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Reducing inequality won't happen on its own – explicit policies are needed

By Janine Berg

For the past decades, in many countries of the world, the State has slowly retreated amidst the belief that by giving more space to market forces there would be greater economic growth and thus greater economic opportunities. This belief was manifest in the drive to liberalize goods and financial markets in the 1980s and 1990s across the world, and in the decreased investment by the public sector of many advanced economies in public services and goods as well as in redistributive policies.

Not all countries instituted these changes as wholeheartedly as others, and not all countries originated from the same starting point, but the overall effect has been rising inequality in most parts of the world: North America, Europe, Asia, and parts of Africa. Latin American in the 2000s (though not in the 1980s and 1990s) stands as an exception, largely because many countries in the region increased public investment, strengthened minimum wages and instituted redistributive policies during this decade.

Over the past few years, the increase in inequality has become a growing concern among policymakers and the public at large. But while the problem is now recognized, many of the policy solutions advanced are the same as those espoused during the onset of globalization, namely improving workers' skills so that they can better compete in the labour market.

Education is important – for one's personal development and because it is the bedrock of a strong democracy. For an individual, education can be the key to getting ahead and having a more secure and higher income. But for society as a whole, its 'inequality-reducing effects' are limited to increasing the supply of skilled workers, which in a competitive labour market, would ultimately reduce the earnings of the higher skilled. Wages would compress under this scenario, reducing inequality, but this is unlikely to be the solution that policymakers are hoping for. Moreover, there are some jobs that all countries need and which are not 'high skilled' including cashiers, retail salespersons, food preparation workers, and general office clerks. These jobs are among the occupations with the highest employment levels in developed and developing countries alike. And there is no reason why workers in these jobs should be relegated to poverty.

Rather, if countries want equitable societies with large middle classes, then they need to strengthen or institute a wide range of policies that support job creation, strengthen labour market institutions, and provide social protection to all. This can only be achieved with the explicit political will and commitment of societies, and with a greater role returned to the State, as the manifestation of the democratic will of the majority.

A new book published by the ILO, *Labour markets, institutions and inequality*, and based on the contributions of ILO policy experts makes this point, by analyzing how labour market institutions, defined broadly, to include the more familiar institutions that regulate the workplace – collective bargaining, minimum wages, the type of employment contract and working-time regulations – as well as institutions that redistribute income, such as pensions, income support for the unemployed and the poor, and public social services, contribute to reducing inequality.

Specifically the book shows how a range of labour and social policy institutions affect workers access to the labour market, their earnings and working conditions once employed, as well as the role of social policies in influencing income at work and providing protection to those who are not working.

Access to the labour market

Policies are needed to promote full employment to ensure opportunities in the labour market. Lowering the cost of labour by cutting wages, as has been recently tried in Greece, will not solve problems of unemployment, rather, macroeconomic, trade and investment policies need to be designed with the explicit goal of supporting job creation. In recent decades, the overwhelming focus of macroeconomic policy has been to curtail inflation, with little or any attention given to employment promotion. Yet central banks, and national development banks where they exist, have a range of policy tools that they can use to promote business development and job creation.

Workers are better able to access these jobs if there are supportive institutions such as the provision of public care services that facilitate women's ability to enter or remain in paid work. When care services are not publicly provided, workers either are not able to enter the labour market, or have less flexibility – and thus less choice and bargaining power – when they do enter. If they do enter, they may relegate their domestic responsibilities to oth-

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er, usually female, members of the household, which explains in part the higher share of young female NEETs (not in education, training or work) in lower-income families.

Labour market institutions affect earnings in the labour market

Collective bargaining and minimum wages are two institutions that directly affect workers' earnings, compressing overall wage distribution by propping up wages at the bottom of the wage pyramid. Unions' influence on wage distribution in an economy can come from their role as actors representing labour in broader economic and social policy debates, as well as parties to collective bargaining agreements negotiated at either the firm or sectoral level. The influence of collective bargaining will differ depending on whether the system is "narrow", limited to the parties or bargaining unit, or an "encompassing system", whereby collective bargaining agreements are extended to workers in the broader economic sector who are not members of a union.

Minimum wages, , are also an effective tool for compressing wage distribution, and they serve to lessen the incidence of low pay in both developed and developing countries. More than 90 per cent of ILO member States have a minimum wage system in place, and even in developing countries where enforcement mechanisms are weak, minimum wages help to reduce inequality. Nonetheless there are groups that have been excluded from minimum wage protections, such as domestic workers, and more effort is needed to ensure that coverage is universal and enforced.

The types of employment contracts people work under also influence their pay and working conditions. The rise in temporary employment contracts and part-time work can contribute to inequality depending on how it is regulated in national markets. For example, for part-time work, where national regulation embodies the principle of equal treatment of part-time workers, wages and benefits will be on a pro-rata basis and the worker will be less penalized for working part-time hours. Moreover, policies that grant employees the right to switch into and out of part-time work mitigate the risk of these jobs becoming a career trap.

Minimum wages, collective bargaining and policies that protect part-time and temporary workers help increase the earnings of women, youth and migrant workers, while limiting the overall dispersion of income in the labour market – calling into question the assumption that labour market regulations hurt these groups.

Redistributive policies affect income both in and out of the labour market

When good-quality education, health care, and childcare are publicly provided, lower-income families gain access to essential services that support their children's development and future labour market prospects. It also lessens their need to purchase these services on the market, at a high cost relative to their income, and often of lesser quality.

Governments can also redistribute income through a myriad of universal and targeted social programmes. Besides directly affecting family incomes, social policies can also indirectly affect incomes, through their influence on the labour market. Social assistance programmes can lessen workers' desperation and thus their likelihood of falling victim to forced labour or other forms of exploitative work. Unemployment benefits can improve matching in the labour market as well as workers' ability to bargain for higher wages; employment guarantee programmes can improve compliance with the minimum wage.

The redistributive potential of social policies is also affected by design, including the mix between public and private forms of protection, and whether there are minimum guarantees for all. Many developing countries have recently expanded their social assistance programmes, which is a welcome development, as it has helped to reduce extreme poverty. But because of the low level of benefits, these policies need to be complemented with other social protection measures that can provide expanded support to workers and have a greater redistributive effect.

The need for political will

There is a wide range of distributive and redistributive policies that countries can adapt if they want to build just societies; there is no "one-size-fits-all" model for reducing inequality, but a range of policy choices. Lower-income countries with large shares of self-employment can put greater emphasis on expanding public services and instituting social protection policies, while middle and higher-income countries need to tackle inequality in the labour market in tandem with redistributive policies.

But the first starting point is the recognition that market forces on their own will not lead to equitable societies with large middle classes. There is a need for government intervention, for active social partners that can shape policies, and for the political will and commitment of all parties to construct and strengthen institutions that can raise earnings at work as well as protect those who are out of the labour market. Only then can just societies be assured.

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