

Addressing inequality through wage policy

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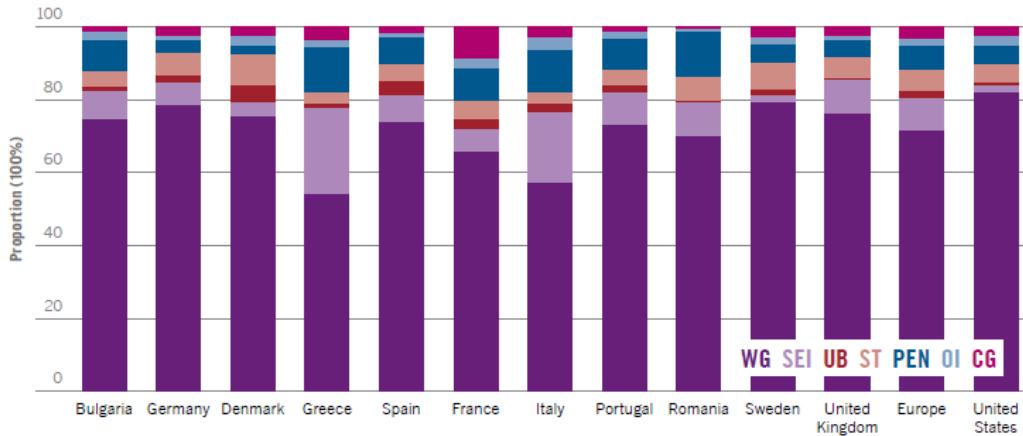
Why use wage policy to reduce inequality?

- In high-income countries, growing wage inequality has been the most important factor in the increase in inequality since the 1980s
- In emerging countries where inequality has fallen in the last 15 years, such as in Brazil or Argentina, this was in part a result of reduced wage inequality
- Social transfers can correct inequalities in part but do not address the source of the problem
- So, both types of policies need to be combined



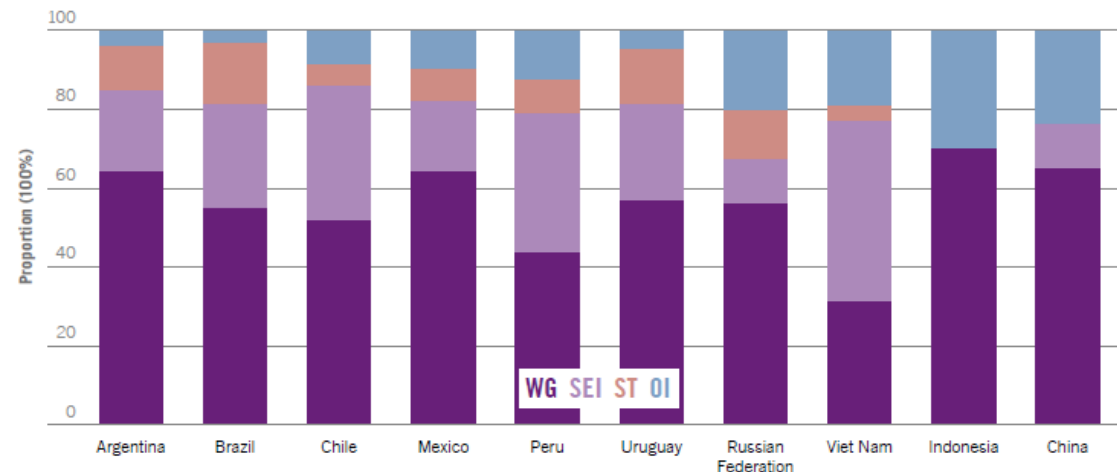
Wages as a proportion of household income (households with at least one member of working age)

Developed



WAGES are usually
between 60% and 80% of
total household income

Emerging & developing



WAGES are between
30% and 60% of total
household income,
depending on level of
self-employment



The ILO has long regarded wage policy as an important tool for social justice

- The ILO Constitution calls for “**policies in regard to wages and earnings ... designed to ensure a just share of the fruits of progress to all and a minimum living wage to all employed and in need of such protection**”. This call was repeated in the 2008 *Declaration on Social Justice for a Fair Globalization*
- The new report of the *Global Commission on the Future of Work* calls for the establishment of a “Universal Labour Guarantee”, which would include fundamental rights, maximum limits on working hours, protection of safety and health at work, and an “adequate living wage”



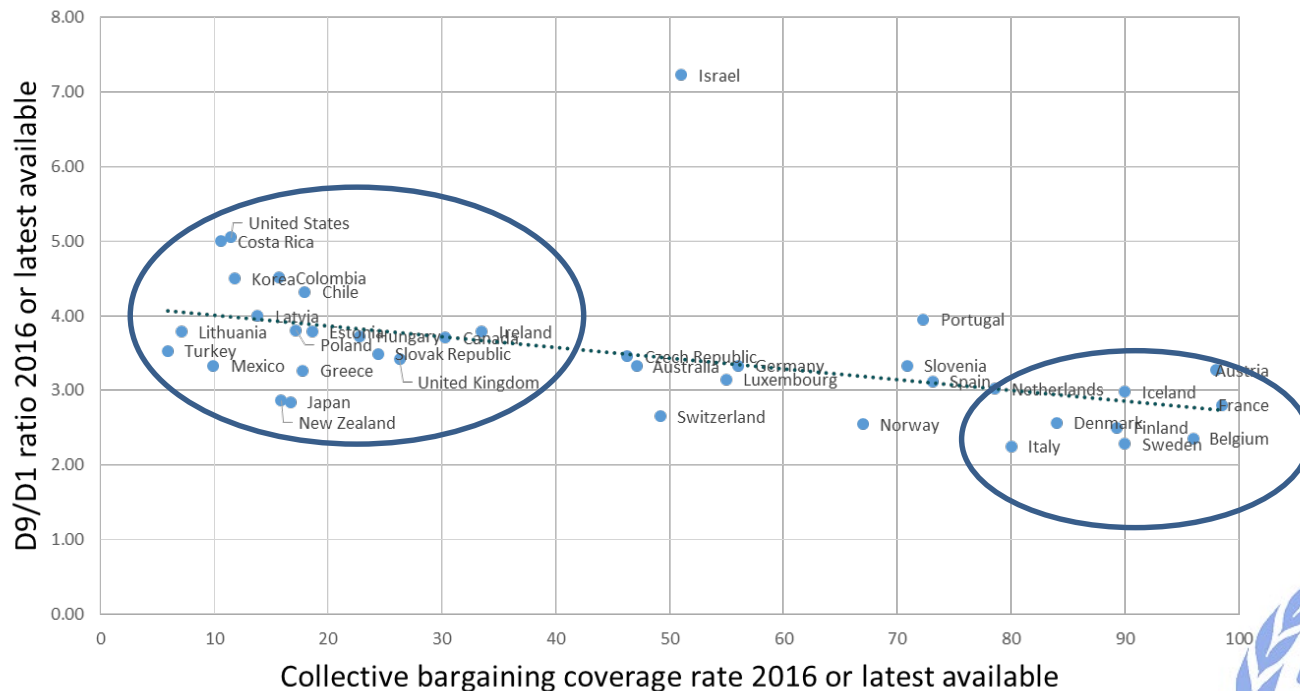
An adequate minimum wage

- Minimum wages have contributed to reducing wage inequality in countries, from Brazil, to China, Turkey or the Russian Federation.
- They can reduce the gender pay gaps in the lower half of the wage distribution.
- Have little or no adverse effect on employment or informality, and can also raise wages in the informal economy through the “lighthouse” effect
- But minimum wages need to be:
 - evidence-based
 - have wide coverage
 - adjusted from time to time; and
 - enforced



Strengthening collective bargaining over wages

Minimum wages only set a floor; collective bargaining can be used to set wages above the floor and enable workers to participate in the success of enterprises and to gain a fair share of the fruits of progress



Source: www.ilo.org/ilostat (IRData 2012/13); OECDstat



Ensuring equal pay for work of equal value

- Gender pay gaps across the world remain unacceptably high; women are paid approximately 20 per cent less than men.
- In middle- and low-income countries, the gap is highest amongst the lower paid workers, while in rich countries is highest at the top.
- Education explains a small fraction of the gender pay gap everywhere.
- More efforts are needed to implement equal pay for women and men, and to address the undervaluation of women's work.
- This would also reduce overall wage inequality since women are often at the low end of the distribution.



The need for combined policy action

To reduce inequality, there is a need for an integrated policy package:

- **Increasing investment in people's capabilities**, such as equal access to education and policies to increase skills of the labour force, particularly at the bottom of the distribution
- **Increasing investment in the institutions of work**, including in wage-determination mechanisms, but also fundamental rights, limits on working time and OSH
- **Increasing investment in decent and sustainable work**, such as through adequate business incentive structures; the creation of paid employment for those at the bottom is key to reducing overall inequality





THANK YOU!

