Economic growth and inequality:

The role of labour market, social protection, and other key institutions

Analytical note prepared for the G20 Framework Working Group under the Brazilian Presidency

International Labour Organization (ILO)

June 2024

Contents

1. Introduction

The G20 has long underscored the importance of strong, sustainable, balanced, and inclusive growth. The G20 New Delhi Leaders' Declaration emphasizes the need for equitable growth and enhancing macroeconomic and financial stability and accelerating the full and effective implementation of the 2030 Agenda for Sustainable Development.[1] The Brazilian Presidency, under the theme of "building a just world and sustainable planet" has prioritized reducing inequality on the global policy agenda.

In recent decades, income inequality has increased in many countries worldwide, posing a significant policy challenge, with the COVID-19 pandemic in particular heightening pre-existing inequalities. The widening gap in income distribution has raised concerns among policymakers around the world given the emerging global consensus that high levels of inequality have adverse effects on the pace and sustainability of economic growth and poverty reduction, on social mobility and social cohesion and on the environment.[2] As highlighted by the COVID-19 pandemic, economies characterized by lower levels of inequality appear to have exhibited greater resilience in the face of external shocks such as pandemics. This note explores the intricate connections between economic growth, income inequality, and labour market and social protection dynamics, offering insights into potential policy solutions to promote more equitable economic development.

This note is focused on income inequality, though inequality in the world of work is multifaceted. The unequal access to productive employment opportunities, education and skills training, social protection and healthcare contribute to inequalities in the world of work and manifests itself not only in vertical inequalities (between richer and poorer people) but also in horizontal inequalities (between different groups or categories in society). Gender inequalities in fact are today one of the most pervasive forms of inequality. The intersectionality between vertical and horizontal inequalities further underscores the complex and multifaceted nature of inequality.

There is no consensus on a comprehensive summary measure of inequality, but income inequality reflects many other correlated and underlying forms of inequality and can be considered as a summary indicator for different forms of inequality. It is also the criterion adopted by the Sustainable Development Goal (SDG) 10 on reducing inequality within and

[1] G20 New Delhi Leaders' Declaration, paras 15 and 23.

[2] For a more in-depth discussion, including literature review, see ILO. 2021. Inequalities and the world of work (Geneva).

between countries, which targets the reduction of income inequality and economic, social, and political integration regardless of any considerations related to personal identities such as age, sex, disability, race, and other characteristics.

1.1. ILO mandate on inequality and previous work

Seen from the world of work, since its creation, the ILO has had a strong mandate and engagement on policies that promote the reduction of inequalities. The ILO Constitution (1919), written in the aftermath of the World War I, reaffirmed by the Declaration of Philadelphia (1944), states that "universal and lasting peace can be established only if it is based upon social justice", asking for policies to "ensure a just share of the fruits of progress to all". Equal remuneration for work of equal value, as well as the principle of equal opportunity on multiple grounds, including gender and ethnicity, are also essential parts of the founding documents of the institution.

More recently, the ILO Centenary Declaration for the Future of Work (2019) reinforced the key role of reducing inequalities in the ILO human-centred approach to a future of work with social justice, "put[ting] workers' rights and the needs, aspirations and rights of all people at the heart of economic, social and environmental policies". The Declaration notes, in particular, that "persistent poverty, inequalities, and injustices … in many parts of the world constitute a threat to those advances [in economic and social progress] and to securing shared prosperity and decent work for all". The Declaration also highlights the importance of "harnessing the fullest potential of technological progress and productivity growth, including through social dialogue, to achieve decent work and sustainable development, which ensure dignity, self-fulfilment and a just sharing of the benefits for all". In addition, the Declaration calls upon ILO Member States to further develop through social dialogue its human-centred approach to the future of work by providing access to comprehensive and sustainable social protection. Furthermore, over the years, the ILO has adopted numerous international labour standards that provide a path to decent work for all and are highly relevant to the current discussion on inequalities.

1.2. Inequalities: challenge requiring G20 action

Despite a steady decrease in global unemployment rate and other measures of labour underutilization, including the global jobs gap rate, since the height of the COVID-19 pandemic, various labour market challenges remain that affect inequalities in the world of work.

Real wages, for example, declined in the majority of G20 countries in 2023 as wage increases failed to keep pace with inflation. Moreover, while much progress has been made in reducing poverty, some 241.1 million workers in 2023 were living in extreme poverty – earning less than US$2.15 per day per person in PPP terms. And while the incidence of extreme working poverty declined slightly in 2023, the number of workers living in extreme poverty increased by about one million. Similarly, the number of those in moderate working poverty (earning less than US$3.65 per day per person in PPP terms) also increased by around 8.4 million in 2023.

Furthermore, labour markets continue to be impacted by elevated policy interest rates, which also add to high and growing debt-service burdens in many developing countries. These debt-service burdens in turn are constraining fiscal space and narrowing the scope for policy interventions, including counter-cyclical measures, those aimed at reducing inequalities and in addressing complex and cascading challenges these countries face, including conflicts, natural disasters, and the cost-of-living crisis.

Against the background of high and persistent levels of inequality, the Brazilian Presidency of the G20 and G20 Framework Working Group (FWG) requested six international organizations (IMF, World Bank, OECD, ILO, UNCTAD, ECLAC) to provide concise technical and analytical inputs on inequality issues falling within their mandates. In order to avoid duplication and provide short inputs for G20 members' discussions, this Note is not exhaustive, and focuses on *within-country* inequalities, particularly in the world of work. While focusing on within-country inequality, between-country inequality also remains an enormous challenge, exacerbated by the COVID-19 pandemic as noted earlier. Given the intersectionalities discussed earlier, it is difficult to disentangle horizontal and vertical inequalities, but this note primarily focuses on the latter, which can be more directly addressed by macroeconomic policies, the remit of the G20 FWG. While not covered in-depth in this note, promoting gender equality, and supporting disadvantaged groups or groups in vulnerable situations are integral aspects fostering more inclusive and resilient labour markets.

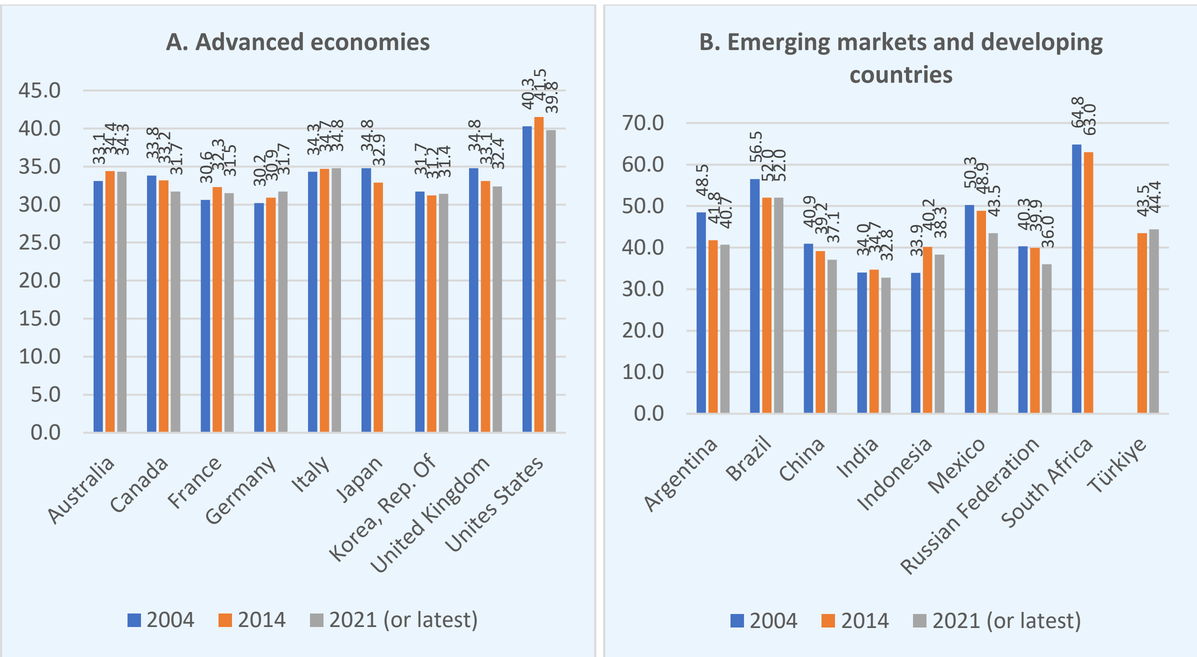
This note is organized as follows: Section II provides an overview of the trends and factors influencing inequality in the world of work. Section III discusses a human-centred macroeconomic framework to address the distributional and transitional challenges of the 21st century. Section IV provides examples of policies for a more human-centred and inclusive future of work.

2. Inequalities in the world of work: Trends and factors influencing inequality

2.1. Trends

As illustrated in figure 1, levels of income inequality, measured through the Gini coefficient of disposable household income, vary widely by country.[3] In general, they are higher in emerging markets and developing economies (EMDEs), with Latin America and Africa remaining the two most unequal regions in the world. Apart from the United States, the Gini coefficient in G20 advanced economies is below 40, whereas this level is exceeded in many G20 EMDEs. In G20 EMDEs, there is also greater variability, ranging from 32.8 (2021) in India to 63.0 in South Africa (2014). While remaining elevated, the coefficient has declined between 2004 and 2021, except for Indonesia and Türkiye (between 2017 and 2021). Amongst advanced economies, Australia, France, Germany, and Italy have experienced an increase in the Gini during this period.

▶ **Figure 1 – Gini coefficient, G20 economies, 2004, 2014 and 2021**

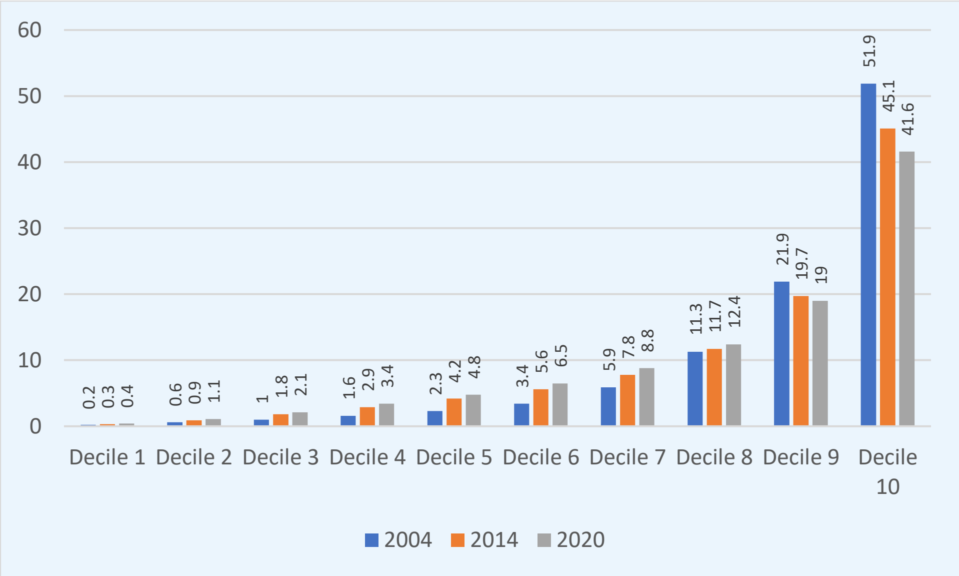


Note: Latest: Argentina (2022); Australia (2018); Brazil (2022); Canada (2019); China (2020); Germany (2019); Indonesia (2023); Japan (2013). Republic of Korea (2016); Russian Federation (2020); South Africa (2017). When 2004 data is not available, the following have been used: China (2005); Japan (2008); Republic of Korea (2006); South Africa (2005). When 2014 data is not available, the following have been used: India (2015); Japan (2013); Türkiye (2017). Source: World Development Indicators.

[3] The Gini coefficient ranges from 0 in a perfectly equal society in which everyone has the same income to 100 in the most unequal society in which one person possesses all the income.

As measured by the share of labour income by decile, Figure 2 shows that labour income in G20 economies is unequally distributed, and that inequality has decreased between 2004 and 2020, although developments vary across countries. In 2004, the top decile earned more than half of total labour income in G20 economies, whereas the bottom half of the workforce earned around 6 per cent. In 2020, the top decile earned 42 per cent of total labour income, while that accruing to the bottom half of the income distribution increased to 12 per cent.

▶ Figure 2: Share of labour income in G20 countries by decile (per cent)

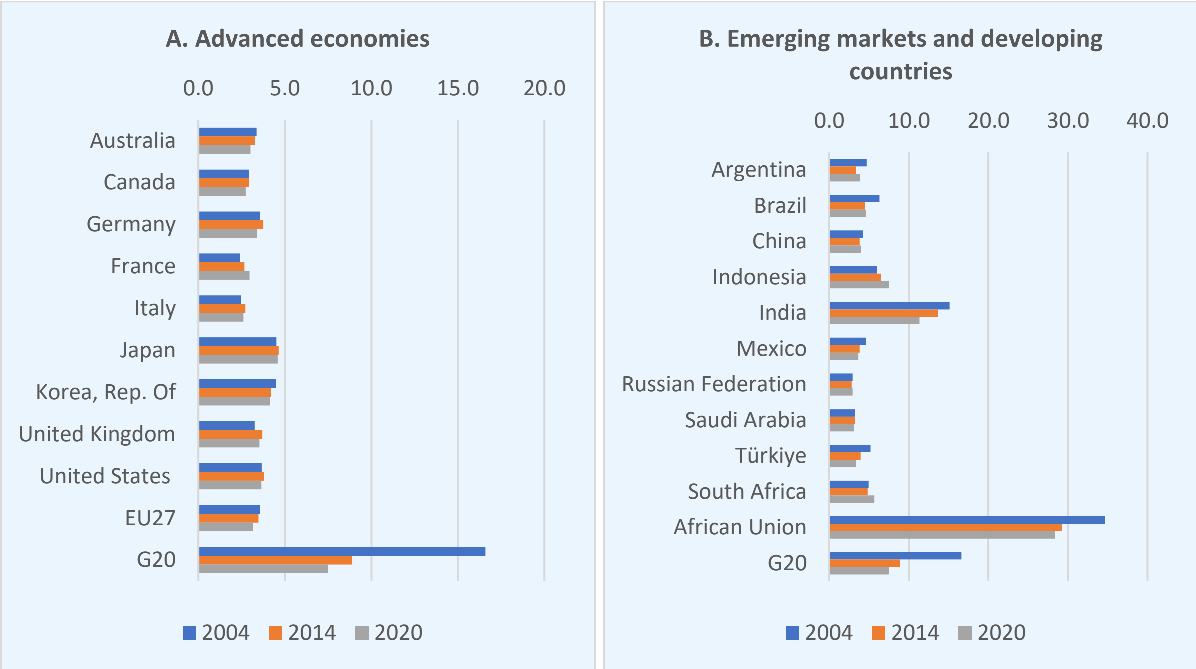


Source: ILOSTAT – ILO modelled estimates, November 2022.

An interesting measure of income inequality is the ratio of the top 50 per cent of the distribution to the bottom 50 per cent, which can be interpreted as the number of years that the poorest half needs to work on average to earn the same as the richest half earns in a year.[4] Trends in the ratio varies across G20 economies, but for the G20 as whole, the poorest half of the employed population is estimated to have had to work 7.5 years to earn the equivalent of that of the richest half in 2020, compared to 16.6 in 2004 (Figure 3). Similar to the patterns observed in Gini coefficients, developing countries exhibit higher levels of variability.

[4] ILO. 2019. The global labour income share and distribution (Geneva).

▶ Figure 3: Ratio of the labour income of the top 50 percent to the bottom 50 per cent



Source: ILOSTAT – ILO modelled estimates, November 2022.

The unequal distribution of productive employment plays an important role in influencing the extent of inequality in the world of work. In 2024, the global unemployment rate is projected to have declined below the pre-pandemic rate to 4.9 per cent, accounting for 183 million people.[5] At the global level, the rate of unemployment among young people aged 15-24 is more than three times higher than that of adults. The "jobs gap" – the number of persons that wants employment regardless of whether they are currently available or searching for a job – provides a more comprehensive view of the unmet need for employment, and, in 2024, some 402 million people were estimated to be in this category, corresponding to a global jobs gap rate of 10.3 per cent.[6] Across the G20, the jobs gap rate is projected at 8.7 per cent in 2024. While the G20 unemployment rate is slightly higher for women (4.8 per cent in 2024) than men (4.7 per cent), the G20 jobs gap rate is substantially higher for women (10.6 per cent in 2024) than for men (7.4 per cent), reflecting the constraints women face in job search and the availability to take up employment at short notice as a result of their disproportionate involvement in unpaid care work.

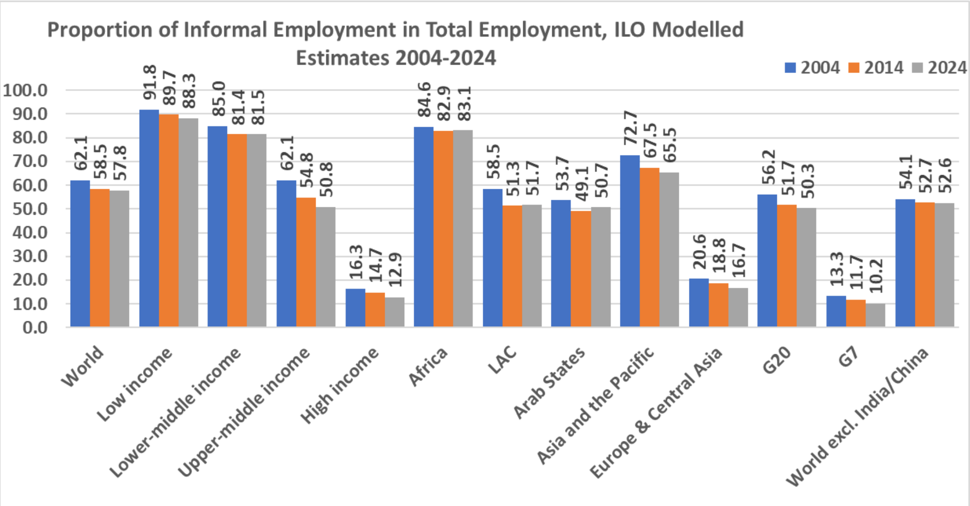
Among those in employment, certain groups of people tend to have much lower labour incomes, leading to horizontal inequalities. These include members of racial or ethnic groups, people in

[5] ILO. 2024. World Employment and Social Outlook: May 2024 Update (Geneva).

[6] To be considered unemployed, jobless persons need to be available to take up employment at short notice and to have been recently searching for a job. The "jobs gap" indicator includes every person that wants employment regardless of whether they are currently available or searching for a job. It can be considered as the measure with the most relaxed definition of underutilization on the extensive margin. See ILO. 2023. The jobs gap: Measuring labour underutilisation beyond unemployment (Geneva).

rural communities, migrant workers, persons with disabilities and indigenous and tribal people.[7] They also include women and those in informal employment. There are gender gaps in employment rates, driven largely by family responsibilities, but even when women are employed, they earn 73 cents to the dollar compared to employed men in high income countries and a mere 44 cents to the dollar in low-income countries.[8] Furthermore, globally, workers engaged in informal wage employment earn 56 percent of the earnings received by those in formal employment, with women particularly disadvantaged.[9] Globally, some 2 billion people are in informal employment, with around 1.2 billion of those in G20 economies, corresponding to an informal employment rate of 50.3 per cent in 2024 (Figure 4).

▶ Figure 4: Proportion of informal employment in total employment, 2004, 2014 and 2024



Source: ILOSTAT – ILO modelled estimates, November 2023.

Most workers in the informal economy do not enjoy access to social protection at all, while many others are only partially protected. Informal workers' lack of social protection is usually associated with their lack of coverage through contributory mechanisms (social insurance and other contributory schemes). In fact, many (but not all) workers in the informal economy do not have sufficient contributory capacity to pay contributions on a regular basis. Workers in the informal economy also face difficulties in accessing poverty-targeted social protection mechanisms. Proxy means tests may exclude them from coverage if they own some assets or are otherwise deemed

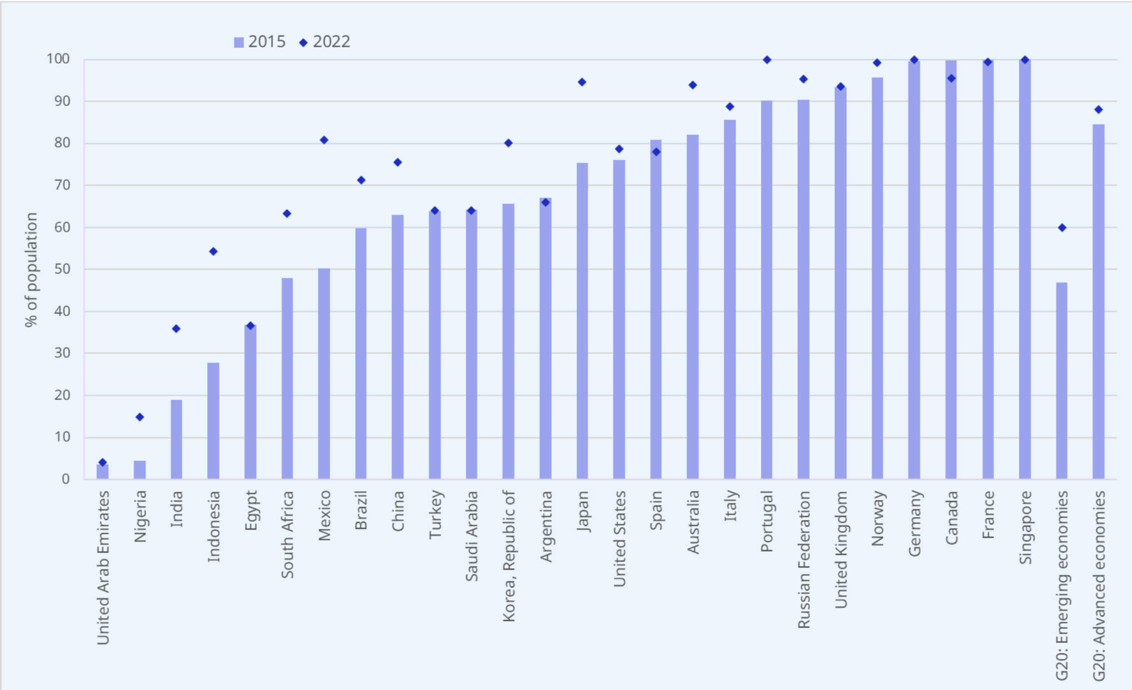
[7] ILO. 2020. Implementing the ILO Indigenous and Tribal Peoples Convention No. 169: Towards an inclusive, sustainable and just future; ILO. 2023. New ILOSTAT database highlights labour market challenges of persons with disabilities; ILO. 2020. The migrant pay gap: Understanding wage differences between migrants and nationals; Ananian, S. and G. Dellaferrera. Employment and wage disparities between rural and urban areas, ILO Working Paper 107.

[8] ILO. 2024. World Employment and Social Outlook: May 2024 Update (Geneva).

[9] ILO. 2023. Women and men in the informal economy: A statistical update (Geneva).

to be “not poor enough”, while programmes that target households with very limited or no earnings potential may exclude them as well.[10]

▶ Figure 5. SDG indicator 1.3.1: Effective social protection coverage by at least one cash benefit, 2015 and 2022



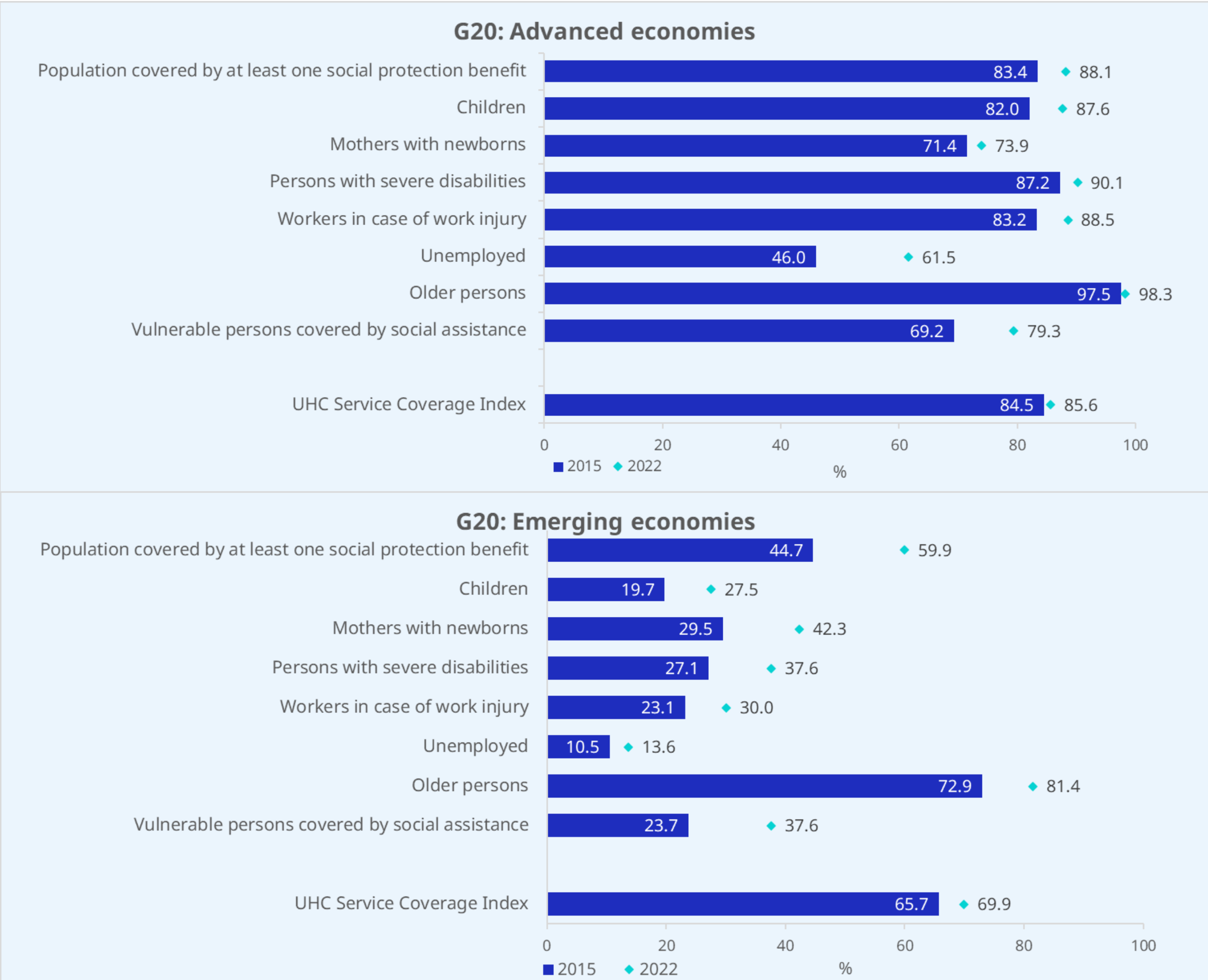
Note: Earliest year does not correspond to 2015 for United Arab Emirates, Indonesia, Saudi Arabia, Singapore (2019) and for Turkey, Italy (2018). Latest year does not correspond to 2022 for Indonesia, China, Argentina, France (2021), for United States, United Kingdom, Norway, Singapore (2023) and for Japan (2020).

Countries with higher informality rates tend to have a larger share of their population without social protection benefits. In contrast, countries with lower informality rates typically see most of their population covered. Among the G20 countries, there is a significant gap in social protection coverage between emerging economies - where informality is higher - and advanced economies. In 2022, 60 per cent of the population in G20 emerging economies was covered by at least one social protection benefit, up from 45 per cent in 2015 (Figure 5). At the current rate, it will take these countries approximately 16 years to achieve universal coverage, and therefore they will miss SDG target 1.3.1 on universal social protection by 2030. Despite notable progress in many G20 emerging economies, particularly in Mexico, Indonesia, India, South Africa, and Brazil, large portions of the population remain uncovered. In G20 advanced economies, 88 per cent of the population is covered, up from 83 per cent in 2015.

[10] ILO. 2021. Extending social security to workers in the informal economy. Lessons from international experience.

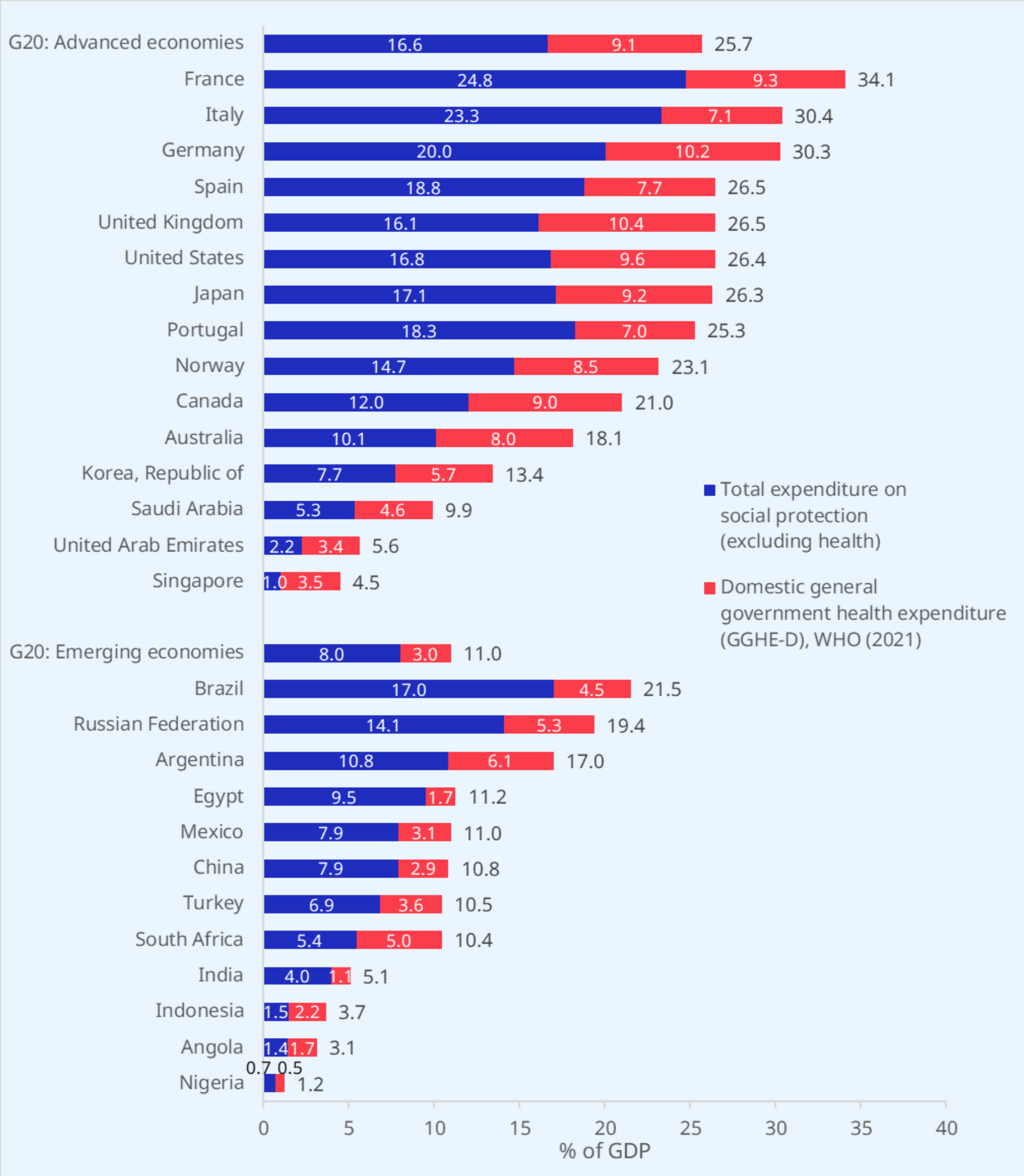
Progress in extending aggregate social protection coverage is closely linked to improvements in coverage by specific social protection benefits. In 2022, old-age pension coverage was the highest among social protection benefits in both G20 emerging and advanced economies, reaching 81.4 per cent and 98.3 per cent respectively (Figure 6). In emerging economies, the most significant progress between 2015 and 2022 was in social assistance for vulnerable persons, which increased by 13.9 percentage points to 37.6 per cent. In advanced G20 economies, unemployment benefit coverage saw the largest growth, rising by 15.6 percentage points to 61.5 per cent of the unemployed. Additionally, coverage for essential health care services has also increased, albeit more modestly.

▶ Figure 6. Effective social protection coverage by contingency (SDG Indicator 1.3.1) and universal health coverage (UHC) service coverage index (SDG indicator 3.8.1), 2015 and 2022



Source: ILO. 2024. World Social Protection Report 2024-2026. Forthcoming.

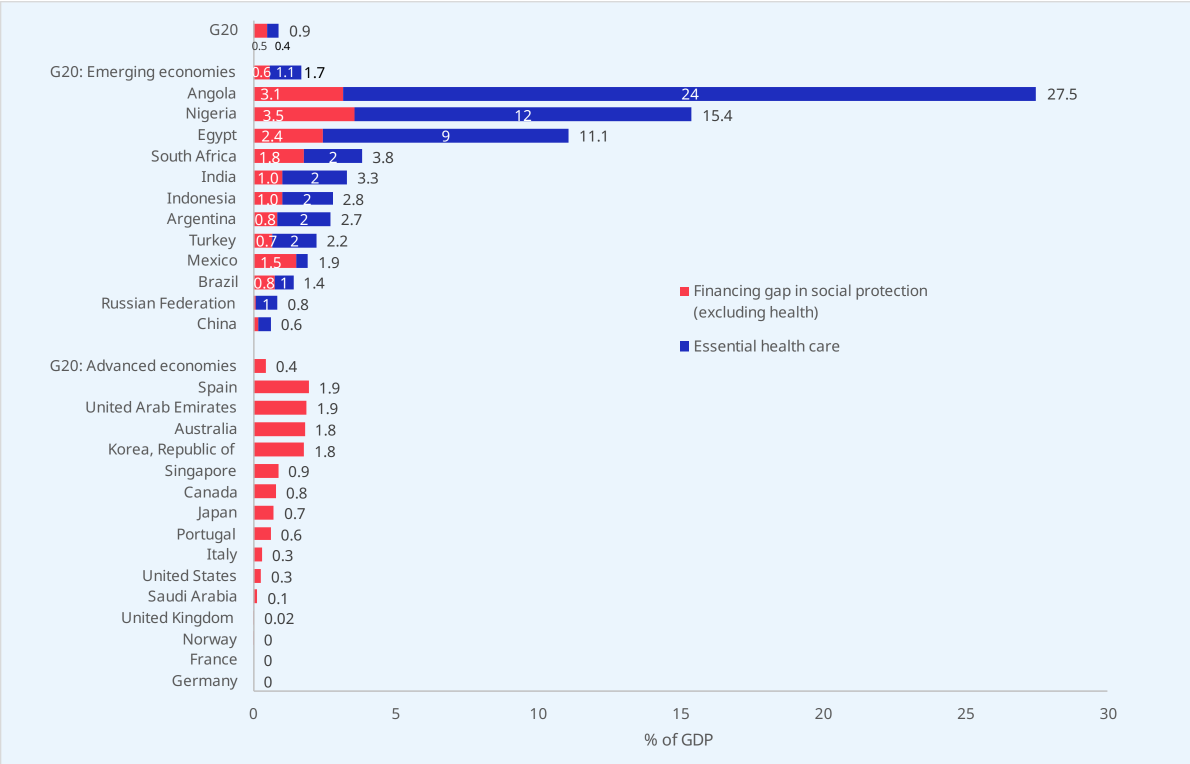
▶ Figure 7. General government expenditure on social protection including and excluding health care, 2022 or latest year (percentage of GDP)



Source: ILO calculations based on ILO. 2024. World Social Protection Report 2024-2026. Forthcoming.

G20 countries with lower social protection investments experience lower coverage rates. In 2022, G20 emerging economies spent an average of 11.0 per cent of GDP on social protection, including on healthcare (Figure 7). However, the average hides enormous inequalities between countries, especially across G20 emerging economies. For example, Brazil spent 21.5 per cent of GDP on social protection, while Nigeria spent only 1.2 per cent. In G20 advanced economies, average social protection spending was 25.7 per cent of GDP; while France spent 34.1 per cent of GDP, Singapore spent 4.5 per cent. In Singapore, 3.5 per cent of GDP was allocated to healthcare and 1.0 per cent to social protection cash benefits.

Figure 8. Financing gap for achieving universal social protection coverage per year, as a percentage of GDP, 2024



Source: ILO calculations based on Cattaneo, U., Schwarzer, H., Razavi, S., Visentin, A. Financing gap for universal social protection: Global, regional and national estimates and strategies for creating fiscal space. ILO Working Paper 113. Geneva: International Labour Office, 2024.

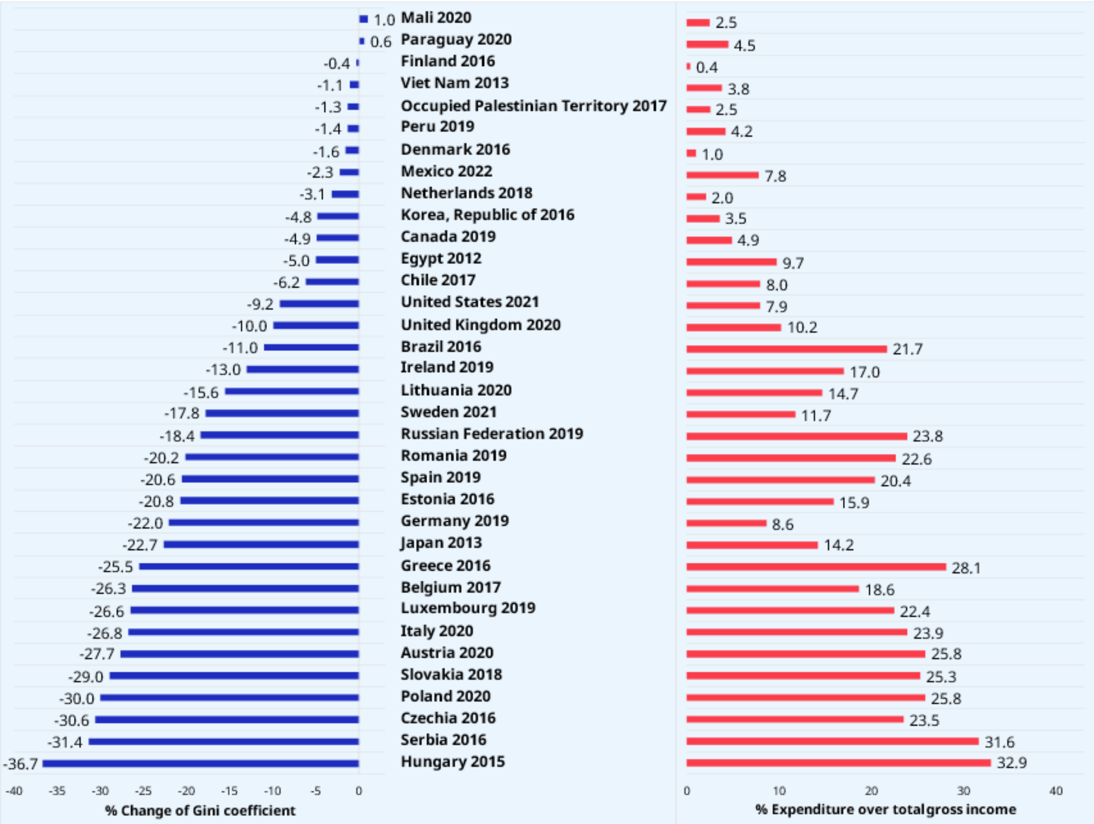
Note: Estimates for essential health care are not available for G20 advanced economies.

In 2024, the ILO estimates the financing gap for extending a Social Protection Floor to all in the G20 to be USD 807 billion or 0.9 per cent of GDP (Figure 8). This is the average additional investment required to achieve universal coverage of basic benefits to all children, mothers of newborns, those who are severely disabled, the unemployed, all persons in old age, as well as universal essential health care. The annual financing gap is more than four times higher for G20 emerging economies, reaching 1.7 per cent of GDP (USD 565 billion), compared to G20 advanced economies, where universal social protection requires an additional 0.4 per cent of GDP (USD 242 billion).[11] Scaling up investments in social protection to close such coverage and financing gaps will contribute to increase GDP. Recent research by MADE USP (2023) shows that social protection

[11] Cattaneo, U., Schwarzer, H., Razavi, S., Visentin, A. *Financing gap for universal social protection: Global, regional and national estimates and strategies for creating fiscal space*. ILO Working Paper 113. Geneva: International Labour Office, 2024.

multipliers exceed 1 for 30 out of the 42 countries with available data, suggesting the positive impact of social protection spending on GDP accumulation over time.[12]

▶ Figure 9. Partial redistributive effects of public contributory pensions measured as % changes in the Gini coefficient for selected countries, latest year



Source: Razavi S., Cattaneo U., Schwarzer H., and Visentin A. 2024. Combatting Inequalities: What Role for Universal Social Protection? ILO Working Paper Forthcoming. Geneva: International Labour Office, 2024.

Since social protection replaces income in situations where people would fall in poverty or extreme poverty in absence of the benefits, investments in social protection have a critical role in reducing income inequalities. Generally, countries that allocate a higher proportion of GDP to social protection (excluding health) also exhibit greater income equality, with the correlation between the two variables being positive and strong. These correlations underscore that social protection, beyond being a fundamental human right since 1948, serves as a potent tool for income redistribution. The largest reductions in income inequality are observed for contributory pensions, which in many countries capture the largest share of social protection expenditure. Evidence shows that in 17 out of 35 countries with available data, such pensions reduce income

[12] Carvalho, G.T., Lima, L.N.P., Rugitsky, F. and Sanches, M., 2023. *The multiplier effects of government expenditures on social protection: A multi-country study.* Made-USP Centro de pesquisa em macroeconomia das desigualdades. Working paper n. 018.

inequality, as measured by the Gini coefficient, by more than 15 per cent and in three countries by at least 30 per cent (Figure 9).[13]

2.2. Emerging drivers of inequality

The COVID-19 pandemic exacerbated inequalities and the vulnerability in our societies and exposed deep fault lines in our global economy.[14] Numerous factors, including external drivers such as globalization and digitalization but also country-specific factors, including national policy decisions, contribute to the level of inequality in the labour market. Both the causes of inequality and their impacts differ based on national contexts, affected groups, and types of inequality. While mindful of the various drivers of inequality, this section focuses on the following: insufficient aggregate demand and the resulting lack of decent jobs; informality as source and reinforcement of inequalities; the drop/stagnation of labour income shares as a result of insufficient functioning of labour market policies and institutions; low coverage and lack of adequacy of social protection; the climate crisis; and new digital technologies.

2.2.1. Lack of decent jobs and insufficient aggregate demand

As employment constitutes the primary, if not only, income source for most households around the world. Hence, the availability of job opportunities carries substantial implications for income inequality, including in terms of intergenerational mobility. Furthermore, inequality stems not solely from job scarcity but also from the quality of jobs. High levels of labour underutilization and informal employment can curtail household consumption, reducing overall aggregate demand.[15] They can also lead to excessive household borrowing with potential implications on economic stability. The adverse impacts on consumption can in turn undermine investment if firms perceive a lack of robust future consumption demand for their products or services. Furthermore, fiscal revenues can in tandem decline which in turn restricts public investment in labour market and social protection policies, infrastructure, and other measures. In situations where monetary policy is limited in responding to rising inequality, a vicious cycle of insufficient demand and rising inequality can reinforce each other.[16]

[13] Razavi S., Cattaneo U., Schwarzer H., and Visentin A. 2024. *Combatting Inequalities: What Role for Universal Social Protection?* ILO Working Paper Forthcoming. Geneva: International Labour Office, 2024.

[14] ILO. 2024. Towards a renewed social contract.

[15] ILO, IMF, OECD, World Bank. 2015. Income inequality and labour income share in G20 countries: Trends, Impacts and Causes. Note prepared for the G20 Labour and Employment Ministers Meeting and Joint Meeting with the G20 Finance Ministers, Ankara, Turkey, 3-4 September 2015.

[16] Adrien Auclert Matthew Rognlie. 2018. Inequality and aggregate demand. Washington Center For Equitable Growth.

The growing divergence between real productivity growth and real wage growth has been well-documented. ILO (2022) for example documents how real labour productivity has grown more rapidly than real wages over more than two decades in 52 high-income countries, such that the gap between real productivity and real wage growth between 1999 and 2022 reached 12.6 percentage points in 2022.[17] The decoupling between wages and labour productivity explains why labour income shares have decreased in the past decades (discussed below) but the wage stagnation also dampens household consumption capacity, which in turn also reduces aggregate demand.

2.2.2. Widespread informal employment[18]

The relationship between income inequality and informality is complex and can vary across different countries and contexts. However, when looking at the global picture, empirical evidence shows that countries with a higher proportion of informal employment in total employment are also those where income inequality is higher. The correlation between the Gini coefficient and the informality rate is strong and positive at 40 per cent.

Of course, correlation does not imply causation. The theoretical and empirical literature encountered challenges in analyzing the relationship between inequality and informality as evidence points at the causality being in both directions.[19] Some argue that high levels of income inequality can contribute to the growth of the informal sector. In societies with significant income disparities, individuals may turn to informal economic activities as a survival strategy, particularly if they face barriers to entering the formal economy. Informality may reduce inequality by providing employment and livelihoods to those who might otherwise have remained unemployed, especially young people and women from poorer households.

By contrast, over time, informality itself can be a driver of income inequality. Jobs in the informal sector often lack the benefits and protections associated with formal employment, leading to a widening gap in income between formal and informal workers. ILO evidence supports this finding as informal wage workers earn far less than formal wage workers. Globally, the earnings of workers in informal wage employment are 56 per cent of the earnings of wage workers in the formal economy.

[17] ILO. 2022. Global Wage Report 2022–23: The impact of inflation and COVID-19 on wages and purchasing power (Geneva).

[18] Section based on Razavi. S., Schwarzer H., Cattaneo U., Visentin A. 2024. Combatting inequalities: what role for universal social protection?, ILO Working paper forthcoming.

[19] Davidescu, A. A., Petcu, M. A., Curea, S. C., & Manta, E. M. 2022. Two faces of the same coin: Exploring the multilateral perspective of informality in relation to Sustainable Development Goals based on bibliometric analysis. Economic Analysis and Policy, 73, 683-705.

2.2.3. The stagnation of the labour income share

The decoupling of wages from productivity creates a situation in which, when income is increasing, capital owners reap more benefits for such increases than labour owners. At the global level this has led to a decline in the share of labour income in total income produced: between 2004 and 2021 the proportion of labour income in GDP has declined from 54.1 per cent to 52.7 per cent. Over the same time period, in the G20, the labour income share declined from 56.4 per cent to 54.4 per cent of GDP (Figure 10).[20] Labour income, which includes wages and work-related earnings of the self-employed, is the main source of income for most households and it represents the pathway for accessing better education, healthcare, and living conditions, fostering intergenerational social mobility, thus reducing inequalities.

Given the revenues of social protection systems importantly rely on social security contributions levied on labour income, and on personal income taxes, the stagnation of the labour share of income makes tax justice more difficult and restricts the creation of fiscal space for social protection. Progressive tax systems, which rely heavily on labour income, become less effective as income increasingly shifts to capital, which is taxed at lower rates.[21] This shift, more prominently observed in high-income countries, exacerbates wealth inequality and reduces tax revenues from wages, limiting government capacity to finance social protection and essential health care.

Changes in labour market policies and labour market institutions in recent decades are among the long-term factors behind the declining shares of labour income.[22] Strengthening the effectiveness and inclusiveness of these policies and institutions, including labour inspection; guaranteeing fundamental principles and rights at work to all; implementation of collective bargaining systems; and adequate minimum wages, are some of the measures that play an important role in reducing inequalities, protecting workers' rights and ensuring fair labour practices.

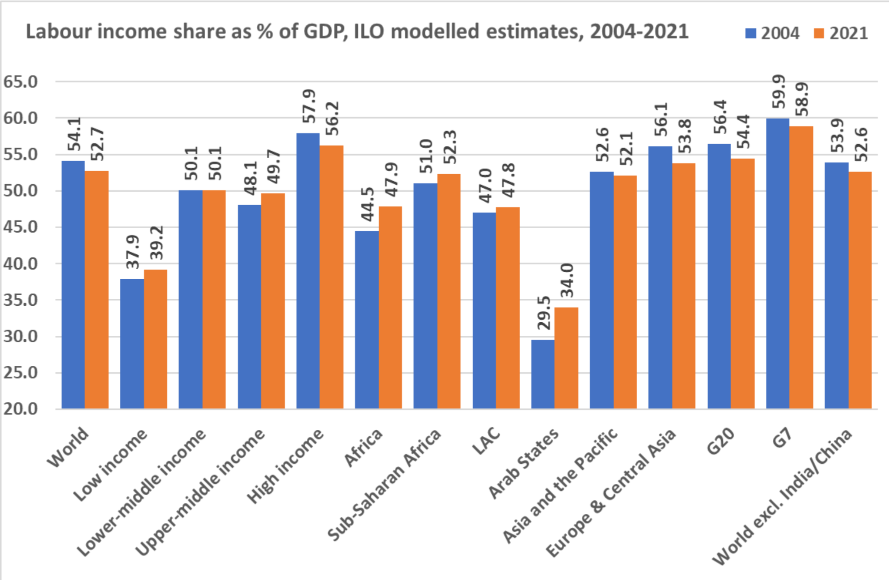
---

[20] The decline in labour income shares is also documented in IMF (2017), which indicates that the labour share had been falling since the 1970s until 2014 in developed countries (-4 percentage points) and since the mid-1990s until 2014 in the developing countries (-2 percentage points in developing countries). UNCTAD (2019) also presents similar pattern of reductions (of approximately 8 percentage points for developing countries and 2 percentage points for developing ones) with figures covering the period from the early 1980s to 2018.

[21] Gerber, C., Klemm, M.A.D., Liu, M.L. and Mylonas, V., 2018. Personal income tax progressivity: trends and implications. International Monetary Fund. WP/18/246.; ILO, IMF, OECD, World Bank. 2015. Income inequality and labour income share in G20 countries: Trends, Impacts and Causes. Note prepared for the G20 Labour and Employment Ministers Meeting and Joint Meeting with the G20 Finance Ministers, Ankara, Turkey, 3-4 September 2015.

[22] ILO, IMF, OECD, World Bank. 2015. Income inequality and labour income share in G20 countries: Trends, Impacts and Causes. Note prepared for the G20 Labour and Employment Ministers Meeting and Joint Meeting with the G20 Finance Ministers, Ankara, Turkey, 3-4 September 2015.

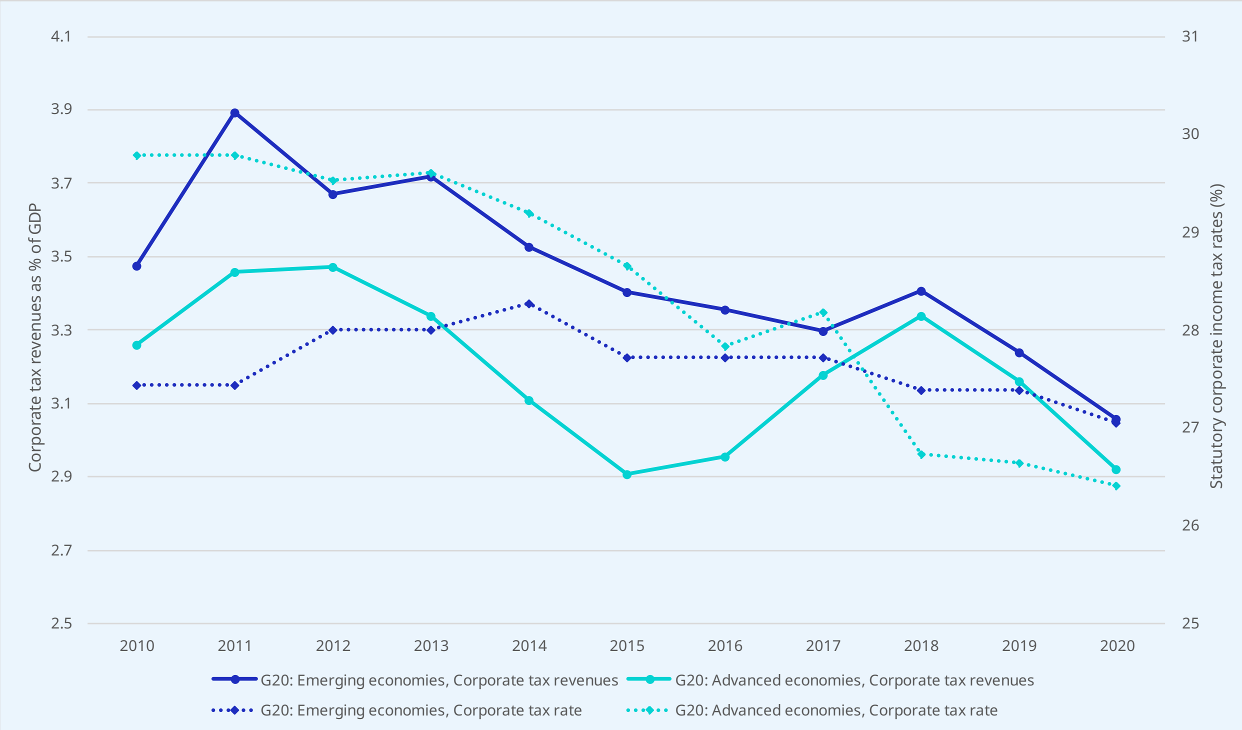
Figure 10. Labour income share a proportion of GDP, 2004-2021



Source: ILO modelled estimates.

A decline in labour income share, which also means less government revenues under the form of labour income taxes proceeds and social security contributions, is most often not compensated by higher government revenues from corporate taxes. International competition for inward FDI has led many G20 governments to reduce tax rates and to otherwise increase tax concessions to corporations, without exception. Figure 11 shows that both G20 emerging and advanced economies with available data have reduced their corporate tax rates over the past 10 years. However, there is no consensus on the advantages of granting such concessions in the matter of direct taxes, since the diversion of international investment or the attraction of such flows is determined by many factors, including the quality and availability of infrastructure, human capital, and institutions. The figure shows that declining corporate tax rates mirrors lower proceedings from corporate taxes as a share of GDP. Therefore, G20 countries should examine the cost and benefits of such tax concessions as they may constitute an unnecessary loss of revenue, which could be used to ensure universal social protection coverage. The Global Minimum Tax initiative is an important step forward in international cooperation on the taxation of multinational enterprises and there are also discussions taking place at the United Nations on a Framework Convention on International Tax Cooperation provides an opportunity to ensure that international tax cooperation focusses on inequality issues.

▶ Figure 11. Corporate tax rates, 2010-2020



Note: Countries included in the average for G20 emerging economies: Argentina, Brazil, China, Egypt, Indonesia, Mexico, Nigeria, South Africa, Turkey. Countries included in the average for G20 advanced economies: Australia, Canada, France, Germany, Italy, Japan, Korea, Republic of, Norway, Portugal, Singapore, Spain, United Kingdom, United States.

Source: OECD Tax Database, 2024.

2.2.4. Climate change[23]

Climate change is having a profound impact on inequalities, reshaping the way we work and live.[24] Evidence suggests that climate change further increases inequality as those with less income and assets have increased exposure to climate hazards, greater susceptibility to damage from these hazards and reduced ability to cope with and recover from the damage. For example, climate change leads to increased flooding. Income inequality often forces disadvantaged groups, who have less resources, to live in flood-prone areas, where housing costs are lower, thus increasing their exposure to climate hazards. Their homes, typically made of flimsy materials, suffer more damage compared to the sturdier homes of wealthier individuals. Additionally, the disadvantaged are less able to recover, lacking access to insurance that wealthier people can

[23] Section based on ILO. 2024. World Social Protection Report 2024-2026. Forthcoming.

[24] ILO. 2024. Towards a renewed social contract. Report of the Director-General.

afford, which means they must bear the full brunt of climate-induced losses, further diminishing their assets.[25]

Efforts to mitigate climate change and environmental degradation are urgent and have the potential to result in more resilient and inclusive economic growth, and sustainable development. However, such positive socio-economic outcomes are far from guaranteed. In fact, climate change mitigation and adaptation policies risk further exacerbating existing inequalities and vulnerabilities unless they are implemented in a way that reinforces equality and inclusivity. For instance, some mitigation or other environmental policies may have adverse impacts on employment, income, or prices, and it is increasingly recognized that climate change adaptation requires policies that address structural inequalities and the root causes of vulnerability.[26]

The world needs to rapidly undergo a just transition to environmentally sustainable economies and societies in a way that reduces and prevents poverty and inequalities, promotes decent work and social inclusion and leaves no one behind. While the concept of just transition is often associated with supporting workers in the energy sector affected by climate change mitigation and decarbonization policies – which remains applicable – countries at different levels of development face distinct challenges and priorities with regard to climate action. Thus, a just transition is relevant to all sectors of the economy (for example, energy, agriculture and forestry, industry, transport, waste, and recycling) and all types of workers. Furthermore, mitigation and adaptation efforts, and those addressing loss and damage, must be implemented in such a way that they are equitable for all population groups. Ultimately, the just transition framework is based on recognizing the need to address not only climate change, but the triple planetary crisis of climate change, pollution, and biodiversity loss.[27]

2.2.5. New digital technologies

The introduction of digital technologies, including artificial intelligence, is creating insecurities among both employers and workers, and raising concerns regarding transparency, data protection and respect for the fundamental principles and rights at work.[28] Concerns have been raised, for example, about algorithmic bias leading to discriminatory practices, which could increase inequalities. New digital technologies, including digital labour platforms, have also

[25] Islan S.N. and Winkel J. 2017. Climate Change and Social Inequality, UNDESA Working Paper No. 152 ST/ESA/2017/DWP/152

[26] ILO. 2024. World Social Protection Report 2024-2026. Forthcoming.

[27] ILO. 2024. World Social Protection Report 2024-2026. Forthcoming.

[28] ILO. 2024. Towards a renewed social contract. Report of the Director-General.

played a role in the increased use of diverse contractual arrangements (e.g. temporary employment, part-time work, temporary agency work) and where such arrangements do not afford adequate labour and social protection, they have led to concerns on deepening inequalities in the labour market. The business landscape is growing more diverse, and the ability of enterprises to harness technological advancements varies significantly.

Failure to address these digital divides will concentrate the benefits of productivity enhancing technologies, including artificial intelligence, to a small set of enterprises and exclude countries, enterprises, and workers without the necessary infrastructure. Earlier this year, the UN General Assembly called for the development of measures for the "identification and assessment of the impacts of the deployment of artificial intelligence systems on labour markets and providing support for the mitigation of potential negative consequences for workforces, especially in developing countries". International labour standards have also recognized that limited access to new technologies poses a significant challenge for the development and growth of small and medium-sized enterprises and their capacity to generate quality employment.

Are the shared responsibilities in our social contract still fit for purpose in terms of maximizing opportunities for employment creation while preventing structural inequalities, associated with new digital technologies? This is a question that concerns not only wage employees at risk of displacement but also small and under-resourced enterprises. With appropriate support and incentives, sustainable enterprises and entire economies can reap the benefits of technology. It is also a pertinent question for workers capitalizing on new digitally driven employment opportunities and for governments concerned with maximizing the benefits of technological advances while preventing, minimizing, or mitigating the adverse labour market impacts resulting from automation or the introduction of artificial intelligence. And it is a question for workers concerned about job destruction and job quality loss and for employers grappling with their responsibilities and legal liabilities to safeguard workers against formerly unknown safety and health hazards.[29]

ILO forecasts that higher-income countries will experience the greatest labour markets effects from artificial intelligence as a result of the important share of clerical and para-professional jobs in the occupational distribution.[30] As a consequence, there is a risk that inequalities will further rise in these countries.

[29] ILO. 2024. Towards a renewed social contract. Report of the Director-General.

[30] Gmyrek, P., Berg, J., Bescond, D. Generative AI and jobs: A global analysis of potential effects on job quantity and quality. ILO Working Paper 96. Geneva: International Labour Office, 2023.

3. Broader macroeconomic considerations[31]

As the preceding discussion has illustrated, policies and institutions in the world of work play a key role in shaping how and the extent to which inclusive economic growth contributes to labour income, on which all but the very wealthiest households depend for their standard of living.

In fact, the level of inequality and labour share of national income (relative to that of capital) within an economy are shaped by the strength of policy incentives and institutional features in a wide range of domains, including but not limited to labour regulation, skilling, and social protection systems, as important as these are.

Box 1 outlines this wider policy and institutional ecosystem. These are the primary areas of policy and institutional strength that influence the nature and extent to which a country's rising prosperity (traditionally understood as GDP per capita) takes expression in a general improvement in its standard of living (the lived experience of its people). The construction of this policy and institutional infrastructure is far from automatic within countries or uniform across them. Policy choices and in particular the level of investment within and across these domains can make a big difference in level of inequality and labour share of national income among countries with similar levels of GDP per capita—i.e., in their respective patterns of economic growth as manifested in social inclusion, environmental sustainability and human and systemic resilience.

In short, the wider policy and institutional ecosystem described in Box 1 can be understood as the de facto income distribution system—or, more precisely, living standards diffusion mechanism—underpinning market economies. It is the practical means by which countries manifest their social contracts—how they apply their society's values with respect to inclusion, sustainability, and resilience to the rules of the game within their economies.

This institutional infrastructure tends to be constructed over time in an ad hoc and piecemeal manner. In many countries, it remains poorly or unevenly developed or has been left to wither on the vine. In part, this is because economists and policymakers have not been trained to think of it as a system (a "function" in economics parlance) that has an important bearing on bottom-

[31] This section draws on recent ILO research and, in particular, on Richard Samans, *Human-Centred Economics: The Living Standards of Nations*, Palgrave Macmillan and ILO, 2024, https://link.springer.com/book/10.1007/978-3-031-37435-7

line national economic performance (living standards) and therefore requires deliberate, ongoing construction.

▶ Box 1: Policy and Institutional Enabling Environment for Inclusion, Sustainability and Resilience (Aggregate Distribution Function)

Employment and entrepreneurial opportunity

Competition and rents

- Anti-trust
- Anti-corruption
- Property rights and land tenure rules and enforcement capacity
- Technology governance, e.g., intellectual property rights, data ownership and access

Investment in real economy productive capacity

- Corporate governance rules and protections
- Financial system governance rules and protections
- Public investment in infrastructure, R&D, key industries, public works

Labour force skills, transitions and participation

- Skills, e.g., basic K-12 education, school-to-work, tertiary education, lifelong education
- Active labour market policies, e.g., employment services, training, skills matching, income maintenance, credentialing
- Rights: elimination of forced and child labour; non-discrimination, e.g., gender, race and ethnicity, disabilities, age, etc.
- Formalization of work arrangements

Disposable income

Wage compensation

- Minimum/living wage regulations
- Rights—e.g., freedom of association and collective bargaining
- Social dialogue rules, collective agreements, institutions, practices
- Taxation of wage income and relative treatment of earned and unearned income

Non-wage compensation

- Health insurance rules, policy incentives
- Pension rules, policy incentives
- Dependent care rights, benefits, incentives
- Working hour, annual leave, work–life balance regulations
- Profit-sharing and employee, community ownership regulations, incentives

Availability and affordability of material necessities

Regulation, policy incentives, and subsidies

- Water and sanitation
- Food
- Housing
- Energy
- Transport
- Telecommunications
- Recreation

Economic security

Social protection—coverage and adequacy of benefits

- Health care
- Sickness
- Pension
- Survivors
- Unemployment insurance
- Disability
- Employment injury
- Maternity
- Children
- Social assistance for vulnerable persons

Worker protection regulation and enforcement capacity

- Occupational safety and health
- Arbitrary dismissal
- Consumer protection

Asset-building/wealth accumulation policies and incentives

- Homeownership
- Private pensions
- Business ownership
- Small saver protection

Environmental security

Climate change policies

- Mitigation
- Adaptation

Other natural capital regulation

- *Water*
- *Air*
- *Soil*
- *Natural habitat and biodiversity*

Economics tends to treat the general standard of living as a residual of economic growth—a trickle-down outcome of more efficient and better capitalized production. Policymakers therefore tend to concentrate on policies (macroeconomic, financial stability, trade) that boost the economy's top-line performance as measured by GDP, asset prices and trade flows and place much less emphasis on domains like these which strongly influence the bottom-line pattern or social quality of growth, i.e., the extent to which growth takes an inclusive, sustainable and resilient form and thereby contributes as much as possible to a general improvement in social welfare.

In this sense, an economy can be conceived of as having not only an output gap, but also a "living standards" or "social welfare gap". In practical terms, this welfare gap is the distance between the current state of its median household standard of living (or major components thereof) and that of the best-performing countries at a similar level of development, i.e., high-, upper-middle-, lower-middle- or low-income. In other words, just as an economy can have a higher or lower growth potential and corresponding gap in output (GDP) relative to this potential, so it can have a higher or lower potential median standard of living and corresponding social welfare gap depending on the extent to which its government has exploited the possibilities for activating the policy and institutional ecosystem illustrated in Box 1.

Such welfare gaps—differences in outcomes and the strength of enabling policy practices on key dimensions of household living standards among countries with similar GDP per capita—are often very large indeed. Data presented in Annex A demonstrate the huge range of country performance and investment that exists among countries at a similar level of economic development on relevant statistical indicators of fiscal effort and decent work outcomes and policy strength. The difference between the median and 80th-percentile performance among countries at the same level of development is typically on the order of 50% to 300%, and the median is often three to six times higher than the lowest value.

In other words, most countries have considerable unutilized policy space to lower inequality and boost the labour share of national income by following the example of their better performing peers in terms of the level of investment or design of policies and institutions in areas in which their performance is weak by comparison. Most governments have a great deal of unexploited agency to narrow social justice deficits, even allowing for inevitable differences in national social, historical, and political circumstances.

Objective, comparable reference ranges of data such as these can help countries to rebalance the emphasis they place on the key drivers of the aggregate quantity and median social quality of growth, and indeed to better capture the latent synergy between the two. Improving the institutional enabling environment for the employment and entrepreneurial opportunity, disposable income, affordability of material necessities, and economic and environmental security of households is also a strategy to strengthen the foundations of economic growth by enhancing labour participation, productivity, and income, and thereby consumer and investor confidence, resulting in higher domestic consumption, investment, and aggregate demand.

In a century facing increased disruption and income dispersion from digital transformation and climate change, maximizing the synergy between production and distribution within an economy should be a central priority of macroeconomic policy—including the corresponding analysis and advice provided by international economic institutions. To this end, an economy can be thought of as having an "aggregate social welfare function" that combines the traditional aggregate production function focused on the overall quantity of growth with an "aggregate distribution function" of policy and institutional features that shape the pattern of growth with respect to inclusion, sustainability, and resilience. Such an "aggregate social welfare function" is a more balanced and complete representation of growth and development encompassing more explicitly the two interdependent macroeconomic levers of production and distribution. It is a framework for helping macroeconomic policymakers to combine in a more structured and accountable way the traditional emphasis on allocative efficiency and accumulation of tangible capital, on the one hand, with an equal and parallel focus on ongoing institutional deepening in areas that particularly matter for distribution and social welfare in the sense of the key dimensions of household living standards, on the other. This more human-centred, post-neoliberal model of growth and development provides a roadmap for explicitly internalizing inequality and sustainability considerations in macroeconomic theory and policy at a time when many societies are at least as concerned with distributional and transitional considerations as the overall amount of goods and services produced measured at market prices (GDP).

In sum, a strategy to reduce inequality and increase the labour share of income through an ongoing process of institutional deepening across an economy's "aggregate distribution function" represents a win-win opportunity for macroeconomic policymakers—a growth as well as social justice agenda. Such an added, bottom-up impetus to growth could scarcely come at a better time for economies around the world that have been struggling to wean themselves from over a decade of top-down monetary and fiscal stimulus or to find alternatives to export-led strategies in a world in which international trade is growing more slowly and in a more fragmented fashion. A new engine is required not only because these two have reached the point of diminishing returns but also because of the very real possibility that generative artificial intelligence and machine learning will hollow out employment, purchasing power and aggregate demand over the next generation as much or more than digitization and globalization did during the last one. Deep decarbonization and population ageing are likely to complicate matters further, additionally disrupting the world of work.

In other words, concerted action by governments around the world to improve the living-standards diffusion mechanism of their economies could help to resist any secular softening of aggregate demand from these transformations, while facilitating a more orderly and socially just transition to them. Rebalancing the standard growth and development model along these lines could feed a global macroeconomic virtuous circle by structurally increasing the “propensity to consume and inducement to invest” within and across countries, to invoke John Maynard Keynes’s framework of analysis. This has the potential to lift the living standards of all nations, reinvigorating the win–win, positive-sum-game promise of global economic integration in an international community that has been demonstrably losing faith in it.

4. Policies for a more human-centred and inclusive future of work

The previous sections have highlighted that a substantial source of inequality is the high incidence of unemployment and informality, and the weakening of labour market policies and institutions, which has led to a long-term decline in the labour income share. While there is no single recipe or model for promoting equality and countries need to assess the various domestic policy options available that are congruent to their economic, political and social conditions, this section highlights a number of areas of broad relevance in reducing inequalities.

First, as high levels of inequality arise from a complex interplay of policies and institutional features, particularly that of macroeconomic, trade, investment, labour, social protection and employment policies and practices. Therefore, country-specific coordinated and coherent actions across these multiple policy areas are essential. Fragmented and piecemeal approaches are likely unable to deliver on sustained decreases in inequality. Supporting inclusive growth for example requires coordinated macroeconomic policy efforts to foster and sustain aggregate demand and achieve full employment, structural transformation with industrial and innovation policies to foster productive employment, effective labour institutions to ensure work is decent and a commitment to realize universal social protection.

In particular, the creation of productive and decent employment opportunities is the cornerstone of reducing inequality and macroeconomic policy frameworks that support productive employment and inclusive growth, including by bridging not only the output gap but also a living standards or social welfare gap, can play an important role. While the specific elements of the framework will differ by country needs, one critical element is building institutional capacities to undertake countercyclical policies to manage aggregate demand over the business cycle. Another important element could be monetary policy mandates that include not only price stability, but also full employment. In fact, the dual mandate of the United States Federal Reserve System on price stability and full employment originates from the rise of the civil rights movement and the desire to address deep labour market inequities particularly for African American workers. Civil rights leader Coretta Scott King, the spouse of Martin Luther King Jr, played a critical role, together with Congressional leaders Augustus Hawkins and Hubert

Humphrey in passing the 1978 Full Employment and Balanced Growth Act.[32] With a view to increasing the rate of employment growth to be sufficient to absorb fast-growing new labour market entrants, unemployed and underemployed, the Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration of the African Union is examining how enhanced coordination between macroeconomic and sectoral policies can support more jobs, inclusive growth and sustainable development.[33]

Unemployment protection schemes act as critical automatic stabilizers, as highlighted during the COVID-19 pandemic. These schemes allow jobseekers the time to find a new job that matches their skills thereby increasing labour market efficiency. Yet, globally, unemployment protection schemes remain the least widely implemented branch of social security, found mostly in advanced economies: less than 20 per cent of unemployed people worldwide receive unemployment cash benefits in the event of job loss.[34] Increasingly, these social protection policies are being coordinated with the provision of active labour market policies, including public employment services (PES). These services help employers and jobseekers adapt to change in labour markets by delivering job-search support, counselling, and placement services; labour market information to facilitate informed career and business choices; and training. Not only is the coordination of unemployment protection schemes and PES increasingly being strengthened, PES have also increased their partnerships with the private sector, non-profit-making bodies and non-governmental organizations, in order to leverage capacity, knowledge and networks in such a way as to improve service provision and meet the needs of rapidly changing labour markets. In China for example, the PES is directly responsible for the administration and disbursement of unemployment insurance and other social welfare payments while also registering employable working-age benefit claimants as unemployed, providing job-search assistance, reporting on whether recipients are meeting their job-search obligations, and providing them with various other employment services. The participation of non-governmental providers in delivering publicly funded employment services in the country is also expanding and diversifying the services offered and the type of support available, in particular for targeted and disadvantaged population groups.[35]

---

[32] Baker, D., Rawlins, S., Stein, D. 2017. The Full Employment Mandate of the Federal Reserve: Its Origins and Importance. The Center for Economic and Policy Research (CEPR), Fed Up, The Center for Popular Democracy (CPD), July. https://cepr.net/images/stories/reports/full-employment-mandate-2017-07.pdf

[33] See: https://au.int/en/newsevents/20240703/7th-african-union-specialized-technical-committee-finance-monetary-affairs.

[34] ILO. 2021. World Social Protection Report 2020–22: Social protection at the crossroads − in pursuit of a better future

[35] ILO. 2023. Public employment services and active labour market policies for transitions

Access to training, including technical and vocational training, and lifelong learning is essential for ensuring that unemployed workers remain attached to the labour market and retain or upgrade their skills so as to mitigate the risk of diminishing their earnings capacity, which could further aggravate inequality. Such access is central also in facilitating labour market transitions, including the green and digital transitions, and promoting gender equality and social inclusion. Enhancing the quality of information and communication (ICT) training for example can bridge the skills gaps to support more inclusive digital transitions. The European Union's Upskilling Pathways program is designed for low-skilled adults, particularly those lacking upper secondary education. It operates through three essential stages: initially, a comprehensive skills assessment, often referred to as a "skills audit", to identify existing skills and areas requiring improvement; next, a tailored learning program aimed at enhancing literacy, numeracy, or digital skills, while facilitating advancement towards higher qualifications that align with current labour market demands; finally, validation and recognition of the newly acquired skills. The evaluation of the programme highlighted the need to integrate the three steps into a comprehensive pathway.[36]

An enabling environment for sustainable enterprises that can increase productivity and narrow the productivity gaps between enterprises is also essential. In particular a reduced burden of business procedures that reduce informality among small enterprises and their workers can help to boost productivity, create employment and generate more equality. For example, Brazil has significantly reduced informality among small enterprises and their workers through a comprehensive policy approach that includes incentives and reduced bureaucracy. The Simples Federal regime, launched in the late 1990s, combined multiple taxes and social security contributions into a single payment. In 2006, a new scheme further simplified administrative and tax systems for micro and small enterprises. In 2008, the Individual Micro-Entrepreneur regime was introduced for self-employed workers and small employers, offering simplified tax payments and returns, technical advice and training, access to social protection, and reduced-rate bank accounts. Additional government support includes improved access to finance, business services, public procurement, and technology to boost productivity. By mid-2018, nearly 7 million individuals were registered under the Individual Micro-Entrepreneur regime, and around 5 million micro and small enterprises were registered with the monotax regime, covering almost 11 million employees, about a quarter of all formal employees in Brazil.[37]Minimum wages serve

[36] European Commission. 2023. Evaluation of the Council Recommendation of 19 December 2016 on Upskilling Pathways: New Opportunities for adults.

[37] ILO. 2021. Extending social security to workers in the informal economy. Lessons from international experience.

as a powerful tool for reducing inequalities. To maximize their effectiveness, minimum wages must be adjusted regularly to reflect the needs of workers and their families, alongside broader economic factors.[38] It is crucial to consider that even if nominal minimum wages are indexed to inflation, as measured by the consumer price index (CPI), minimum wage earners may experience a greater loss in purchasing power compared to higher-income households. This discrepancy arises because the CPI is based on a basket of goods and services that reflect the average spending patterns of a broad segment of households. In contrast, lower-income households allocate a larger portion of their income to basic necessities such as food, housing, and transportation—items that often exhibit greater price volatility than other goods in the CPI basket.

Some G20 countries account for the higher cost of living faced by low-income households when adjusting minimum wages or social security benefits. For instance, in Brazil, the annual adjustment rule for the minimum wage, the social assistance pension and the minimum benefit guarantee of the general social security regime refers to the National Consumer Price Index (INPC)—which is based on the consumption patterns of lower-income households— plus the GDP growth of year t-2 (if positive), while the pensions above the minimum benefit guarantee are increased in line with the INPC. Similarly, in the United States, the Consumer Price Index for Urban Wage Earners and Clerical Workers is used exclusively to adjust social security and federal retirement benefits, rather than the general CPI. These tailored approaches help ensure that minimum wage adjustments more accurately reflect the economic realities faced by lower-income households, thereby enhancing their effectiveness in reducing inequalities.

The evidence presented in this note has also shown that social protection systems can significantly reduce income inequalities, with social insurance and tax-financed social assistance pensions being responsible for important income inequality reductions. Nevertheless, given the persistent and alarming levels of income inequality and the enduring high gaps in coverage and financing in social protection across several G20 countries, there is a consensus on the imperative to establish universal social protection systems. This necessity has been further underscored by the compounding crises that continue to unfold. Universal social protection requires more and better investments, based on the principles of universality, adequacy, sustainability, and solidarity.[39]

---

[38] ILO. Global Wage Report 2022–23: The impact of inflation and COVID-19 on wages and purchasing power.

[39] Razavi S., Cattaneo U., Schwarzer H., and Visentin A. 2024. *Combatting Inequalities: What Role for Universal Social Protection?* ILO Working Paper Forthcoming. Geneva: International Labour Office, 2024.

From the international experience and the ILO labour standards[40], it emerges that there is no one-size-fits-all approach for extending the coverage of social protection, finding the respective fiscal space, and closing the financing gap to provide at least a social protection floor. Domestic resource mobilization, including progressive taxation and social security contributions, are key sources of financing for social protection, considering that building social protection systems and floors imply long-term commitments.[41] Evidence has shown that social security contributions have remained a stable source of financing social protection benefits across the G20, and that reforms that reduce the contribution rates do not necessarily deliver employment or formalization gains, but rather a wider financing gap.[42]

Taxation is the other key channel for mobilizing the resources to establish universal social protection systems, including floors with a view to provide adequate protection for all persons in need across the life cycle. Countries have a wide range of options to raise tax revenue. Low- and middle-income countries tend to use rather regressive consumption/sales and value-added taxes (VAT) to create fiscal space, whereas progressive taxation such as on income, wealth and corporate profits –including taxes on the financial sector– as well as property and inheritance taxes are less frequent sources.[43] There is no consensus on the advantages of granting tax concessions to corporations, since the diversion of international investment or the attraction of such flows is determined by many drivers, including the availability and quality of infrastructure, an educated and productive workforce, and the quality of institutions. The competition among countries by reducing corporate tax rates has resulted in lower proceedings from corporate taxes as a share of GDP.

To level the playing field in corporate taxation, the United Nations General Assembly approved a resolution in 2023 to create a global tax convention, proposed by Nigeria and focused on the needs of emerging countries.[44] This process will unfold in parallel to the preparatory process for the Fourth International Conference on Financing for Development (Ffd4), which will take place in Madrid in June 2025. This conference offers a unique chance to adopt ambitious reforms and

[40] See ILO. 1952. Social Security (Minimum Standards) Convention, art. 71, as well as ILO. 2012. Social Protection Floors Recommendation.

[41] ILO, ISSA, OECD 2023. Sustainable financing of social protection. Technical paper prepared for the 1st meeting of the G20 Employment Working Group under the Indian presidency; For an overview of several options for financing social protection, see: ILO. 2019. Fiscal space for social protection. A handbook for assessing financing options.

[42] Calligaro, Florencia, and Oscar Cetrangolo. 2023. "Financing Universal Social Protection: The Relevance and Labour Market Impacts of Social Security Contributions". WIEGO Working Paper No. 47. WIEGO and ILO.

[43] Calligaro, Florencia, and Oscar Cetrangolo. 2023; ECLAC 2021. Fiscal Panorama of Latin America and the Caribbean 2021: Fiscal policy challenges for transformative recovery post-COVID-19; Cattaneo, U., Schwarzer, H., Razavi, S., Visentin, A. Financing gap for universal social protection: Global, regional and national estimates and strategies for creating fiscal space. ILO Working Paper 113. Geneva: International Labour Office, 2024.

[44] UN 2023. Promotion of Inclusive and Effective International Tax Cooperation at the United Nations: Report of the Director-General.

boost investment for the achievement of the SDGs.[45] Strategies to be discussed in the Conference include the broadening of domestic government finance sources to complement social security contributions, personal income, and corporate taxes.

As part of the needed just transition, considerable fiscal space for social protection and employment could be generated by progressively and carefully removing explicit fuel subsidies, as well as implicit fuel subsidies, that is, by introducing/increasing carbon pricing schemes in a way that charges for the environmental costs of carbon emission. In 2024, explicit fuel subsidies in emerging G20 countries averaged 0.9 per cent of GDP, and implicit subsidies 10.0 per cent of GDP, as compared to a social protection financing gap of 6.3 per cent of GDP. Similarly, in G20 advanced economies, explicit fuel subsidies represent, on average, 0.3 per cent of GDP, while implicit fuel subsidies represent 3.0 per cent of GDP, and they compare with a financing gap of 0.4 per cent of GDP.[46] However, it is relevant that the social protection programmes be in place to cushion the impacts of a progressive reduction of subsidies, which otherwise may have a negative impact on the cost of living and on poverty.

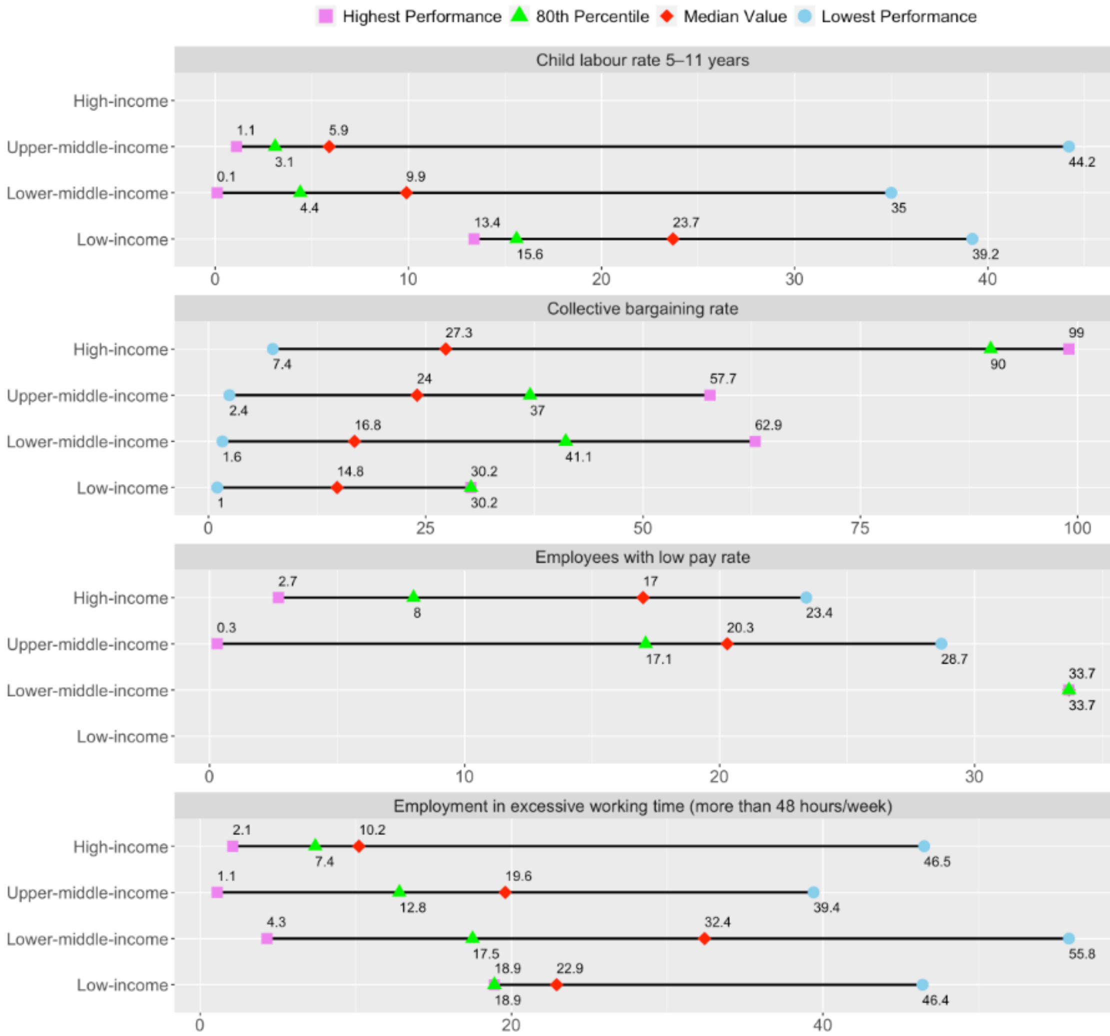
National social dialogues led by governments and involving the participation of workers' and employers' organizations as well as other stakeholders, are also critical for developing strategies to extend and finance social protection. These national social dialogues have the power to guide the formulation of social protection policies and strategies, based upon costing and financing options, and can provide a road map that increases the coherence and comprehensiveness of national social protection systems.

[45] United Nations. 2024. *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads*.

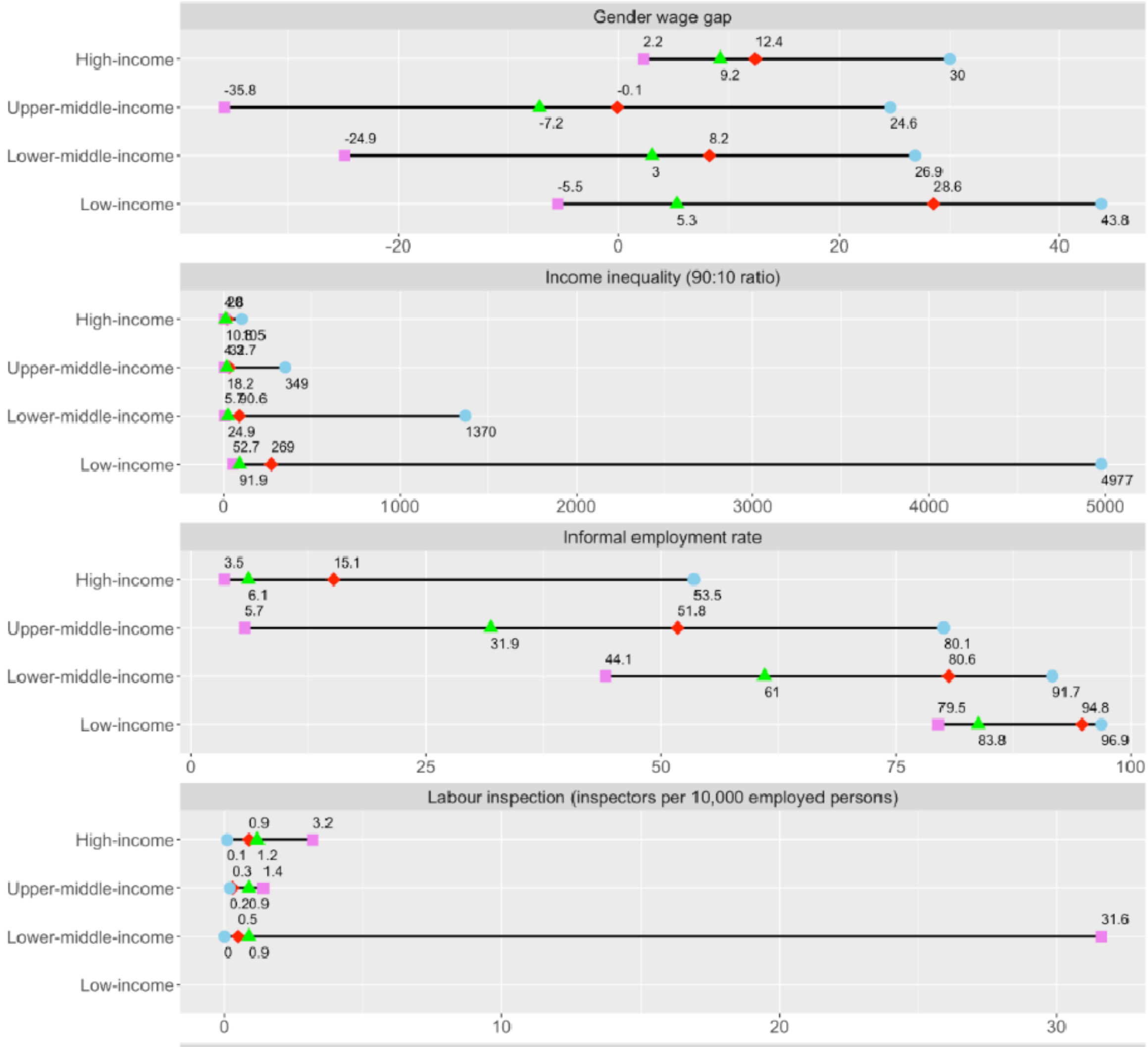
[46] ILO calculations based on Cattaneo, U., Schwarzer, H., Razavi, S., Visentin, A. Financing gap for universal social protection: Global, regional and national estimates and strategies for creating fiscal space. ILO Working Paper 113. Geneva: International Labour Office, 2024.

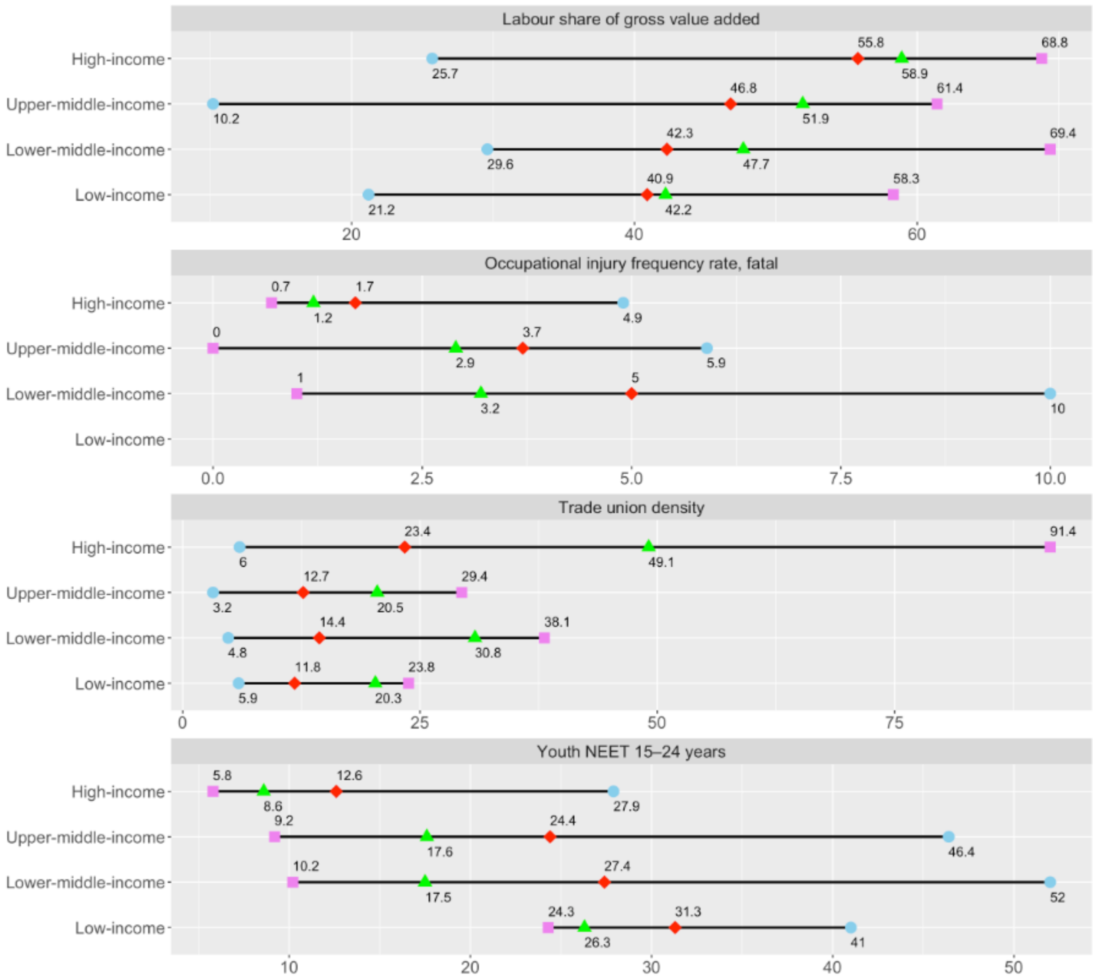
Annex

A: Decent work indicator reference ranges[47]

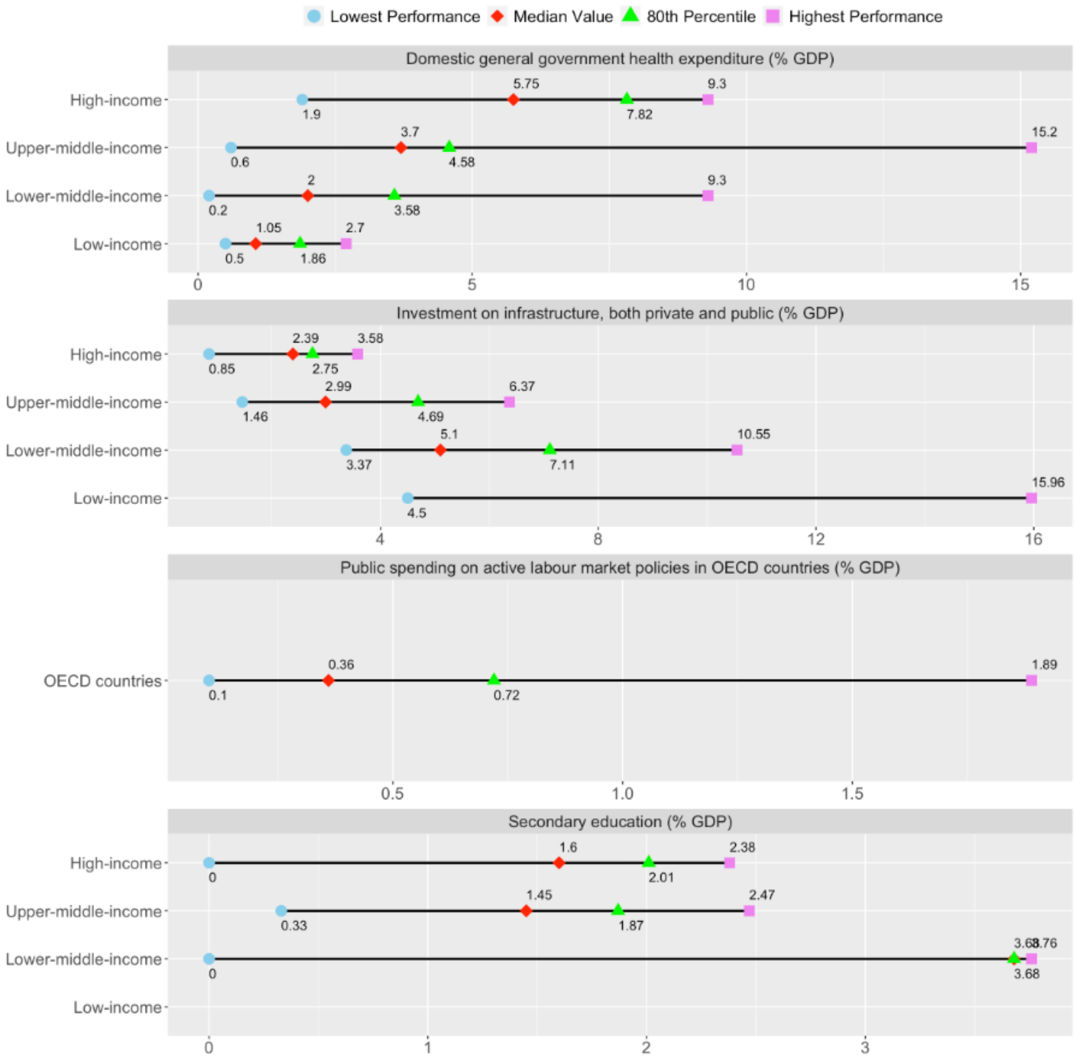


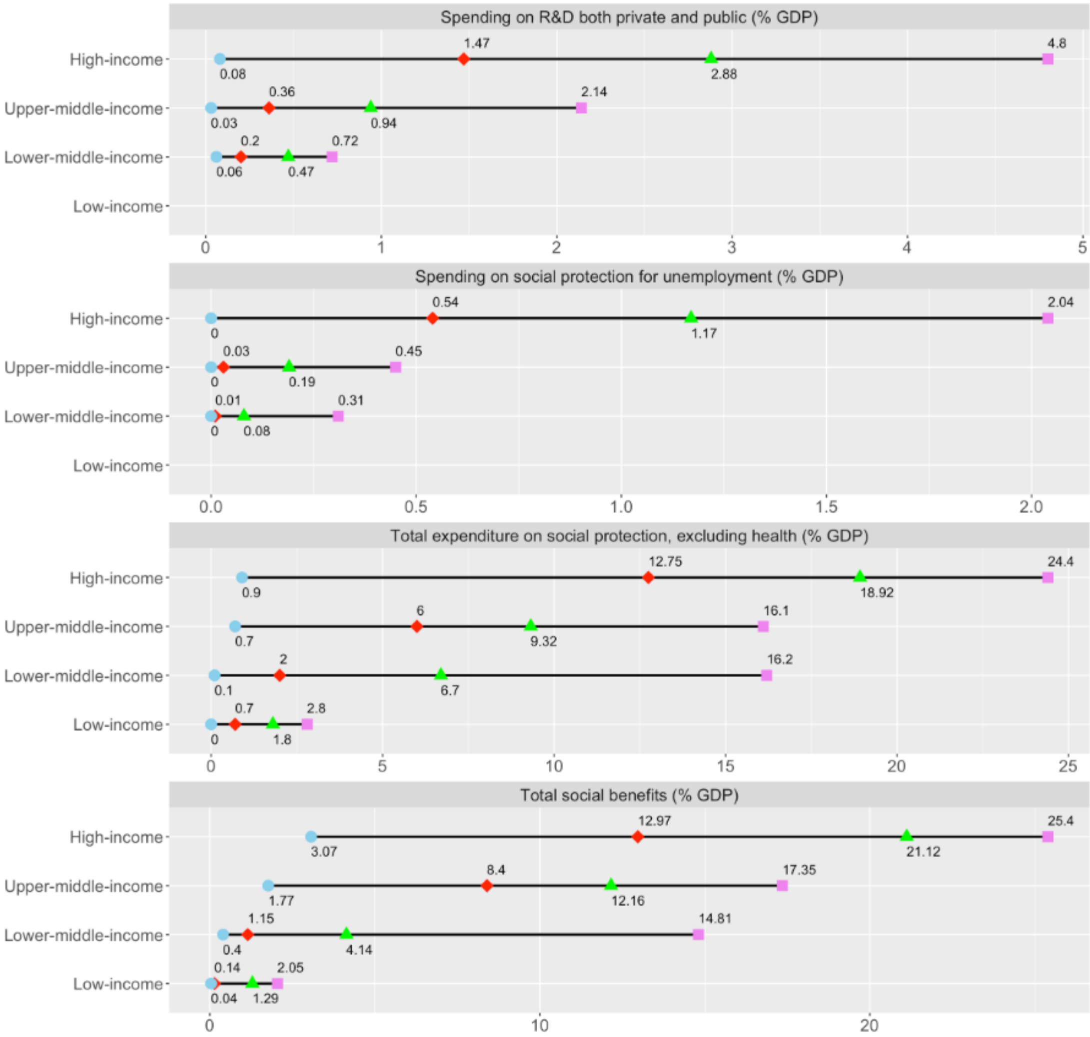
[47] See Samans, R., *Human-Centred Economics*, *op. cit.* pp. 247 – 250 for sources of data.


Gender wage gap
High-income
Upper-middle-income
Lower-middle-income
Low-income
2.2
12.4
9.2
30
-35.8
-0.1
-7.2
24.6
-24.9
8.2
3
26.9
-5.5
28.6
5.3
43.8
-20
0
20
40
Income inequality (90:10 ratio)
349
1370
52.7
269
91.9
4977
0
1000
2000
3000
4000
5000
Informal employment rate
3.5
15.1
6.1
53.5
5.7
51.8
31.9
80.1
44.1
80.6
61
91.7
79.5
94.8
83.8
96.9
0
25
50
75
100
Labour inspection (inspectors per 10,000 employed persons)
0.9
3.2
0.1
1.2
0.3
1.4
0.5
31.6
0
0.9
0
10
20
30

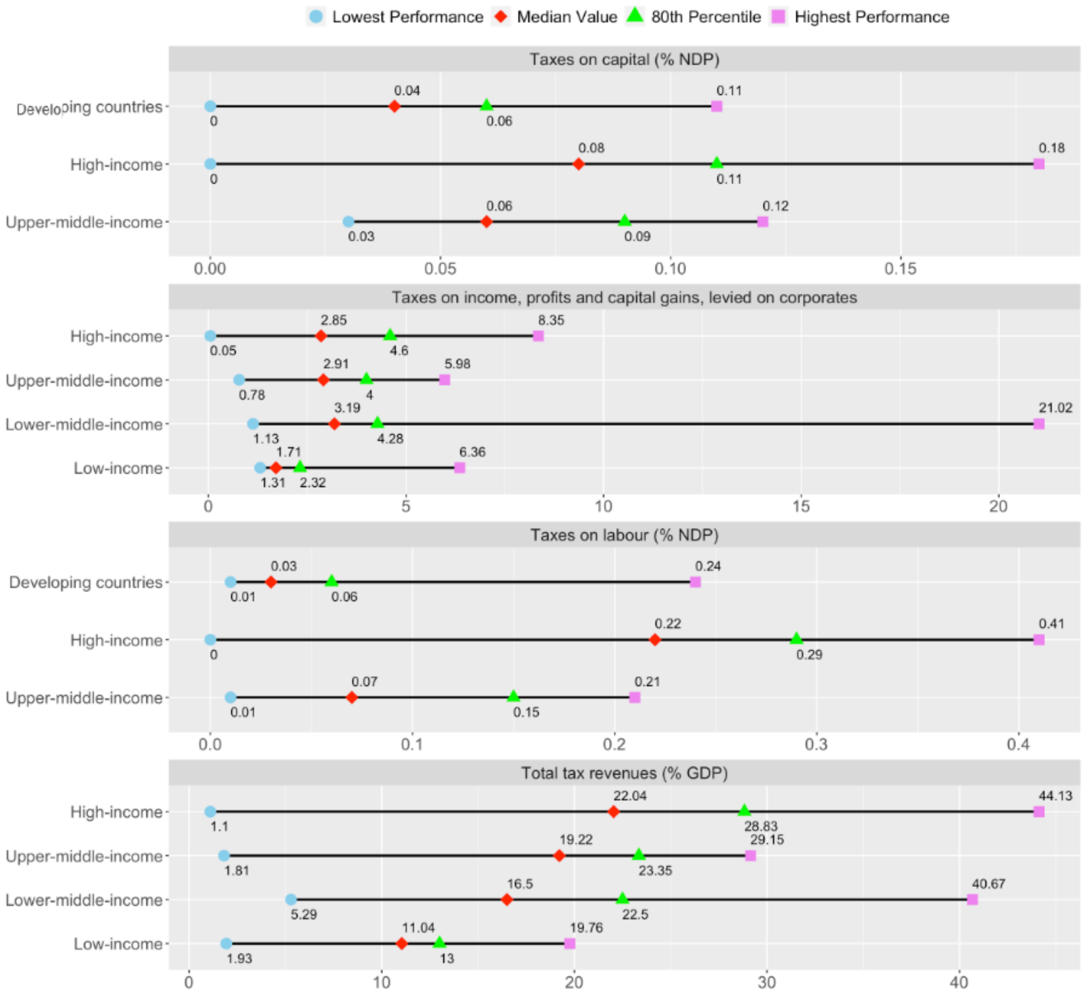

Labour share of gross value added
High-income
Upper-middle-income
Lower-middle-income
Low-income
25.7
55.8
58.9
68.8
10.2
46.8
51.9
61.4
29.6
42.3
47.7
69.4
21.2
40.9
42.2
58.3
20
40
60
Occupational injury frequency rate, fatal
0.7
1.2
1.7
4.9
0
2.9
3.7
5.9
1
3.2
5
10
0.0
2.5
5.0
7.5
10.0
Trade union density
6
23.4
49.1
91.4
3.2
12.7
20.5
29.4
4.8
14.4
30.8
38.1
5.9
11.8
20.3
23.8
0
25
50
75
Youth NEET 15–24 years
5.8
8.6
12.6
27.9
9.2
17.6
24.4
46.4
10.2
17.5
27.4
52
24.3
26.3
31.3
41
10
20
30
40
50

▶ B: Fiscal expenditure and revenue reference ranges




Spending on R&D both private and public (% GDP)
Spending on social protection for unemployment (% GDP)
Total expenditure on social protection, excluding health (% GDP)
Total social benefits (% GDP)
High-income
Upper-middle-income
Lower-middle-income
Low-income

Revenues



Lowest Performance
Median Value
80th Percentile
Highest Performance
Taxes on capital (% NDP)
Developing countries
High-income
Upper-middle-income
Taxes on income, profits and capital gains, levied on corporates
High-income
Upper-middle-income
Lower-middle-income
Low-income
Taxes on labour (% NDP)
Developing countries
High-income
Upper-middle-income
Total tax revenues (% GDP)
High-income
Upper-middle-income
Lower-middle-income
Low-income