

ADDRESSING INEQUALITIES

The Heart of the Post-2015 Development Agenda and the Future We Want for All

Global Thematic Consultation

A NEW DISTRIBUTION OF INCOME AND POWER

International Trade Union Confederation (ITUC)

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Summary

Economic inequality has become a threat to the global economy and to the life of millions of people worldwide. Redistribution of wealth and in particular of income is urgently needed both among and within countries. Decent work, collective bargaining, access to a minimum living wage and universal system of social protection are the key elements of a development agenda that can deliver on equity, inclusive growth and shared prosperity. However income redistribution goes hand in hand with redistribution of power. Democracy, the people's participation in decision-making, respect for human rights and the rule of law must also be part of this agenda. Trade unions play a crucial role in the redistribution of both income and power and must therefore be at the forefront of policy debates related to social and economic inequality.

About the authors

Claire Courteille is the Director of the Equality Department at the International Trade Union Confederation (ITUC). Kasia Szeniewska is the Outreach and Research Officer in the Development Cooperation and Education unit of the ITUC.

Reducing inequality

The Millennium Development Goals (MDG) have been able to mobilise the international community behind agreed goals and targets without giving much consideration to the enabling policy framework necessary to redress the structural causes of poverty. This policy vacuum has reinforced the dominant paradigm according to which economic growth is the sole instrument that can bring about development. Not only has the focus on GDP – and on higher GDP per capita - not led to sustainable development, it has also created huge wealth and income inequality both among and within countries.

Between the early 1990s and mid-2000s, the economy grew substantially, especially in emerging and developing countries, but the benefits of this expansionary period were unevenly shared. Overall, the most remarkable trend of that period has been an unprecedented widening of income inequality: at present the richest 1% of the world's population owns 40% of global assets while the bottom half of the world's population owns just 1% of global wealth (UNRISD, 2012). In OECD countries, the Gini coefficient, a standard measure of income inequality that ranges from 0 (when everybody has identical incomes) to 1 (when all income goes to only one person) increased from an average of 0.29 in the mid-1980s to 0.316 by the late 2000s (OECD, 2011).

Wage inequality explains a big part of income inequality and it is striking to note that during the period 1990-2008 income distribution took place away from labour despite an increase in employment rates globally. In 51 out of 73 countries for which data was available, the ILO (2008a) found that over the past two decades the share of wages in total income declined. The largest decline took place in Latin America and the Caribbean (-13 percentage points), followed by Asia and the Pacific (-10 percentage points). In contrast, the share of profits in national income increased virtually everywhere. This indicates that the quality of the jobs created was not good enough to reduce income inequality, that wages remained at a low level and that labour market tenure was weak. In fact, the majority of the jobs created during that period were short term, part-time, temporary, casual or informal. Today half of the world's workforce is in vulnerable employment, living in income insecurity.

Inequalities influence the transformation of economic progress into poverty reduction: Without undermining context-specific factors, the experience of the last 20 years shows that high levels of inequality limit the effectiveness of growth in reducing poverty while growing inequality increases poverty for a given level of growth (Fosu, 2011). Furthermore, several academic studies, including by the ILO, provided evidence that high levels of inequality tend to push large segments of the population into low-wage jobs, constricting domestic demand and hindering structural changes.

Outside the economic field, empirical evidence indicates that high levels of inequality create polarised societies associated with higher crime rates, lower life-expectancy, social tensions (especially in multi-national and multi-ethnic communities) and in the case of the poor countries malnutrition and an increased likelihood of children being taken out of school in order to work. Equally worrisome, inequality tends to trap younger generations into poverty as social mobility is limited.

To address and redress income inequality, the post-2015 Development Agenda must focus on employment and welfare. In particular it must address gender inequality in the labour market and social policies. Male and female labour must be properly valued and rewarded. This requires laws and policy to protect both formal and informal economy workers, to ensure compliance with anti-discrimination and minimum wage legislation and to secure effective and universal access to social protection. Giving visibility to the unpaid care work carried out by women would also give visibility to the constraints and discrimination they face and help formulate better gender sensitive policy.

To measure progress on reducing inequalities, the following indicators can be considered at country level:

- Income inequality expressed by the ratio between the income of the top and bottom deciles
- Share of wages and profits in national income
- Gender-based wage gaps
- Ratio between GDP growth and the increase in social transfers
- Macro-economic aggregates on unpaid care work

Decent work's contribution to the reduction of inequality

According to ILO figures, 17% of all workers in developing countries earn less than 1.25 dollars a day (UN, 2012). A shift in policy is needed to restore fairness, dignity and confidence in the lives of the growing number of working poor worldwide. Globalisation has eroded the ability of states to implement public policies that increase the income position of low-income groups. By the same token, the globalised economy has eroded workers' bargaining power through liberalisation and work informalisation. In order to effectively address economic and social inequality, the post-2015 development agenda must provide enhanced policy space for both

governments and social partners to define and implement efficient employment and social transfer policies.

The new development agenda must give immediate priority to tackling the global jobs crisis. Unemployment not only pushes people below the poverty line, but also increases the economic and social inequality. Women are overrepresented among the unemployed: their employment-to-population ratio at the global level is 25 percentage points below men's (47.8% vs. 72.6% respectively) (UNTT, 2012a). International and national development strategies must facilitate the necessary economic transformation that will enable job creation. Employment targets should be included in the post-2015 Development Agenda. While taking full account of national specificity, all countries should be encouraged to assess the potential for job creation in 3 sectors in particular: the infrastructure sector (including the construction of roads, bridges, railways, water supply and sanitation, waste management systems, electric power generation and transmission; telecommunications etc.); the care sector (child care facilities, homes for the elderly, care system for the sick etc.) and green sector including work in agriculture, manufacture or services that can preserve or restore environmental quality. Creating sustainable jobs requires specific public and private investment including in people's education and workers' skills. Social partners must be closely involved in the design and implementation of these strategies.

But new jobs will not necessarily contribute to improving people's livelihoods and to an equitable society, unless they are accompanied by adequate social policies that ensure that the jobs are decent and people have basic social security. Countries such as the USA, New Zealand, Chile and Jamaica, which have little labour regulation and weak social policies, suffer from high income inequality despite having relatively high employment rates (ILO, 2008b). The ILO Decent Work Agenda (DWA) offers a comprehensive policy framework for employment built around four strategic objectives: job creation, guaranteeing rights at work, extending social protection and promoting social dialogue. As a comprehensive set of policies, the DWA has proven to be an effective tool to reduce inequality and fight poverty. The ILO World of Work Report 2008, which focused on the issue of income inequality, shows that no matter the level of income, countries that have stronger labour market regulation and extensive social protection experience have lower income inequalities than those with little regulation and limited social protection (ILO, 2008b).

Another division that contributes to rising economic inequality is the wage and social income difference between those employed in the formal economy and those in casual, informal jobs. Both in developed and developing countries, wages in precarious and casual jobs are, in most cases, much lower than those for similar work performed within the framework of formal employment. What is more, workers in the informal economy often lack access to health care,

retirement plans, maternity leave and other social transfers, keeping their social income much lower than their counterparts in the formal economy (UN, 2007).

As a matter of priority the post-2015 Development Agenda must focus on providing rights and protection to the millions of informally employed workers. This includes the extension of labour laws to all sectors, the registration of informal workers, the enforcement of minimum wage and social security legislation and enhanced capacities for labour ministries and inspectorates.

Lessons from successful democracies indicate that rights must be institutionalised in order to reduce inequality. The post-2015 Development Agenda must include the respect for international human rights and labour standards. The ratification and implementation of the ILO core Conventions should be an integral part of any development agenda.

While women's care responsibilities condition their access to the labour market, public policies should aim to provide affordable and adequate care facilities. Regulating domestic work must be a priority given the high prevalence of working poor in that sector. The particular situation of women heads of household must not be overlooked. Proactive policies and sustained social communication are needed to influence social norms that perpetuate gender discrimination and exclusion. They should be complemented by comprehensive anti-discrimination laws and effective grievance mechanisms easily accessible to all. In addition to ILO core conventions No 100 and No 111 which focus on discrimination, the ratification of ILO Convention No. 183 on maternity protection, No. 156 on workers with family responsibilities and No. 189 on domestic workers are fundamental instruments to ensure gender equality in the world of work.

To measure progress on the implementation of the decent work agenda, the following indicators can be considered:

- Employment rate
- Job creation including in infrastructure, the care sector and green jobs
- Share of people engaged in informal work relations among the active population
- Investment in education and vocational training as a percentage of GDP
- Ratification of ILO core and gender Conventions

Minimum wage and collective bargaining

The post-2015 Development Agenda must look at labour institutions including minimum wage, collective bargaining and trade union density, which all play a crucial role in reducing income inequality.

Collective bargaining affects both the level of wages and wage distribution. Extensive ILO research work (ILO, 2008a) shows that high union density, large coverage of collective bargaining and coordinated bargaining structures are directly associated with lower levels of wage inequality both overall and in the lower half of the wage distribution. A recent ITUC study (ITUC, 2012) covering 43 countries shows that the gender pay gap is smaller in those countries and sectors that have a strong union density and higher level of collective bargaining coverage. In fact, in their bargaining strategy, unions try to ensure that wage increases are in line with productivity gains. At the macro level, large collective bargaining coverage contributes to keeping wages connected to economic growth. The erosion of workers' bargaining rights over the last decades explains to a large extent the current divergence between productivity growth and wage increase for a majority of workers. This divergence between pay and productivity is indeed at the heart of the growth of income inequality.

Minimum wage has a direct impact on the wage distribution in the lower half of the labour market. During the period 2001-2007 (ILO, 2008a), the ILO reported real gains for those earning minimum wages in developing countries (+6.5 per cent on average). But when compared with GDP per capita, minimum wages have declined in developing countries during that same period. Again, this mainly reflects the fact that strong growth in average labour productivity did not fully translate into a corresponding increase in minimum wages at the lower end of the labour market. This phenomenon is one of the root causes of the widening of inequality in several developing countries. It is rather alarming that a considerable number of developing countries still have statutory minimum wages well below the international definition of poverty at 2 USD a day. The international community should reject simple stereotypes according to which an increase in minimum wage would be detrimental to employment creation. Recent studies, including by the ILO, show that – if set at a reasonable level – increases in minimum wage can lift workers out of poverty and reduce the gender pay gap with little or no adverse impact on employment levels (Klaveren and Tijdens, 2011).

To measure progress on reducing wage inequality, the following indicators can be considered:

- Statutory minimum wage above national and international poverty lines
- Percentage of the workforce covered by minimum wage legislation

- Convergence of productivity and wage increases
- Gender-based pay gap
- Trade union density

Universal social protection

Ensuring that all those in need have access to health care and a basic level of income security should be the objective of any anti-poverty agenda. The urgent need for a universal social protection floor has been endorsed in several political fora including the G20 and the UN. The post-2015 Development Agenda must clearly focus on the realisation of a social protection floor in all countries.

The case for the universal Social Protection Floor as an effective mechanism for addressing poverty and inequality is well documented in the Social Protection Floor Advisory Group report chaired by Michelle Bachelet (ILO, 2011). In June 2012, a new ILO instrument on social protection floors was adopted (ILO Recommendation No. 202) which focuses on universal access to health care and income security for the unemployed, the elderly, the disabled, pregnant women and children.

The experience of emerging countries having implemented elements of a social protection floor is illustrative: the introduction of a social transfer system 'Bolsa Familia' in Brazil contributed to the reduction of inequality by 20-25%; in Mexico the 'Oportunidades' has been responsible for a 21% reduction in inequality; in South Africa non-contributory old-age pensions, disability and child support grants together lowered the Gini coefficient for that country by 3%; the Indian Mahatma Gandhi National Rural Employment Guarantee Act which aims at enhancing the livelihood security of the poor has achieved some success in poverty reduction and in empowering women both economically and socially (UNTT, 2012b). In addition to a well-documented positive impact on poverty reduction across borders, social transfers also help economies at all stages of their development rely on domestic demand. This is particularly important in the current context of global economic turmoil.

The mobilisation of domestic resources to finance social protection should be reflected in the post-2015 Development Agenda. This entails adequate fiscal reform, building tax administration capacities and the eradication of tax fraud and evasion. Governments should seek to (re) establish the income redistribution function of their tax systems by introducing progressive regimes that require the highest tax contributions from capital gains and from the wealthy and provide tax relief for low income families and the poor.

However, for the poorest countries, international funding might be necessary to help them start implementing a social protection floor. The post-2015 Development Agenda must contemplate the creation of a global fund to finance social protection floors in the least developed countries.

To measure progress on the implementation of universal social protection, the following indicators can be considered:

- Implementation of a universal social protection floor based on ILO Recommendation No. 202
- Extension of social security provisions to men and women working in the informal economy
- Ratification and implementation of ILO Convention No. 102 on social security
- Spending on social protection as a percentage of GDP
- Revenue raised through progressive tax collection as percentage of GDP
- Creation of a global fund to help the poorest countries implement a social protection floor

Distribution of power

Redistribution of power and opportunities is required to break the cycle of poverty and inequality. The forces driving this transformation are active citizens, vibrant civil societies including trade unions and effective states. Inequitable power relations exclude poor people from decision-making and prevent them from taking action. Empowerment of those living in poverty, especially women, is a critical driver for poverty and inequality reduction. Poor women and men need to collectively gain and exert influence over the political, economic and social processes that determine and, all too often, constrain their livelihood opportunities. The post-2015 Development Agenda must focus on the dynamics of power that lead to inequality and ensure democratic ownership of the relevant policies

Trade unions can play a critical role in changing the dominant structures of power. Their democratic legitimacy to interact with governments and employers' organisations and to hold them accountable must be recognised and respected. By organising workers, including the poorest and the most vulnerable such as those in the informal economy, unions can change power relationship and help gain rights and formalise work. Unions are at the interface of both income and power distribution.

Governments must provide the framework for trade unions and other social activists to fulfil their mission. They should ensure access to information and knowledge for all in order to overcome barriers to political and social participation. Last but not least, government must respect human rights, democratic principles and the rule of law as those are three necessary components to reduce poverty and inequality in a sustainable way.

To measure progress on people's genuine participation, the following indicators can be considered:

- Respect for political and civil rights, including workers' rights
- Active social dialogue and government's engagement with civil society organisations

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