve income tax collection of both personal and corporate taxes, close loopholes/offshore tax abuse.
- In some advanced economies, further increases in social security contributions may have adverse effects on hiring.
- But in most emerging and developing economies, gradually establishing sound social insurance plans for pensions, unemployment and compensation for workplace injuries through payroll taxes is an appropriate next step.

The secondary distribution, continued: consumption taxes

- Consumption taxes
  - At a time when consumption is lagging in most economies, placing the tax burden on consumption rather than income requires careful thought.
- Value-added taxes (VAT) on consumption are inherently regressive
  - If chosen, it is important to address the negative impact on equity through measures to make them less regressive.
    - VAT exemptions: can impose a high administrative burden
    - VAT rebates or direct transfers based on income may be more efficient.

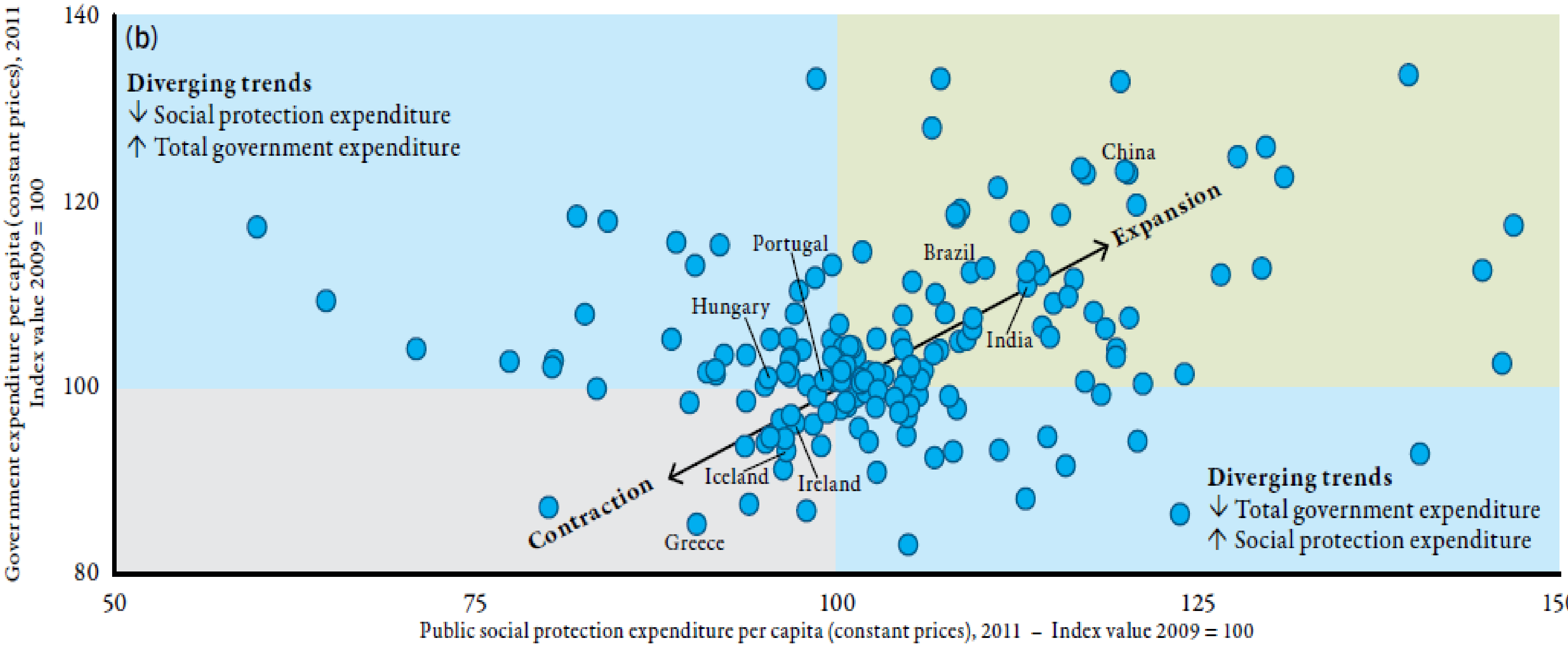
The secondary distribution, continued: other taxes

Other potential sources of revenue – **but** requiring strong international cooperation:

- Carbon "pricing" taxes combined with reduced subsidies to extraction-based industries
- Property taxes
- Expansion of financial sector transaction taxes

The secondary distribution: transfers
Social protection transfers have increased in many developing countries, but with wide variations

Trends in total government expenditure and social protection expenditure per capita (2009-2011)



Source: ILO 2014, *World Social Protection Report 2014/5,* Figure 6.5

“New” generation of inequality research

- ILO and UNCTAD studies have been a leading voice
  - *ILO Global Wage Report 2014/15, forthcoming in November*
  - *ILO World of Work Report 2014*
  - *ILO World Social Protection Report 2014/15*
  - *UNCTAD’s Trade and Development Report* 2014

- IMF and OECD research
  - OECD: “On average, an increase in income inequality by 1 Gini point lowers yearly GDP per capita growth by around 0.2 percentage points” -- *Income inequality Update, June 2014.*

  - IMF: “Lower net inequality is robustly correlated with faster and more durable growth” -- *Redistribution, inequality, and growth*, Ostry, J.D, Berg, A, & Tsangarides, C.G. IMF Staff Discussion Note, SDN/14/02, 2014.