

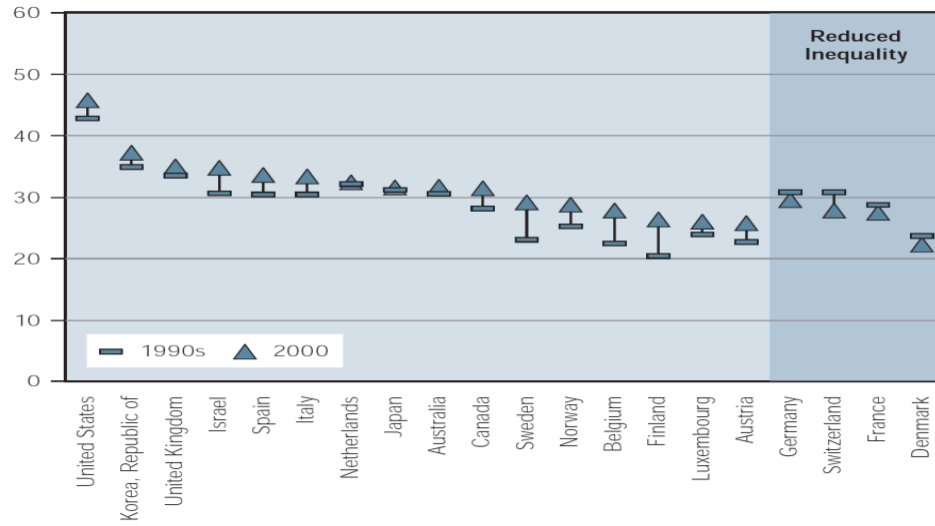
# **Efficiency with fairness: how far can policies go?**

*Raymond Torres,*

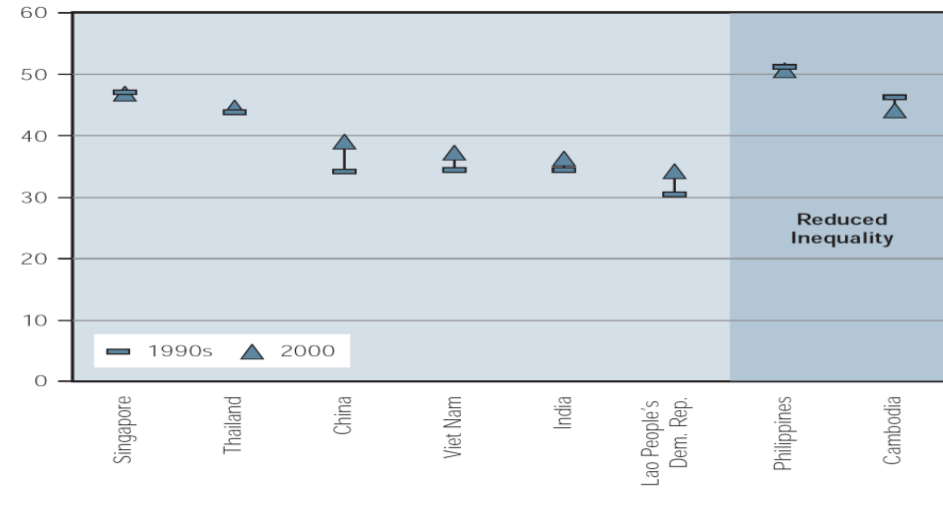
*Director, International Institute for Labour Studies, ILO*

# Gini between mid 1980s and mid-2000s

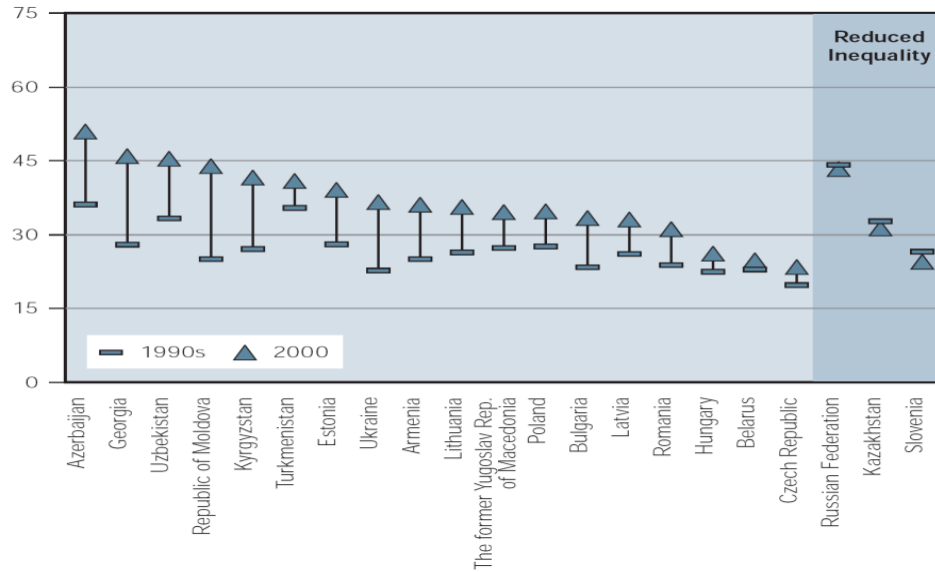
## Advanced Economies



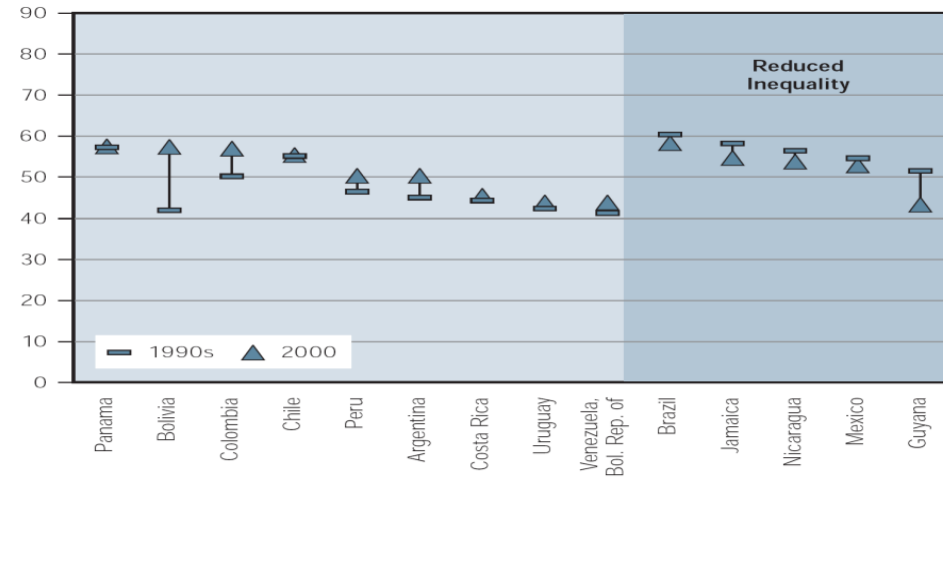
## Asia & the Pacific



## Central & Eastern Europe and Former Soviet Republics



## Latin America & the Caribbean



# 3 drivers of final-income inequalities

- Market incomes
  - Wage inequalities
  - Labour versus non-labour income
- Employment
- Redistribution (tax and benefit policies)

## Lessons from past efficiency-cum-equity policies

1. Redistribution: the role of well-designed social protection (Nordics, Canada, Brazil)
  - Risk of tradeoff with work incentives
  - But this can be addressed by:
    - Activation policies
    - Conditionality
  - This can promote participation and support crisis recovery!

## 2. Well-designed labour regulations to support labour demand and reduce duality

- Individual accounts : the case of Austria
- Making dismissal process more predictable (Netherlands)
- Penalising unfair/discriminatory dismissal (UK post 1997)
- Policies to reduce informality (Brazil)

### 3. Interventions at the low-end of the labour market

- Well-designed minimum wages (UK)
- Make work pay policies (Canada)
- Skills development
- Role of centralised collective bargaining to endogenise tradeoffs

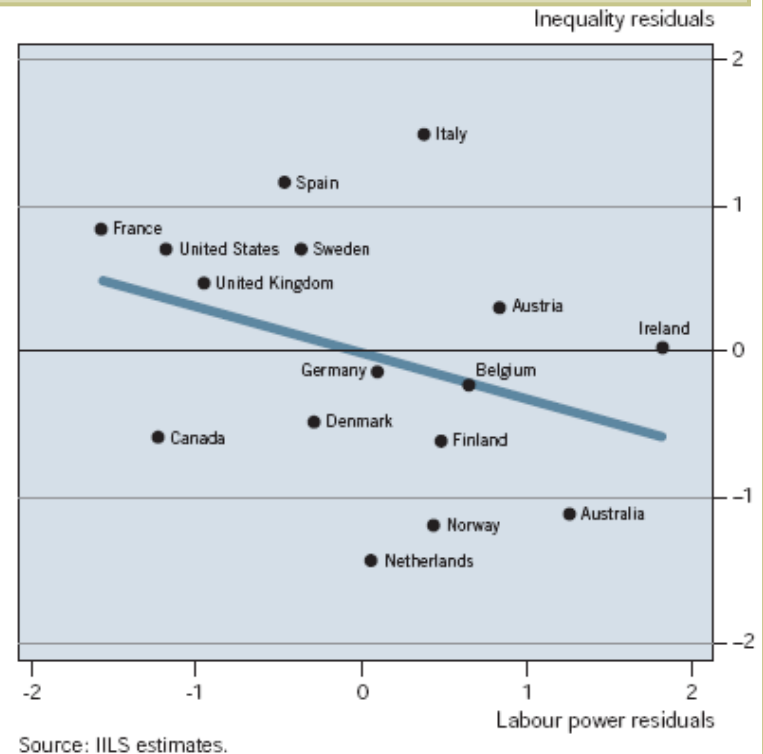
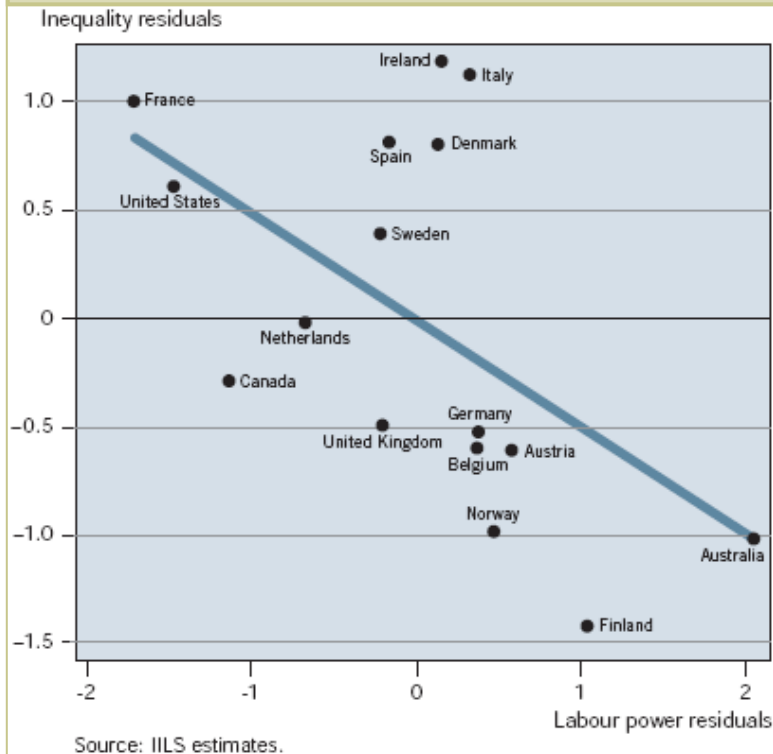
# Limits to efficiency-cum-equity policies

## 1. Inequality reducing effect of labour institutions is declining

➤ Partial correlation between inequality and labour power controlling for welfare state size

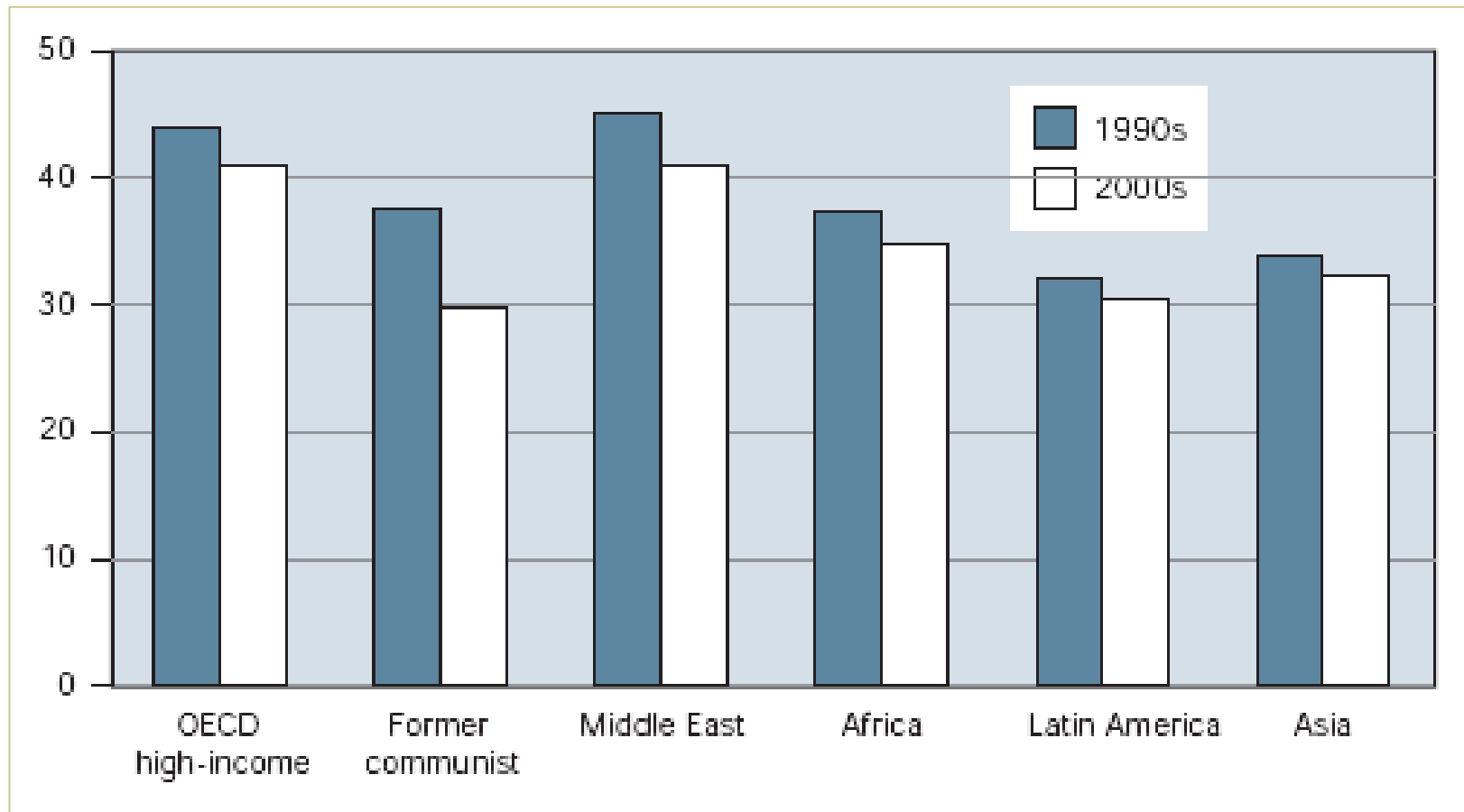
➤ 1978-1989

1990-2002



## 2. Taxation has become less progressive: tax competition?

➤ Top marginal individual income taxes (%)





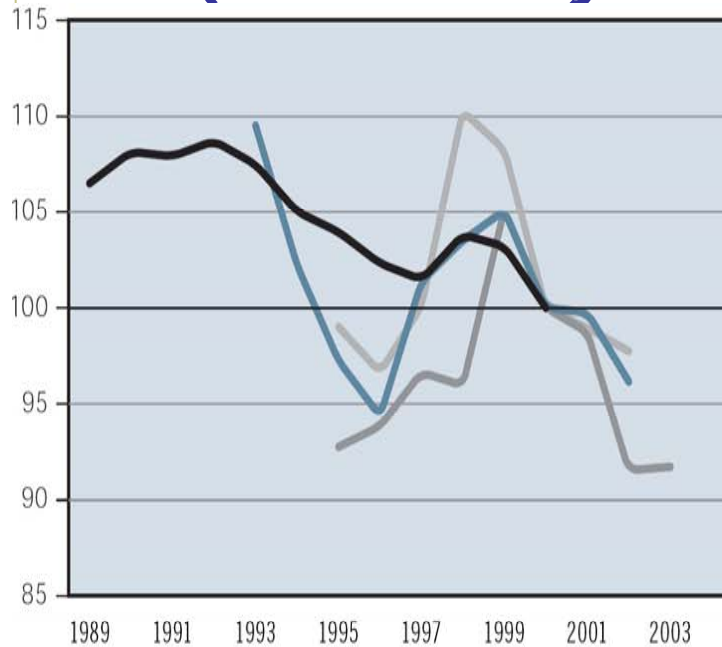
### 3. Fiscal constraints make the approach more difficult

Public Debt (% of GDP)

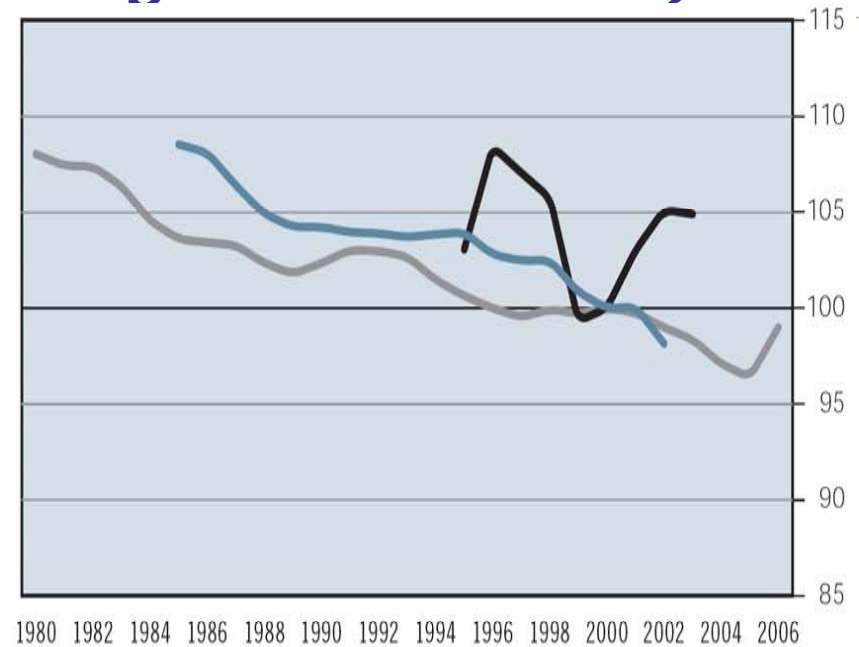
	<u>2007</u>	<u>2009</u>
G20	62.0	75.1
US	61.8	83.9
Euro-zone	70.9	81.8

# *Back to the root causes: declining labour incomes versus non-labour incomes*

*(share of adjusted wage shares in GDP)*



- North Africa
- Sub-Saharan Africa
- Latin America and the Caribbean
- Middle East



- Advanced Economies
- Central & Eastern Europe and Former Soviet Republics
- Asia

# Thank you for your attention

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