

Income inequalities: trends, possible factors and policy issues

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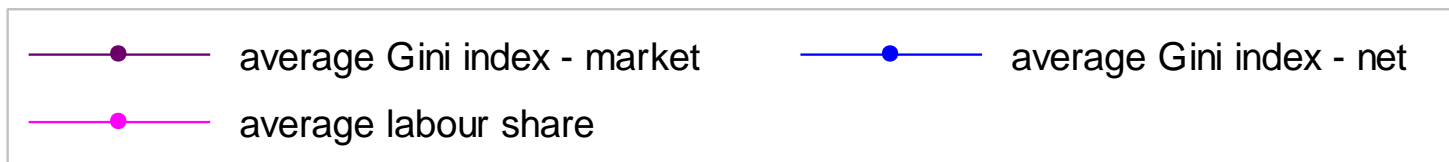
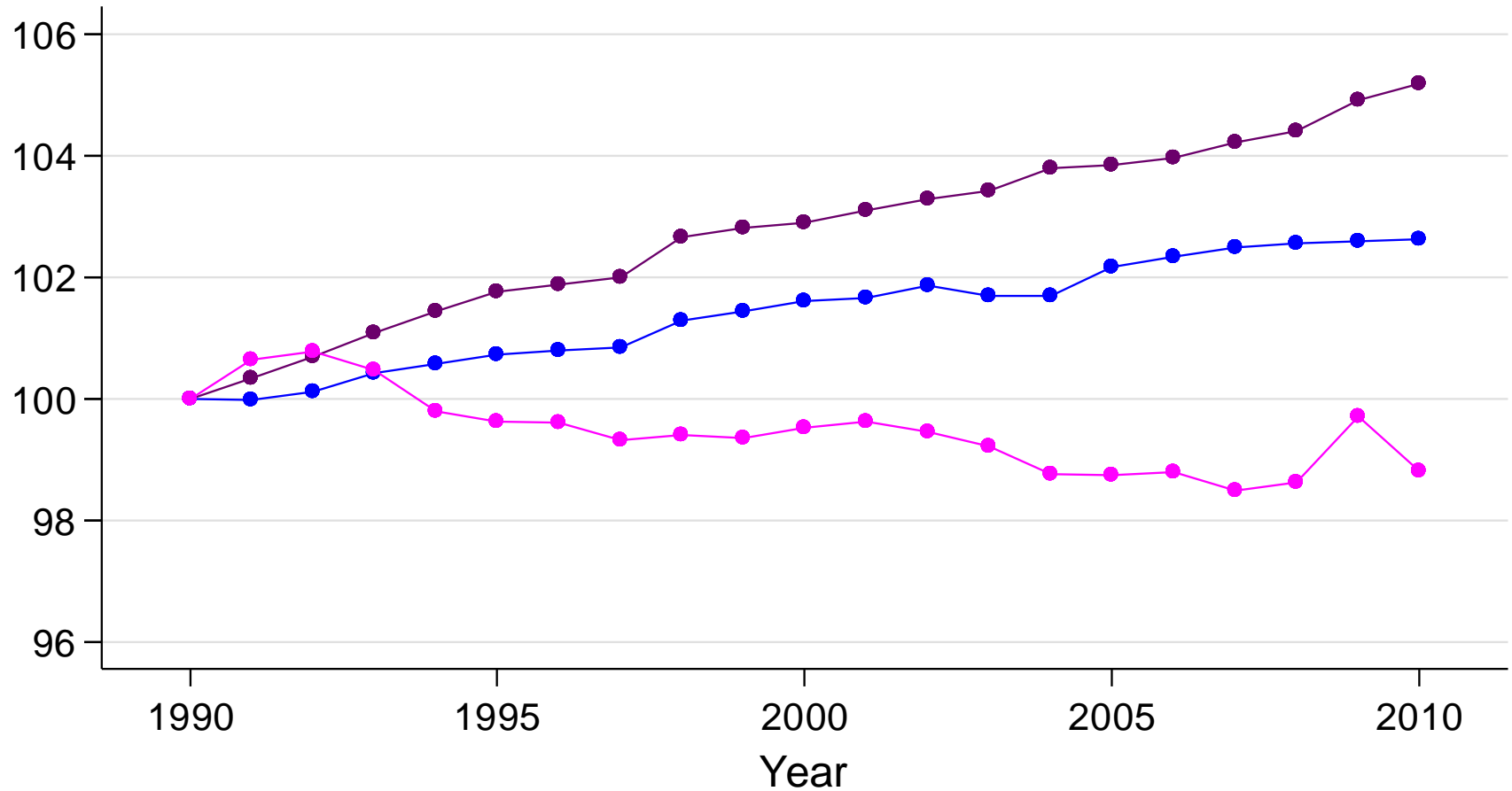
Overview of the presentation

- 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)

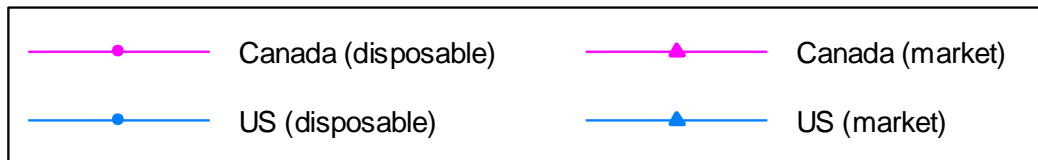
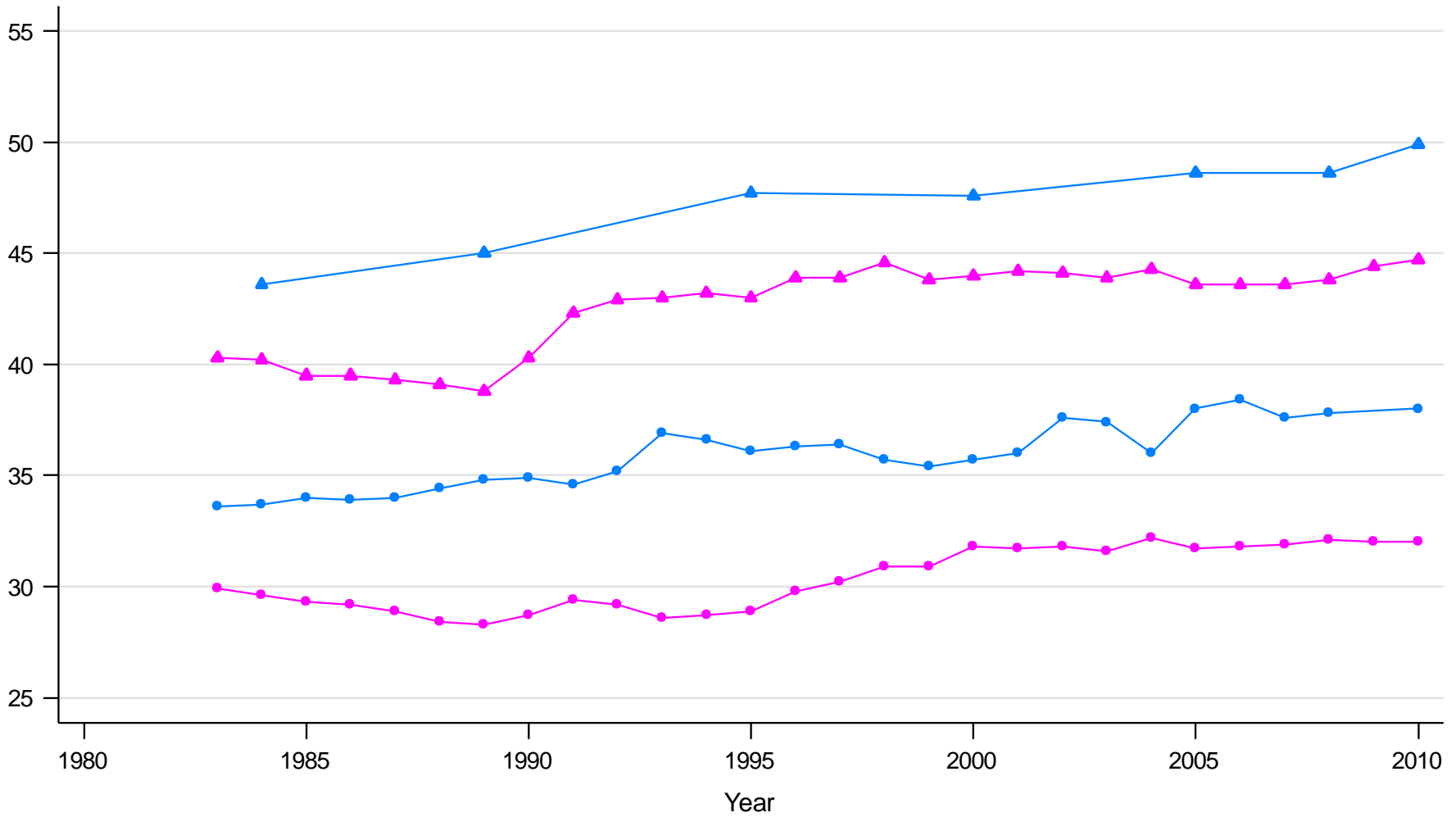
Interpolated data: Key Inequality indicators in G20 countries:

Simple average of countries where all indicators are available

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

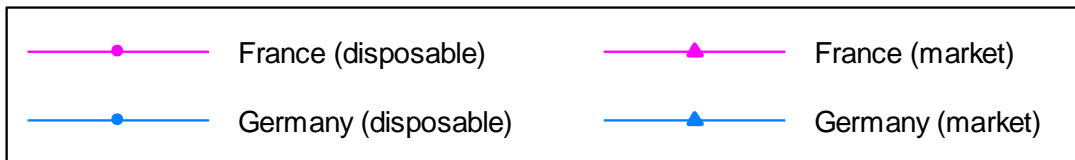
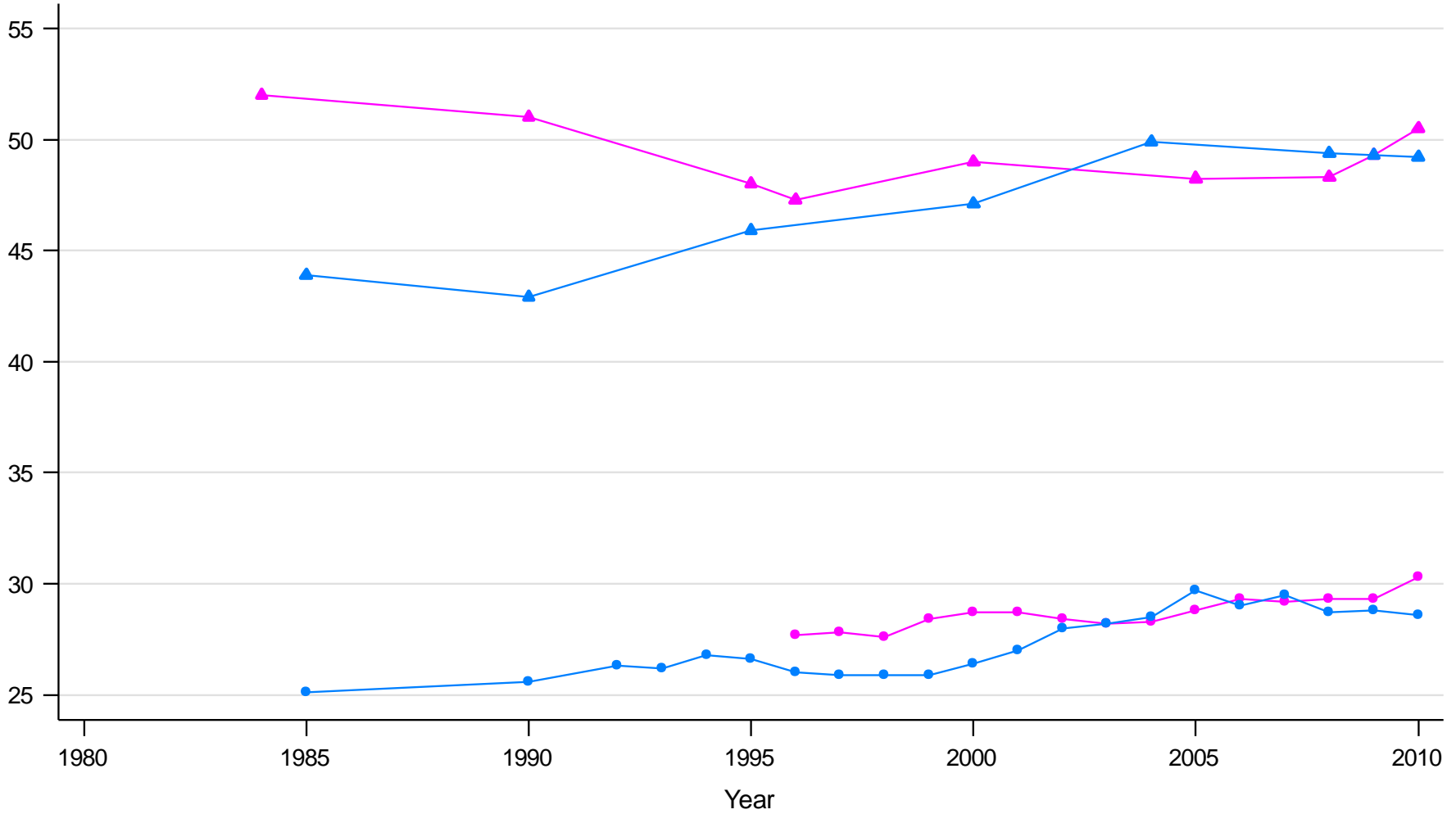


Canada & United States



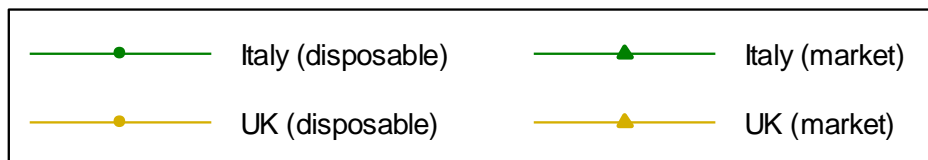
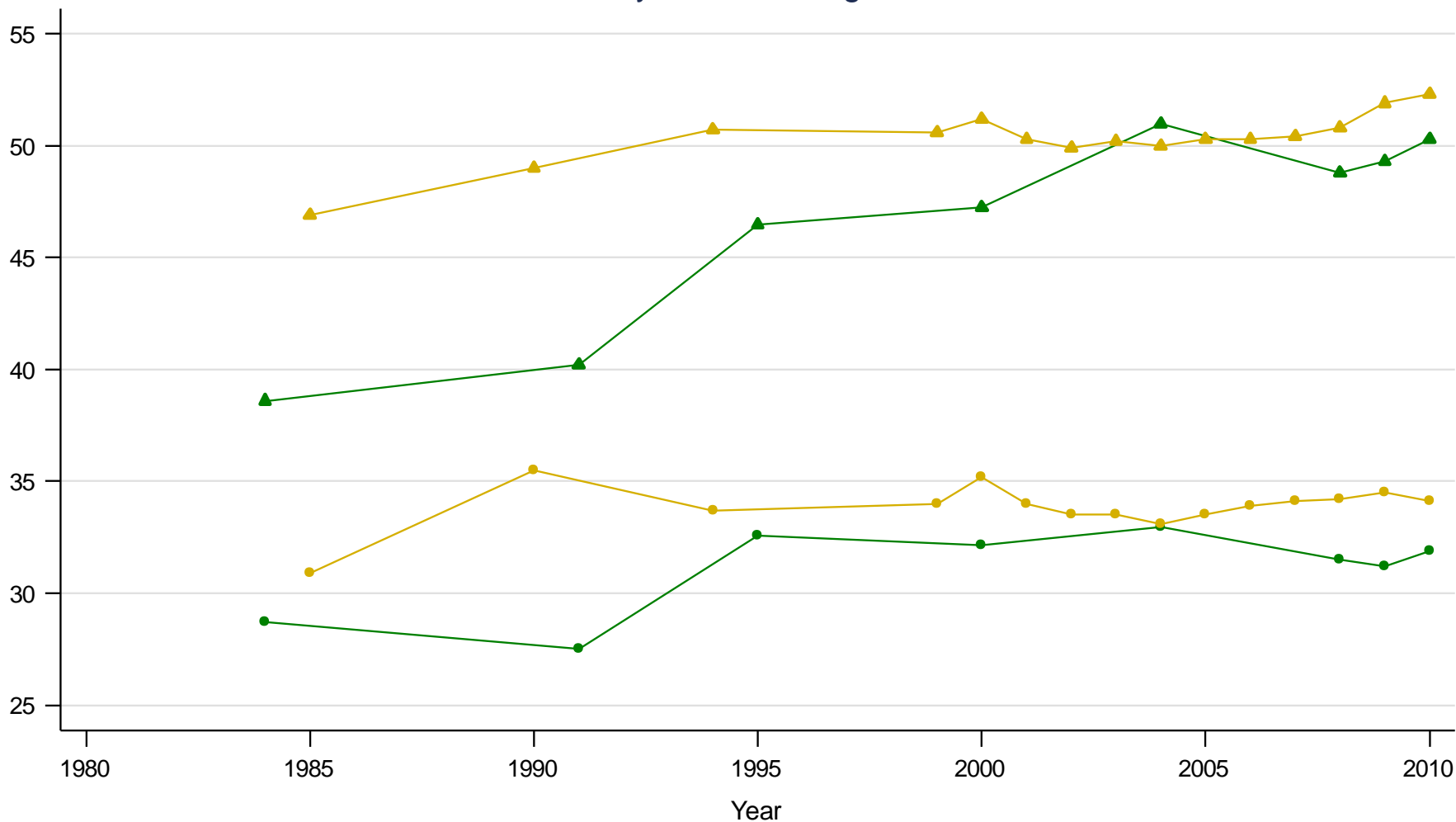
Note: OECD Ginis are based on square root equalized disposable and market income

France & Germany



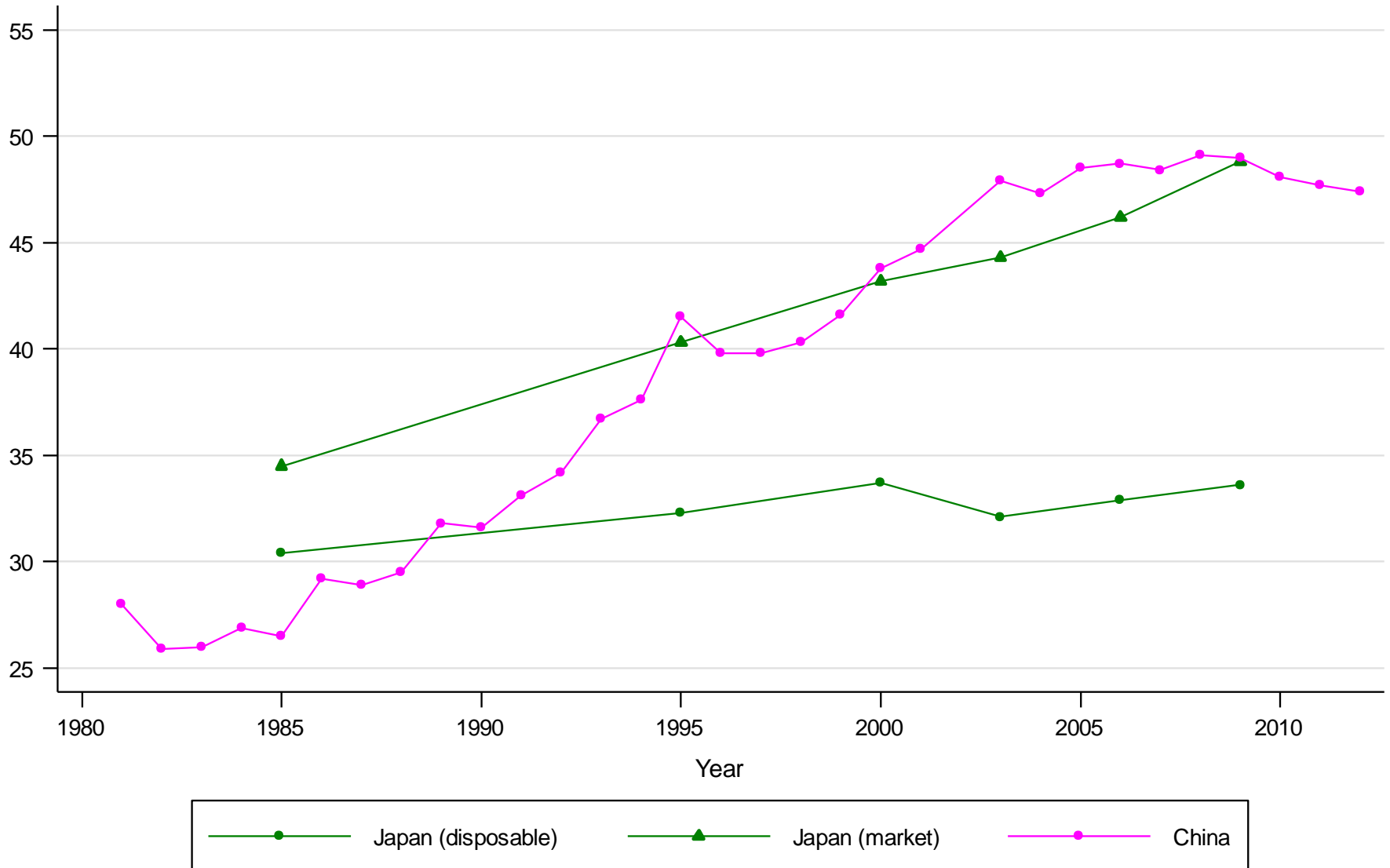
Note: OECD Ginis are based on square root equalized disposable and market income

Italy & United Kingdom



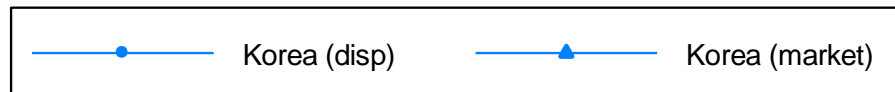
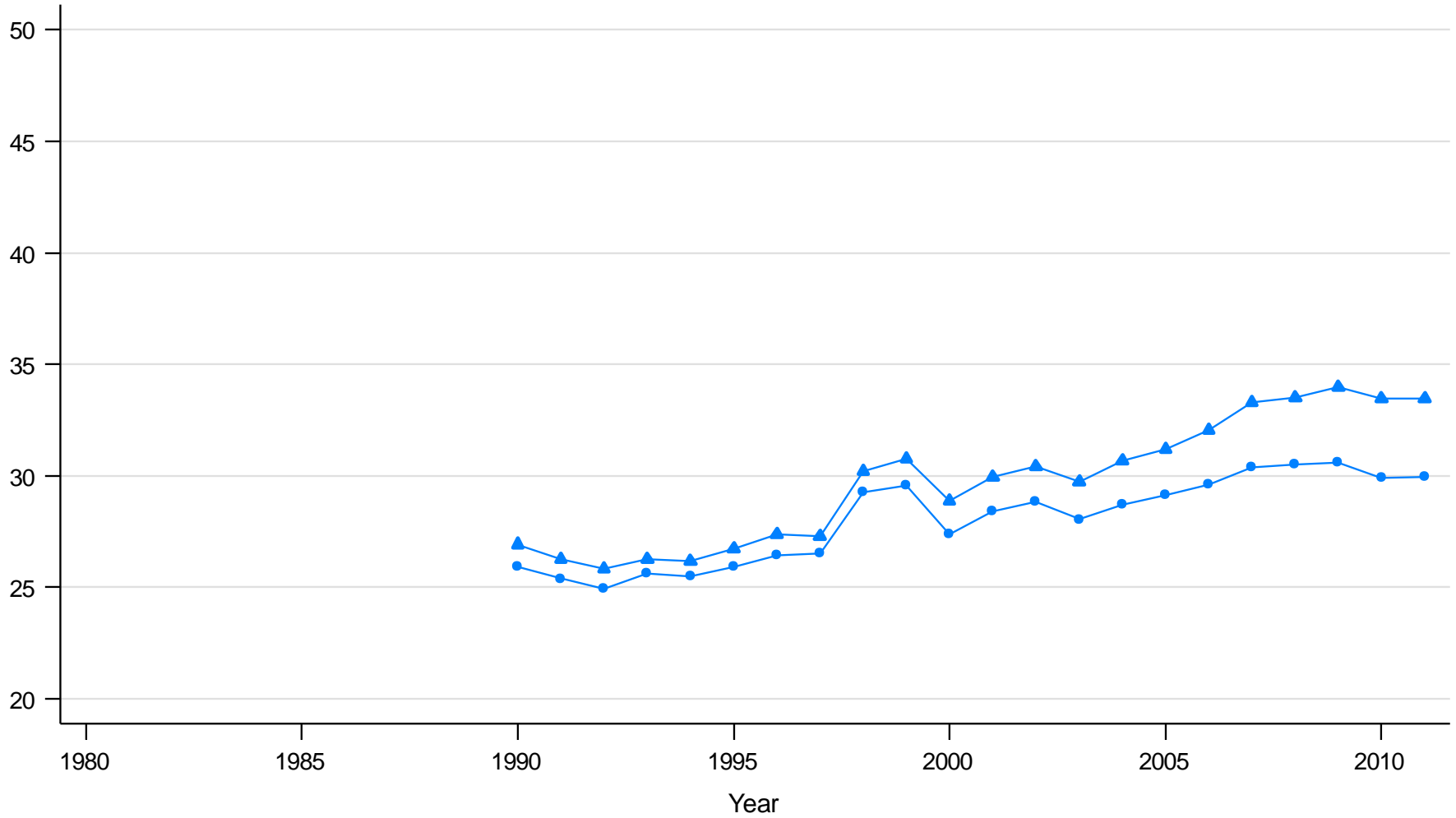
Note: OECD Ginis are based on square root equalized disposable and market income

Japan & China



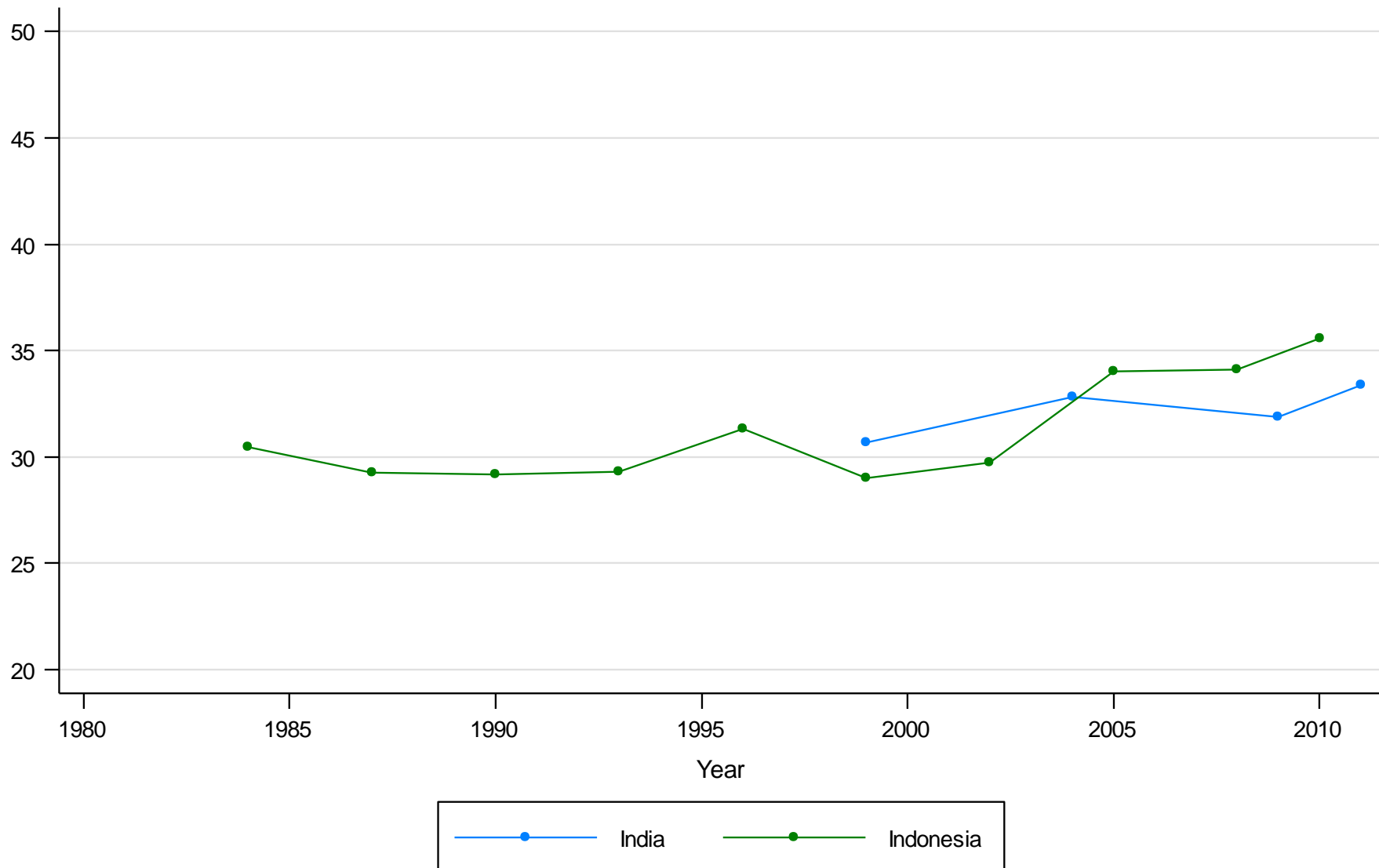
Note: OECD Ginis for Japan are based on square root equalized disposable and market income
For China, the Gini values are taken from Ravallion and Chen (2007) up to 2001 and are based on disposable income.
Following Li & Sicular (2014) NBS data on disposable income is used from 2002 onwards.

Korea



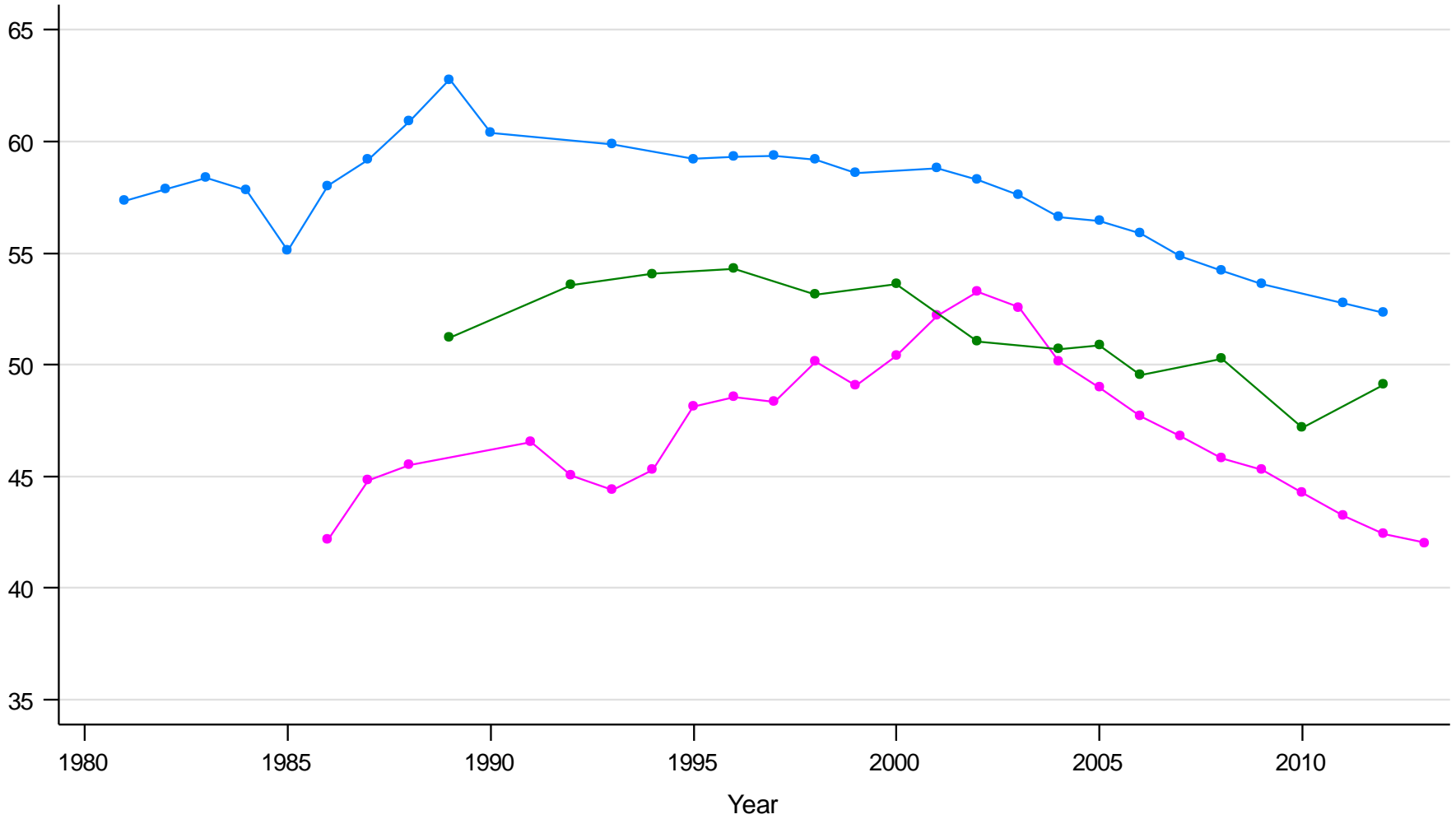
Note: Korea Gini values are computed by Shin-Wook and are based on household income
South Africa Gini values are computed at ILO, taken from GHS and are based on consumption per capita

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

Argentina, Brazil & Mexico

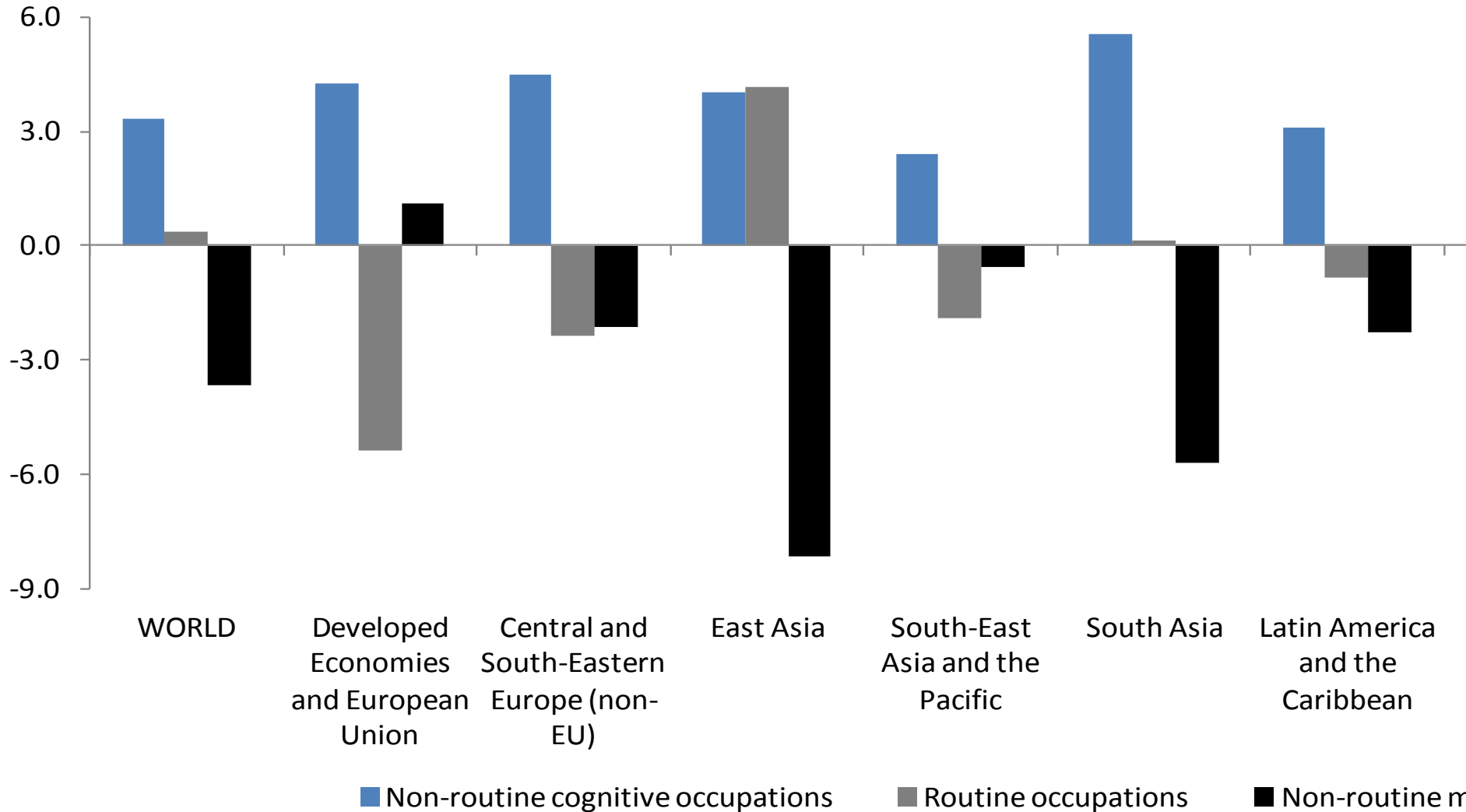


Note: SEDLAC Gini indices are based on per capita values of income after transfers but (mostly) before taxes
For Argentina, the average of the two half-year indices is taken from 2004 on

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

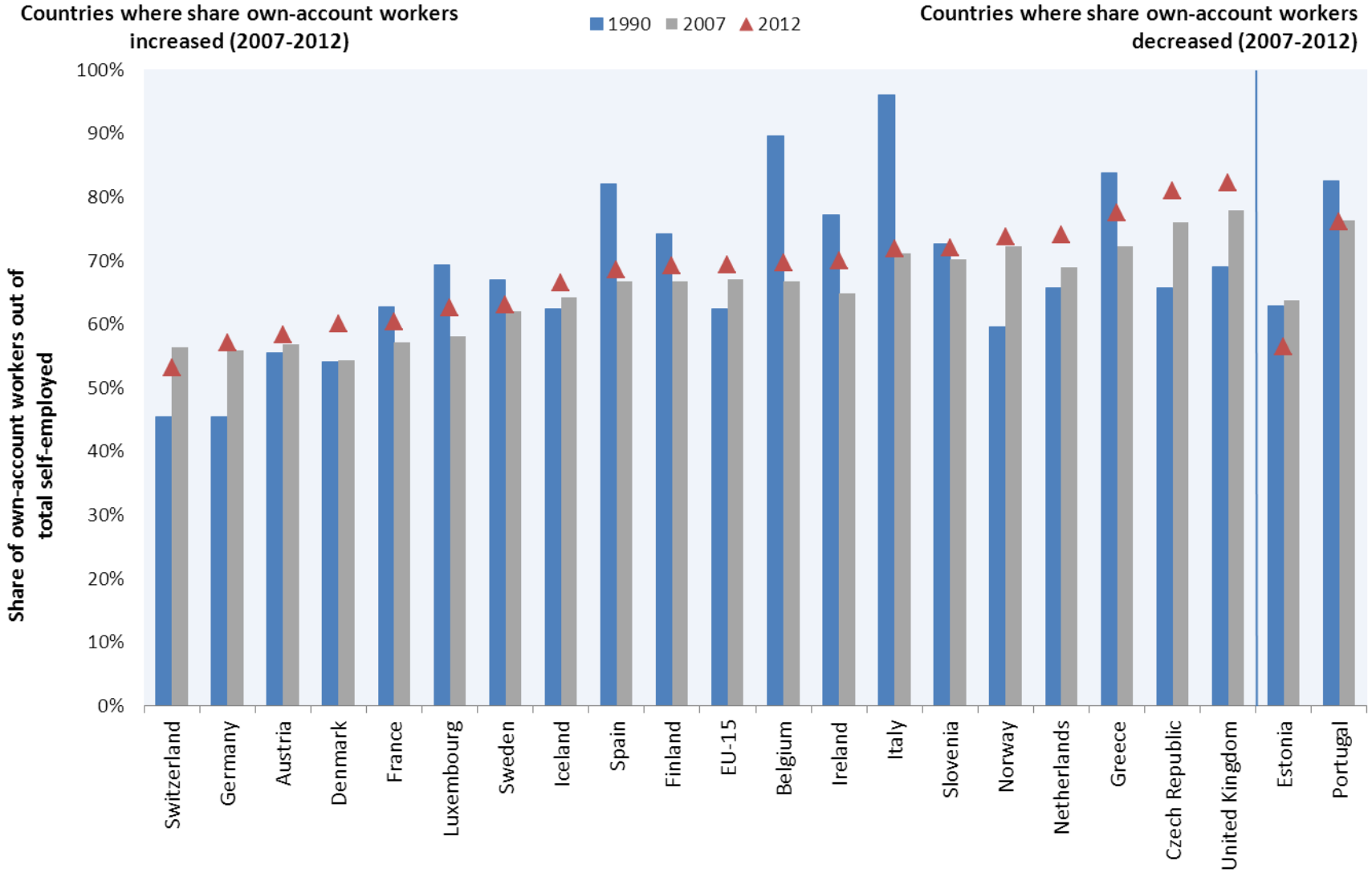
Change in the employment share by type of task, 2000-13 (percentage points)



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

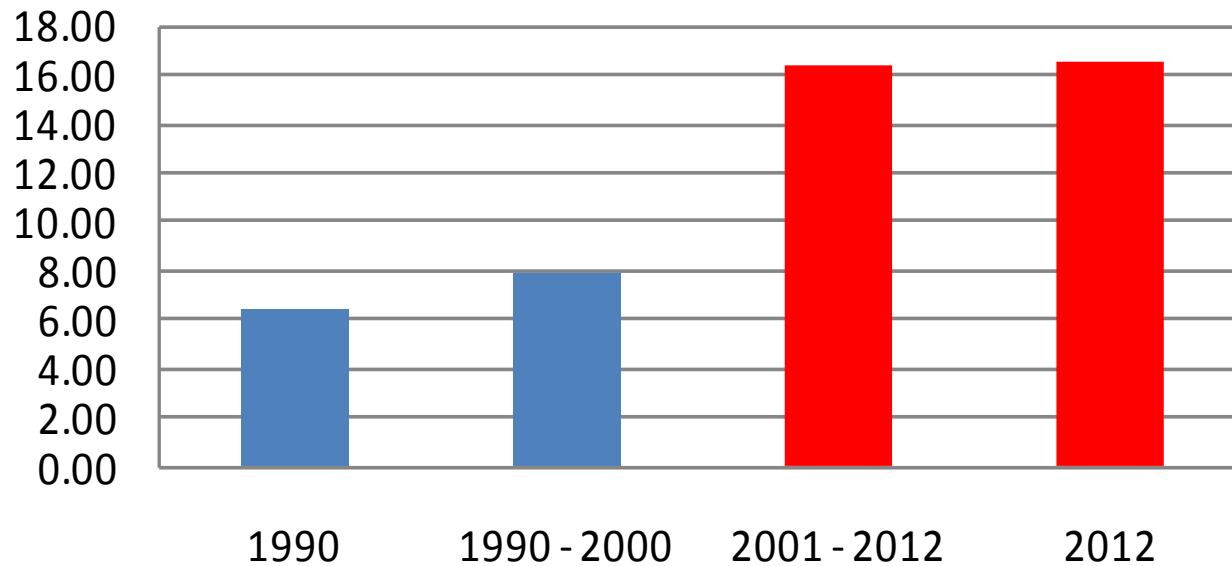
Increasing incidence of own-account workers out of total self-employed



“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 as per cent of gross profits



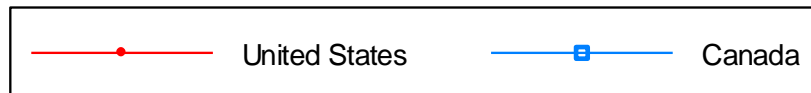
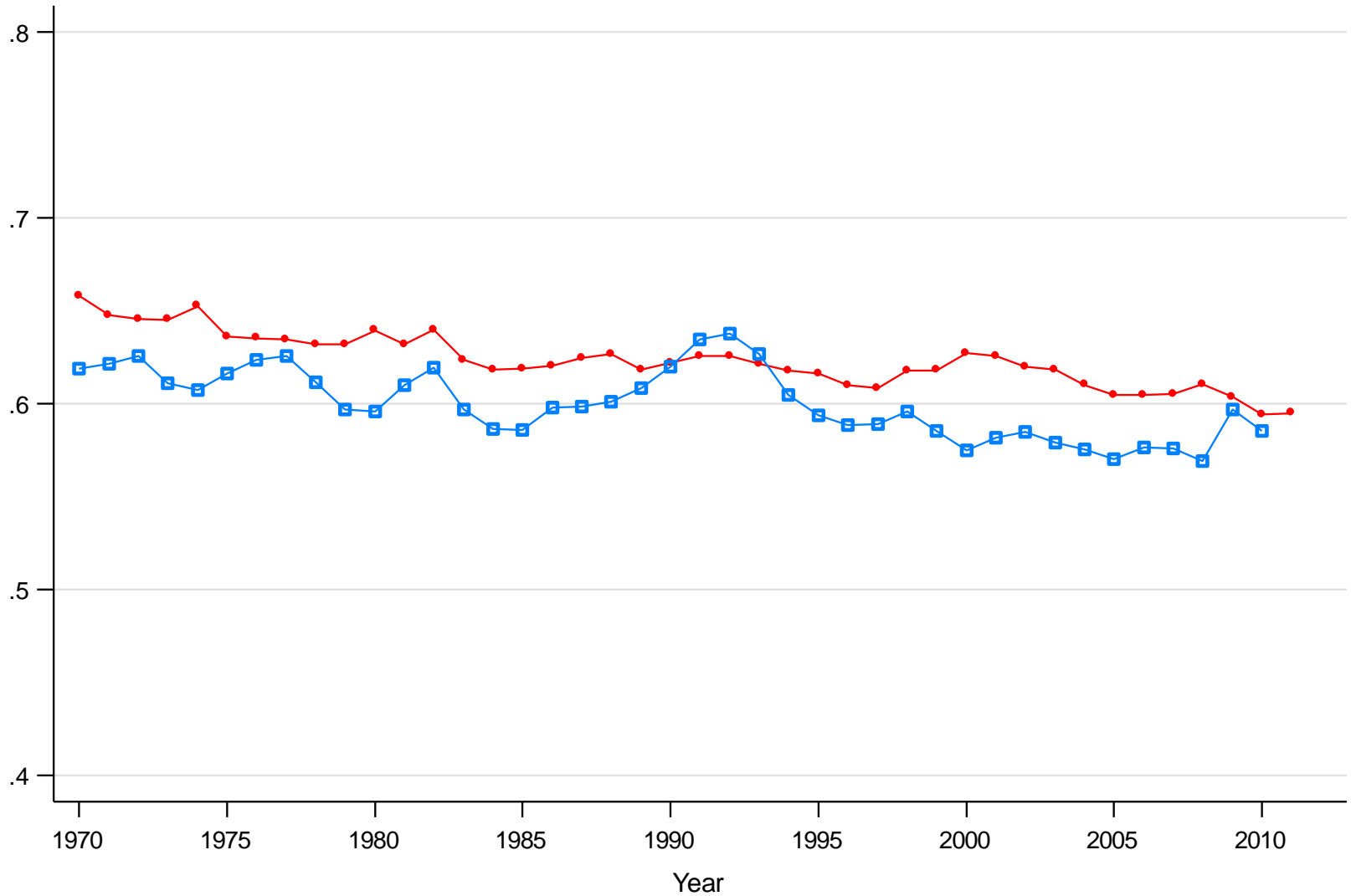
Dividends and share-buy backs as percentage of gross profit for the Top 1% private companies in the G-7

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

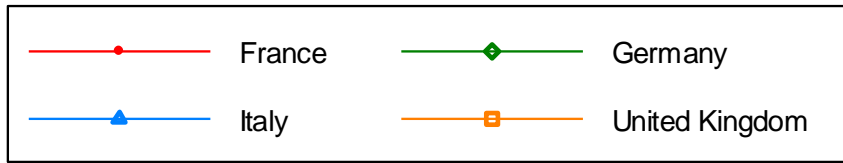
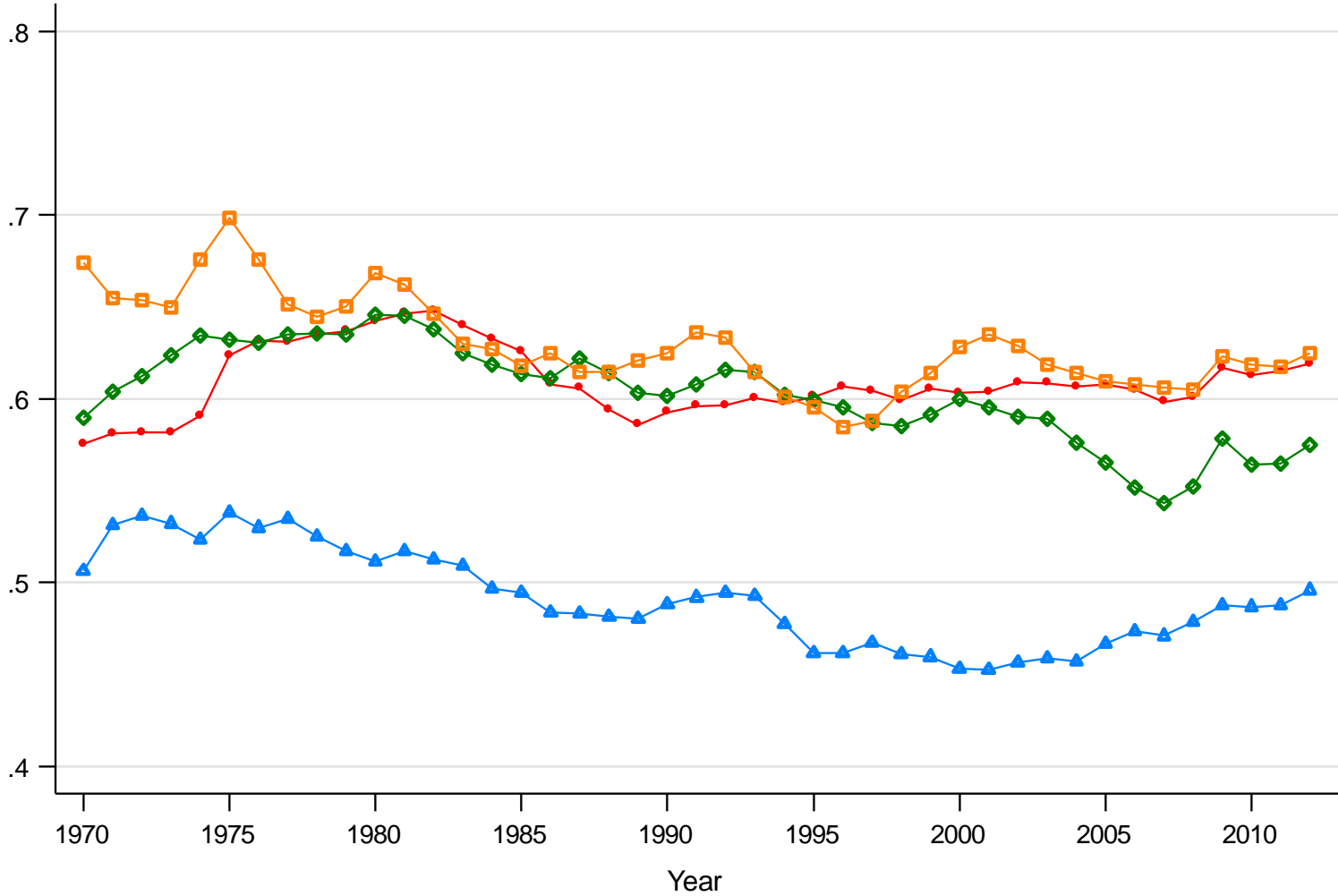
North America



Note: Labour share of income - unadjusted

Europe: selection of countries

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