

G20 EMPLOYMENT WORKING GROUP

**SUB-GROUP ON LABOUR INCOME
SHARE AND INEQUALITIES**

TERMS OF REFERENCE

Background

In 2015, Turkish Presidency of G20 has identified three main objectives that are formulated as three “I”s: Inclusiveness, Implementation, and Investment for Growth.

The need for policies that promote strong, sustainable, job-rich and inclusive growth is strongly recognized across G20 countries. In 2013, Labour and Employment and Finance Ministers agreed to consider *“Implementing labour market and social investment policies that support aggregate demand and reduce inequality, such as broad-based increases in productivity, targeted social protection, appropriately set minimum wages with respect to national wage-setting systems, national collective bargaining arrangements, and other policies to reinforce the links between productivity, wages, and employment”*¹.

For the G20 to effectively address problems in investment, growth and jobs, it must also address the underlying factors in low aggregate demand and its sources in unemployment, underemployment, stagnant wages, declining labour share and rise in inequalities.

Inequality has become the subject of increasing concern in recent years across the world as growing inequality has negative social and economic repercussions. It is important to discuss the widening inequalities and its association with the declining share of labour income. G20 Leaders, supported by Labour and Employment Ministers, acknowledged the importance of developing actions to increase economic growth and address inequalities.

Sluggish recovery in many G20 countries since the Great Recession has resulted not only in higher unemployment rates but also in slow and fragile wage gains for workers. Global wage growth in recent years was driven by emerging and developing economies and wages generally remained stagnant in developed countries. According to studies undertaken by international organizations, average increases in real wages are lagging behind the increases in growth and productivity.

In this regard, at its first meeting under Turkish Presidency in Antalya on 26–27 February 2015, the G20 Employment Working Group (EWG) agreed to establish a sub-group on the impact of inequalities and labour income share on employment and growth with a view to further the EWG’s work on this theme in 2015.

Mandate

The sub-group is to provide recommendations to the broader EWG membership on how the G20 might tackle inequalities, considering the decreasing labour income share and its impacts on employment, macroeconomic performance and living standards. In providing this advice, the sub-group will try to find answers to the questions below:

- What are the main trends in G20 members and the factors explaining the evolution of inequalities, household incomes, and the labour income shares in the last decades?
- What impact do increasing inequalities and declining labour income shares (i.e. employment and wages) have on macroeconomic performances, including societal well-being and living standards?

¹ The G20 Labour and Employment and Finance Ministers’ Communiqué Moscow, 19 July 2013, paragraph 8.5

- Has the rise in the capital share led to a rise of investment and if so has this been productive and job-rich?
- What is the relative importance of key factors (technological change, capital accumulation, globalization, increasing competition, changes in financial markets, declining bargaining power of workers, minimum wages, etc.) in explaining growth in inequalities and declining labour shares?

The sub-group will also identify:

- labour income share trends among G20 members with a focus on possible differences among advanced and emerging economies,
- policies that have been proven effective across different G20 economies in reducing inequalities, boosting employment and lifting growth,
- most suitable policy tools to align labour income with productivity increase,
- policies which would be most effective across different G20 members to address the consequences of the global decline of the labour share and rising inequalities (social protection, collective bargaining and minimum wages, taxation, skills improvement, working time...),
- coordination spaces between labour and macroeconomic institutions in the policy making as regards to inequalities and labour income share both at national and G20 levels.

Deliverables

The sub-group will propose to the EWG policy options to tackle inequalities by means of labour related measures, considering the impact of labour income share, including social protection and social policies.

The sub-group will work with the EWG co-chairs to arrange consideration of the impacts of decreasing labour income share and rising inequalities during the July EWG meeting, such as through a workshop arrangement.

The sub group will acknowledge employment, wages and income distribution as central elements of inclusive economic growth, and will provide its report by means of EWG for the consideration of the Labour and Employment Ministerial meeting and the possible joint ministerial meeting between Finance and Labour Ministers and the Leaders' Summit.

For this, the sub-group will prepare a work plan and accompanying timeline for endorsement at the May EWG meeting. The co-chairs of the sub-group will provide information to the May EWG meeting with an update on recent and planned activities.

The sub-group will provide a short paper including a joint assessment and a range of policy options and recommendations to the July EWG meeting.

Membership

Participation in the sub-group is open to representatives of G20 members and guest countries.

Liaison and collaboration

The sub-group will be partnering with international organizations, particularly the ILO, IMF, OECD and WBG. The international organizations are expected to provide their expertise and advice for the work of the sub-group.

The sub-group could work in cooperation with the G20's social partners, namely the B20 and L20.

For cross-cutting issues, the sub-group may work in cooperation with other related G20 fora for their contributions.

Governance and secretariat

The sub-group will be co-chaired by representatives of Argentina and France who will also be responsible for the communications among the group members and working arrangements.

The works of the sub-group are mainly undertaken as out-of-session work. E-mail and teleconferences are the primary modes of communication.

The sub-group will meet on 6 May 2015, prior to the second EWG meeting which is planned for 7-9 May 2015 in İstanbul.

Duration of the sub-group

These Terms of Reference for the sub-group are valid through 2015.

Annex A
G20 EMPLOYMENT WORKING GROUP SUB-GROUP ON LABOUR INCOME
SHARE

Membership and Chairing Arrangements

Co-Chairs

The Sub-group will be co-chaired by representatives of Argentina and France.

Membership

- 1) Argentina
- 2) Australia
- 3) Azerbaijan
- 4) Brazil
- 5) Canada
- 6) China
- 7) EU
- 8) France
- 9) Germany
- 10) India
- 11) Italy
- 12) Japan
- 13) Mexico
- 14) Poland
- 15) Republic of Korea
- 16) Russia
- 17) Saudi Arabia
- 18) South Africa
- 19) Spain
- 20) Turkey
- 21) United Kingdom
- 22) United States

International Partners

International Labour Organisation (ILO)
Organisation for Economic Co-operation and Development (OECD)
The World Bank Group (WBG)
International Monetary Fund (IMF)

Social Partners

Business-20 (B20)
Labour-20 (L20)