

Comments on presentation by Professor Richard Freeman
OECD Forum on Tackling Inequality, Paris, 2 May 2011
Stephen Pursey, ILO

Thank you Minister, and thank you Professor Freeman for a brilliant but profoundly disturbing speech.

Together with the excellent background papers prepared by the OECD, we have a very clear picture of a trend of a substantial rise in inequality in many countries.

As the Secretary-General said in his opening remarks we face a serious threat to our societies and economies.

The title of this Forum is very appropriate; inequality has to be tackled and urgently.

There is a great deal to agree with in the remarks of Ministers Hundstorfer and Macklin, as well as Professor Freeman and the Secretary-General. I especially appreciated your stress Minister von der Leyen on access to decent work and social dialogue.

I would like to pick up on four points made by Professor Freeman.

First, the social effects of increased inequality are beginning to be captured by increasingly solid studies. Rising crime, drug and alcohol abuse, mental and physical health, are not just related to absolute poverty but also to the widening gap between top and bottom incomes.

Some studies, Professor Freeman said, are identifying a decline in trust. This intangible but vitally important social glue to societies and economies is a product of a sense of fairness and social justice. Law enforcement will only work well where citizens share and respect an underlying common understanding about how to behave at work, in business and in the community. Eroding social trust is a clear and present threat to democracies and market economies.

Persistent inequality risks creating a “gated community” syndrome, or economic feudalism as Professor Freeman called it, in which those with the money try to build barriers to keep the rest out. Social mobility is declining especially in the countries with the widest income gaps. Inequality of opportunity as well as inequality of outcomes has to be tackled too. Surely a big part of the frustration and despair of young people on the fringes of the labour market is the sense that there is no escape for them.

Second, one of the main drivers of inequality comes from the very top. The largest slice of the growth pie has gone in recent years to a very narrow stratum of society. The studies call their incomes “wages” but most wage earners would not recognize these incomes as a fair day’s pay for a fair day’s work.

Within this top slice of income earners, Professor Freeman points out that a large part seems to come from the rise of the finance sector.

As we have seen from analysis of the perverse incentive effects of top remuneration in this sector, salaries are a mix of basic pay, profit-related bonuses, share options and capital gains. And they are to a very large extent determined by the people who receive them in, as you said Minister, non-transparent ways. The conclusion the ILO has drawn in a recent study published in our World of Work report is clear, tackling inequality has to start with reregulating international finance, including payment systems at the very top. We need to refocus financial policies on support to sustainable enterprises in the productive economy, especially smaller firms.

Third, inequality increases the vulnerability of economies to economic crises and recessions. The Managing Director of the IMF has recently highlighted Fund research that suggests that inequality can make countries more prone to financial crises, especially if associated with a large financial sector.

Their research also shows that sustainable growth over time is associated with a more equal income distribution. There is also some evidence that more unequal economies are more likely to generate large external imbalances both positive and negative.

Mr Strauss-Kahn said “These challenges affect both advanced and developing countries. We need policies to reduce inequality, and to ensure a fairer distribution of opportunities and resources. Strong social safety nets combined with progressive taxation can dampen market-driven inequality. Investment in health and education is critical. Collective bargaining rights are important, especially in an environment of stagnating real wages. Social partnership is a useful framework, as it allows both the growth gains and adjustment pains to be shared fairly.”

As many of you know, the Government of Norway hosted an ILO IMF Conference last September on the Challenges of Growth, Employment and Social Cohesion. One of the main messages was that employment and social policies are macroeconomic policies; central not residual issues. As Mr Gurria said, the OECD background papers and Professor Freeman show, what is happening in the labour market is hugely important to economic growth both in terms of its pace and, critically, its quality. In many developing and emerging economies relatively fast output growth is not reducing informal employment or is bringing it down very slowly.

Employment and social policy must be at the top table of policy-making, as must their ministers.

While redistributive policies remain very important, a key finding is that the root causes of growing inequality are in the sort of economic policies many countries have pursued in recent years.

Markets, including global markets, can and must be shaped by policies to yield more equal and more efficient outcomes.

With many countries now facing a long road back to fiscal sustainability and monetary policies risking getting stuck in a liquidity trap in which easy credit inflates new bubbles and does not generate much productive investment, we need to focus much more on policies to ensure that wage incomes rise more or less in line with productivity and that employment recovers rapidly.

An equitably shared income-led growth is key to strong, sustainable and balanced recovery. Promoting collective bargaining in its many and varied forms, strengthening minimum wage systems and extending social protection are key policy areas for tackling inequality at its roots.

Finally, my fourth point is that inequality within nations as well as between nations is an issue for international policy coordination. The evidence is that the social and economic effects of rising inequality spill over borders.

Many of us are naturally thinking currently of North Africa and the Middle East in this regard, but this is a global phenomenon.

Let me hasten to say that I am not recommending for example a global minimum wage. Countries will of course determine their own policies and strategies to enhance social justice. But we can agree on the principles and approaches not just within OECD countries but globally.

The ILO's 2008 Declaration on Social Justice for a Fair Globalization provides a good framework. International labour standards offer common principles for a legal and policy framework in many key areas, for example the mechanisms for setting minimum wages. And there is growing support for efforts to broaden a social floor of basic income protection and key social services.

So to conclude, it is appropriate that social and labour ministers are called upon to address the challenges growing inequality poses but the scale and widespread nature of the trends suggest that it will need to be tackled as a cross ministry drive.

So Madam Chair, thank you for initiating this vital discussion. The ILO will continue to collaborate closely with the OECD to take forward these issues because tackling inequality is a social, economic and international imperative.