



## 109<sup>th</sup> Session of the International Labour Conference (November - December 2021)

### Agenda item IV (Rev)

#### Briefing Note for Workers' Delegates

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## Inequalities and the World of Work

### General Discussion

#### BACKGROUND

The Governing Body decided at its 334<sup>th</sup> session (October- November 2018) to place a general discussion on inequalities and the world of work on the agenda of the 2020 International Labour Conference (ILC). Due to the current pandemic, the 2020 ILC was cancelled and postponed to 2021. The ILO prepared a report for the discussion, which has been updated due to the impact of COVID 19 in the world of work<sup>1</sup>.

The Working Party will have to adopt conclusions that will guide ILO work on inequalities. To that end, the Office has suggested discussion points. After completing the discussion of the questions, a small tripartite drafting committee will prepare draft conclusions. The full Committee will then have a chance to modify the draft conclusions through a procedure of amendments. A summary of the chapters of the report is provided here below together with some initial indications on the answer to each question.

#### Chapter 1: The problem of inequalities

**Inequalities hinder development and growth:** Recent research has demonstrated that high levels of inequality tend to have a harmful effect on the pace and sustainability of economic growth. Higher inequality reduces the share of income dedicated to consumption (because higher earning and wealthier individuals consume a smaller share of their income), which can create shortfalls in the aggregate demand. High levels of income inequality slow down poverty reduction. Millions of low-income households remain unable to cover adequately the costs of their basic needs. High levels of inequality erode social cohesion and increase the risk of social unrest and conflict. Equitable societies with strong and prosperous middle classes often experience stronger social cohesion. By contrast, in a number of countries with rising levels of inequality – especially when combined with stagnant average incomes – popular discontent has reached the middle classes and the social compact has started to unravel, undermining public trust in policies and institutions and sometimes even leading to social unrest.

**Vertical and horizontal inequalities:** In many countries, the richest 1 % or the top 10 % of income earners have improved their situation compared to the poorest 99 % or bottom 90 %. Horizontal inequalities occur when some groups within the population find themselves disadvantaged and discriminated. Public attention has increasingly been devoted to racial or ethnic inequalities, and to the rifts between migrants and nationals. Spatial inequalities between rural and urban areas and, more recently, between large mega-cities and smaller, more peripheral, cities have also been studied with increasing concern. Some inequalities start well before individuals enter the world of work, and limit their opportunities. Many girls, in particular, face unequal opportunities and persistent gender stereotypes in their access to education and health services and in other aspects of life. Similarly, girls and boys from ethnic minorities, indigenous and tribal populations or remote rural areas often face great barriers in accessing quality education and other essential services.

**Income inequality:** Levels of income inequality within countries vary widely and are highest in some developing countries. In spite of successes in reducing income inequality in a number of countries, Latin America and Africa remain the two most unequal regions in the world. Since the 1980s, income inequality has increased in a majority of countries, particularly in high-income countries. In most regions of the world, women are over-represented among the poorest people and under-represented among the richest. Ethnic or racial groups, indigenous and tribal peoples and migrants tend to be over-represented among low-income households and suffer disproportionately from inequality.

**Taxes, transfers and public provision of social services:** A country's system of tax and transfers can redistribute income so that households can enjoy greater levels of equality in respect of disposable income. The incidence of redistribution through tax and transfers on income inequality depends on many factors, including the amount of taxes levied and distributed, and the progressivity of taxation and transfers. In recent years, many countries' tax systems have become less progressive. On the side of transfers, inequality reductions can be achieved through social security transfers, including benefits for children and families, maternity, unemployment, employment injury, sickness, old age, disability and survivorship, and health protection. There are limits on the extent to which the redistribution of incomes alone can reduce or counteract rising levels of inequality, particularly where there are high levels of informality which translate in limited fiscal resources. Inequality levels can also be reduced through government expenditure on public social services. Moreover, a lack of public care services, such as childcare or long-term care for example, affects women's ability to engage in paid work.

## Chapter 2: Inequality and the role of the world of work

**The unequal distribution of work and labour income:** The distribution of wages and labour incomes is among the most important determinants of inequality. In many high-income countries, growing wage inequality has been identified as the single most important factor driving higher income inequality in recent decades. In many countries, growing wage inequality took place alongside job polarization, where the reduction in the number of middle-skilled and middle-paid jobs pushed many workers into low-skilled and low-paid jobs, or out of work entirely. The COVID-19 crisis has led to a sharp drop in employment and labour earnings. A majority of those who have managed to secure their jobs and income are mostly in the formal economy and have greatly benefited from social dialogue, including collective bargaining agreements. In many countries, adverse impacts have been more pronounced for members of groups already over-represented among the working poor, such as the young, members of ethnic and racial minorities, indigenous peoples and workers with disabilities.

**The extent of informality as a major source of inequality:** Informality is one of the main reasons for often very high levels of inequality in developing countries. Across the world, 2 billion workers, representing 61.2 % of the world's employed population, are in informal employment. On a worldwide basis, earnings of workers in informal wage employment are 62 % of the earnings of a wage worker in the formal economy. Reducing informality is thus often a prerequisite for lowering inequality.

**Productivity levels and differentials between enterprises:** Sustained productivity growth and inclusive and sustainable economic growth are key drivers of the development process, and a necessary condition for the creation of formal employment, the reduction of poverty and the reduction of inequality. However, the relationship between productivity growth and inequality within countries is complex. The extent to which productivity gains are reflected in wage gains also has an impact on inequality. Various factors, including the inequality between enterprises, pressures from financial markets, globalization and new technologies, have contributed to a growing decoupling of real wage growth and labour productivity growth as well as to the declining labour income share.

**Gender inequality and discrimination in the labour market:** Despite many gains in education, women still face an employment gap. In many countries, women still face many constraints in respect of engaging in formal employment and are substantially less likely than men to participate in the labour market. Women's ability to engage, remain and progress in paid work is constricted by the unequal division of housework and family responsibilities within the household. The gender pay gap remains high in many countries. Women's rising education and more continuous employment participation have not been matched by a similarly paced closing of the gender pay gap.

**Gaps in social protection:** The current COVID-19 crisis has exposed existing gaps in social protection. When the crisis hit, 55 % of the world's population – about 4 billion people – were not covered by any form of social protection; 80 % of unemployed persons were not receiving any unemployment benefits; about 40 % of the world's population had no access to health insurance. Those in informal employment, the self-employed and those in temporary employment have therefore found themselves in even more precarious situations. Gaps in social protection in low- and middle-income countries are mainly caused

by financing gaps. Limited fiscal space undermines their ability to undertake redistribution through taxes and transfers in order to cover workers that are excluded.

**Contractual arrangements and inequality:** Over the past few decades, there has been a marked shift away from standard employment to more diverse types of contractual arrangements. This trend can contribute to increasing inequalities in the labour market, as they generally provide limited labour protection, the nature and extent of which varies depending on the type of contract, leaving many workers with little protection on the labour market and against life's hazards. These transformations have been driven in particular by the increased importance of the service sector, technological innovations, digital platforms, globalization as well as changes in the organizational strategies of enterprises and regulatory reforms. In a comprehensive review of wages among similar workers performing similar work, and even after accounting for differences in age, education, occupation and sector of activity, the ILO found that there remains an unexplained pay gap of up to 30 % between workers on temporary contracts and workers on open-ended contracts.

### Chapter 3 : Key policy areas for a human-centred and more inclusive future of work

**Social dialogue** both tripartite and between trade unions and employers through collective bargaining play an important role in designing and implementing measures to face the crisis and protect groups in vulnerable situations. During the first months of the crisis, 134 out of 188 countries and territories reviewed and made extensive use of peak-level social dialogue to decide on emergency measures to stimulate the economy through fiscal and monetary policies in order to rescue enterprises and jobs and mitigate the socio-economic impacts of the crisis.

**International labour standards** provide a path towards decent work for all in a way that can contribute to the reduction of various inequalities in the world of work, with both normal and exceptional circumstances at work. The current crisis has therefore further demonstrated the need to accelerate the ratification and implementation of international labour standards.

**Policies to enhance productivity growth**, with particular emphasis on economic sectors with widening productivity gaps between enterprises, can contribute to promoting equality. In promoting employment and the productivity growth of micro, small and medium-sized enterprises, workers' skills development, capital accumulation and investment in labour-augmenting technology and innovation are essential. There is also a need for an environment for sustainable enterprises as underlined by the Conclusions concerning the promotion of sustainable enterprises (ILC, 2007), and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO MNE Declaration).

**Investment in education and skills:** For many girls and children from low-income or vulnerable groups, the experience of inequality starts with a lack of equal opportunity in access to education. Yet, inclusive and quality education for all remains the foundation for a just society, with social mobility and social inclusiveness.

**Minimum wages:** To protect workers against unduly low pay and to reduce wage inequality at the lower end of the distribution, many countries have, in recent years, adopted new minimum wages or strengthened existing ones. This protection depends on a number of factors, including whether the minimum wage has broad legal coverage, enjoys strong compliance by employers, or is fixed at an adequate level that takes into account the needs of workers and their families and economic factors. Because non-compliance is a major problem facing the informal workforce, minimum wages are more effective at reducing inequalities when they are accompanied by measures to formalize the informal economy.

**Well-functioning collective bargaining mechanisms** can help to ensure a fair share of the fruits of progress to wage earners and reduce inequalities. Minimum wages can also be set through collective bargaining. In addition, collective bargaining can have a broader equality-inducing effect by promoting fair wage structures, as well as other attributes of inclusive labour markets, including equal treatment, employee engagement and skills development. Empirical evidence from developed countries shows that inequality tends to be lower in countries where a large number of workers are covered by collective agreements. When multi-employer arrangements cover a whole sector or region, they tend to favour wage increases for workers at the low end of the income distribution. For collective bargaining to be

inclusive, the legislative framework must protect and promote freedom of association and collective bargaining. One measure that has been adopted to support this objective is extending the right to collective bargaining beyond the scope of the employment relationship.

**Achieving gender equality** and tackling discrimination at work through a transformative agenda is key to reducing inequality overall and to ensure equal opportunities, equal participation and equal treatment, including equal remuneration for women and men for work of equal value; to enable a more balanced sharing of family responsibilities, and to promote investment in the care economy. To tackle wage discrimination, various countries have promoted or strengthened equal pay legislation, pay transparency measures and job evaluation tools.

**The extension of social protection** measures in many countries has played an important role in cushioning the most vulnerable against the impacts of the COVID-19 crisis. Many countries have scaled up or adapted social protection measures during the pandemic to include previously uncovered or inadequately covered population groups.

#### Chapter 4: On a proposed ILO response to inequality.

In order to reduce inequality, the Office could take action to:

**Develop a consolidated “narrative”** on how the ILO could contribute to a recovery from the COVID-19 crisis with reduced inequalities, based on its specific mandate and international labour standards, showing how different measures and policies can combine according to different country circumstances to reduce inequality. **Engage in stronger coordination and cooperation at the multilateral level** on the issue of inequality in the recovery from the pandemic. **Pursue research and gather knowledge** on relevant aspects of “what works” to reduce inequalities in the world of work, with a view to developing a unique ILO evidence base that tests the degree to which different policies or measures, in different country and developmental contexts, might serve to counteract inequalities. Review the extent to which **International Labour Standards** adequately address the challenges of the changing patterns of the world of work. **Systematic inclusion of inequality issues in country-level activities** in its contribution to the UN reform effort, in line with SDG 10 and SDG 8, progressively integrating inequality issues in its country-level assistance, including through Decent Work Country Programmes. **Mainstream inequality issues into the follow-up to the Centenary Declaration**, in line with the ILC global call to action for a human-centred recovery from the COVID-19 crisis. Accelerate the implementation of a **transformative agenda for gender equality**. Women have been most severely hit by the COVID-19 crisis. The associated recession has exacerbated existing inequalities in women’s and men’s paid and unpaid work, including care work, and risks reversing international progress towards gender equality.

#### Key observations and suggested points for discussion

Inequalities within countries is dangerously high and the pandemic is widening inequality between countries. Global labour share of income has declined. Left unaddressed, this will prevent a human-centred, rights-based recovery and the achievements of the SDGs. A broken social contract, deregulation in labour markets, inadequate social protection, and persistent exclusion of marginalised groups are at the heart of the problem. Disrespect of fundamental rights, particularly freedom of association, collective bargaining and non-discrimination, are core drivers. This has gone together with an unrelenting pattern of unfair globalisation and trade, austerity, financial deregulation, regressive taxation and evasion, and a lack of productive investment.

**The solution requires coordinated action in three areas:** 1) distribution including labour and employment policies, 2) macroeconomic and fiscal policies including progressive taxation and transformative public investment and 3) redistribution including universal social protection.

The ILO should take a leading role on inequalities within the multilateral system and with member states based on its constitutional mandate, notably the Philadelphia Declaration.

Some initial suggestions for each question are provided here below. Worker members of the Committee will be invited to enrich the discussion by bringing their own national experiences.

**Question 1: How have inequalities between and within countries evolved during the last two decades, and what have been the economic and social implications?**

Orthodox economic theory holds that inequality initially rises with economic development before eventually falling. This has not occurred. The growth of some countries, particularly in East Asia, drove overall reductions in inequalities between countries and extreme poverty alongside ever-rising inequality within countries. Inequality also rose in countries that remained under-developed, and in advanced economies.

Declining labour share over the past 30 years and the bulk of income going to a small number of people reduces aggregate demand, which is key to growth and job creation. Wages have lagged behind productivity gains, both in advanced economies and in global supply chains.<sup>ii</sup> The global gender wage gap stood at around 23 % pre-pandemic, and COVID-19 is already creating a severe and unequal setback for women.<sup>iii</sup>

Income and wealth inequality are massive. The richest 10 % take 30.6 % of income and have 82 % of the world's wealth, while the bottom half of the world's population owns less than 1 % of wealth. The bottom 40 % of people take just 17.6 % of income.<sup>iv</sup> The COVID-19 crisis has only increased the number of billionaires. High inequality shredded the social contract and trust in democracy, leading to a wave of reactionary, xenophobic backlashes that stand in the way of effective national and multilateral policymaking.

**Question 2: What have been the main drivers of inequalities inside and outside the labour market? What effective gender responsive policies and measures have Member States introduced to reduce inequalities within countries and promote productivity growth, while ensuring a fair distribution, in particular through labour market policies and institutions, social protection and fiscal policy? How far should such policy responses and measures be adjusted considering the lessons learned from the COVID-19 crisis? What is the best policy mix to reduce inequalities and promote inclusive growth and sustainable development, including in the context of the recovery from the pandemic?**

The erosion of collective bargaining systems is a central driver of inequalities. Precarious and insecure forms of work alongside large informal economies further fuel them. At the same time, financial sector speculation has run rampant and left behind the real economy. Within the real economy, companies are stuck in short-termism and maximising shareholder value. The result is a lack of investment in workforces and productive capacity, on top of the austerity policies dictated by international financial institutions that limit public investment, public services and social protection. Digitalisation has created monopsonies and platform work, colliding with the weak employment recovery from the global financial crisis and COVID-19 to create a perfect storm.

Wages must be raised across the spectrum to reduce inequalities. Research shows that sectoral bargaining is associated with lower wage inequality. In firm-level systems or where collective bargaining coverage is low, wage inequality is higher.<sup>v</sup>

Centralised and coordinated collective bargaining is therefore a key policy to compress inequalities between wage earners. It is also a tool to and reduce wage gaps. Collective bargaining should be coupled with employment and macroeconomic policies to recover the lost labour share of income and enable full employment.

The main drivers of wage gaps are discrimination and unequal pay for work of equal value. Measures required thus include regulatory action to fight discrimination and ensure equal pay, respect for freedom of association for women, migrants and other categories of workers, and reducing the unpaid care burden through job-creating investments in the care economy.

Tackling under-employment and precarious work should also be at the centre of coordinated employment and labour market policies. Sustainable industrial policies, including investment and sectoral strategies are also required for just transformations.

Universal social protection, living minimum wages and transitions to the formal economy create a floor that eliminates working poverty and raises living standards. We need bold action including a Global Fund. It is time to expand progressive and corporate taxation, building on the global corporate minimum, and tackle tax evasion and illicit financial flows. Public investment is also key to sustainable recovery.

**Question 3: In the light of the ILO's mandate, what action should the ILO's constituents and the Office take at national and international level, including through partnerships and policy coherence, to reduce inequalities and promote inclusive growth and sustainable development, as called for by the 2030 Agenda for Sustainable Development, in a changing world of work strongly affected by the COVID-19 pandemic**

This Conference discussion should provide a strong mandate for the ILO to lead coordinated global action to address the inequalities' crisis. The ILO should engage in building a new multilateralism for shared prosperity by promoting policy coherence and a rights' based approach in the implementation of the SDGs, particularly SDGs 8 and 10. The Social Justice Declaration states that "as trade and financial markets policy both affect employment, it is the ILO's role to evaluate those employment effects to achieve its aim of placing employment at the heart of the economic policies". The ILO should therefore engage in national and international policymaking discussions to put full and decent employment at the heart of reducing inequalities and achieving social, environmental and tax justice. The ILO in cooperation with the social partners should promote and implement the ILO MNE Declaration's comprehensive approach to reduce inequalities in the global economy, including the task to "address the abuse of concentrations of economic power" and "conflicts with national policy objectives and with the interest of the workers".

International Labour Standards are key tools to reduce inequalities, foster sustainable development and achieve inclusive growth. Collective bargaining is the most effective tool for addressing the division of income between capital and labour. The ILO and social partners should take into account the relationship between collective bargaining and reducing all forms of inequality and support strong labour institutions and cutting-edge collective bargaining solutions.

The constitutional mandate of the ILO on the provision of a living wage and social justice are the frontline of reducing inequality. Minimum wages must be evidence-based, taking into account the cost of living, and should be developed with the full involvement of social partners in line with C131, alongside compliance and application measures. The ILO should scale-up research and dialogue on full and decent employment at the national and multilateral levels, including strategies to place them at the centre of macroeconomic policy.

C122 and R169 provide clear guidance for policies aimed at full employment and decent work, which are much needed to reduce inequalities. In the context of a climate crisis, the focus of employment creation should be on sustainable industrial policies crafted with the engagement of social partners. The ILO should provide support to social partners to produce informed policies based on productive capacities of a country, the labour force, insertion into global supply chains, decent work gaps, directions for diversification, and creation of climate-friendly jobs. Employment policymaking should also include the investment, financial sector, and labour policies that can drive transformation toward economies with lower carbon emissions and lower inequality. The recently adopted ILC Conclusions on Social Protection provide a roadmap for inclusion and make clear that progressive taxation should be a priority to create sustainable sources of financing for universal social protection. This will also be necessary for transformative public investment and quality public services, which enable the reduction of inequalities and the just transition towards an inclusive, low-carbon economy.

The ILO should help build comprehensive national and multilateral strategies for an equitable, human-centred recovery that include ambitious targets on decent job creation, transitions from the informal to the formal economy, and prevention of precarious work. Strategies should also seek to eliminate pay gaps between workers on temporary and permanent employment contracts, and address discrimination.

It is essential that the ILO and social partners are at the table when countries develop plans related to global policy processes, such as the SDGs or Nationally Determined Contributions under the Paris Agreement.

Non-discrimination is a fundamental right at the centre of any transformative policy aimed at reducing inequalities. There is a historic debt towards indigenous peoples that should be addressed in the development of policies to reduce inequalities, with a redoubled effort towards the ratification and implementation of C.169. Violence and harassment reinforce inequalities in the world of work, meaning strategies to bring women and other marginalised groups into the labour force will be fruitless unless complemented with ratification and implementation of C190.

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<sup>i</sup> [https://www.ilo.org/ilc/ILCSessions/109/reports/reports-to-the-conference/WCMS\\_792123/lang--en/index.htm](https://www.ilo.org/ilc/ILCSessions/109/reports/reports-to-the-conference/WCMS_792123/lang--en/index.htm)

<sup>ii</sup> Statement by Mr Guy Ryder, International Monetary and Financial Committee Washington D.C., October 2017.

<<https://www.imf.org/External/AM/2017/imfc/statement/eng/ILO.pdf>>.

UNCTAD and Global Development Policy Center, A New Multilateralism for Shared Prosperity,

<<https://www.bu.edu/gdp/2019/04/10/a-new-multilateralism-for-shared-prosperity-geneva-principles-for-a-global-green-new-deal/>>.

<sup>iii</sup> UN Women, Equal pay for work of equal value. <<https://www.unwomen.org/en/news/in-focus/csw61/equal-pay>>

WEF, Global Gender Gap Report 2021, <https://www.weforum.org/reports/ab6795a1-960c-42b2-b3d5-587eccda6023/digest>

<sup>iv</sup> Credit Suisse, Global Wealth Report 2021, page 25. <<https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html>>.

UNDP, Human Development Reports. <<http://hdr.undp.org/en/composite/IHDI>>

<sup>v</sup> ILO, Global Wage Report 2020-21, Page 169. <[https://www.ilo.org/global/publications/books/WCMS\\_762534/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_762534/lang--en/index.htm)>.

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