International
Labour
Office

Changing the World

Policies to Reduce Income Inequality, with a focus on Social Protection

Conference on the Challenge of Inequality: Time For Change
Geneva, 11 December 2013

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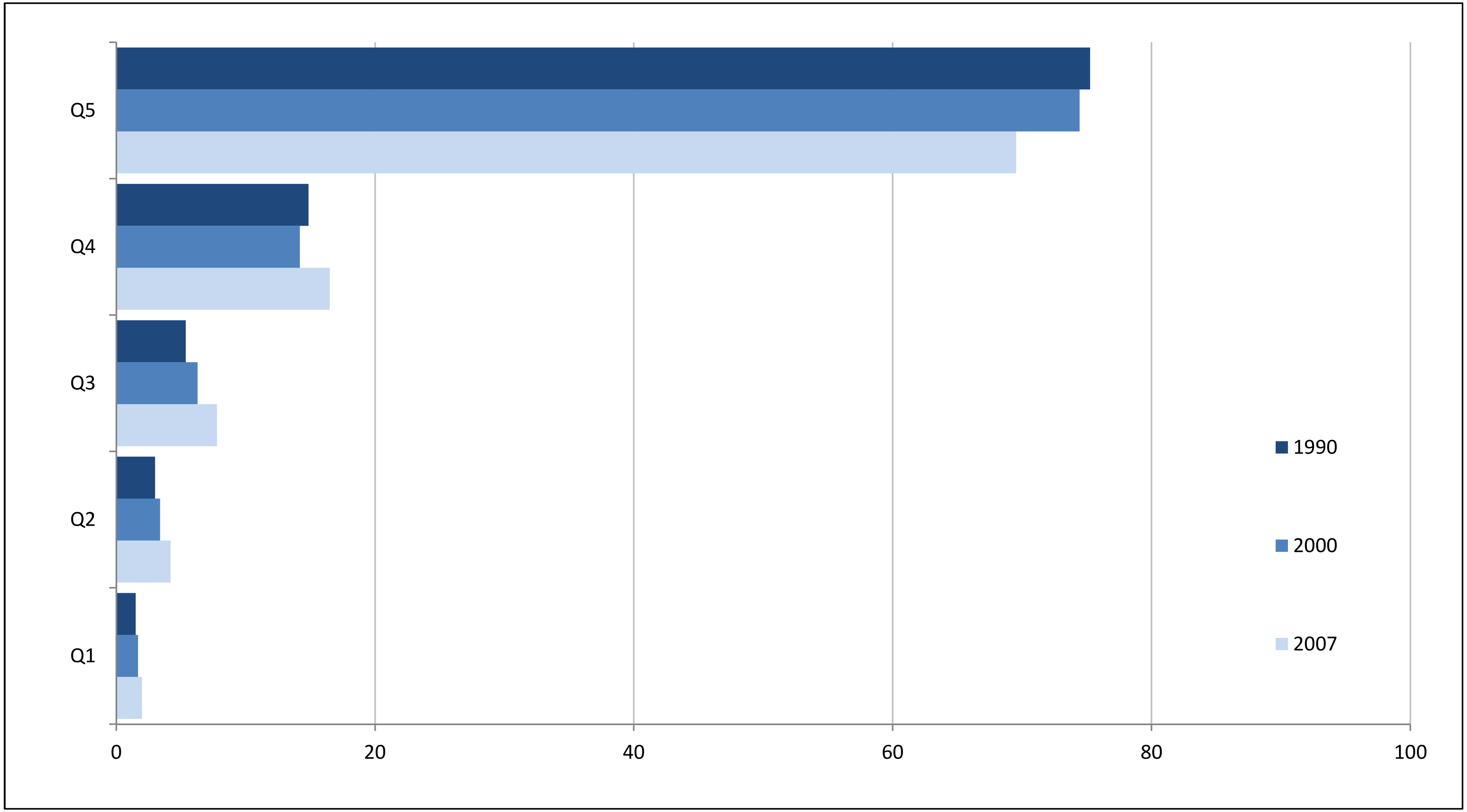
International Labour Organization

Distribution of World Income: Development for Whom?

Most people left behind before the crisis

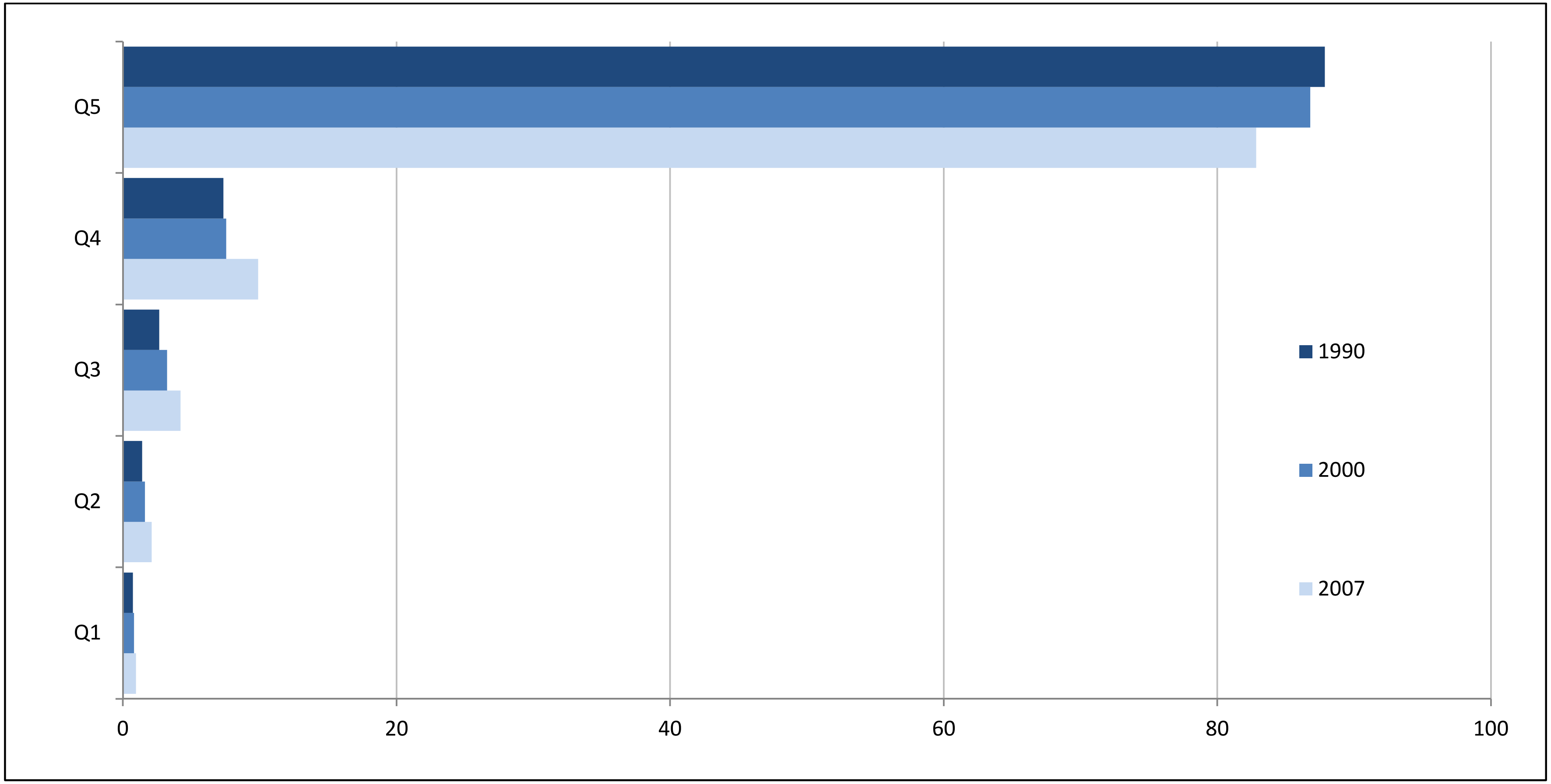
Global Income Distribution by Countries, 1990-2007 (or latest available) in PPP constant 2005 international dollars



Source: Ortiz and Cummins. 2011. *Global Inequality.* UNICEF

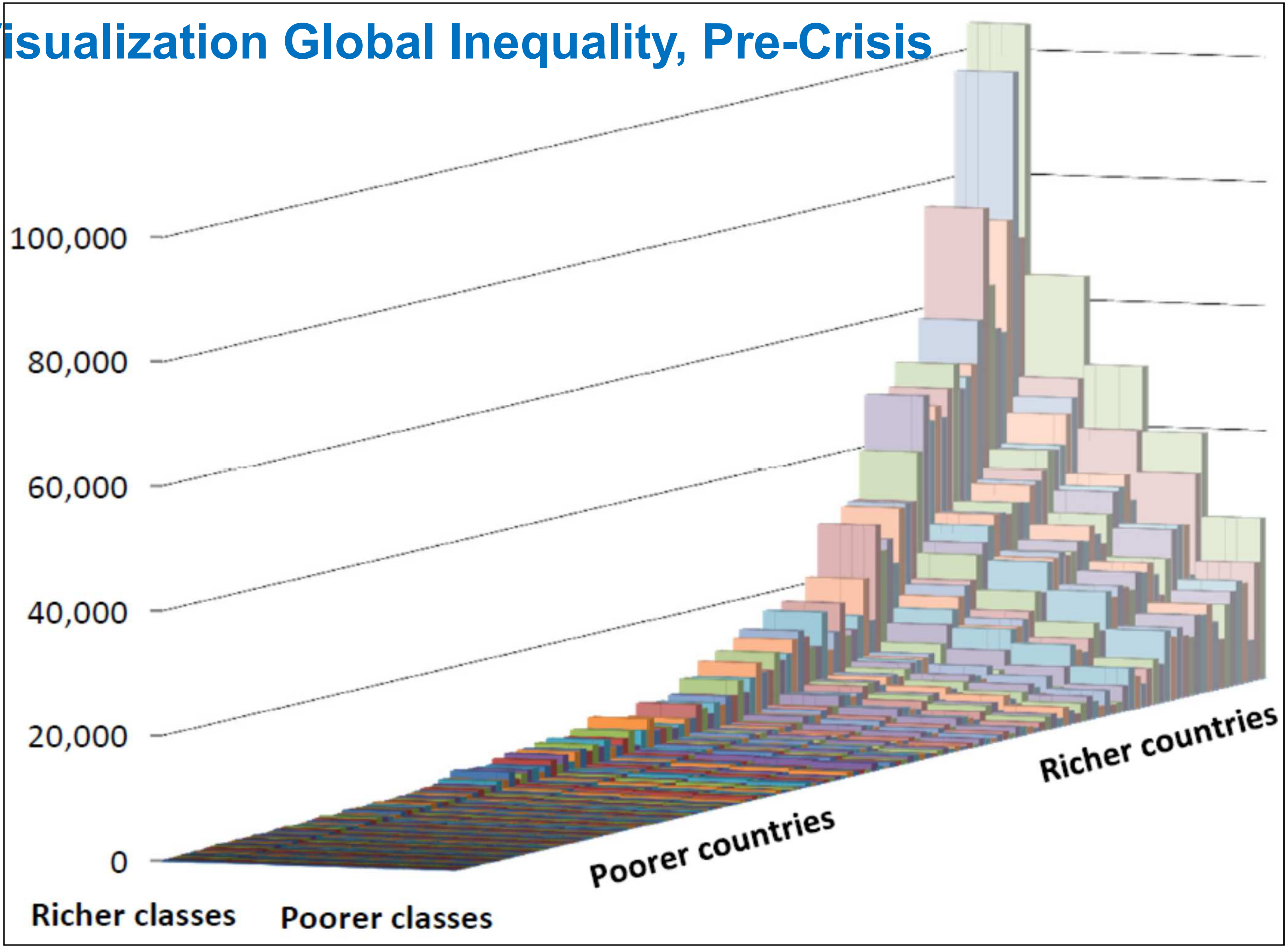
Distribution of World Income (at market rates)

Global Income Distribution by Population Quintiles, 1990-2007 (or latest available) in constant 2000 U.S. dollars



- **Top 1% (61 million) has the same as the poorest 3.5 billion (or 56%) of the world's population**
- **Some progress, but too slow: At this rate, it would take 800 years for the bottom billion to achieve 10% of global income**

Visualization Global Inequality, Pre-Crisis



Source: Ortiz and Cummins. 2011. *Global Inequality.* UNICEF

Poorest and Richest Quintiles in the World

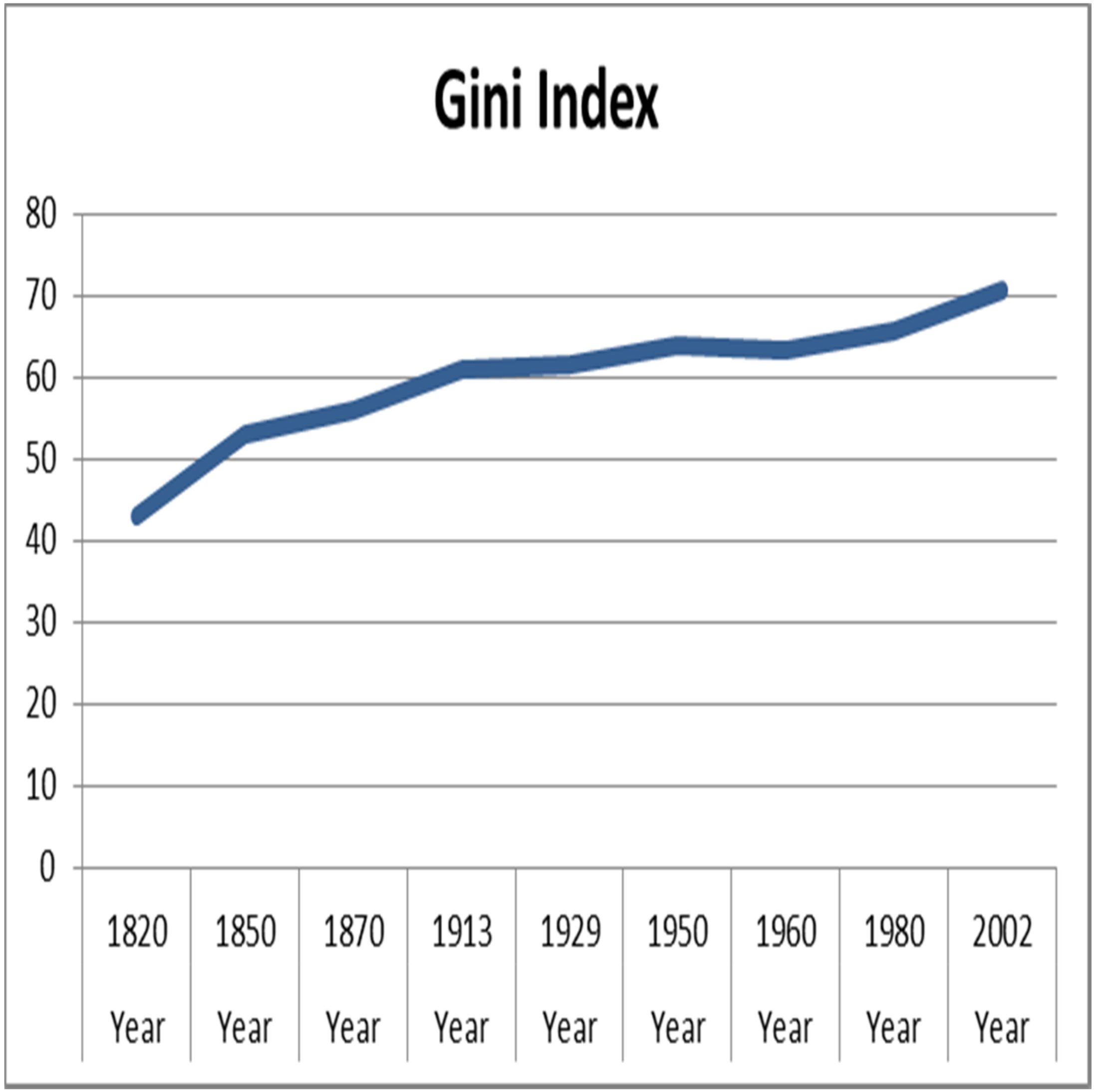
2007, constant 2000 U.S. dollars

Poorest				Richest			
Country	Quintile	GDP per capita	Population	Country	Quintile	GDP per capita	Population
Dem. Rep. of Congo	1	26	12,504,557	Luxembourg	5	104,189	95,999
Dem. Rep. of Congo	2	43	12,504,557	United States	5	96,946	60,316,000
Liberia	1	47	725,457	Singapore	5	76,189	917,720
Haiti	1	49	1,944,017	Switzerland	5	73,404	1,510,223
Burundi	1	49	1,567,596	Norway	5	70,184	941,831
Niger	1	50	2,827,937	Luxembourg	4	63,986	95,999
Guinea-Bissau	1	51	308,208	Ireland	5	63,507	871,386
Malawi	1	52	2,887,899	United Kingdom	5	58,408	12,196,061
Central African Rep.	1	60	851,481	Denmark	5	56,421	1,092,288
Dem. Rep. of Congo	3	65	12,504,557	Sweden	5	55,543	1,829,618

Source: Ortiz and Cummins (2011) based on World Bank (2011), UNU-WIDER (2008) and Eurostat (2011)

Historical Perspective: Income Inequality Increasing

Year	Gini
1820	43.0
1850	53.2
1870	56.0
1913	61.0
1929	61.6
1950	64.0
1960	63.5
1980	65.7
2002	70.7



Source: Milanovic (2009) World Bank

Inequality Further Increased by Global Crisis (I): Crisis Transmission Channels

1. Employment and Income

- Unemployment, underemployment
- Wage cuts, reduced benefits
- Decreased demand for migrant workers
- Lower remittances
- Negative returns from pension funds

2. Prices

- Basic food, agricultural inputs
- Fuel
- Medicines, drugs

3. Assets and Credit

- Lack of access to credit
- Loss of savings due to bank failures
- Loss of savings due to coping mechanisms
- Home foreclosures

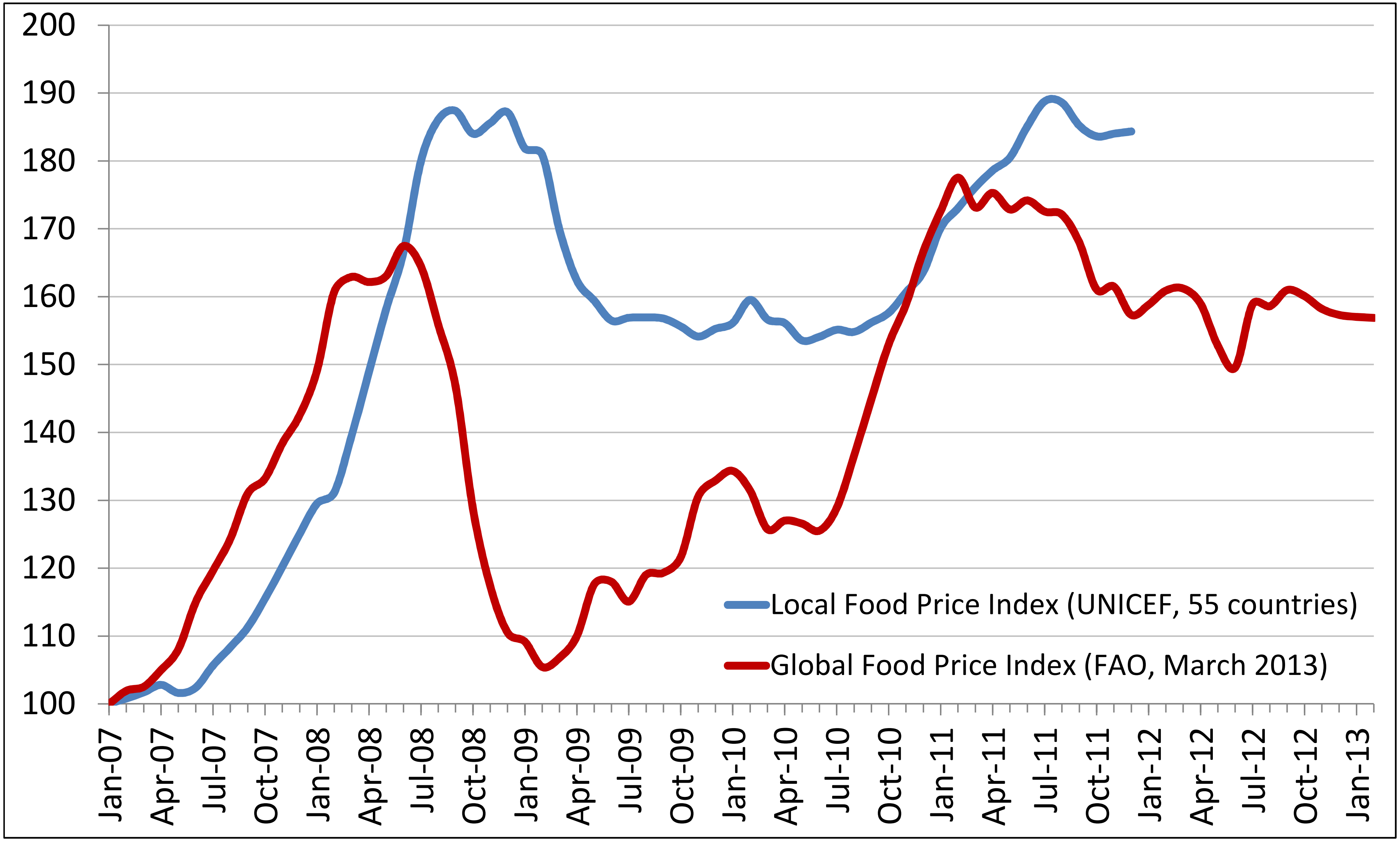
4. Government Spending on Economic and Social Sectors

- Education
- Health
- Social protection
- Employment programmes
- Public investment (e.g. infrastructure, green growth)

5. Aid Levels - ODA

Inequality Further Increased by Global Crisis (II):

Higher Food Prices

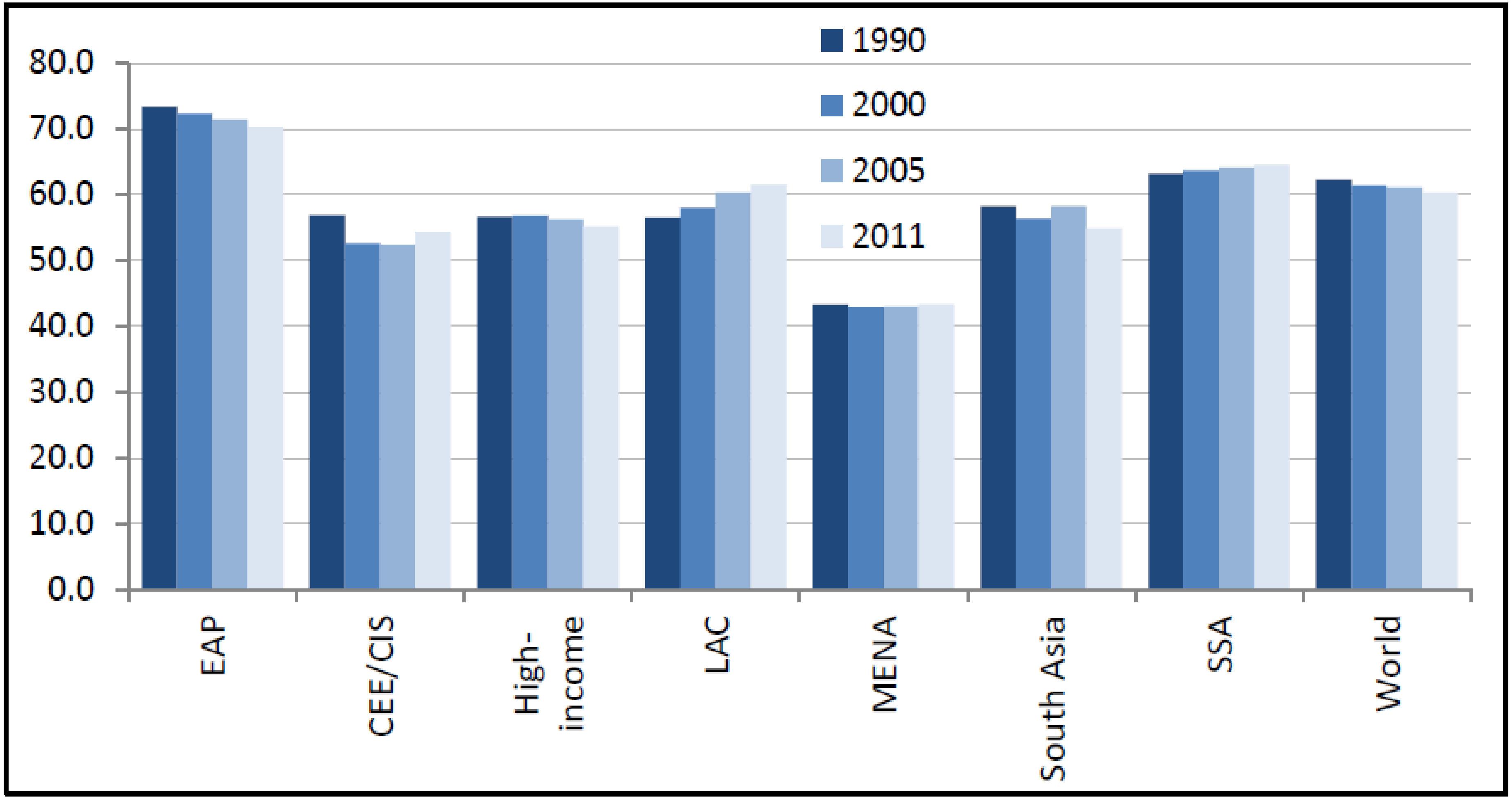


Source: Ortiz and Cummins. 2012. *A Recovery for All*. UNICEF

Inequality Further Increased by Global Crisis (III):

Employment – The long jobs crisis

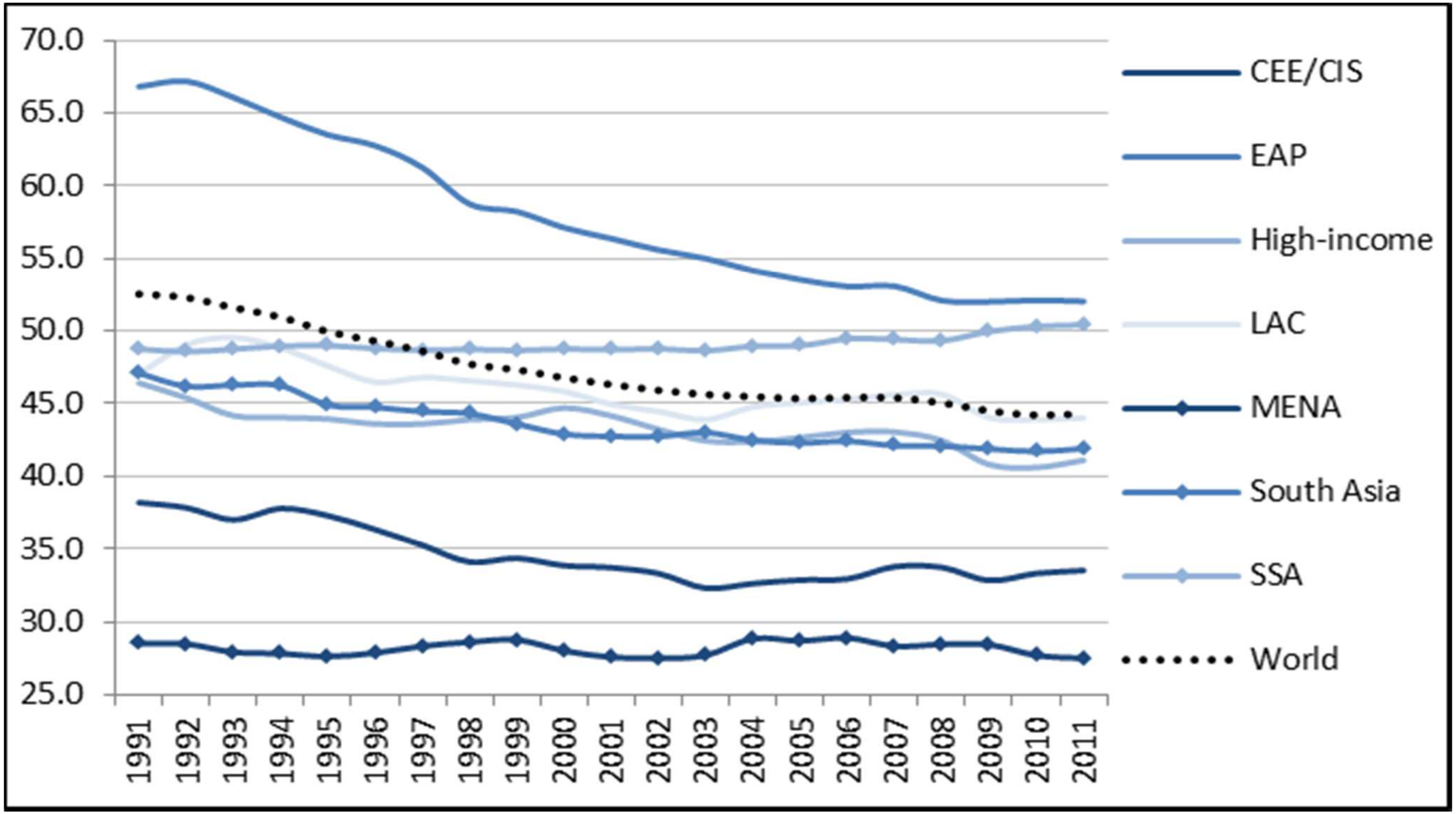
Employment to Population Ratios 1990-2011



Source: Ortiz and Cummins. 2012. *A Recovery for All*. UNICEF.

Inequality Further Increased by Global Crisis (III):
Declining Demand for Young Labour

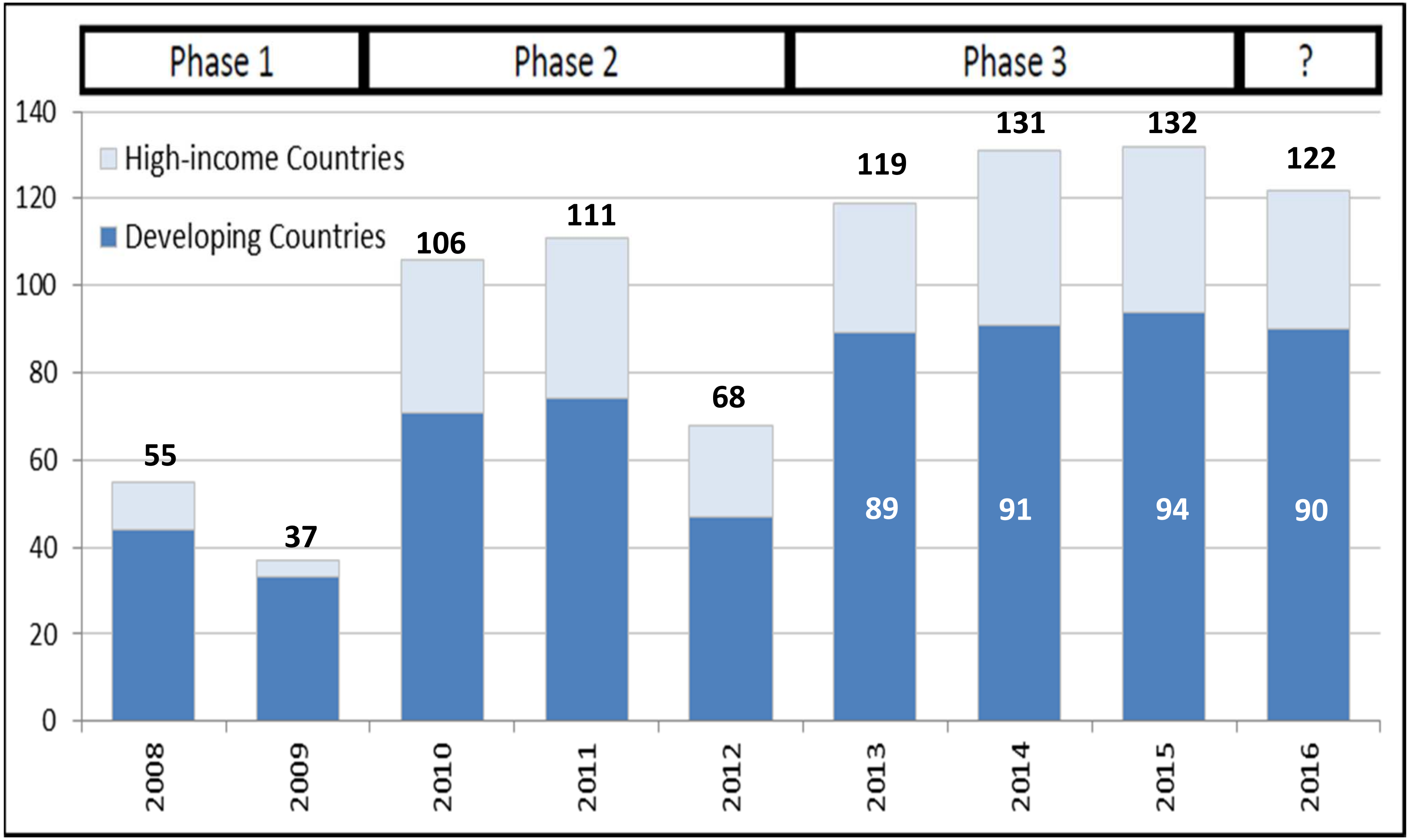
Youth Employment to Population Ratios 1990-2011



Source: Ortiz and Cummins. 2012. *A Recovery for All*. UNICEF.

Inequality Further Increased by Global Crisis (IV): Countries Contracting Public Expenditures

Number of Countries Contracting Public Expenditures as a % GDP, 2008-16



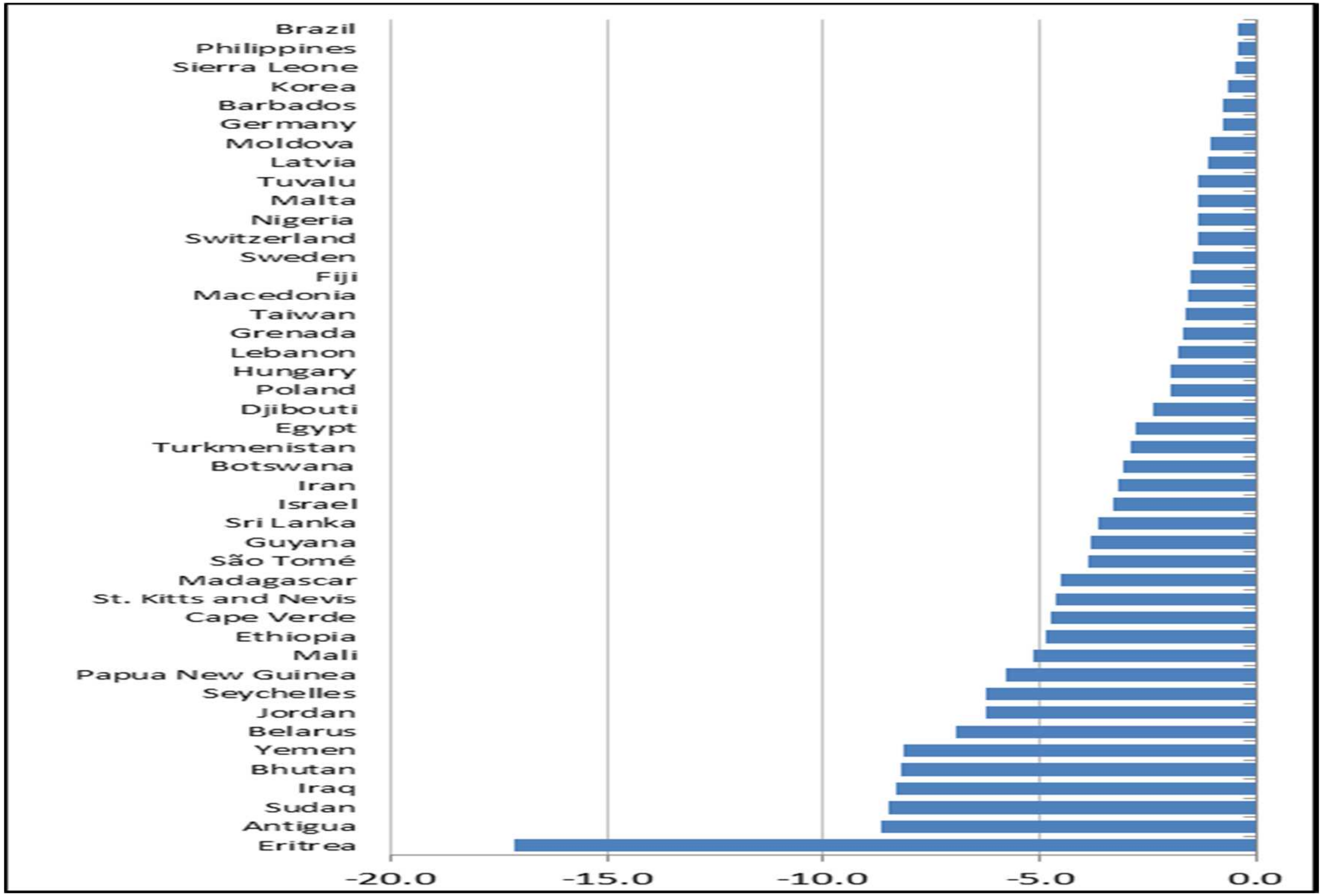
Source: Ortiz and Cummins.2013. *The Age of Austerity*. IPD and the South Centre - based on IMF's *World Economic Outlook* (October 2012)

Inequality Further Increased by Global Crisis (IV):

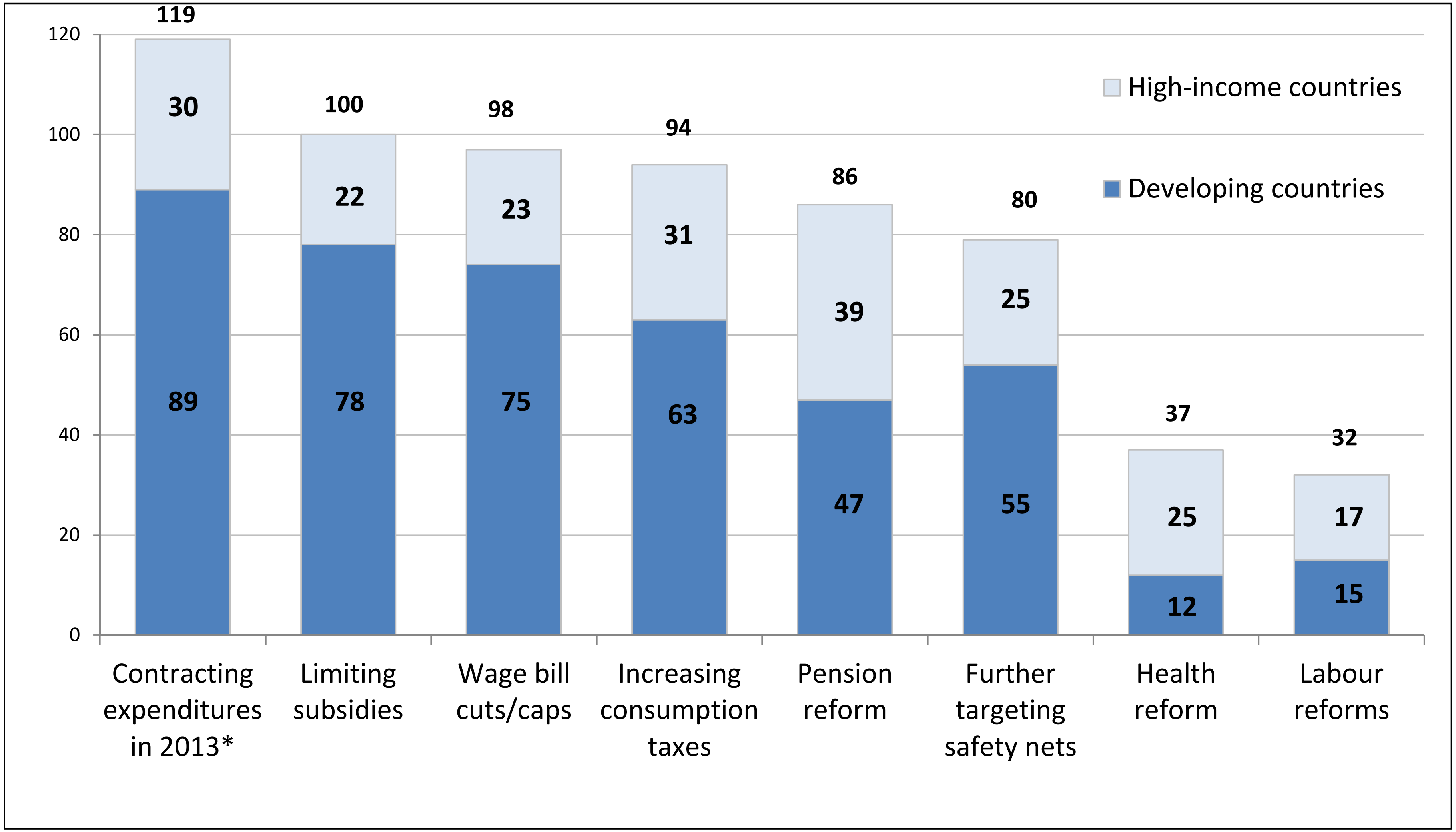
2013-15: A quarter of countries excessive contraction

(44 countries with expenditures below pre-crisis levels)

Changes in Total Government Spending as a %GDP, 2013-15 avg. over 2005-07 avg.



Inequality Further Increased by Global Crisis (IV): Austerity Measures in 174 Countries, 2010-13



Source: Ortiz and Cummins. 2013. *The Age of Austerity.* IPD and the South Centre – based on 314 IMF country reports 2010-2013

Development Impacts

119 countries contracting public expenditures in 2012 (89 developing)

- **Phasing-out subsidies** (food, fuel and others) in 100 countries, despite record-high food prices in many regions
- **Wage bill cuts or caps** in 98 countries, reducing the salaries of public-sector workers who provide essential services to the population.
- **VAT increases** on basic goods and services that are consumed by the poor – and which may further contract economic activity – in 94 countries
- **Rationalizing and targeting safety nets** are under consideration in 80 countries, at a time when governments should be looking to scale up benefits though social protection floors
- **Reforming pension and health care systems** in 86 and 37 countries
- **Labor flexibilization reforms** in 30 countries, eroding workers rights

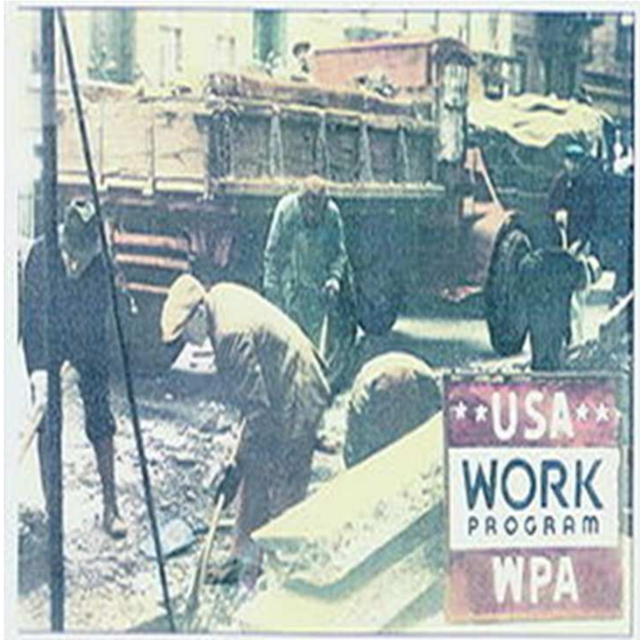
Source: Ortiz and Cummins. 2013. *The Age of Austerity.* IPD and the South Centre – based on 314 IMF country reports 2010-2013

Risks to Socio-Economic Recovery – The Need for a Policy Shift

- United Nations: Austerity is likely to bring the global economy into further recession. Called on governments for concerted policy action to support development goals
- Policy shift started in a few Asian and Latin American countries 2012-13 . Concern on low growth and demand for their exports:
  - Building internal markets (minimum wage policies, social protection, subsidies, social services, etc)
  - New round of fiscal stimulus to be invested in infrastructure, tax incentives -- the amounts are small for sustained recovery ($0.38 trillion in 2012, compare to $2.4 trillion fiscal stimulus in 2008) but a sign of policy change

It is not too late: Policies for an Equitable Recovery

- Current crisis presents an opportunity to rethink socio-economic policies for all persons
- 1929 financial crash led to a New Deal that radically altered the development model of the day:
  - ✓ Stimulated economic growth and employment
  - ✓ Regulated the financial sector
  - ✓ Expanded social security



- A comparable policy push is needed today
- It is not too late
- Increased international cooperation/coordination is urgently needed for a more robust and sustained recovery, with benefits far more widely shared

Reducing Inequality and Promoting a Recovery for All
(i) Employment and Sustainable Growth

- Economic policies are detached from social objectives such as generating employment and protecting people's incomes – often have a narrow focus on containing inflation, budget deficits, service debt, liberalizing product/factor markets and trade, a major reason why inequality increased worldwide.
- Policy-makers always talk about employment but few have managed to create it; jobless growth prior to the crisis, jobless recession.
- Common misunderstanding: development does not occur only as a result of private-sector led market processes, need for adequate public policies => macroeconomic and sector policies that support real economy growth and structural change
- To address inequality, recovery policies should prioritize job creation

Policies for an Equitable Recovery – for All
(i) Employment and Sustainable Growth

Decent jobs are a result of adequate macroeconomic, sector and labour policies:

1. Employment-sensitive macroeconomic and sector policies:

- Monetary and fiscal policies that boost aggregate demand; eg. fiscal consolidation or a tight monetary policy focussed on containing inflation do not generate jobs.
- Financial services for real economy growth, branching out to local level
- Investments in physical and social infrastructure, human capital
- Technology/industrial policy
- Adequate exchange rates; gradual and sequential trade opening to support it.

2. Labour policies: Decent employment is not only about generating jobs, most poor people work long hours but they cannot bring their families out of poverty; it is also about adequate salary and working conditions.

- Labour market policies, including labour standards and fair income
- Social dialogue to reach optimal solutions in macroeconomic policy, public and private investment, the need for productivity, job and income security.

Policies for an Equitable Recovery for All
(ii) Addressing inequality in sector policies

Diminishing inequality requires bringing redistribution back into the development agenda. Equity needs to be made a focus of policy making, across sector investments

	Typical Interventions with Equitable Outcomes	Typical Interventions with Inequitable/Regressive Outcomes
Agriculture	Food security; land redistribution; access to water, markets; livestock, credit for smallholders, rural extension services	Large investments that may benefit major landowners (e.g. irrigation systems)
Education	Universal free education; scholarships and programs to retain students	User fees; commercialization of education; cost-saving in teacher's salaries
Energy and Mining	Rural electrification; life-line tariffs; contract laws ensuring adequate taxation from natural resource extraction	Untaxed or poorly taxed oil/mineral extraction
Finance	Regional rural banks; branching out to local areas; managing finance (regulating financial and commodity markets, capital controls); fighting illicit financial flows	Financial liberalization; rescue of banking system (transfers to large banks); subsidies to large private enterprises
Health	Universal health services; nutrition programs; free reproductive health services	User fees; commercialization of health; tertiary highly specialized clinics that benefit a few
Housing	Subsidized housing for lower income groups; upgrading of sub-standard housing	Public housing finance for upper income groups
Industry	Technology policy to support competitive, employment-generating domestic industries, large and SMEs;	Deregulation; general trade liberalization
Labour	Labour programs; adequate minimum wages and labour laws; employment-generating policies across sectors	Labour flexibilization

Policies for an Equitable Recovery for All
(ii) Addressing inequality in sector policies

	Typical Interventions with Equitable Outcomes	Typical Interventions with Inequitable/Regressive Outcomes
Public Expenditures	Public expenditures that benefit lower income groups; fiscal decentralization	Military spending; bank bailouts
Social Security	Social protection floors	Private funded pension systems
Taxation	Adequate corporate and personal income taxes	Consumption taxes (eg VAT)
Tourism	Small-scale local companies; financing basic infrastructure; international marketing campaigns	Poorly taxed luxury hotel chains
Trade	Linking employment-generating local companies with export markets; adequate protection of national industry; taxing exporting sectors for domestic development	Most bilateral free trade agreements; current intellectual property agreements
Transport and Infrastructure	Rural roads; physical and social infrastructure for national development; affordable public transport; non-motorized transport for households (bicycles, buffalos etc)	Large (and costly) infrastructure investments that the poor/excluded do not use or do not benefit by taxation
Urban Development	Slum upgrading; accessible universal design	Large urban infrastructure projects in wealthy areas
Water	Rural water supply and sanitation	Poorly negotiated privatizations

Source: Ortiz and Cummins. 2011. Global Inequality. UNICEF; based on (in alphabetical order) DFID, FAO, IDS, ILO, ODI, UN, UNCTAD, UNDP, UN HABITAT, UNICEF, UNRISD, World Bank's PRSP Sourcebook, WFP.

Reducing Inequality and Promoting a Recovery for All
(iii) Social Protection Floors

The Social Protection Floor Aims To Provide Universal Minimal Guarantees

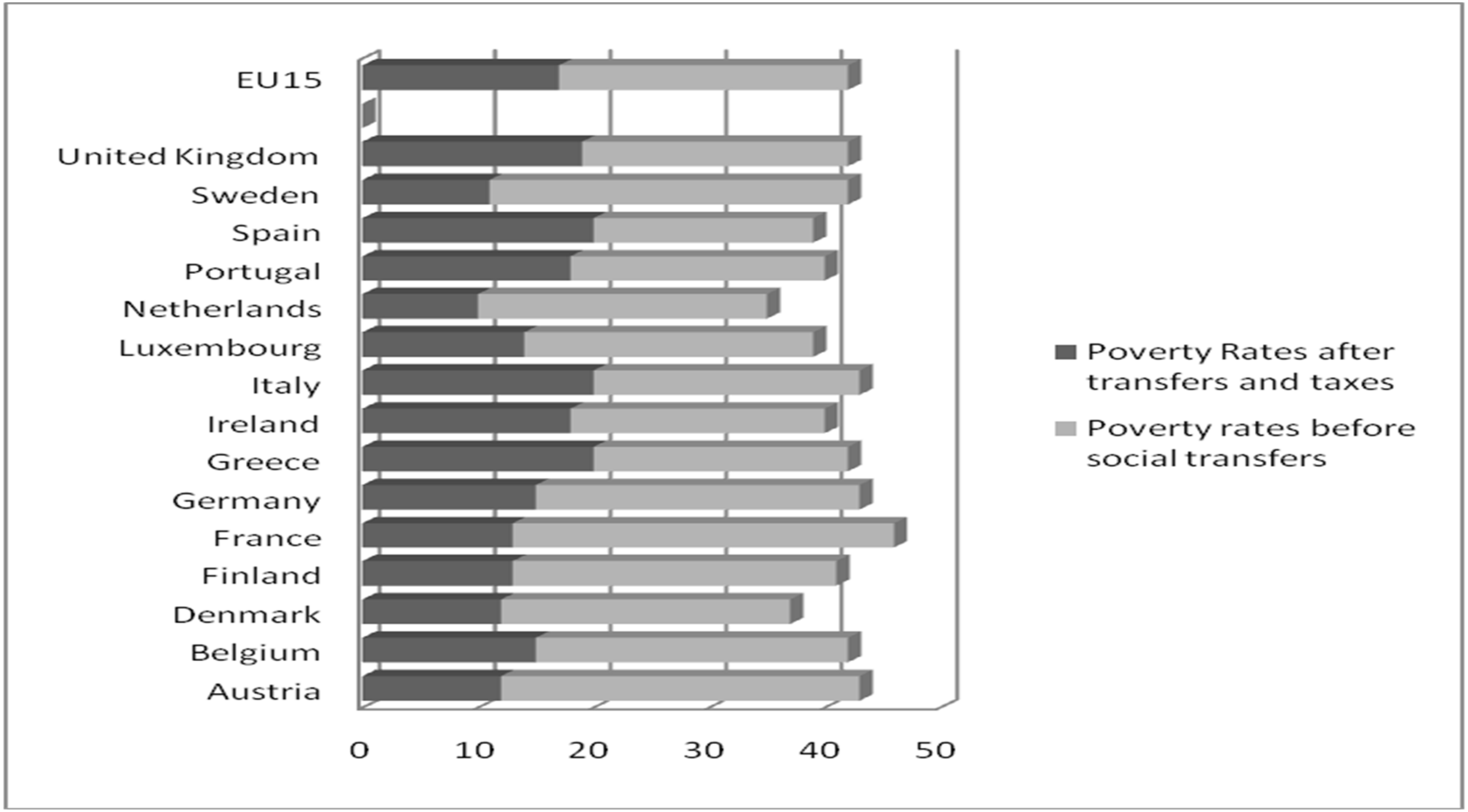
Reducing Inequality and Promoting a Recovery for All
(iii) Social Protection Floors

- **June 2012: The Recommendation Concerning National Floors of Social Protection was adopted at the 101st session of the International Labour Conference, in Geneva, providing the ILO's 183 Member States with a number of guidelines on the implementation of national social protection floors.**

- **September 2011: G20 Labour Ministers commit to extending social protection coverage by expanding social protection floors.**

- **April 2009: A UN crisis response initiative**

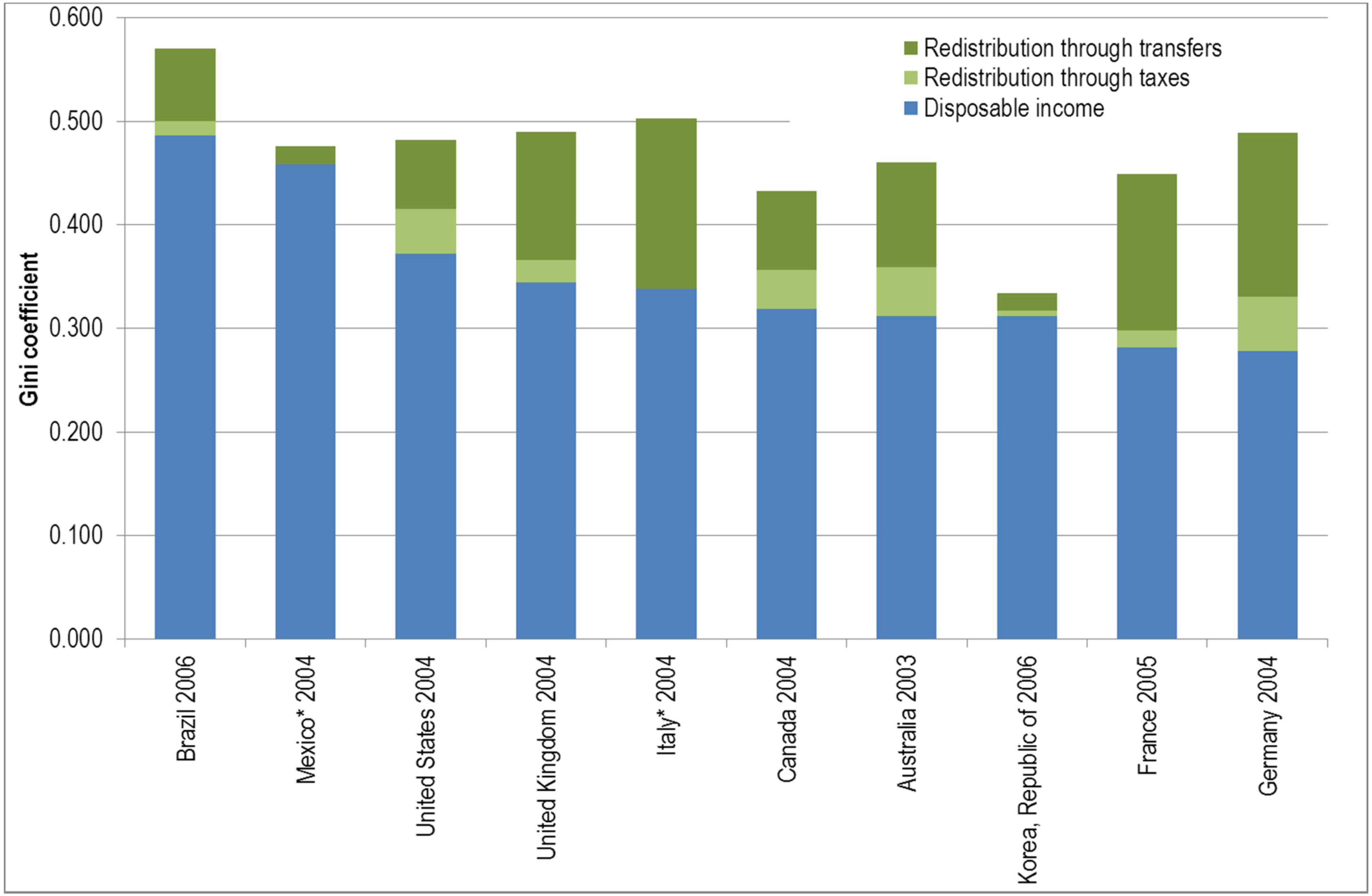
Social Protection Reduces Poverty in the EU by 50%



Source: Ortiz and Yablonski (2010) based on Caminada & Goudswaard, 2009 and EUROSTAT data

Social security systems reduce inequality

[Inequality in market incomes and disposable incomes; redistribution through transfers and taxes]



The case for Social Protection:
It Contributes Effectively to MDGs

Proven results:

- Reduced poverty, better nutrition, improved household income stability (MDG 1, 4, 6)
- Improved preventive health care (MDG 4 and 5)
- Higher immunization rates (MDG 4)
- Higher school enrollment rates reduced school drop-out (MDG 2,3)
- Decline in child labour among children in rural areas (MDG 2, 8)

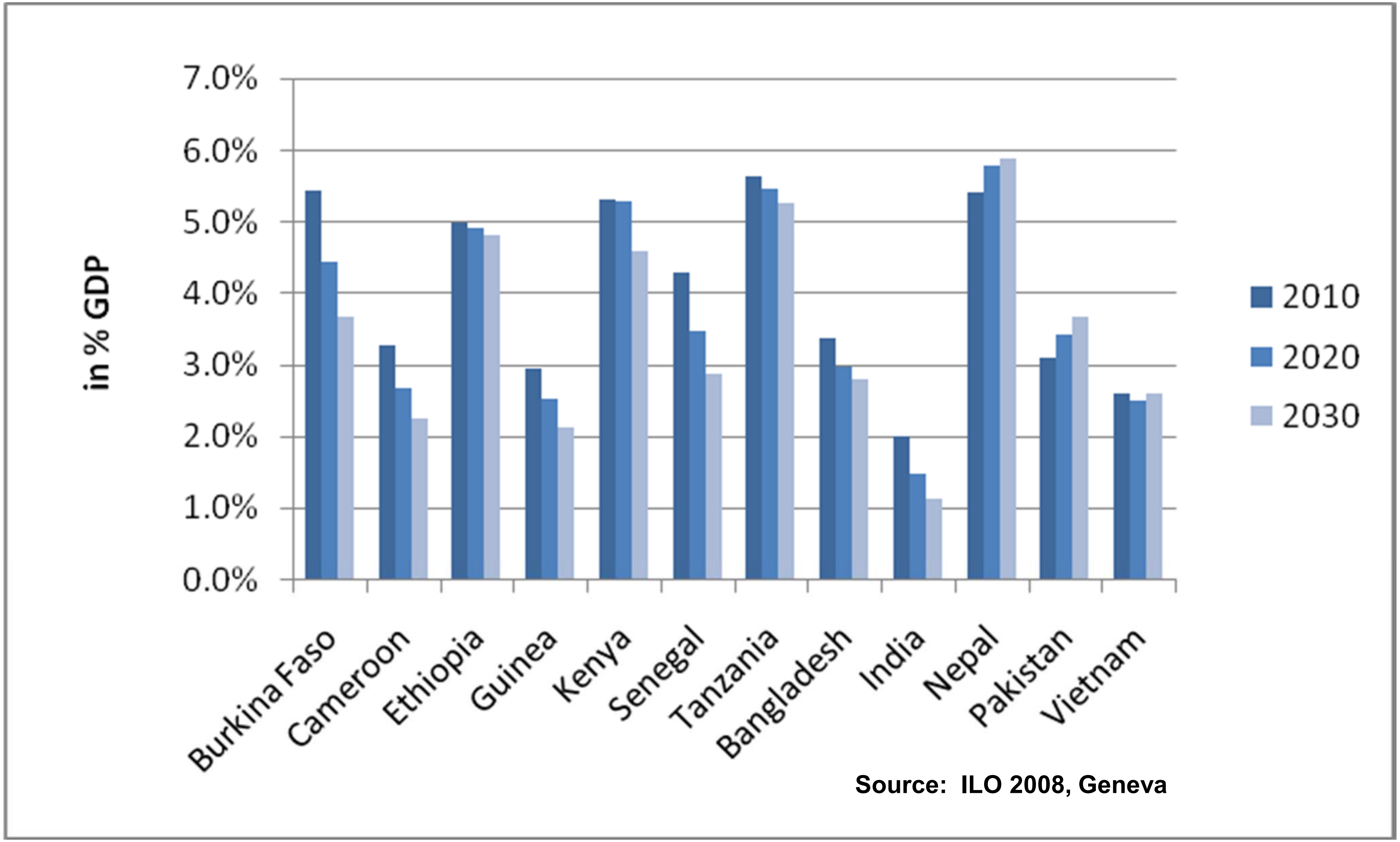
See: Social Protection: Accelerating the MDGs with Equity
http://www.unicef.org/socialpolicy/index_55915.html

Expansion of Social Transfers in Developing Countries

TYPE OF PROGRAMME	WHERE NEWLY INTRODUCED
Household Minimum Income Support	Chile, China, Cyprus, Mozambique, Rwanda, Zambia
Social Pensions	Argentina, Bolivia, Bangladesh, Brazil, Botswana, Cape Verde, Chile, Costa Rica, India, Lesotho, Mauritius, Moldova, Namibia, Nepal, Samoa, South Africa, Tajikistan, Thailand, Uruguay, Vietnam
Child and family benefits in cash or health coverage	China, Mongolia, Mozambique, Nepal, South Africa, Senegal, Niger
Cash-for-Work and Food-for-Work	Argentina, Cameroon, Ethiopia, India, South Korea, Malawi, Niger, Rwanda, South Africa
Cash for Human Development	Argentina, Bangladesh, Brazil, Colombia, Ecuador, Ghana, Honduras, Indonesia, Jamaica, Kenya, Malawi, Mexico, Mongolia, Nicaragua, Philippines, Tanzania
Social Health Protection	China, Ghana, Rwanda, Thailand

Estimated cost for package of basic transfers

old-age and disability pensions, child benefits, unemployment support



Fiscal Space Exists Even in the Poorest Countries

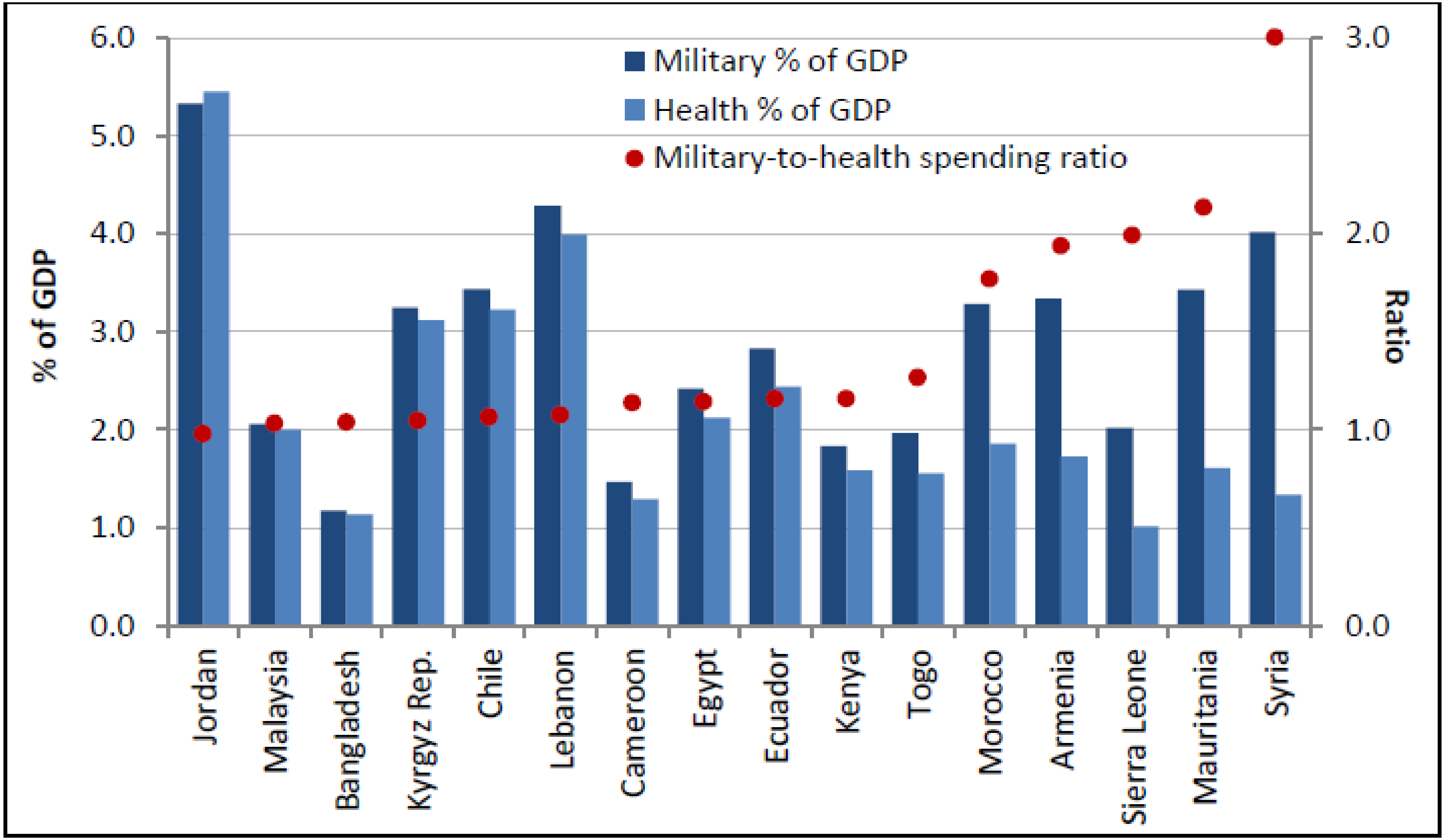
- **There is national capacity to fund social protection floors and socio-economic recovery in virtually all countries**
- **There are many options, supported by UN policy statements:**
  - Re-allocating public expenditures
  - Increasing tax revenues
  - Fighting illicit financial flows
  - Lobbying for increased aid and transfers
  - Tapping into fiscal and foreign exchange reserves
  - Restructuring debt
  - Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

Ortiz and Cummins. 2012. *A Recovery for All*. UNICEF

Fiscal Space for Social Protection Floors: Re-allocate Public Expenditures

Military and Health Spending in Selected Developing Countries, 2006-09

(countries with no major armed conflict since 2000)



Fiscal Space for Social Protection Floors: Increasing Tax Revenues

- **Income taxes**
- **Property and inheritance taxes**
- **Corporate taxes, including the financial sector**
- **Tariffs (imports/exports)**
- **Consumption/sales taxes, tolls**

High income inequality should make governments move away from indirect taxation (eg. consumption/sales taxes/VAT)

But many developing countries continue lowering individual and corporate income tax rates for the top income brackets, 2009*

Individual Income Tax	Corporate Income Tax		
Bulgaria	Albania	Ghana	Romania
Colombia	Bangladesh	India	Russian Federation
Egypt	Bosnia & Herzegovina	Indonesia	Serbia
Indonesia	Bulgaria	Kazakhstan	South Africa
Kazakhstan	China	Kenya	Swaziland
Lithuania	Colombia	Macedonia	Thailand
Malaysia	Costa Rica	Malaysia	Tunisia
Mauritius	Côte D'Ivoire	Mauritius	Uganda
Mexico	Dem. Rep. of Congo	Mexico	Venezuela
Pakistan	Dominican Republic	Papua New Guinea	
Papua New Guinea	Ethiopia	Peru	
Viet Nam	Fiji	Philippines	

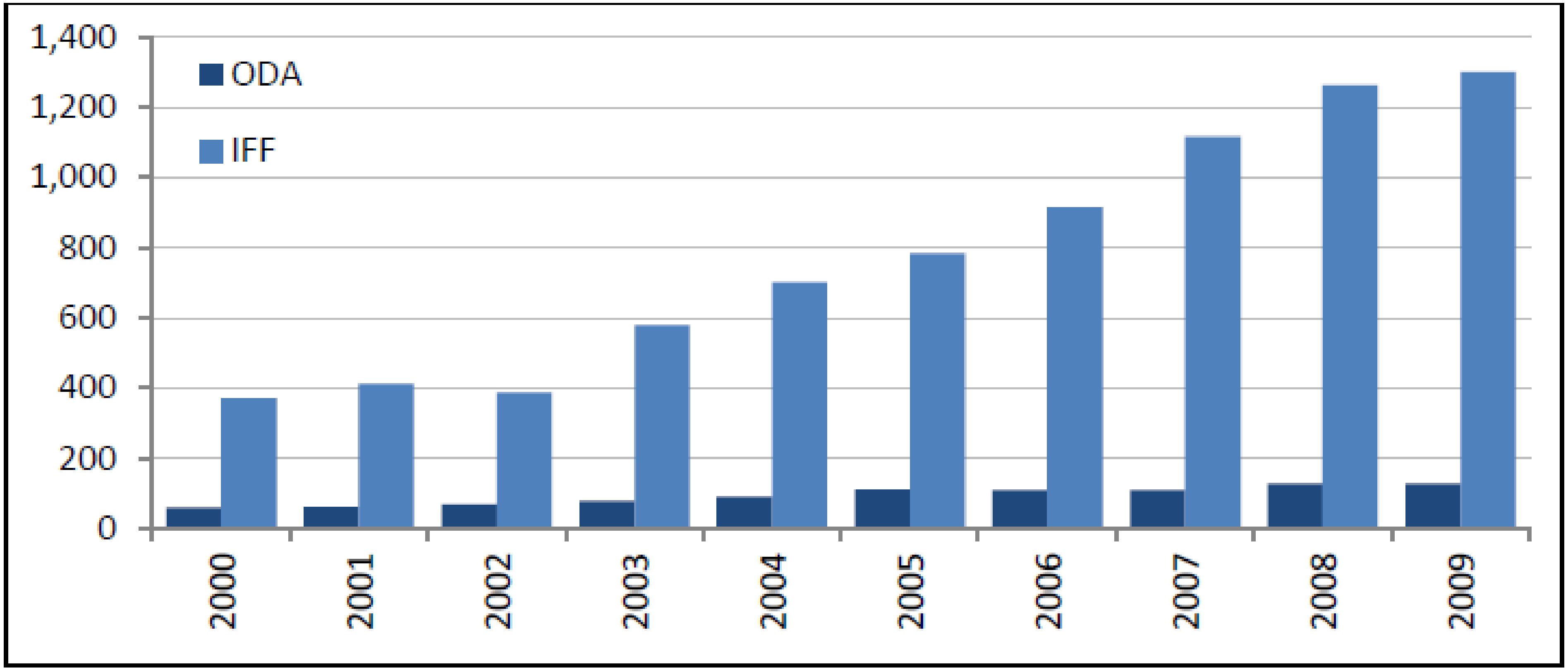
Source: Ortiz and Cummins, 2012: *A Recovery for All*. UNICEF

Fiscal Space for Social Protection Floors: Fight Illicit Financial Flows (IFFs)

Main components:

1. trade mispricing
2. tax evasion

IFFs versus ODA, 2000-09
(billions of current US$)



Fiscal Space for Social Protection Floors: Use of Reserves

Sovereign Wealth Funds (SWFs) based on Fiscal Reserves in Selected Developing Countries, June 2011 ***Example - Timor Leste – Dismal human development indicators but billions invested overseas in SWF***

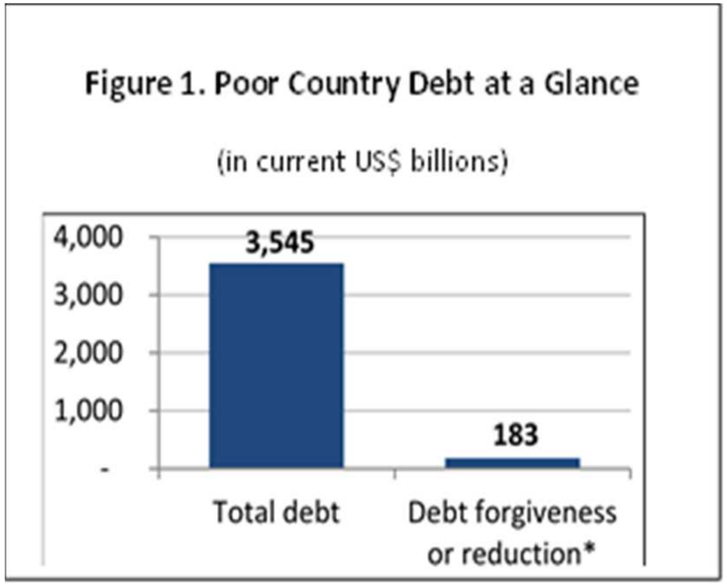
Country	Fund Name	Assets US$billion	Inception	Origin
Russia	National Welfare Fund	142.5	2008	Oil
Libya	Libyan Investment Authority	70.0	2006	Oil
Algeria	Revenue Regulation Fund	56.7	2000	Oil
Kazakhstan	Kazakhstan National Fund	38.6	2000	Oil
Malaysia	Khazanah Nasional	36.8	1993	Non-Commodity
Azerbaijan	State Oil Fund	30.2	1999	Oil
Iran	Oil Stabilisation Fund	23.0	1999	Oil
Chile	Social and Economic Stabilization Fund	21.8	1985	Copper
Brazil	Sovereign Fund of Brazil	11.3	2008	Non-Commodity
Botswana	Pula Fund	6.9	1994	Diamonds and Minerals
Timor-Leste	Timor-Leste Petroleum Fund	6.3	2005	Oil and Gas
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil
Venezuela	FEM	0.8	1998	Oil
Vietnam	State Capital Investment Corporation	0.5	2006	Non-Commodity
Kiribati	Revenue Equalization Reserve Fund	0.4	1956	Phosphates
Indonesia	Government Investment Unit	0.3	2006	Non-Commodity
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil and Gas
	Total	452.4		

Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF

Fiscal Space for Social Protection Floors: Debt Restructuring

Five main options available to governments to restructure sovereign debt:

- *Re-negotiating debt* – More than 60 countries since 1990s
- *Achieving debt relief/forgiveness* - HIPC
- *Debt swaps/conversions* – More than 50 countries since 1980s
- *Repudiating debt* – Iraq, Iceland
- *Defaulting* – more than 20 coutries since 1999, including Argentina and Russia



Important – concept of illegitimate debt: responsibility not only debtors, but also creditors

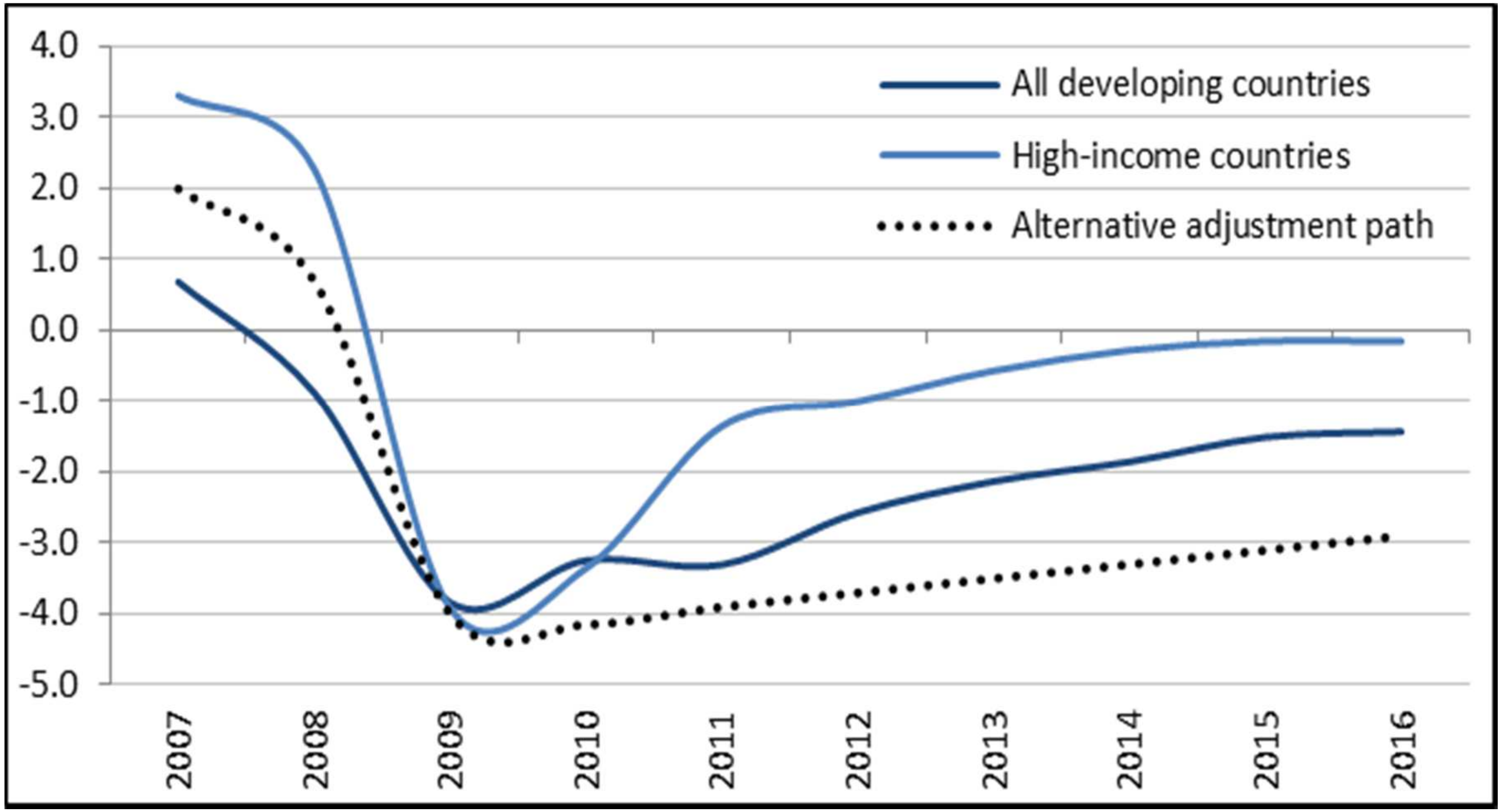
Need for an international debt work-out mechanism

Fiscal Space for Social Protection Floors: Adopt a more Accommodating Macroeconomic Framework

Fiscal policy

Projected Budget Deficits and Alternative Adjustment Path, 2007-16

(as a percent of GDP)



Monetary policy

Purported Safe Inflation Thresholds for Developing Countries

Source	Author(s)	Inflation Threshold (%)
Academic Papers	Fischer (1993)	15-30
	Bruno (1995)	20
	Barro (1996)	10-20
	Bruno and Easterly (1998)	40
	Gylfason and Herbertsson (2001)	10-20
	Rousseau and Watchel (2002)	13-25
	Burdekin et al. (2004)	3
	Gillman et al. (2004)	10
	Sepehri and Moshiri (2004)	5-15
	Pollin and Zhu (2006)	14-16
	Li (2006)	14
	Vaona and Schiavo (2007)	12
	US GAO (2009)	5-12
	Bick (2010)	12
	Kremer et al. (2011)	17
IMF Papers	Sarel (1996)	8
	Ghosh and Phillips (1998)	>5
	Kochar and Coorey (1999)	5
	Khan and Senhadji (2001)	11-12
	Selassie et al. (2006)	5
	Espinoza et al. (2010)	10
	Blanchard et al. (2010)	4

Countries with Inflation Rates <4%, 2012 forecasts

Country	Inflation Rate
St. Vincent and Grenadines*	1.4
Liberia*	1.6
Dominica*	1.9
Djibouti	1.9
Burkina Faso*	2.0
Guinea-Bissau*	2.0
Macedonia, FYR	2.0
Montenegro	2.0
Niger*	2.0
Latvia	2.3
Mali*	2.3
Peru	2.4
Armenia	3.3
China	3.3
Comoros	3.3
Belize	3.3
Gabon*	3.4
Albania	3.5
Panama	3.5
Myanmar	3.7
Tunisia	4.0

Social Protection Floors are Feasible

Thank You

Download:

Social Protection Floor: www.socialsecurityextension.org

Check data for your country:

"Global Inequality: Beyond the Bottom Billion – A Review of Income Distribution in 141 Countries." 2011. UNICEF. http://www.unicef.org/socialpolicy/index_58230.html

"The Age of Austerity – A Review of Public Expenditures and Adjustment Measures in 181 Countries." 2013. New York and Geneva: IPD and South Centre http://policydialogue.org/files/publications/Age_of_Austerity_Ortiz_and_Cummins.pdf

"A Recovery for All". 2012. New York: UNICEF Policy and Practice. Long chapter and tables on fiscal space http://arecoveryforall.blogspot.com/