Income inequalities: trends, possible factors and policy issues

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Overview of the presentation

• Trends in income distribution (slides 3-10)

• Underlying factors: technology, stronger bargaining position of finance and owners of capital; weaker bargaining power of workers (slides 11-19)

• Policy issues (slide 15)
Interpolated data: Key Inequality indicators in G20 countries:

Simple average of countries where all indicators are available

Missing data is replaced with next available value. Base year = 1990

average Gini index - market   average Gini index - net
average labour share
Note: OECD Ginis are based on square root equivalized disposable and market income
France & Germany

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Italy & United Kingdom

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Note: OECD Ginis for Japan are based on square root equivalized disposable and market income. For China, the Gini values are taken from Ravallion and Chen (2007) up to 2001 and are based on disposable income. Following Li & Sicular (2014) NBS data on disposable income is used from 2002 onwards.
Korea

Note: Korea Gini values are computed by Shin-Wook and are based on household income. South Africa Gini values are computed at ILO, taken from GHS and are based on consumption per capita.
India & Indonesia

Note: Indonesia Gini values are taken from POVCALNET and are based on consumption per capita. India and Gini values are taken from ILO and are based on consumption per capita.
Note: SEDLAC Gini indices are based on per capita values of income after transfers but (mostly) before taxes
For Argentina, the average of the two half-year indices is taken from 2004 on
New technology

• Increased demand for high-skilled labour
  – This would explain the increase in wages of high-skilled employment in all countries

• New technology embodied in capital goods as substitute for routine jobs that do not require face-to-face interaction
  – Consistent with “hollowing in the middle” trends
Change in the employment share by type of task, 2000-13 (percentage points)

-9.0 -6.0 -3.0 0.0 3.0 6.0

WORLD Developed Economies and European Union Central and South-Eastern Europe (non-EU) East Asia South-East Asia and the Pacific South Asia Latin America and the Caribbean

Non-routine cognitive occupations Routine occupations Non-routine manual occupations
Outsourcing and changes in production patterns

• Fragmentation in production processes (Feenstra et al)
  – Consistent with increased inequalities, falling labour shares and greater incidence of non-standard employment
  – Stronger relative weight of “core” firms vis-à-vis smaller subcontractors

• Extension of global value chains (Gereffi et al)
  – Working conditions along the entire supply chain
  – Issue of low-productivity traps in developing countries
Increasing incidence of own-account workers out of total self-employed
“Financialisation” and business uncertainty

• Wealth-income dynamics of top 1% (Piketty)

• Growing role of external shareholders in management decisions of large firms
  – Pressure for short-term returns
  – Interaction with new technology, outsourcing opportunities
Dividends and share-buy backs as percentage of gross profit for the Top 1% private companies in the G-7

Source: ILO estimates based on FactSet
Institutional changes

- Certain labour market and social protection reforms, which weaken bargaining power of workers

- Tax reforms and tax heavens which reduce the ability to redistribute income and

- Monopoly rents in certain sectors
North America

Year
United States Canada
Labour share

Note: Labour share of income - unadjusted
Europe: selection of countries

Year


France Germany Italy United Kingdom

Labour share

Note: Labour share of income - unadjusted
Policy issues

• Better understanding of new technology and new forms of work needed to assess policy implications

• Need for new forms of regulation (product, finance and labour markets) to rebalance bargaining power in favour of weaker groups

• International action: tax competition, ILO standards