

# **Inequality and the Global Crisis: Evidence and Policy Issues**

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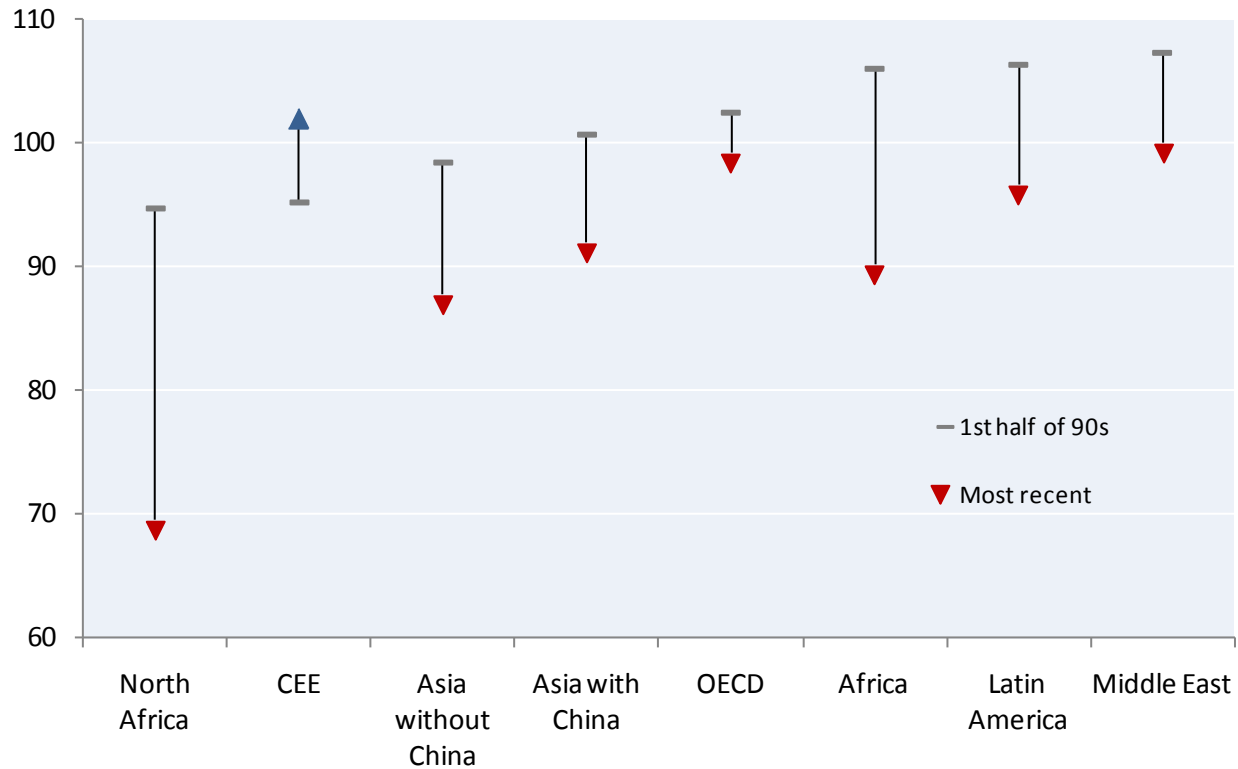
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# Outline of presentation

- I. Trends in inequality
- II. Inequality and the global crisis
- III. Policy issues

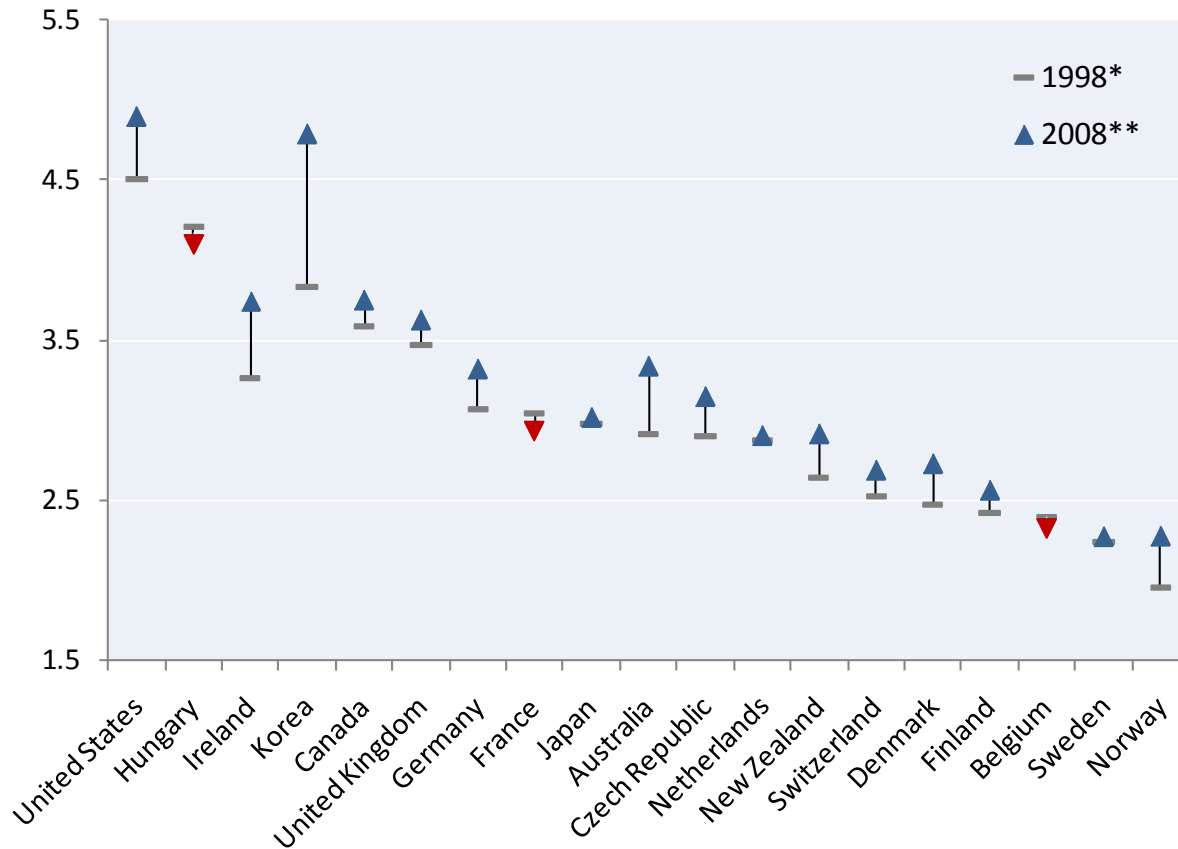
# *Wage shares have declined in the majority of countries...*

Wage share by region (change between 1990 and most recent year available)



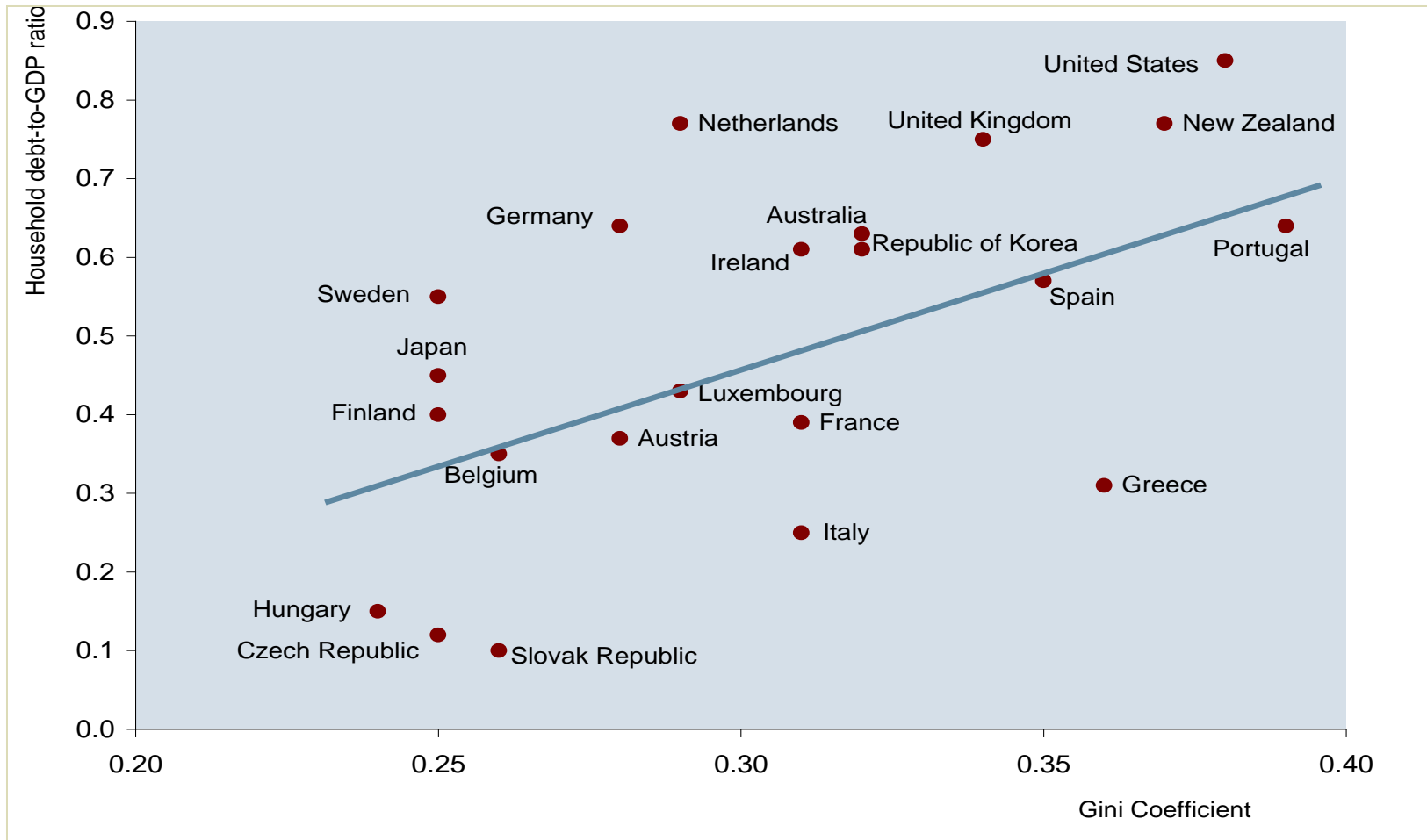
# ... and lower income groups bearing the brunt of wage moderation

Change in the P9/P1 ratio of gross earnings between 1998 and 2008

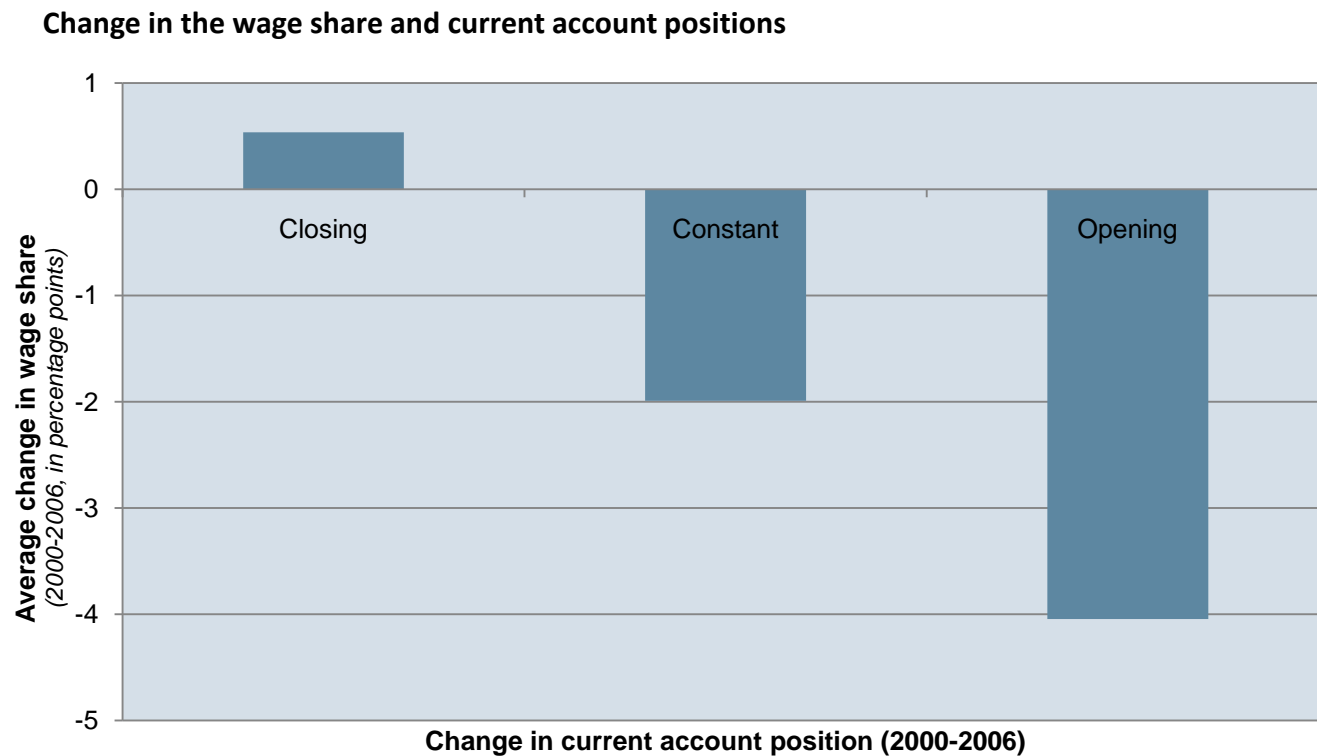


# *In countries with lagging median incomes and dysfunctional finance, households borrowed too much*

*ILO World of Work Report, 2008*



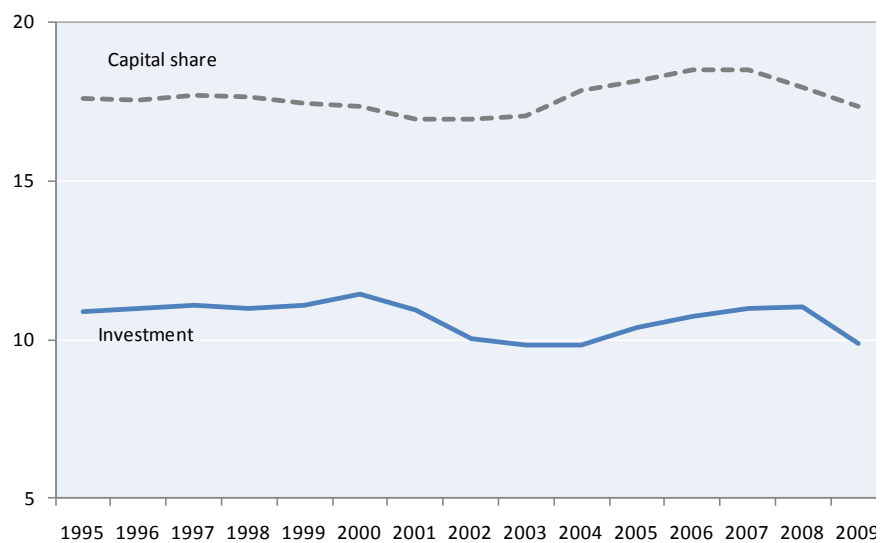
# Wage moderation associated with global imbalances



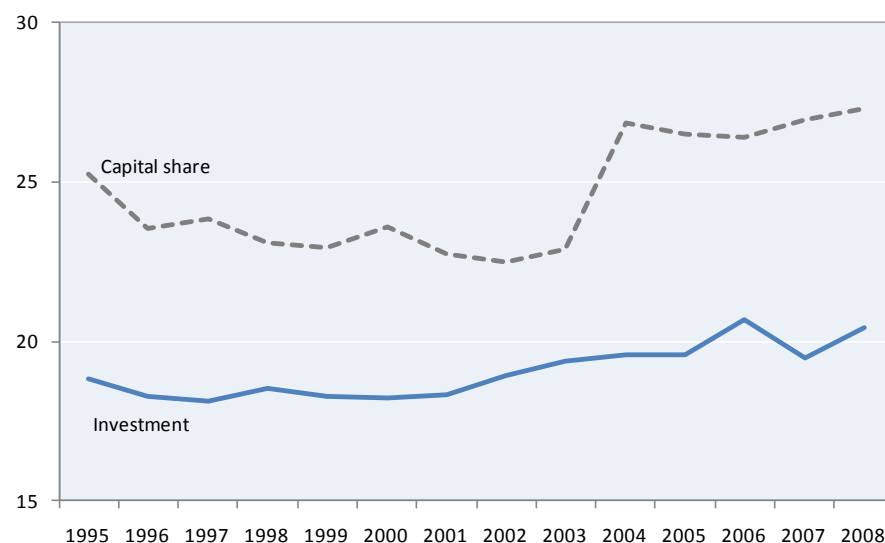
# Wage moderation has not led to more investment globally

## Profit shares and investment as a % of GDP

Panel A. Advanced economies



Panel B. Emerging and developing economies



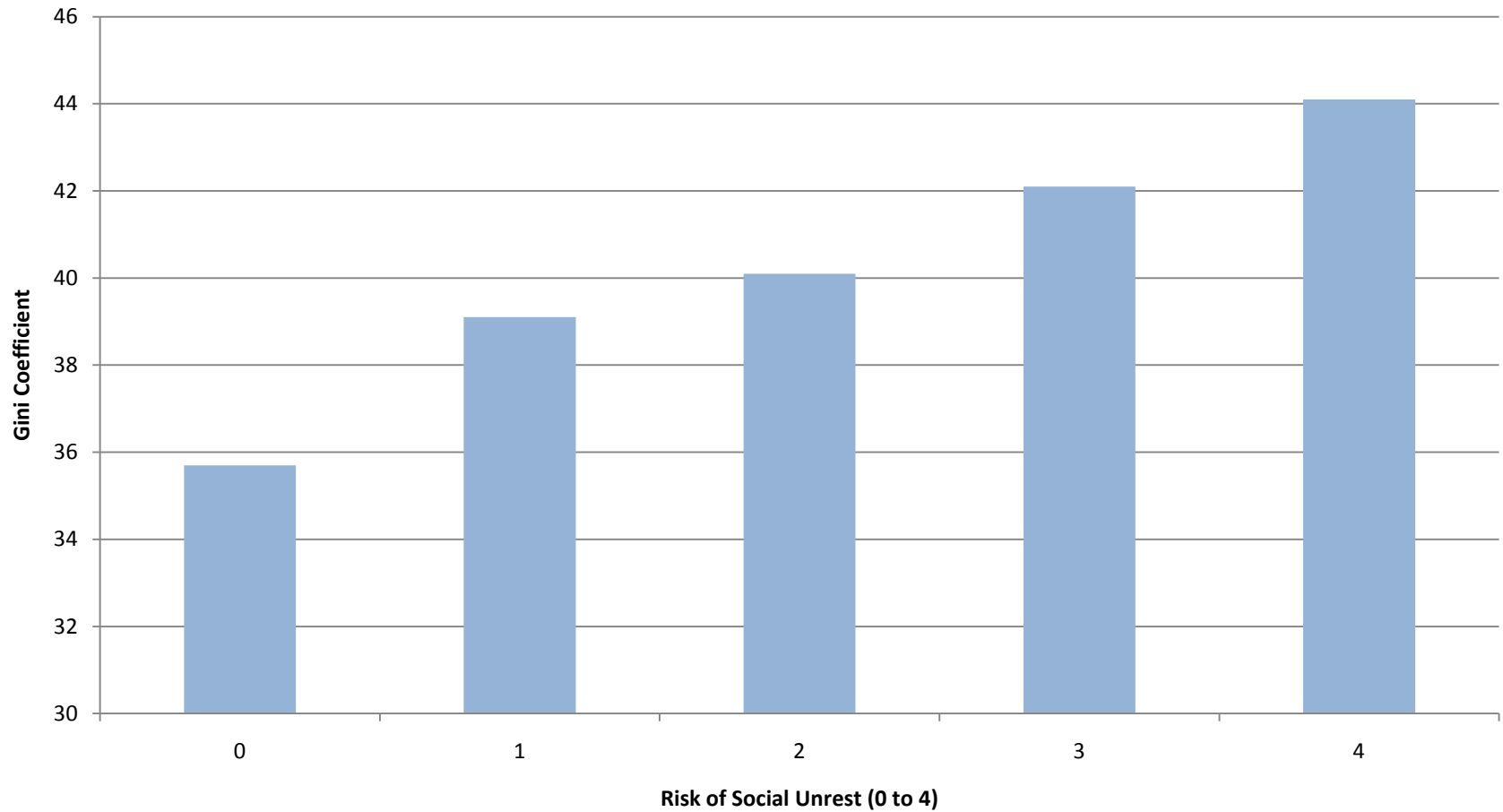
### Correlations between profits shares and investment (early 1990s to 2007)

Region	Slope	adjusted R2
OECD	-0.50***	0.41
EU 15	-0.36***	0.26
Asia	0.12***	0.044
East Europe	0.22***	0.077
Latin America	-0.22***	0.49
Northern Africa	0.18***	0.22

# Some countries achieved high employment and moderate inequalities

	Welfare state <sup>1</sup>	Tripartite institutions <sup>2</sup>	Violation of Political rights <sup>3</sup>
<b>High per-capita GDP countries</b>			
High employment/low inequalities (e.g. Austria, Denmark, Finland, Norway Switzerland and Sweden)	16.2	3.7	1.0
High employment/high inequalities (e.g. New Zealand, United Kingdom and United States)	11.0	1.0	1.0
<b>Medium and low per-capita GDP countries</b>			
High employment/low inequalities (e.g. Czech Republic, Estonia, Hungary and Uruguay)	14.1	2.2	1.6
High employment/high inequalities (e.g. Costa Rica, Jamaica, Mexico, Paraguay and Philippines)	2.1	1.2	2.4

# Rise of social unrest and income inequality 2009



# Possible policy approaches

- Correct market inequalities (action at the roots)
  - Stronger labour market institutions
  - Reduced informality, precarious employment
  - Protect labour market transitions
- Redistribute through progressive taxation –but can countries act in isolation?
- Redistribute through social transfers –but up to a limit!
  - 2.4% of GDP spending to reduce Gini by 1 point
  - France spends 1.4 % of GDP to support low-paid work

## Example of a 5% wage increase in surplus EU countries

	EU	US
GDP Growth	0.47%	0.07%
Change in unemployment	-0.26	-0.05

Source: ILO World of Work Report, 2010.