

# Wage inequality and income inequality: a gender perspective

**The Urgency of Dealing with Inequality**

G24 meeting

18<sup>th</sup> March 2022, ILO

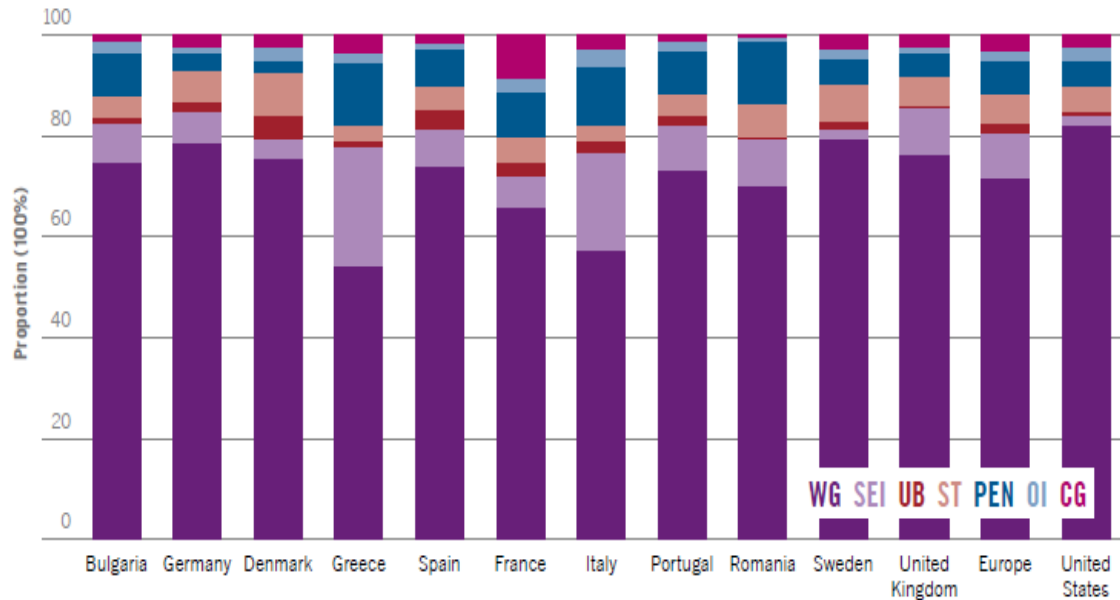
# INTRODUCTION

- **Growing inequality in recent decades has placed inequality at the top of the policy agenda in most countries**
- **The Global Financial Crisis first, social instability and the arrival of COVID-19 have heightened this concern and the urgent need for action**
- **At the ILO we publish a biennial report that looks at wage inequality as a key source of inequality in the labour market**
- **In these 12 minutes we will show evidence from this report to highlight:**
  - **Wage inequality and its impact on household income inequality**
  - **Wage inequality and gender inequality**
  - **Wage inequality and informal employment**

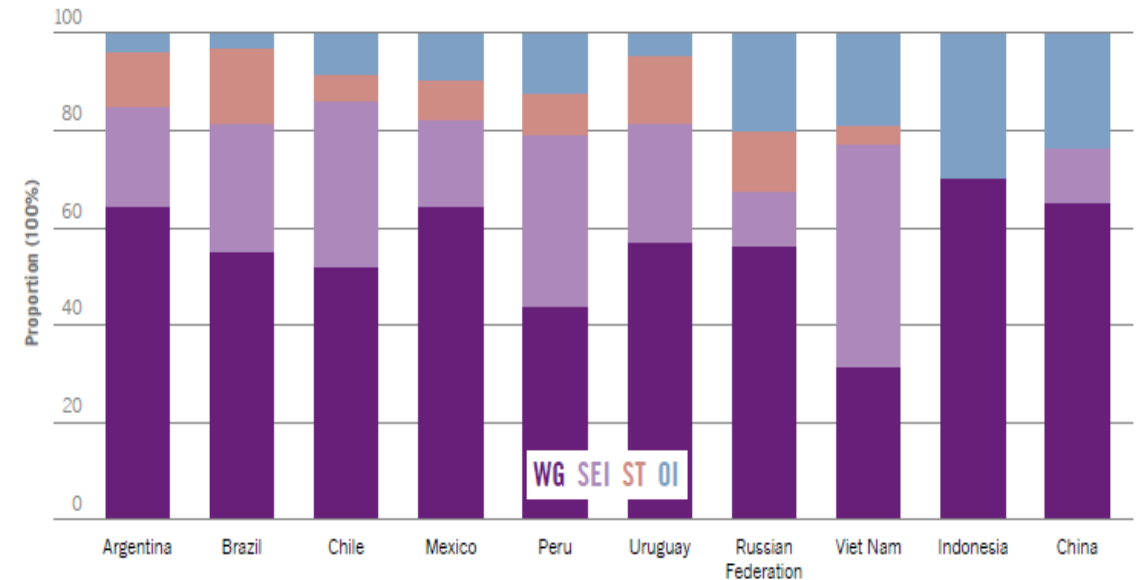
# Wage and income inequality

- Wages constitutes the largest single source of income for households in developed and emerging economies (source: *Global Wage Report 2014/15*)

## High income countries



## Low and Middle income counties



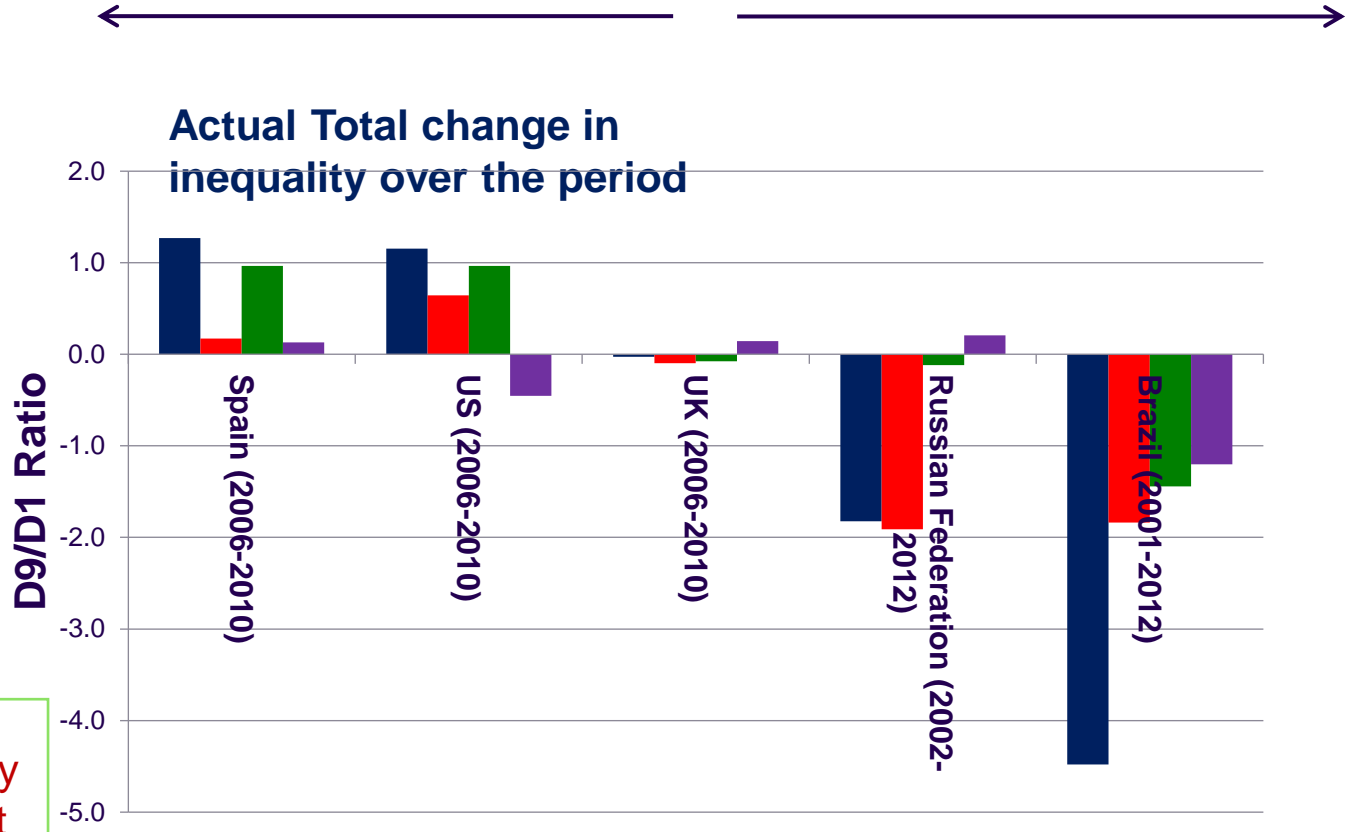
**Developed**

**Emerging & Developing**

**Source of changes in household income inequality (2006/2010)**



Inequality is significantly shaped by labor market outcomes, with wages and paid employment as key factors behind changes in inequality trends



↑ Increased inequality between Top and bottom decile

↓ Decreased inequality between Top and bottom decile

- ... due to **WAGE** effects
- ... due to **Employment** effects
- ... due to changes in other income sources

# Are groups equally affected?

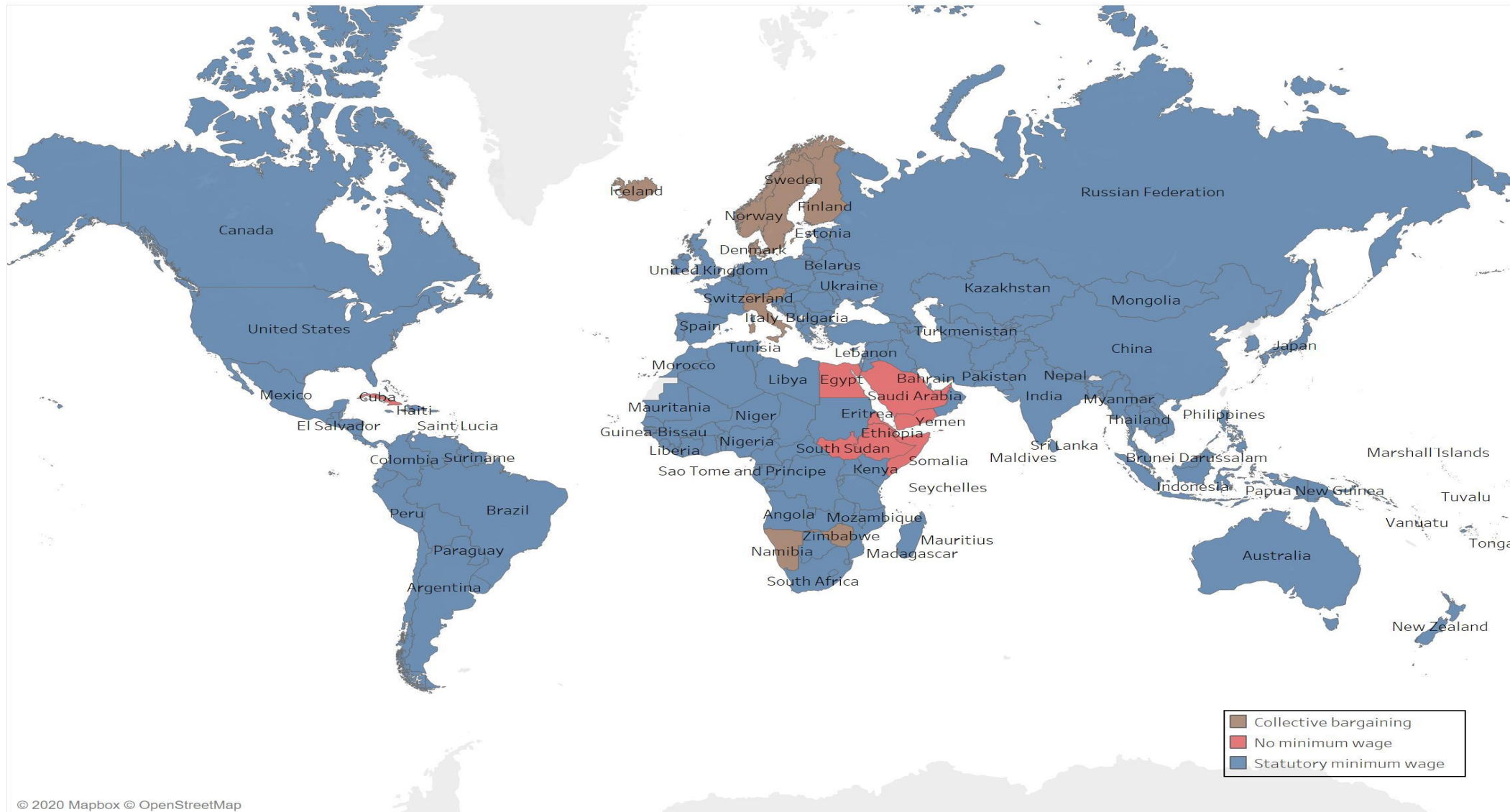
- The creation of wage employment, particularly in low and middle income countries, should be a key priority to reduce wage and household income inequality.
- But also:
  - In low and middle income countries the **formalization of informal employment**, particularly for women, should be a priority and key policy to reduce wage and income inequality.
  - In low and middle income countries access to wage employment should be **equal between women and men**.

➔ Evidence:

# Wage inequality and informality

- Wage inequality is substantially reduced when wage policies are effectively applied
- Minimum wage policies are an effective tool to reduce wage inequality by compressing the wage distribution from the bottom
- But non-compliance with the minimum wage can be a detriment to the effect of minimum wage at reducing wage inequality and (therefore) household income inequality
- The following estimates can be found in the *Global Wage Report 2020/2021*

# Minimum wages, statutory or negotiated, exist in **90** per cent of the **187** ILO Member States (**90%**)



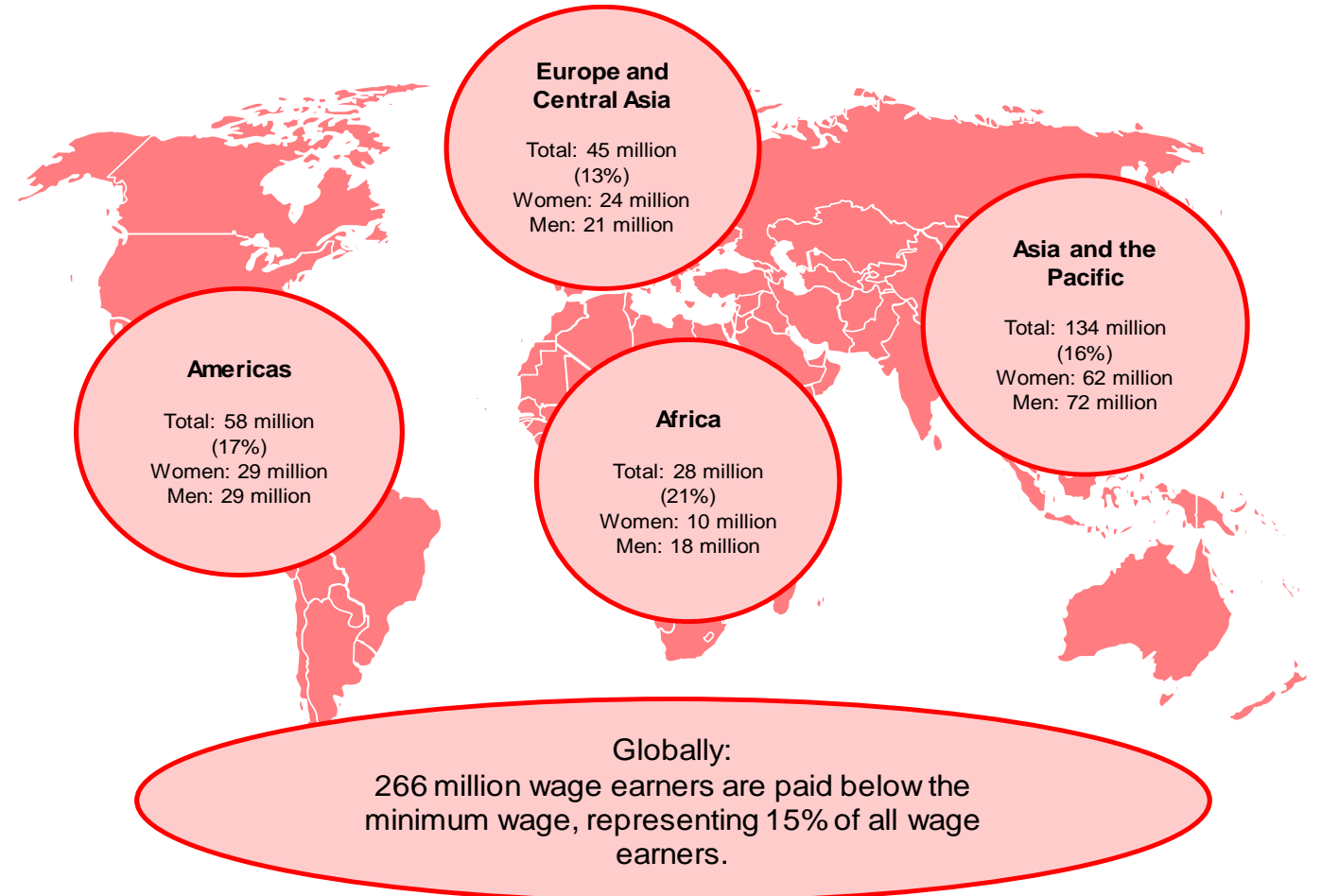
# Globally, an estimated 266 million wage earners are paid less than the applicable hourly minimum wage

266 (of the 327 million)

Total wage earners paid **below** the minimum wage

=15%

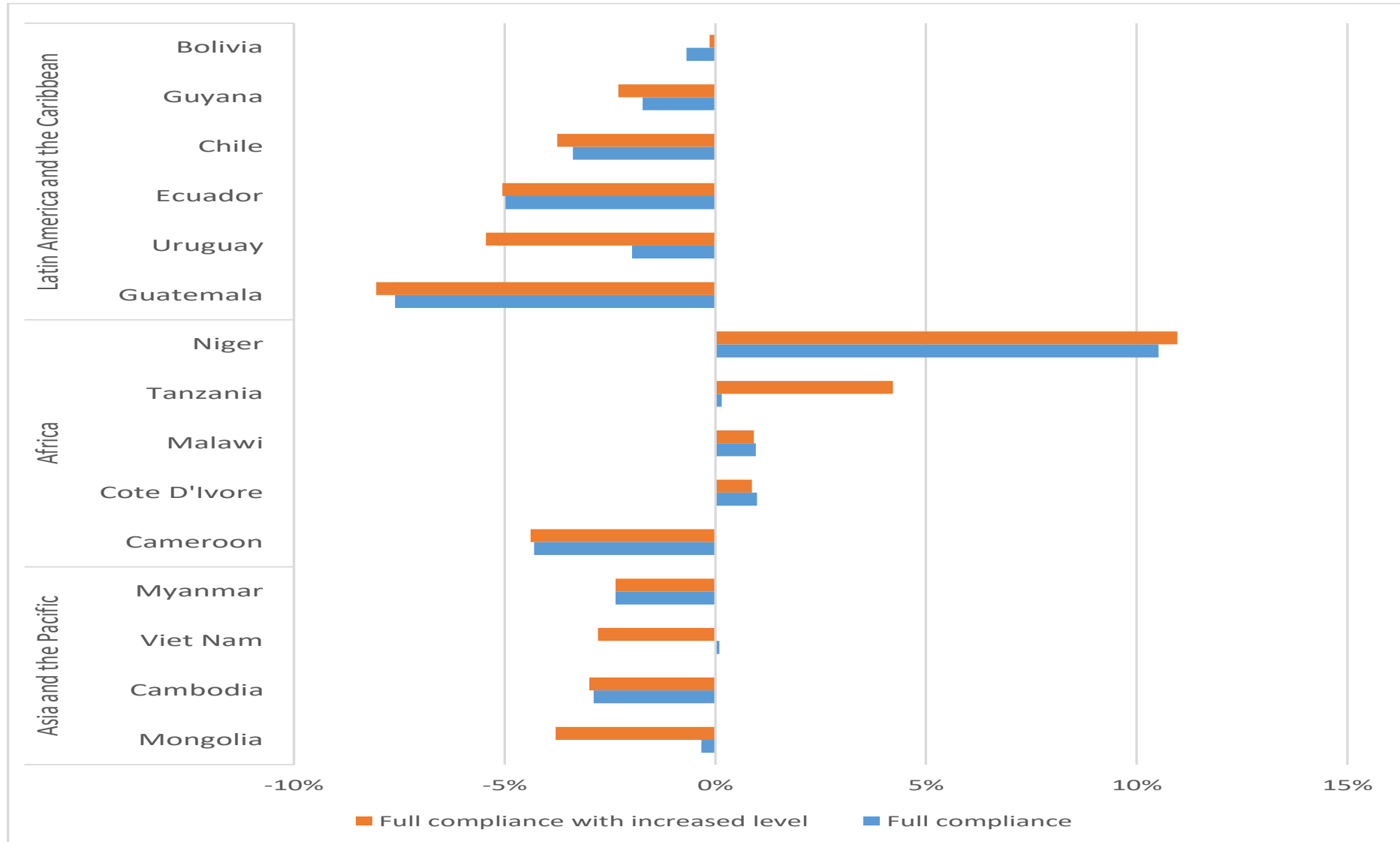
Equivalent share of wage earners paid **below** the minimum wage



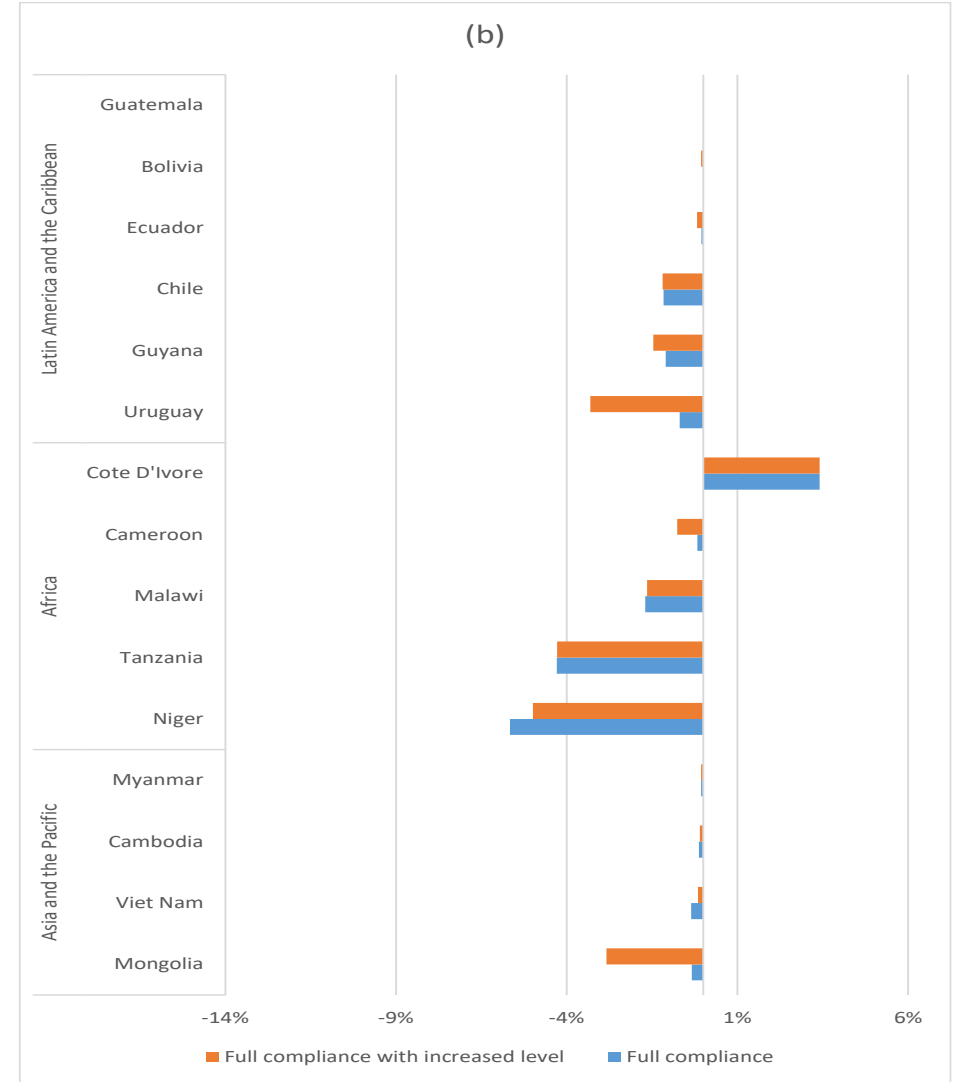
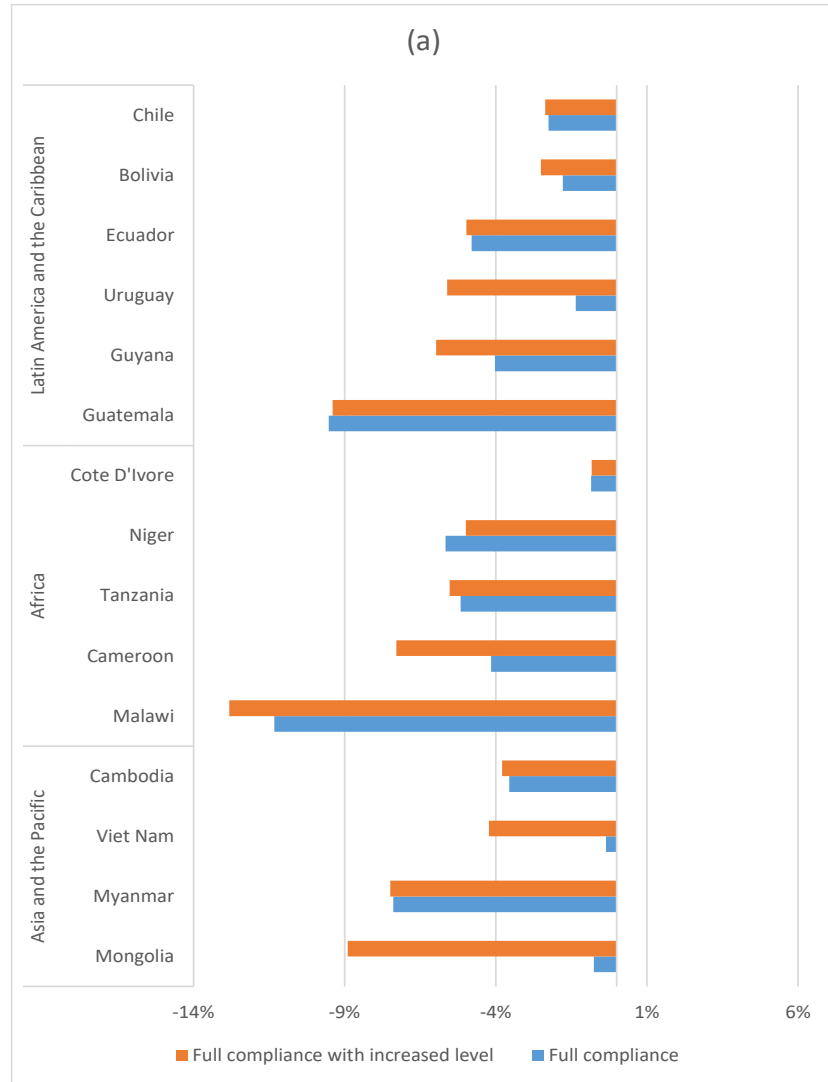
...Either because they are **not legally covered** or because of **non-compliance**.



# Simulating full compliance on household income inequality (Palma Ratio)



# But what if we exclude informal wage employment?



# What about women and wage inequality?

- Across the world, but particularly among low and middle income countries, women are overrepresented at the low end of the wage distribution
- At the low end, informal employment is proportionally higher
- Increasing the fraction of wage employment in low and middle income countries would reduce overall wage inequality but would also have the effect of reducing the gender pay gap:
- Evidence: *Global Wage Report 2020/21* and *Global Wage Report 2018/19*

# Globally, an estimated 327 million wage earners are paid at or below the applicable hourly minimum wage

▶ **327 million**

Total wage earners paid at or below the minimum wage

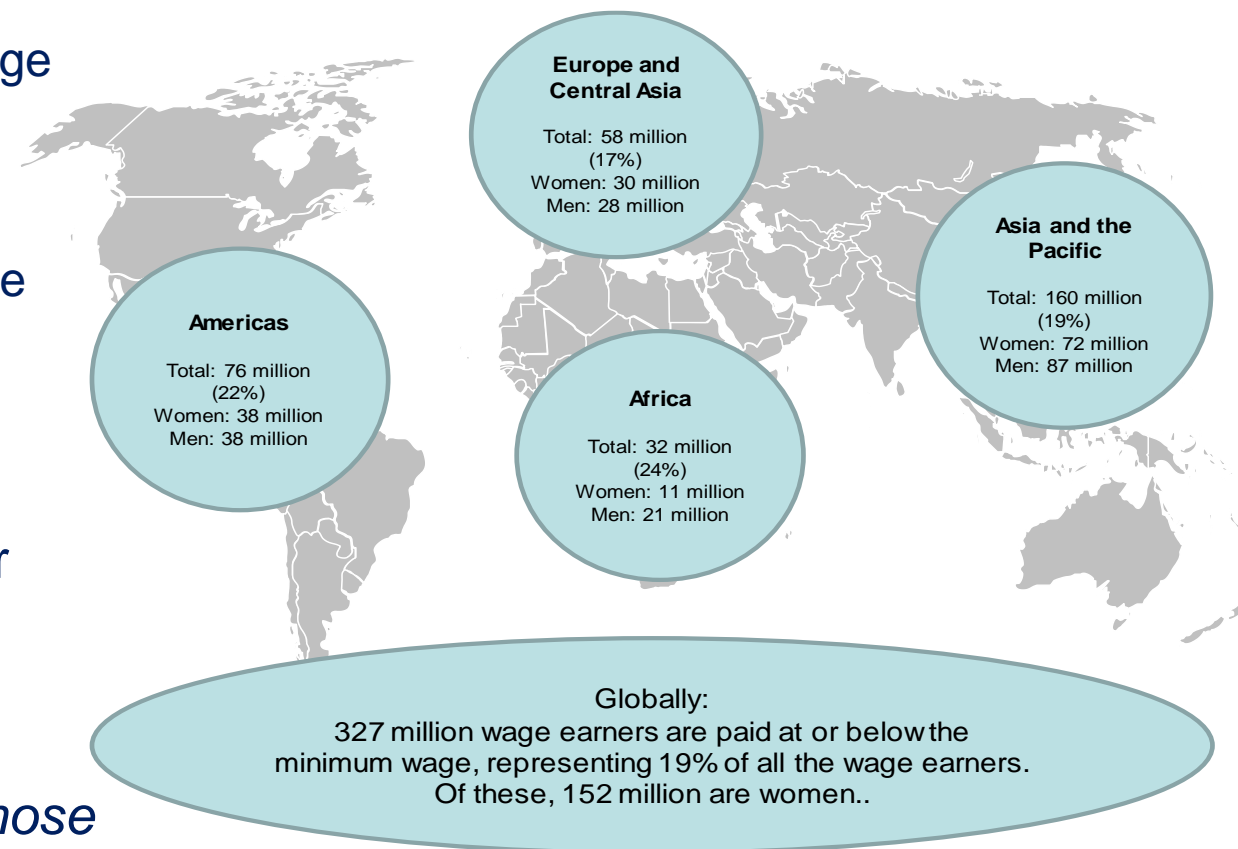
▶ **= 19%**

Equivalent share of wage earners paid at or below the minimum wage

▶ **152 million are women**

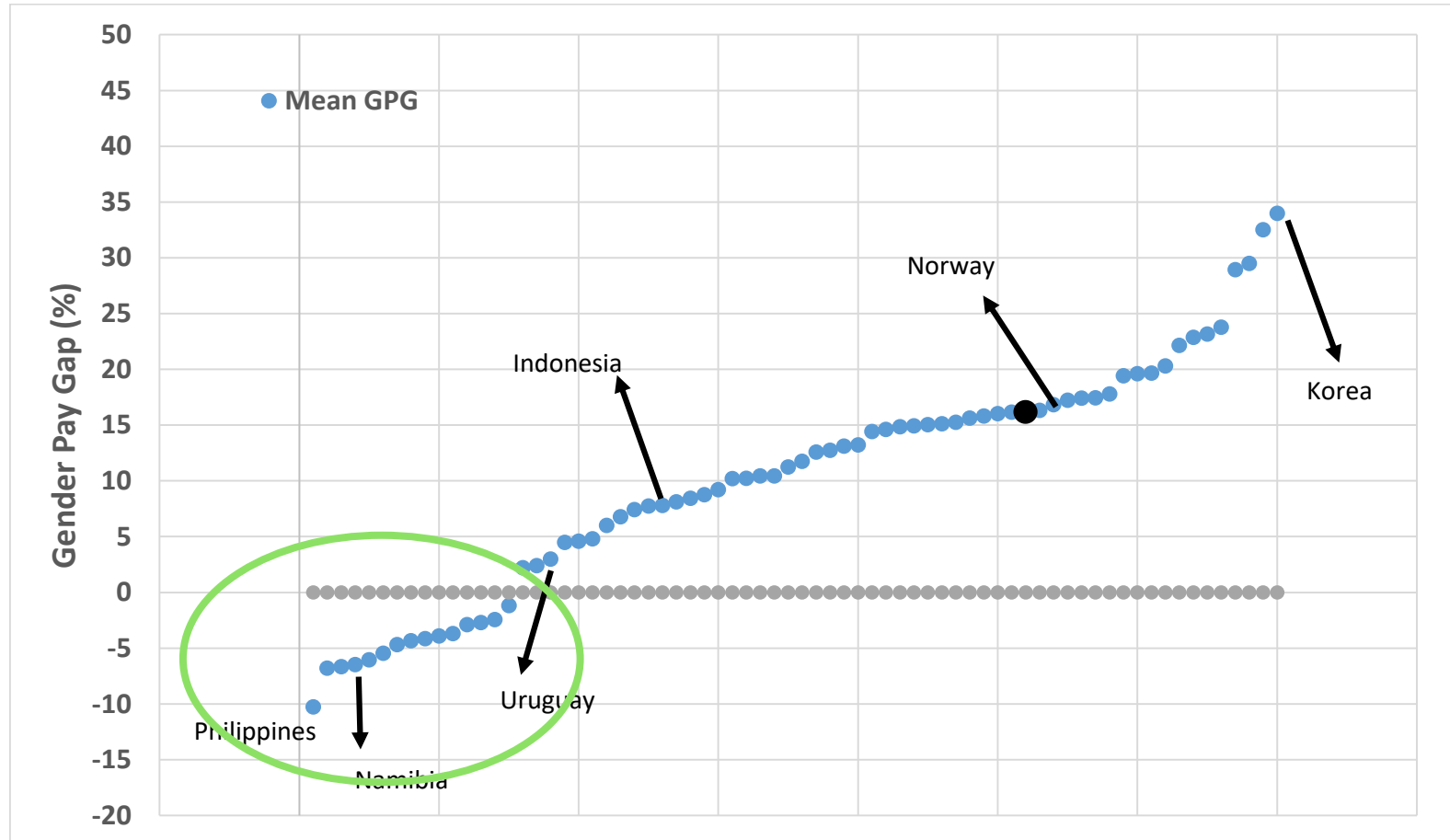
**Women** are overrepresented among those at or below the minimum wage

→ *Although **women** are only **39** of all wage employees, they represent **47 per cent** of all those paid at or below the MW*



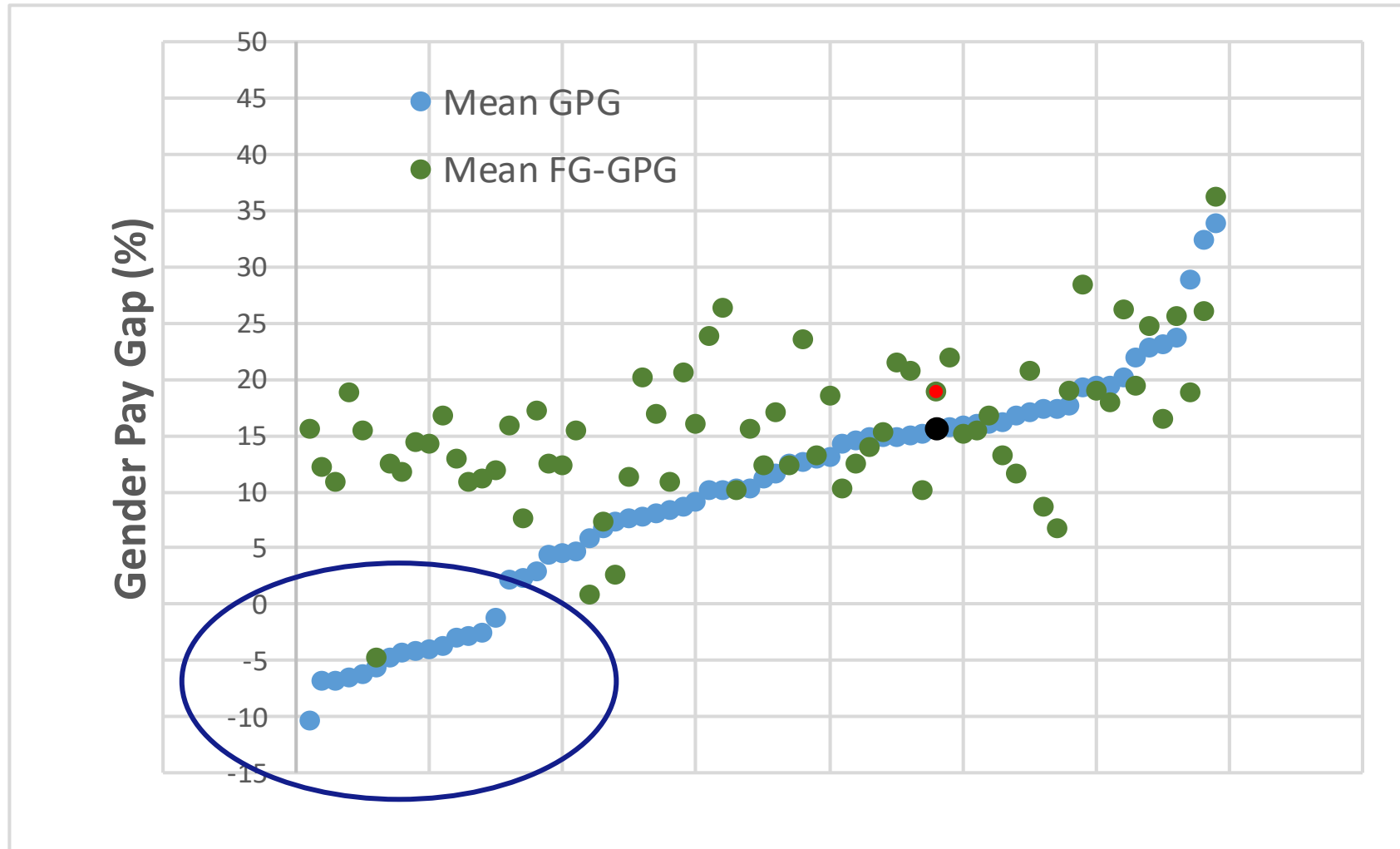
# Estimates of Gender pay gaps across the world (i)

- Pay gaps (classic mean gender pay gaps)



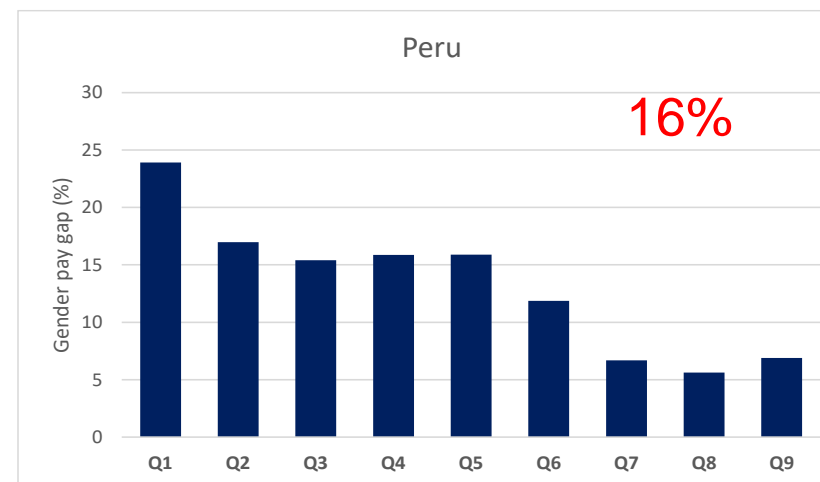
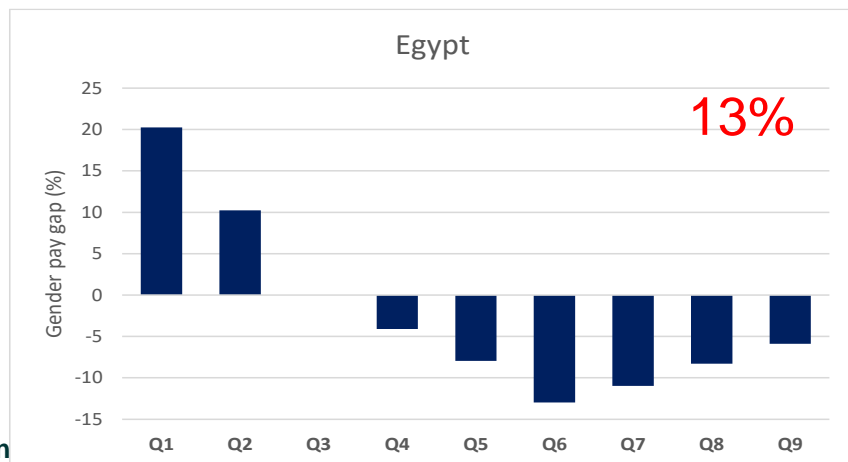
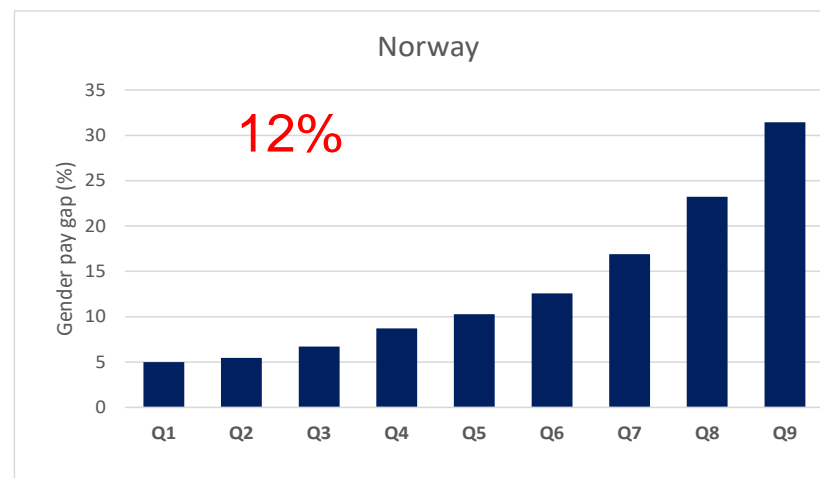
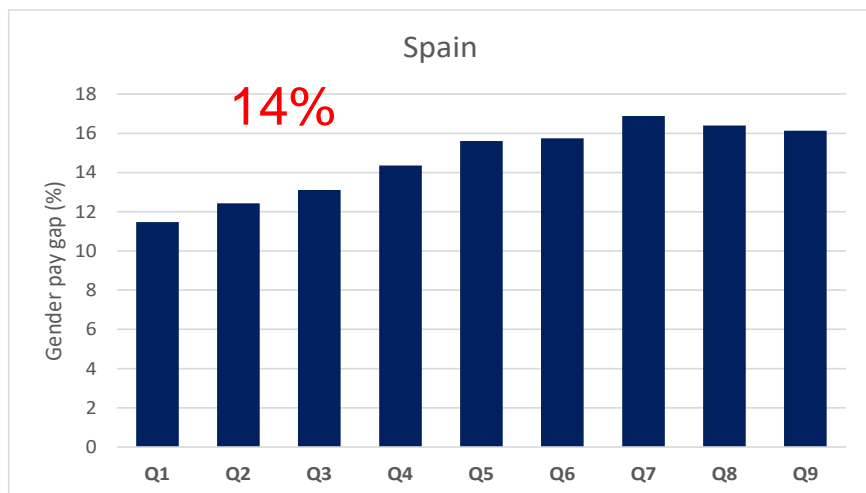
# Estimates of Gender pay gaps across the world (ii)

- The ILO's Factor Weighted Gender Pay Gap (which corrects for cluster effects)



# The importance of effective wage policies to reduce the gender pay gap

- The gender Pay Gap across the wage distribution, comparing different countries



# Summary and conclusions

- Wages and its determination can shape household income inequality
- Effective wage policies can reduce wage inequality and, therefore, household income inequality
- In low and middle income countries, wage inequality is significantly shaped by groups inequality:
  - Gender inequality
  - Informal employment
- Reducing wage inequality can reduce household income inequality
  - Creating formal wage employment
  - Formalization of the informal economy
  - Reduce gender pay gaps and promote policies that drive equal pay for work of equal value.
- Source: Global Wage Reports, from 2009 to 2021 (7 editions)
- Link: <https://www.ilo.org/global/research/global-reports/global-wage-report>
- **Forthcoming edition: December 2022 (the impact of COVID19 on wage inequality)**