Income inequalities and the word economy

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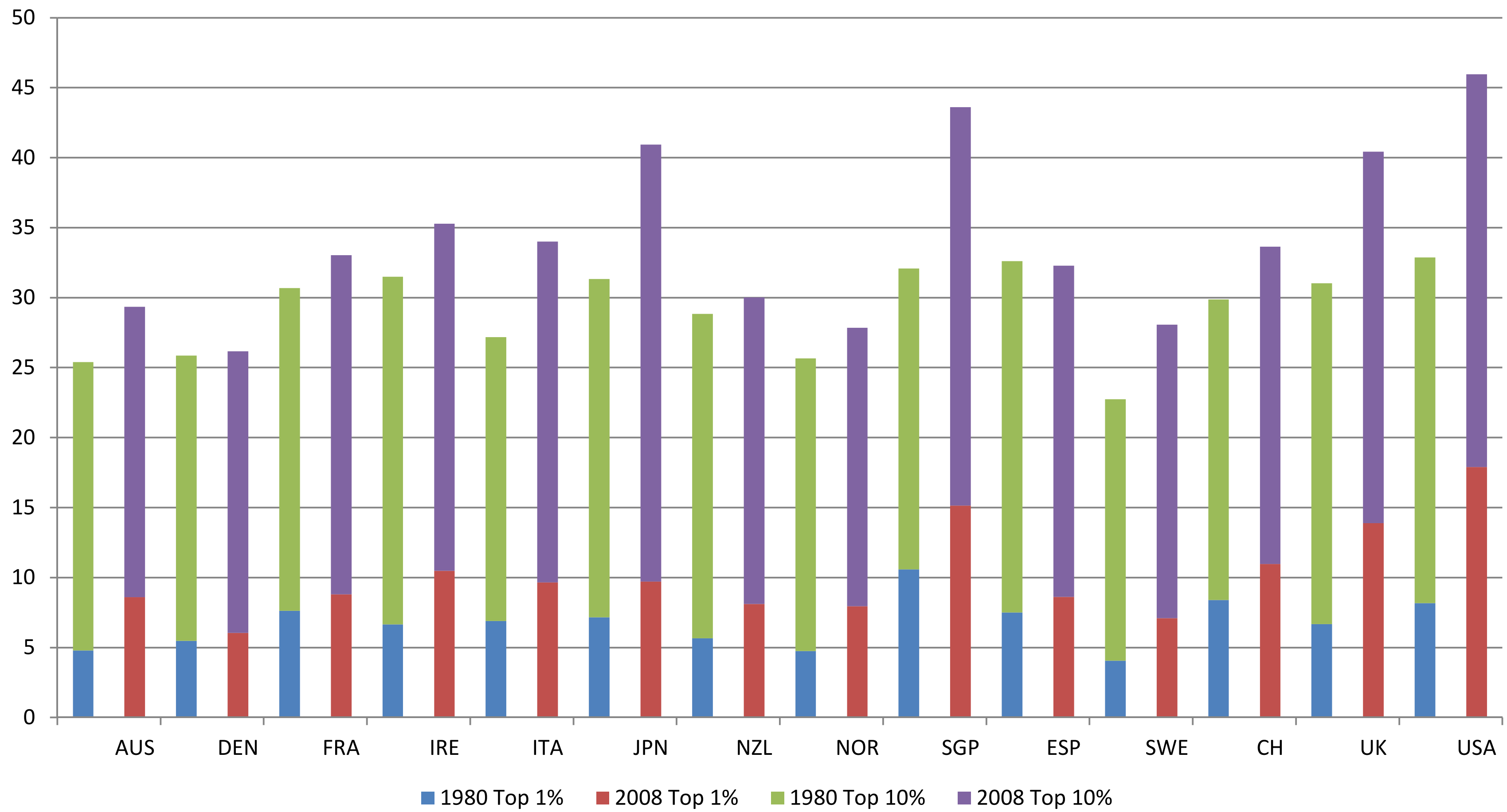
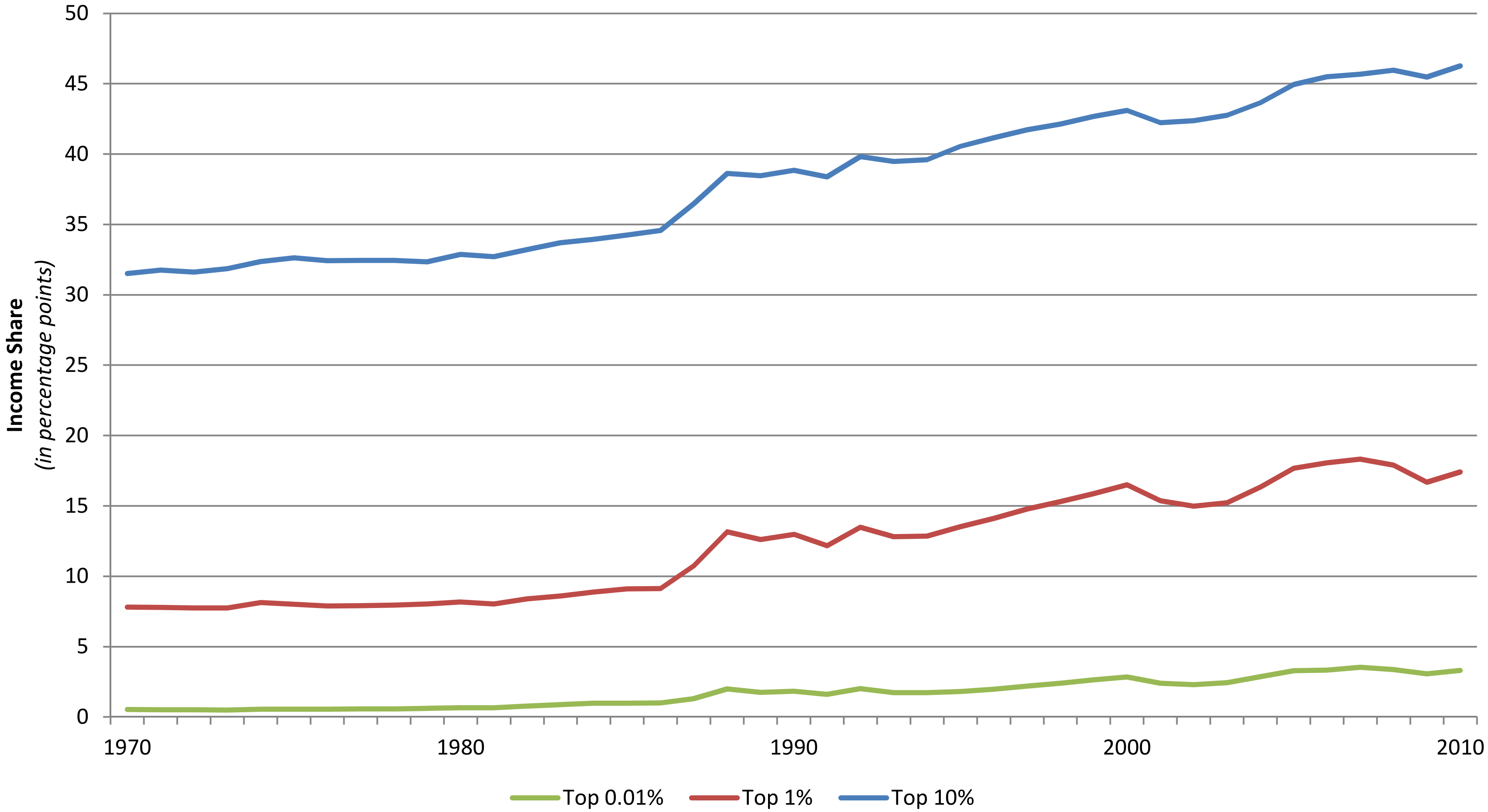
Outline of presentation

- Key facts (slides 3-7)
- Links between inequalities, macro performance and jobs (slides 8-21)
- Policies to tackle inequalities while supporting sustainable growth and jobs (slides 22-24)

Top income shares

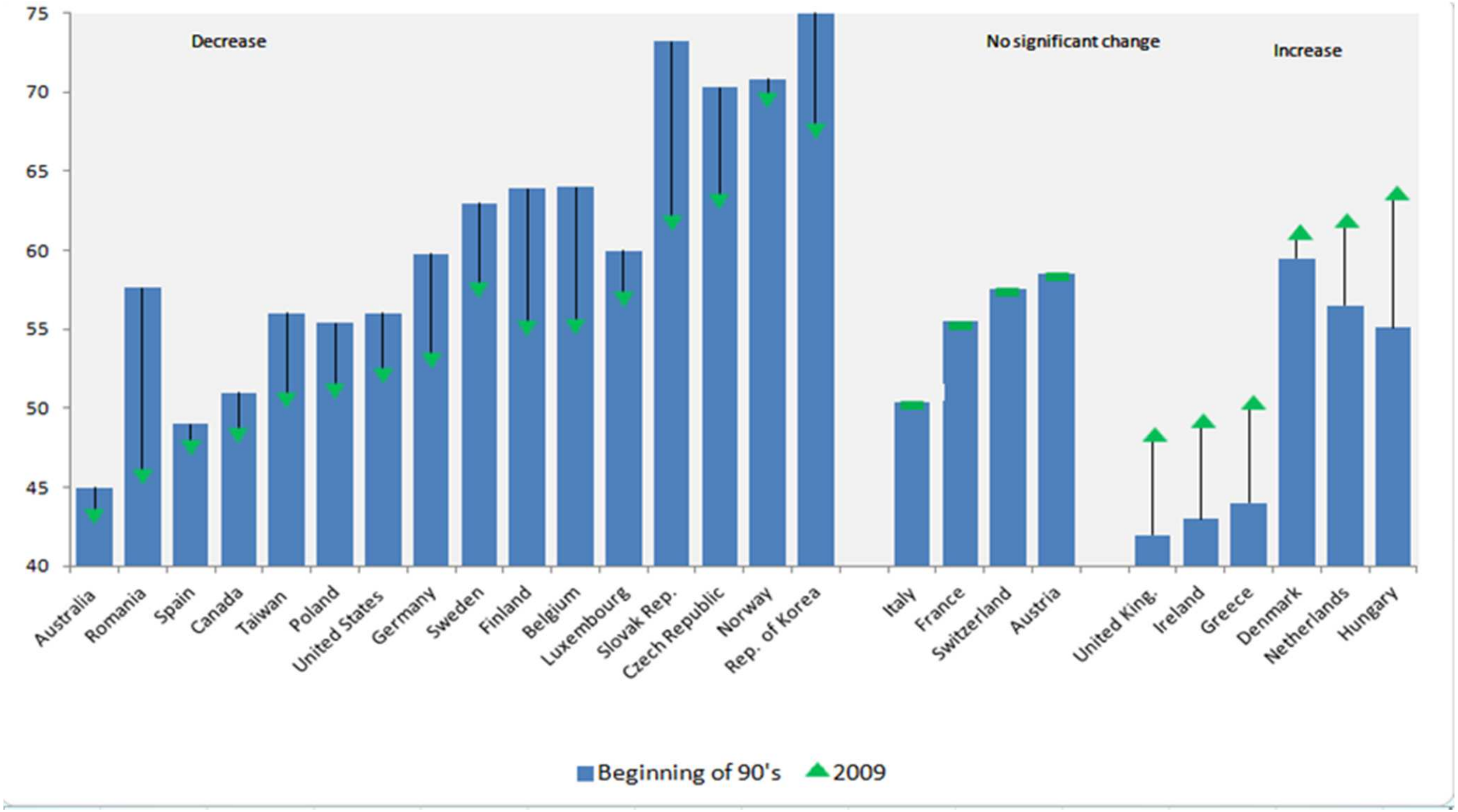


US top income share



Source: Saez (2012). Striking it richer: the evolution of top income shares in the US

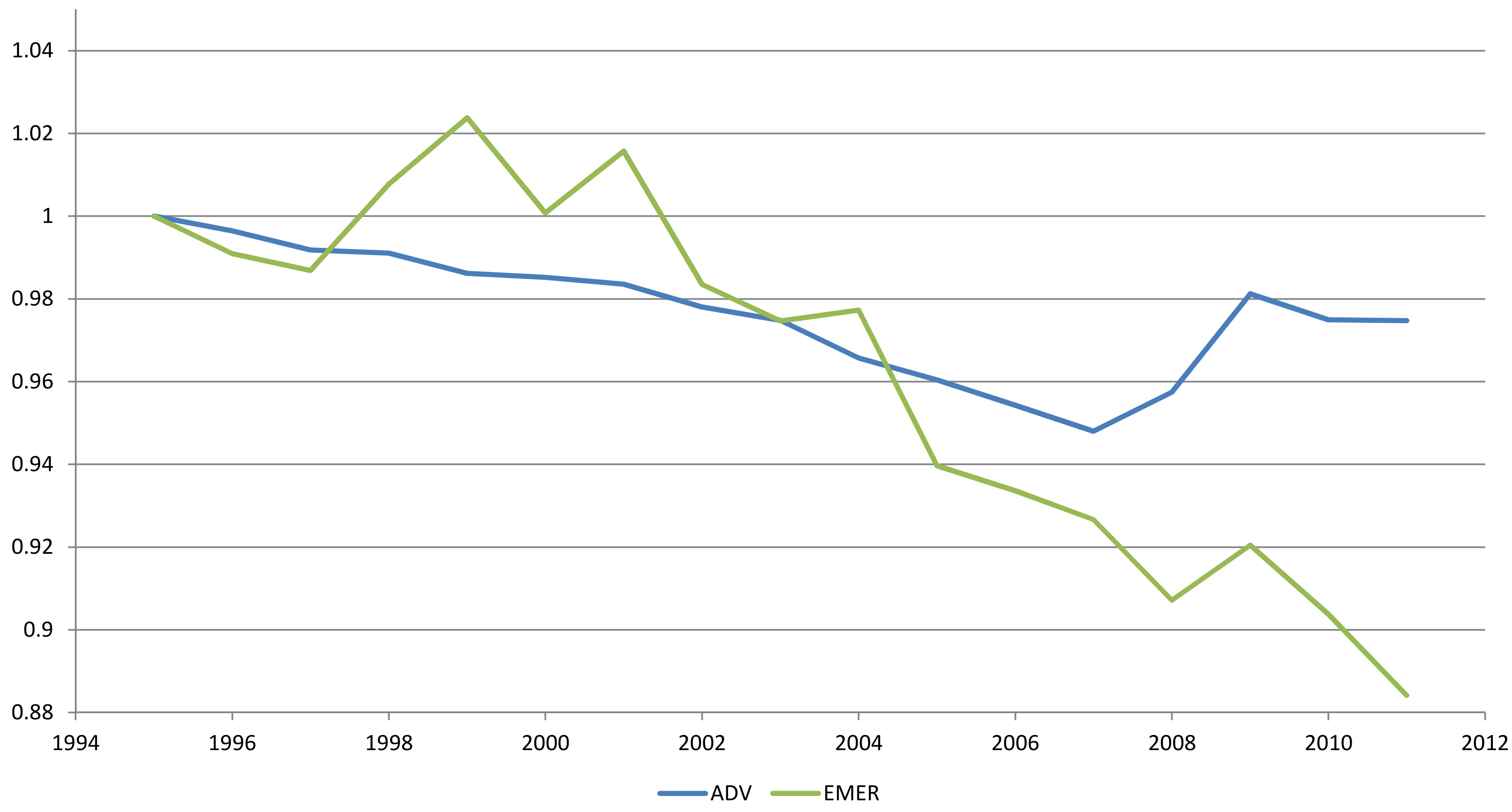
Middle income group (earning 70-150% of equivalized median income) as a share of population –ILO World of Work Report 2013



Size of different income groups in developing economies, in millions of people (ILO World of Work Report 2013)

	Poor	Vulnerable group	Middle-income group
Low-income economies			
1999	432.8	63.2	18.9
2010	493.5	131.5	38.5
Lower-middle-income economies			
1999	1,432.5	556.3	69.3
2010	1,371.1	904.8	171.4
Upper-middle-income economies			
1999	1,560.8	497.7	175.0
2010	1,046.7	888.9	484.2
Total			
1999	3,426.2	1,117.2	263.2
2010	2,911.3	1,925.2	694.1

Share of labour income in GDP



Note: labour income share in 1995=100.
Source: ILO based on National Accounts.

Inequality, growth and jobs

- Conventional wisdom:
  - Shifts in income distribution cause shifts in demand patterns, with little aggregate effect (permanent income hypothesis)
  - Net asset holdings unaffected
  - Policy interventions to tackle inequality could harm growth and job creation

Inequality, growth and jobs –some evidence

- Low-income earners tend to either consume less or fund demand through (excessive) borrowing or government transfers

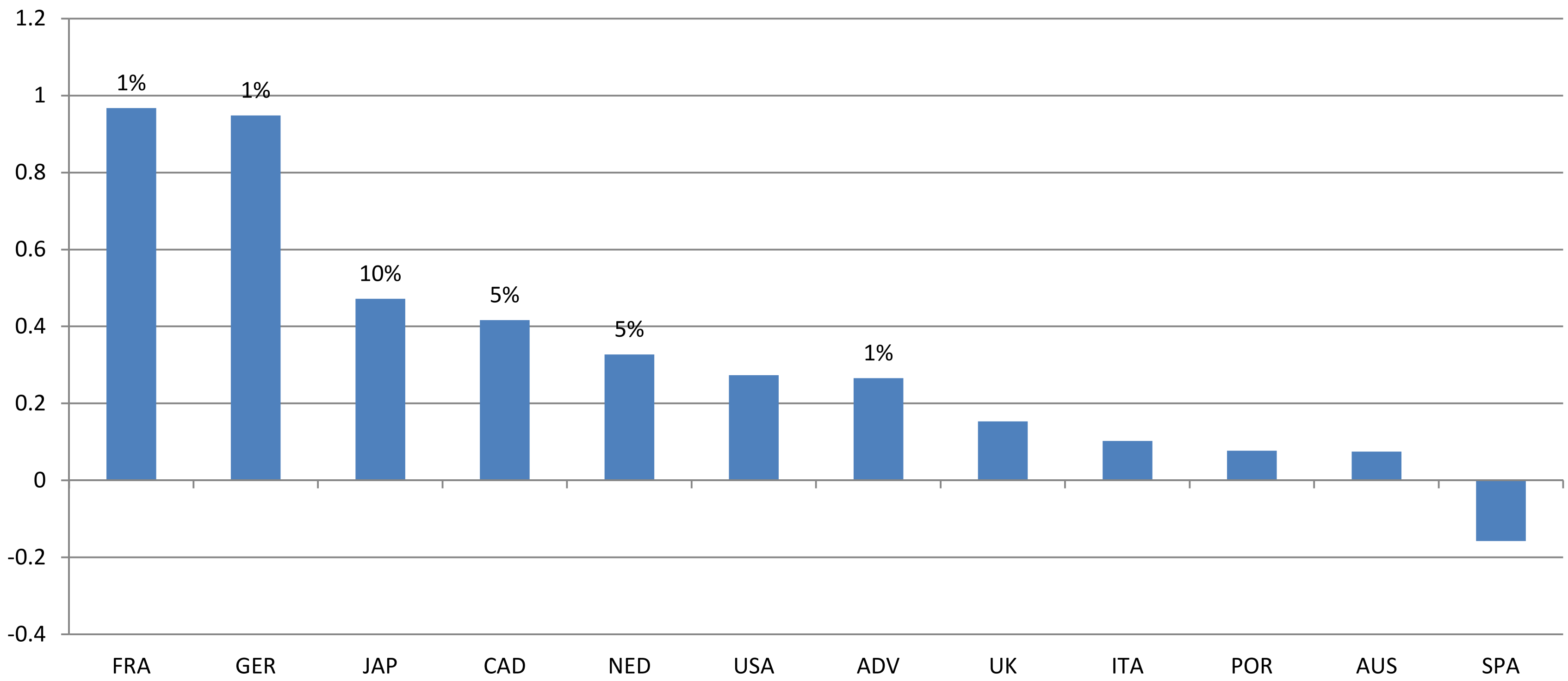
- Accumulation of debt => risk of financial crises, affecting job stability

- Policies, if well-designed, can both tackle inequalities and support growth and jobs

Inequality and the "volatile" economy

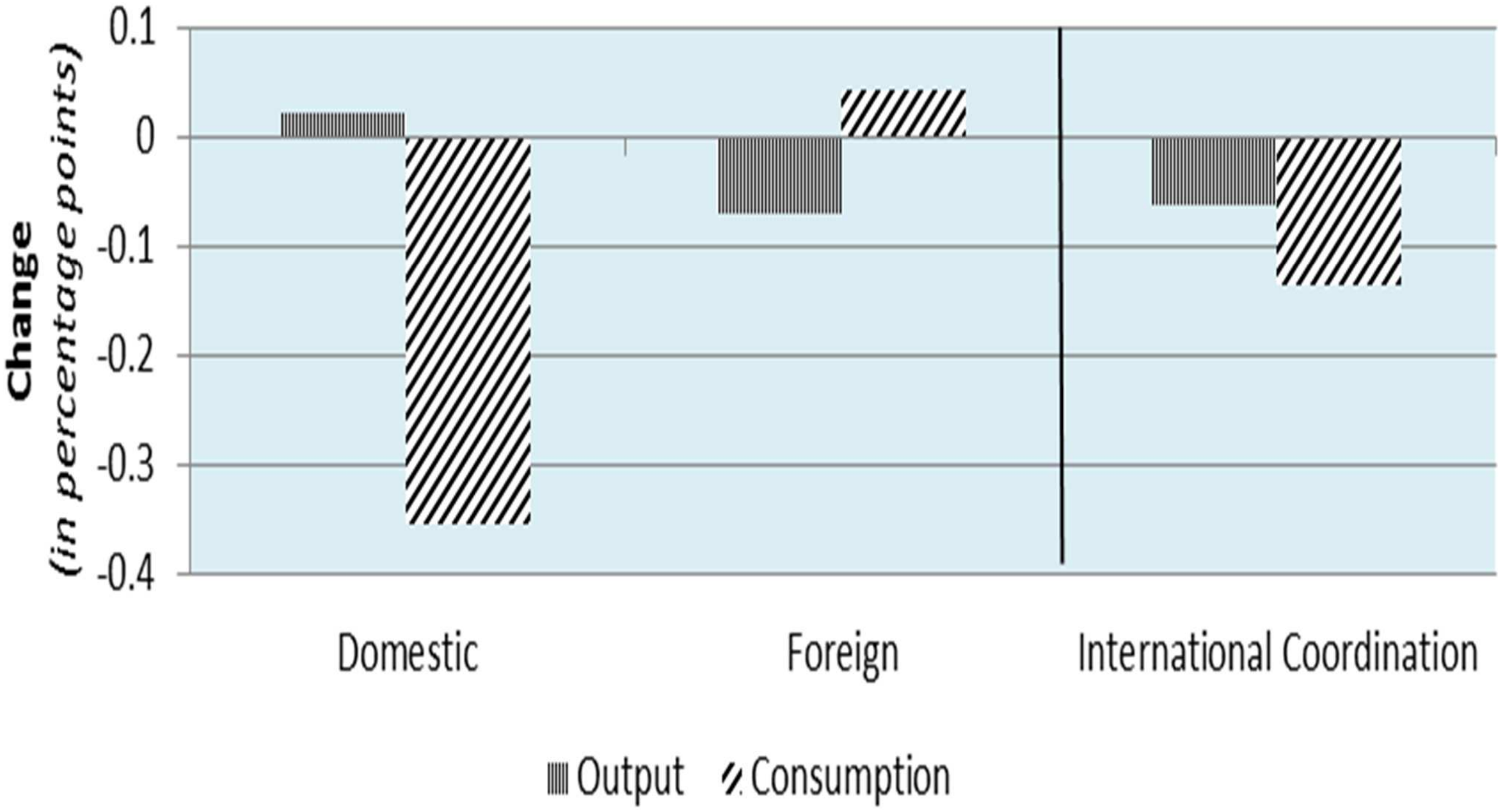
1. Sustained aggregate demand requires increasing household indebtedness
2. Firms face volatile financing conditions due to financial market's search for quick returns
3. Aggregate demand lacks support in downturns since neither firms nor consumers receive credit → government to soak up extra saving (see Jared Bernstein)

Labour incomes drive aggregate demand



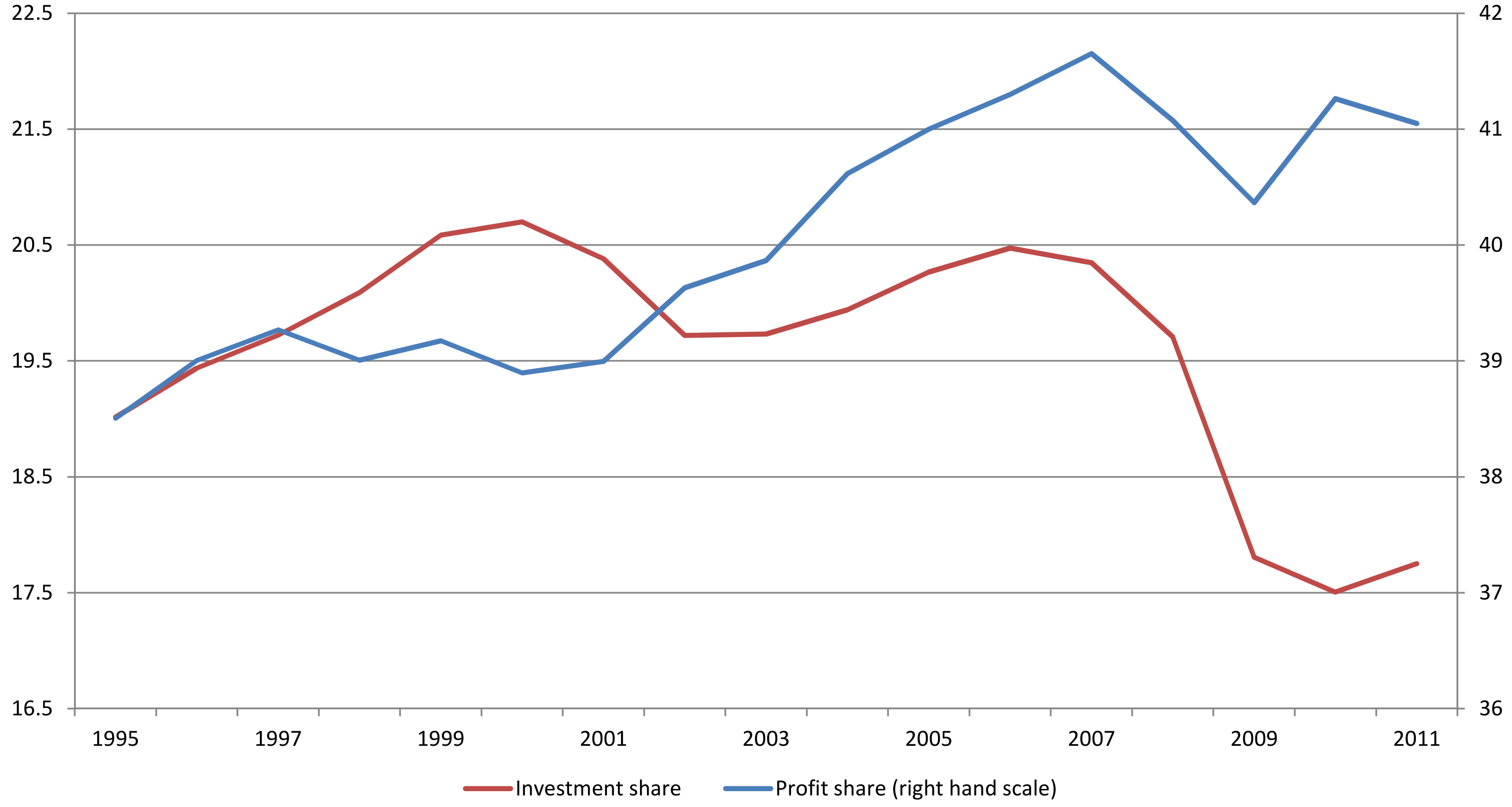
Percentage points change in the consumption-GDP ratio to a percentage point rise in the labour share (percentage numbers indicate significance level)

Falling labour incomes and aggregate demand



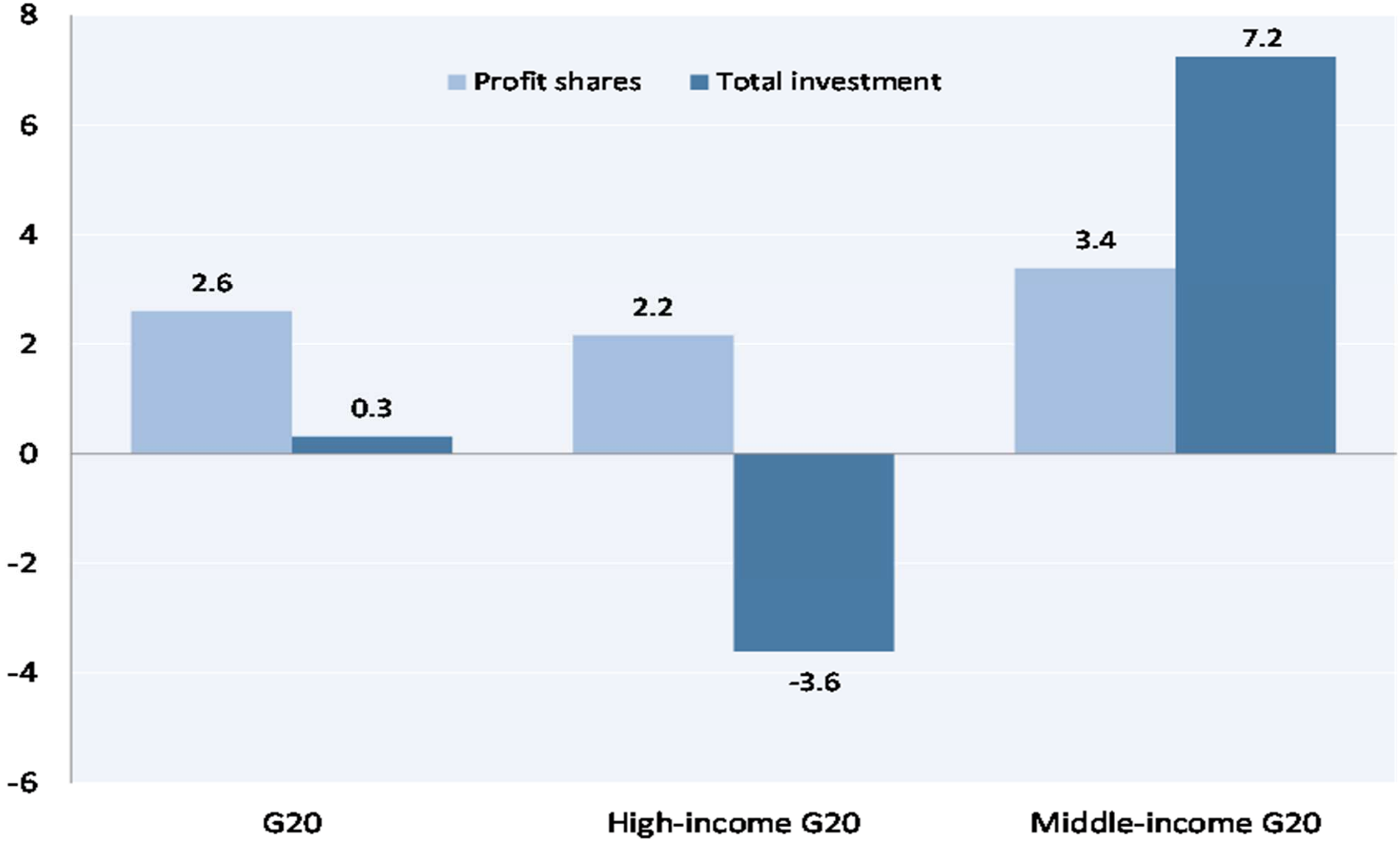
Kuhn (2013) based on ILO Global Economic Linkages model

Investment and profits

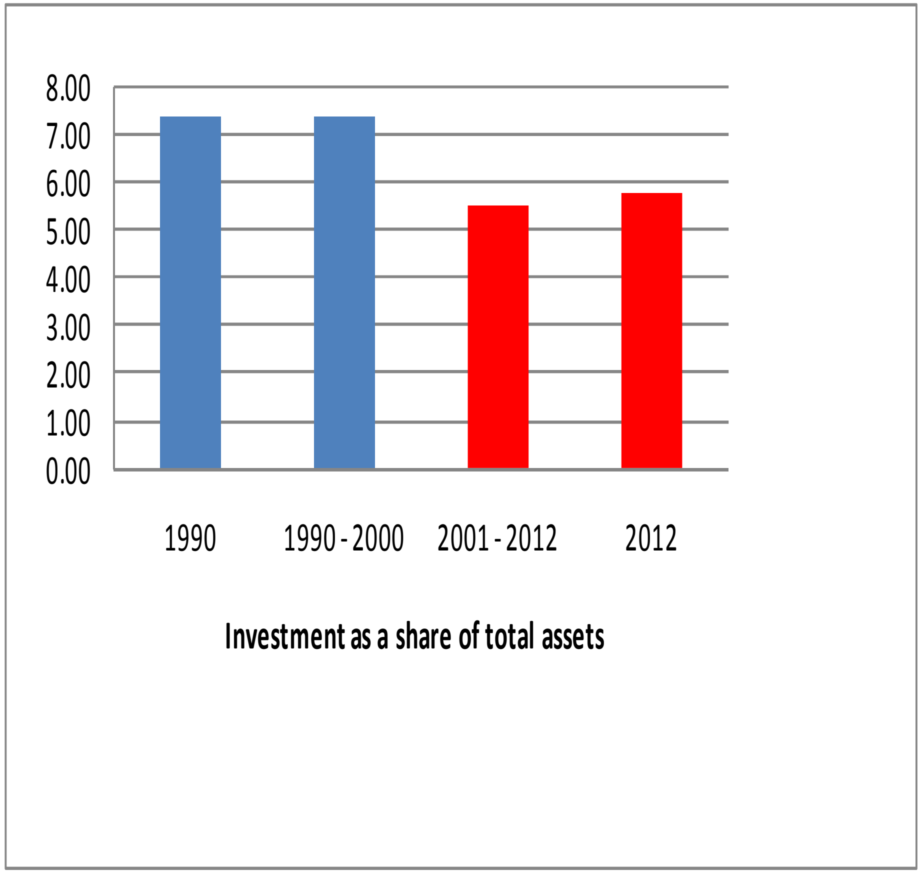


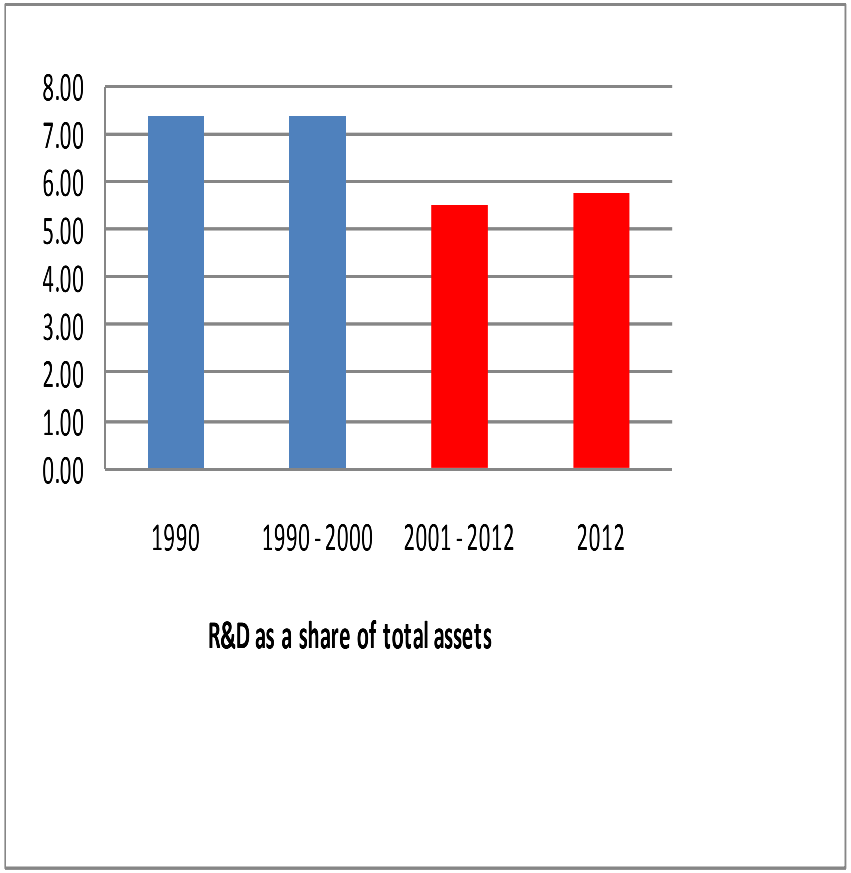
Source: ILO based on national accounts.

Changes in profit shares and total investment between 2000 and 2010/11 (percentage points)



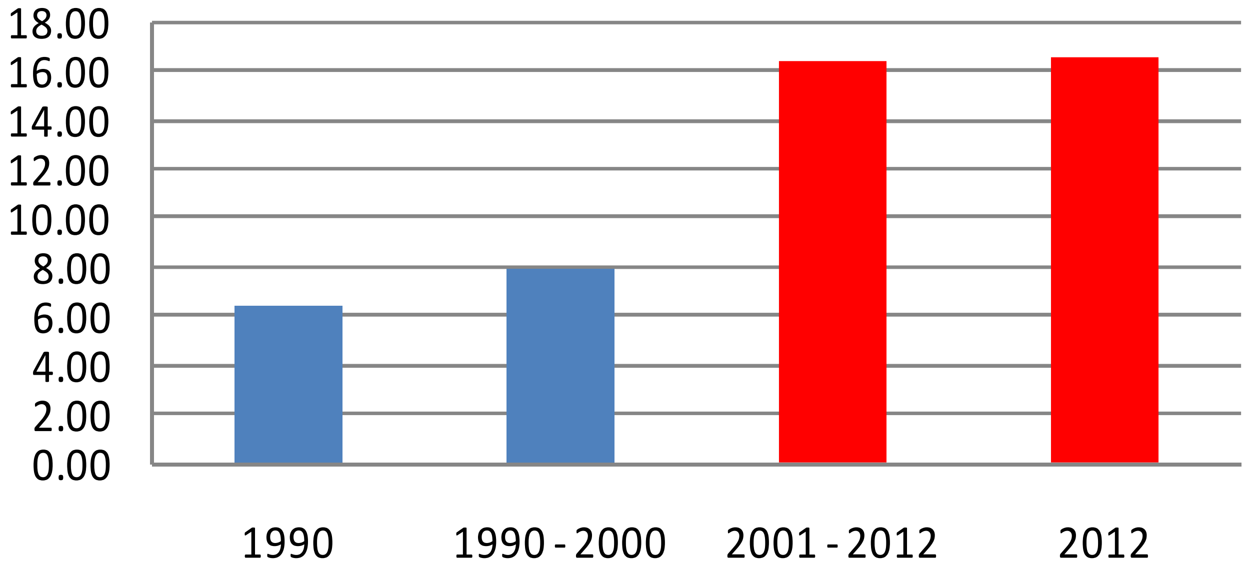
Investment in physical assets and R&D as per cent of total enterprise assets





Source: ILO World of Work Report 2012

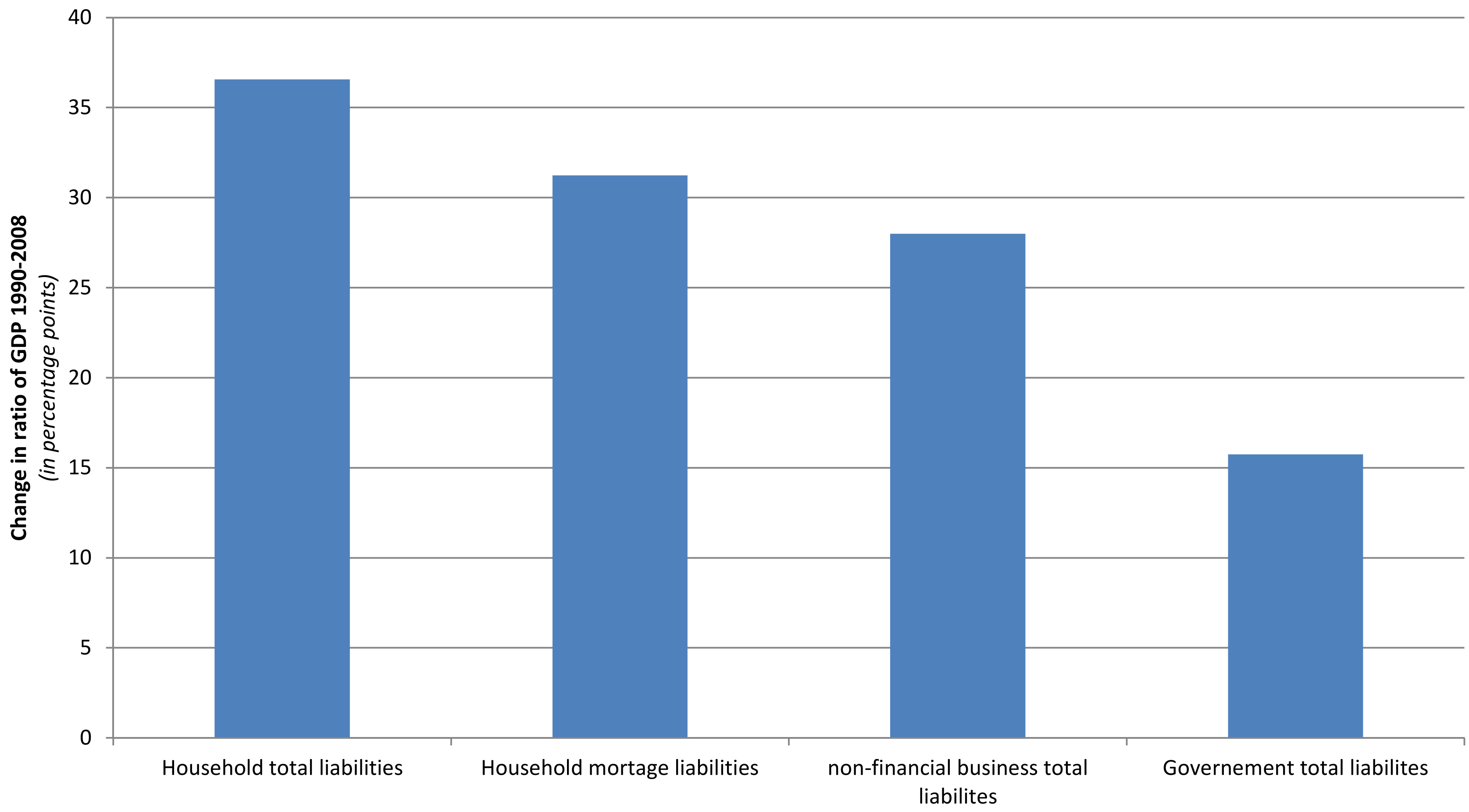
Dividends as per cent of gross profits



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

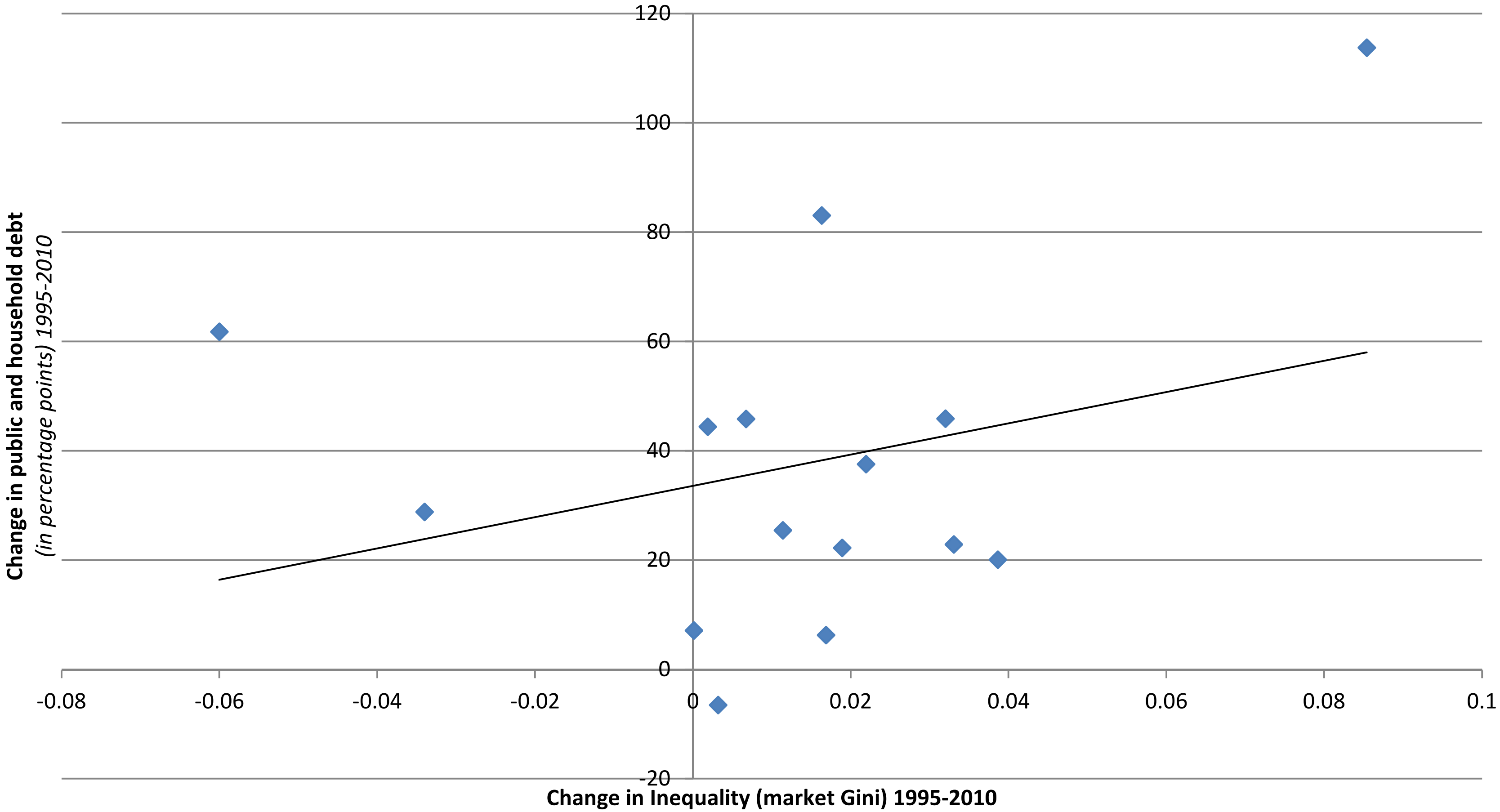
Source: ILO estimates based on FactSet

Increased liabilities in the US



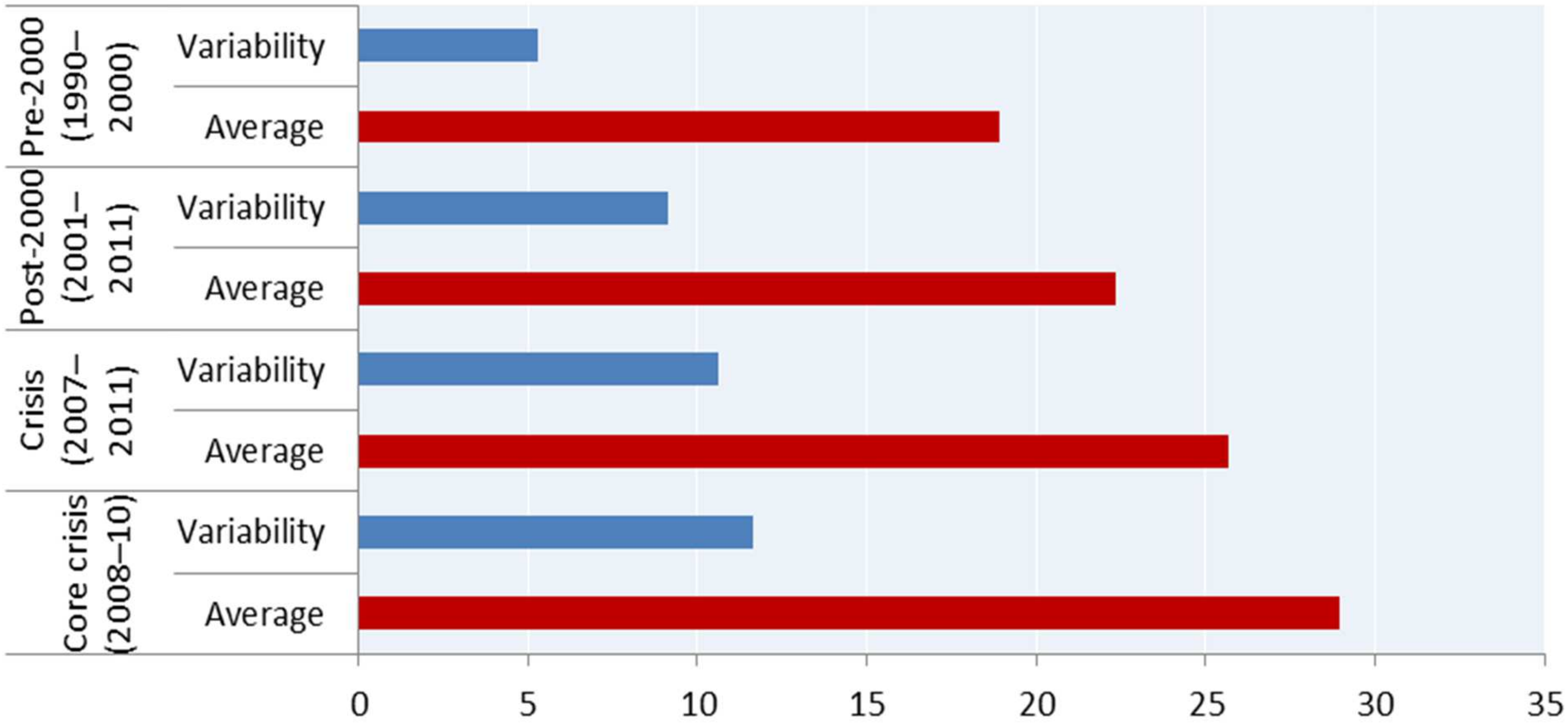
Source: US Federal Reserve Flow of Funds

Inequality and household debt

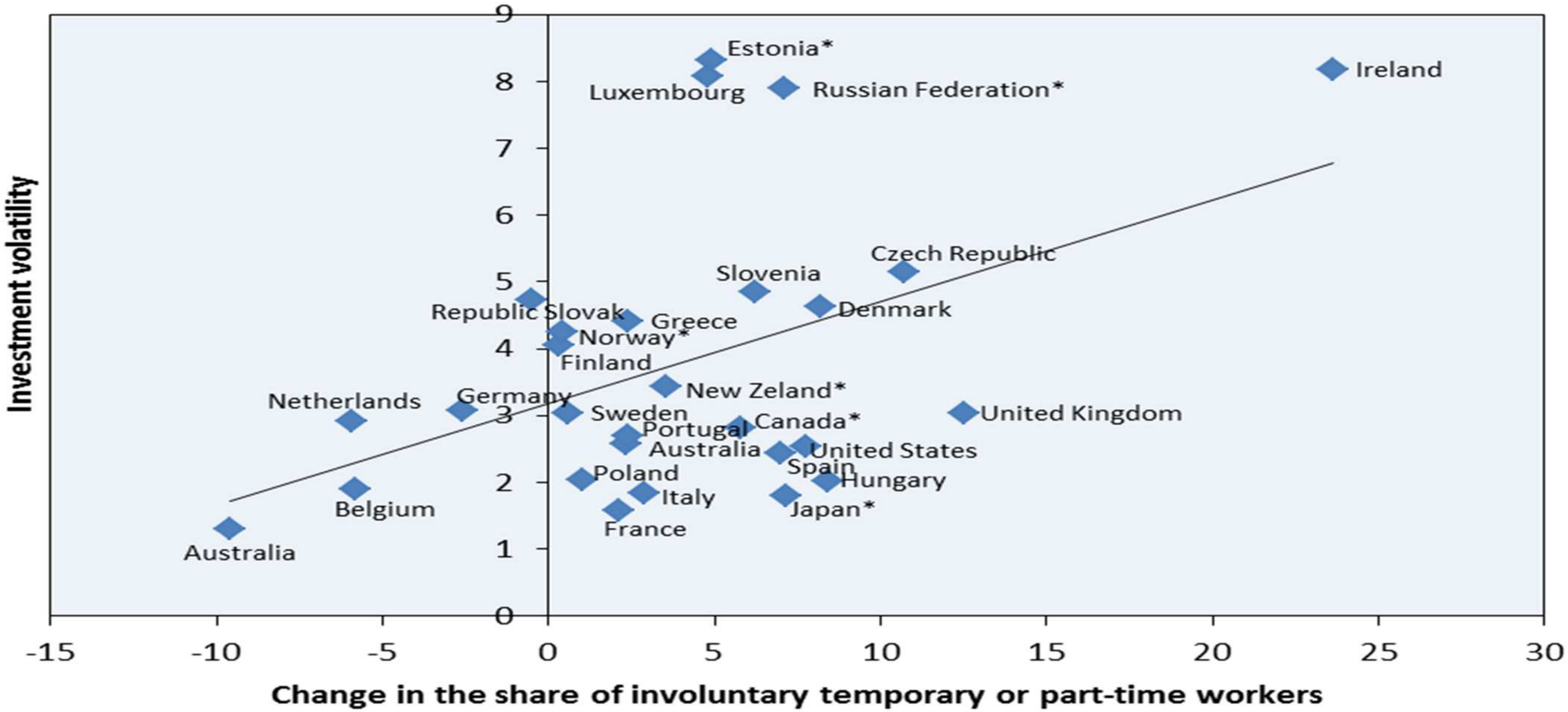


Source: ILO, based on OECD data.

Volatility of real investment has increased



Investment volatility and job quality



Source: ILO World of Work Report 2012

Source: Ffrench-Davis, International Labour Review, 2012

The double benefit of well designed labour market institutions

- They can support aggregate demand: automatic stabiliser role
- And also boost labour market participation, competitiveness and adjustment to a new growth path

The importance of good design of labour regulations and social protection

	Employment rate (15-64)	Gini (disposable income)	Social protection (% GDP)	EPL index for permanent workers
	2012	2010	2012	2010
Korea	64.2	0.31	9.3	2.45
United States	67.1	0.38	19.4	0.17
Japan	70.6	0.34	22.4	1.87
Canada	72.2	0.32	18.2	1.17
Australia	72.3	0.33	18.7	1.33
Austria	72.5	0.27	28.3	2.37
Germany	72.8	0.29	26.3	3
Sweden	73.8	0.27	28.2	2.86
Netherlands	75.1	0.29	24.3	2.72

Tackling "financialisation" and business uncertainty

- Growing role of external shareholders in management decisions of large firms
  - Pressure for short-term returns
  - Interaction with new technology, outsourcing opportunities
- Tackle de-stabilising capital flows, affecting productive investment decisions and the creation of stable jobs
- Reforming credit markets

No job recovery possible without a well-functioning credit system

Link between change in private credit and unemployment rate in Eurozone countries