United Nations Department of Economic and Social Affairs
Division for Inclusive Social Development

Chair's Summary
High-level panel discussion on the priority theme

"Addressing inequalities and challenges to social inclusion through fiscal, wage and social protection policies"
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Monday, 11 February 2019, 3:00pm – 6:00 pm
United Nations headquarters, New York

COMMISSION for SOCIAL DEVELOPMENT
United Nations Headquarters, New York

The Commission held a high-level panel discussion on the priority theme, *"Addressing Inequalities and challenges to social inclusion through fiscal, wage and social protection policies".* The key note speaker was **Mr. Lucas Chancel,** Co-Director of the World Inequality Lab and of the World Inequality Database (WID.world) at the Paris School Lead coordinator of the World Inequality Report 2018. Panelists were **H.E. Mr. Andrei Dapkiunas,** Deputy Minister of Foreign Affairs of the Republic of Belarus, **H.E. Mr. Sebastian Villarreal,** Under-Secretary of Social Services, Chile**, Mr. HAO Bin,** Director General of the Department of International Cooperation, Ministry of Human Resources and Social Security (MOHRSS) of the People's Republic of China**, Mr. Stanfield Michelo,** Master Trainer, African Regional Social Protection Leadership Curriculum TRANSFORM, and former Director of Social Protection, Government of Zambia, **Ms. Rosa Pavanelli,** General Secretary of the global union federation of the Public Services International (PSI), **Ms. Manuela Tomei,** Director of the Conditions of Work and Employment Department of the International Labour Organization (ILO). **Mr. Elliott Harris,** UN Chief Economist and Assistant Secretary-General for Economic Development in the UN Department of Economic and Social Affairs (DESA) moderated the panel. **H.E. Mr. Gil S. Beltran,** Under-Secretary of Finance of the Philippines, made interventions as lead discussant.

Trends in inequality

There has always been and will be some degree of inequality between and within countries. However, if the level of inequality gets too high/extreme, it can lead to devastating social and economic outcomes. Despite daily conversations on inequality, there are no strong data/statistics to measure inequality. This is partly due to the opacity of the financial system, but also because of the way public statistics are constructed - largely around the average of macro-economic statistics. To address the data gap, the World Inequality Database (WID.world), has been developed in collaboration with more than 100 researchers across regions. According to the World Inequality Report 2018[1], global inequality has increased among world citizens despite high growth in emerging economies. The top 1 % captured twice as much global income growth as that of the bottom 50%. It also observed that the rise in inequality is greater within countries than between countries. The trends indicate rising income in emerging countries and the prosperity of the global top 1%: the global top 1 % captured 27% of total income growth between 1980 – 2016, with the bottom 50% getting 12% during the same period.

Rising inequality poses serious challenges, especially for countries with emerging economies, as high inequality weakens the impact of growth on the reduction of poverty and erodes social cohesion, leading to high level of social tensions/unsustainability. Different country trajectories show that rising inequality is not a fatality but is the results of policy choices. Global response is necessary to improve data on equality, as the issue of inequality has become increasingly important, especially to middle income countries.

Policy choices and institutional changes are key

Global income share projections indicates that global income inequality will continue to rise, despite high growth in emerging economies, as the convergence in income inequality between countries is not enough to counter within-country inequality trends. Policy choices and institutional changes are the determinants of whether countries can hold or curb the rise in within-country inequality. Policy tools that have proven to be effective in reducing inequalities include: 1) policies to ensure equal opportunities and equal access to public services for all people regardless of their backgrounds; 2) polices to invest in human capital, especially of the bottom of the inequality pyramid; and 3) progressive taxation to finance basic services, especially health, education and social protection. The focus should be not so much on the growing share of the top income owners but the bottom low-income groups. In this regard, SDG 10.1 – progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average, is good target, however, it should be more rigorously monitored.

The challenges facing many countries across regions include a decline in tax revenues and, related to this, the high concentration of private capital. Assets owned by the private sector has risen strongly in recent years, while public capital has sharply declined across countries with advanced economies. As wealth has become increasingly financialized and their ownership privatized, it has become difficult for any governments to track income and wealth dynamics. For example, the wealth currently held in tax havens is equivalent to more than 10% of global GDP and has increased considerably since the 1970s. This gives countries much less fiscal space to tackle inequalities through public investments. In this context, the United Nations was urged to push forward new, more realistic indicators that finally go "beyond GDP" as well as to create a global financial registry to track financial assets, which will allow a more informed public debate on inequalities, fight tax evasion, money laundering, and financing of terrorism.

There has also been a shift in income taxation from high-income to lower-income tax payers (i.e., reduced corporate tax rates vs increased VAT rate on consumers) in many countries. The current "broken system" allows large corporations to benefit from tax avoidance and evasion. One speaker called for introducing a flat tax rate for large multinational corporations, and the creation of an intergovernmental body under the United Nations to readdress corporate tax systems, while others advocated for public disclosures of tax behaviors to ensure transparency and secure the revenues necessary for implementing the SDGs. In

[1] which presents the first assessment of income and wealth distribution since 1980s based on the Database https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf

addition to fight against tax evasion/avoidance, it is also important to combat illiteracy and educate citizens on the importance of paying tax, so that Governments can invest in public infrastructures and services, especially quality education healthcare, to reduce poverty and inequalities.

Private-public partnerships

It was noted that public-private partnership (PPPs) called for in the 2030 Agenda, may not necessarily bring a solution to address inequalities and achieve the goal of leaving no one behind. In fact, evidences from many countries show that PPPs has reduced not only the quality of public services, but also people's access to essential services, such as education, healthcare, safe drinking water and adequate sanitation. The concept of PPPs for economic development does not automatically apply to social development, and on the contrary, are driving States' long-term debts. For example, innovative financing, such as student loans and healthcare loans, if not well-regulated by governments, often resulted in deepening household debts. In OECD countries, 150 million people annually fall under the poverty line, due to costs related to healthcare. Similarly, fewer young people can complete their studies due to increasing costs.

Wage policy

According to the Global Wage Report 2016/17[2], wage growth in 2017 was not only lower than in 2016 but fell to its lowest since 2008. Global wage growth in real terms has declined from 2.4 % in 2016 to just 1.8 % in 2017, and if excluding China, it fell from 1.8 % in 2016 to 1.1 % in 2017. In high-income countries, wage growth lags productivity growth, and the decoupling between wages and labour productivity is the reason behind the substantially lower labour income shares in recent years. Wage inequality is highest in the low- and middle-income countries. While real wages between 1999 and 2017 have almost tripled in emerging and developing G20 countries, compared with just 9 % increase in G20 advanced countries, average wages in many low- and middle-income countries remain low and insufficient to adequately cover the needs of workers and their families. A fair system of industrial relations with collective bargaining and the recognition of social partners is needed to increase wages and create decent work, and address the negative social impact brought by the increased flexibility and precariousness in the labour market.

In high-income countries, growing wage inequality has been the most important factor in the increase in inequality since 1980s. Low wage growth in high-income countries is caused by structural changes in labour markets, from long-term stable employment to precarious jobs (contractual, or part-time employment) through the introduction of flexible labour market policies. In emerging countries, a decline in wage inequalities associated with an increase in formal employment, contributed to reducing inequalities. The increase in wage, in particular in minimum wage, boosted income of poor families. Social transfers, while effective in reducing inequalities, do not address the root causes, therefore, countries need both social protection and wage policies to effectively combat inequalities. In particular, for most developing countries which have limited fiscal space to expand social protection, focusing on wage policy is considered important.

As workers are the main assets and wage represents 60 – 80 percent of the total household income in developing countries, ensuring living minimum wage is a meaningful way to address the needs of the working poor, while reducing income inequality. Evidence shows that setting a minimum wage

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[2] https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_537846.pdf

contributed to reducing wage inequality in such countries as Brazil, China, Turkey, and the Russian Federation.

It was pointed out that, in introducing minimum wage, an integrated approach is necessary to find the right configurations, taking into consideration: 1) evidence: 2) wide coverage; 3) the need to monitor regularly to adjust as necessary vis a vis inflation rate; 4) enforcement measures, for example, sanctions in case of non-compliance to ensure the implementation. While minimum wages only set a floor, collective bargaining can be used to set wages above the floor. The role of labour institutions is critical to ensure better alignment between productivity and the average wage development. Minimum wage is also an important issue in considering potential impact of future of work and how people with contractual status can enjoy minimum income and social protection.

To increase wages and create decent jobs, there is an urgent need for creating/supporting the system that promotes fair labour relationships, including all partners in the labour market - Governments, employers and trade unions, to work together to build a better world. In addition, an integrated policy package is needed cutting across such areas as: 1) increase investment in people's capabilities, particularly at the bottom of the distribution; 2) increase investment in the institutions of work, including in wage-determination mechanism, but also fundamental rights, limits on working time, and occupational safety and health; and 3) increase investment in decent and sustainable work, including through adequate business incentive structures; the creation of paid employment for those at the bottom. Further, addressing gender pay gap in low-wage job in developing countries and high-quality jobs in developed countries is critical, as it would contribute to reducing overall wage inequality.

<u>Social protection policies</u>

Social protection has emerged as one of the key policy instruments to reduce inequality and poverty simultaneously, while also promoting inclusive growth. Nationally appropriate social protection systems, including floors, can make critical contributions to address vulnerabilities faced by those living in or just above poverty, those who are marginalized and excluded, and those affected by natural and human-made disasters. Social protection systems must be linked to the quality of employment to reduce the pressure on social protection schemes, so that all workers, irrespective of their contractual status, can benefit from social protection systems.

Although social protection has been lifted high on the international agenda, more than half of the global population are not covered by any social protection measures. At least half of the world's population do not have full coverage of essential health services. Social protection coverage for persons of working age is still limited, due partly to the high prevalence of work in the informal work. Many of those engaged in vulnerable work lack access to adequate social protection, despite the high risks of job loss, illness, injury, or disability. Further, an increased number of people working in the formal sector are on contract, with reduced social protection.

Increasingly, employers have introduced a variety of changes in quality of work, including reducing the portion of social protection to reduce costs. To ensure workers to benefit from the minimum protection, some measures can be considered, such as reducing the incentives to rely on contract workers, or certain types of employment practices. Some of the conditions for decent work, including guaranteeing occupational safety and health, should be extended to all jobs. To make workers in the informal sector become more aware of their rights, ensuring access to education at earlier stage of children was considered important. In societies experiencing population ageing, investing in education for older persons is also important for them to stay in employment. In addition, expanding social protection to the informal employment sector will require stronger capacity at the national, organizational and individual levels.

Finally, societies should equip workers with new types of work to be brought by technical changes/innovations, including digital transformation, as social changes - clear structural changes, and their impacts on people, especially for young people, will be huge. In this regard, the Global Commission for Future of Work, establishment by ILO was welcomed and the strong role of the United Nations on this issue was encouraged.

Examples of country strategies

Belarus has been developing social entrepreneurship and involve civil society in those efforts, including by providing support for small and medium-sized enterprises and woman-run businesses. In addition, the Government is working to provide more support for ageing persons; predict and respond to the social changes resulting from technological progress; and progressively develop education systems and labour markets. Countries should also work together, assisted by the United Nations, to address emerging social challenges.

Chile has successfully reduced its poverty rate by 20 % since 2005, through its family-oriented inclusive social policies. For example, both primary and secondary education, are universal and free; national compulsory kindergarten fund to cover 100% of pre-elementary children; solidarity fund for higher education for students with vulnerable backgrounds; student loan to assist young people pursue higher education, with families living in extreme poverty supported with income assistance. For health, priority health care is universal and advanced health care is covered by national health fund. Chile put in place children first policy and promoted the inclusion of women in labour market, by introducing universal nursery for working mothers. With these policies, Chile achieved 4% GDP growth and created jobs.

China's proactive employment and social protection measures, consisting of public employment services, work related injury insurance and ensuring full payment of wages, have promoted social inclusion of 300 million rural migrant workers, improved their well-beings, while dramatically reduced rural poverty between 2012 – 2018. As rural migrant workers (predominantly engaged in wage works in manufacturing and construction sectors) represents a significant portion of China's labor force, increasing their income and security was key to the increase in the annual rural per capita dispensable income, which has more than doubled between 2010 – 2012. China introduced unified pension insurance for both urban and rural residents in 2014, resulted in substantial increase in pension (25% of all employees in 2008 to all working people in 2018). China has extended medical insurances coverage to 95% of the population (1.32 billion people) by 2017.

In **Zambia**, to address social inclusion of poor and marginalized groups, the Government implemented the National Social Protection Strategy between 2003 and 2005, formulated social protection policy in 2014, and its Social Cash Transfer (SCT) reached national coverage in 2018, with 72% of beneficiaries being female, and households with persons with disabilities receive double benefits. Based on the results of impact assessment, Zambia has been expanding social protection horizontally and vertically and strengthen inter-governmental coordination to maximize its impact. As the extreme poverty rates are higher among the female-headed households, Government has been implementing programmes aiming at empowering women and girls. There has been a shift in national and global policies to introducing innovative financing, including student loans and health care loans, to prevent people from falling into poverty due to ill health and incompletion of education.

The Philippines's recent fiscal reforms include a marginal tax increase aimed at accelerating investments in infrastructure and human capital, including through education, healthcare and social protection programmes. For example, taxing on tobacco and alcohol raised 1.1% of GDP to expand the universal health coverage. The role of Government has evolved from an active player to that of a "referee" and enforcer of collective bargaining agreements, while the private sector is driving growth. Those changes are set against the backdrop of a broad national microinsurance initiative, which helped thousands of people rebuild their lives following Typhoon Haiyan in 2013. Government has been flattening/ broadening tax basis to cover conditional cash transfers and promoting PPPs in areas such as risk-management and micro-finance programmes. The following were found to be important: 1) dialogue to ensure inclusivity of outcome and process; 2) need for consultations and implementation; 3) need of scaling up.

To ensure all people living in dignity, **France** has just enacted a law on 29 January 2019 not to tax on extra longer work for those living in poverty. The **Netherlands** maintains low inequality through its redistributive efforts, including generous pensions, progressive tax system, and by making flexible contract more expensive than open-ended contract to offer more protection to self-employed workers. The Netherlands created 100,000 jobs for persons with disabilities who have difficulties in finding jobs. **Algeria** allocated 25% of revenues from natural resources to social protection, which has improved access to education and reduced illiteracy. Some delegates cited stubborn challenges including slow wage growth, limited domestic resources and increasing digitalization, calling for a "new paradigm" to address inequality and poverty.

The role of the United Nations and the Commission for Social development

The United Nations can promote global partnership for social protection floors as a major tool to address inequalities and promote social inclusion. The Commission for Social Development should continue to address these issues, in partnership with UNDESA, ILO, UNESCO, WHO, and other international organizations. As the administration of social protection systems, including floors, has been getting more complicated, collaborative work is essential to assist Member States in this area.

The United Nations can play a critical role to foster better policies by changing the norms and standards with which global economy is framed and economic growth is measured and tracked (i.e., by establishing standardized measures of growth inequality: GDP plus growth distribution), so that the benefits of growth are shared more equitably, and the living standards and wellbeing of all people are improved.

The United Nations/Commission can promote joint responsibilities, among governments, civil society, the private sector (companies, social entrepreneurs, cooperatives), for collaborative data collection to address inequalities in its multiple dimensions.

There should be coherence between the work of the Commission and that of the mechanisms of Financing for Development, as there seems to be discrepancies between policy recommendations of respective bodies (people-centered and rights-based approach vis a vis promoting increased private capital to investing in SDGs).