The Global Voice of Business

# INTERNATIONAL ORGANISATION OF EMPLOYERS

# UNDERSTANDING INCOME INEQUALITY

DEAR MEMBERS,

The topic of income inequality, both within and among nations, currently dominates political discourse at domestic and international levels. The IOE is pleased to provide this paper to support and encourage the engagement of business in the debate.

As always, your feedback and country experiences are most welcome for future revisions of this paper.

Yours sincerely,

**Brent H. Wilton**
Secretary-General

# Introduction

THE TOPIC OF INCOME INEQUALITY, BOTH WITHIN AND AMONG NATIONS, CURRENTLY DOMINATES POLITICAL DISCOURSE AT DOMESTIC AND INTERNATIONAL LEVELS.

However, the term 'income inequality' lacks a clear, concise and common definition, and the debate is often reduced to a level that does not take into account diverse underlying factors, such as the lack of opportunity in the formal employment sector or the failure to dismantle barriers to a virtuous circle of job generating growth.

This paper does not attempt to support or provide a single definition. For that, Members need always to look to their domestic reality. Rather, we have attempted to unpack and understand what we have identified as elements leading to inequality to help Members to identify which of these elements they may experience and look at some possible ways forward.

Business has an important stake in this debate which lies at the heart of ensuring the sustainable and inclusive economic growth and societal progress that enterprises require to establish and prosper, thus creating jobs and wealth.

This paper stresses that all policy approaches must be based on a foundation of economic growth and an enabling environment for sustainable enterprises. It argues that the achievement of sustainable and inclusive growth requires pro-growth policies that recognise the role of enterprise creation as one of the foundations for social inclusion. Just as there is no single cause for income inequality, there is no magic bullet to address it. Business has an essential role in this endeavor, but it cannot and should not be expected to bear this burden alone.

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## Business and inequality

SOCIAL JUSTICE AND HEALTHY COMPETITION – I.E. COMPETITION BASED ON TRANSPARENT, FAIR, AND SENSIBLE REGULATION, AS WELL AS DIFFERING NATURAL ENDOWMENTS AND ADVANTAGES – ARE NOT ONLY COMPATIBLE BUT ARE ESSENTIAL TO SOCIAL PROGRESS.

Any situation where groups of people are structurally deprived of the opportunity to participate in the benefits of economic growth and/or where they are perpetually socially excluded should not be tolerated.

This is not simply a matter of social justice; it is an economic imperative. A successful market economy relies on both the perception and the reality of fair competition and equality of opportunity. Rewarding individuals for achievement, risk-taking, investment and innovation is important to both economic growth and social stability.

Productivity and innovation require a broad and diverse pool of human capital. Business also relies on an expanding pool of customers and consumers.

To the extent that income inequality reflects the exclusion or marginalisation of certain groups from economic life, it also limits the consumer base and stifles business growth. Additionally, excessive levels of inequality may undermine the political stability and social cohesion that allow economies to function smoothly and for people to work together constructively.

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## Understanding the issue: facts and perceptions

ALL CITIZENS, INCLUDING WORKERS AND EMPLOYERS, NEED TO BELIEVE THAT MECHANISMS IN THEIR SOCIETIES ARE FAIR AND OPPORTUNITIES ARE AVAILABLE TO ALL.

Perceptions matter, particularly in highly politicised debates such as those on income inequality.

In important ways however, data and analysis challenge common perceptions about growing inequality.[1] For example, although emphasis on income inequality in political discourse has risen sharply in the U.S. since the global financial crisis, data shows that the level of income inequality did not actually change before and after the 2007-09 crisis[2].

> "All citizens, including workers and employers, need to believe that mechanisms in their societies are fair and opportunities are available to all- perceptions matter."

1 Verme, P., "Explaining the gap between facts and perceptions of inequality". Inequality in Focus, Jan 2014, The World Bank
2 Luxembourg Income Study (LIS). http://www.lisdatacenter.org/lis-ikf-webapp/app/search-ikf-figures

*Gini Coefficient in the United States and Egypt*

| | 2000 | 2004 | 2007 | 2010 |
|---|---|---|---|---|
| **United States** | 0.367 | 0.372 | 0.378 | 0.373 |
| | 2000 | 2005 | 2009 | 2011 |
| **Egypt** | 0.338 | 0.318 | 0.307 | 0.313 |

*Sources: Luxembourg Income Study (U.S.) and CAPMAS (Egypt)*

Clearly, perception cannot be ignored. Business has a role to play in addressing this perception gap by acting responsibly and proactively engaging in dialogue.

However, it is equally important that governments and international organisations act based on facts if they are to recommend and enact policies which have the greatest chance of actually having an impact.

According to data published in 2012 by the World Bank, high growth rates in almost all developing countries, including the Sub-Saharan African region, helped accelerate the fall in cross-country income inequality. The income of an average citizen in a poor country is now closer to the income of the average citizen of a rich country.[3]

However, when dynamics within each country are factored in, global inequality today is about the same as it was in the late 1980s. This is because while the average per capita GDP of developing nations is converging to the level of rich ones, income growth may be uneven within countries. [4]

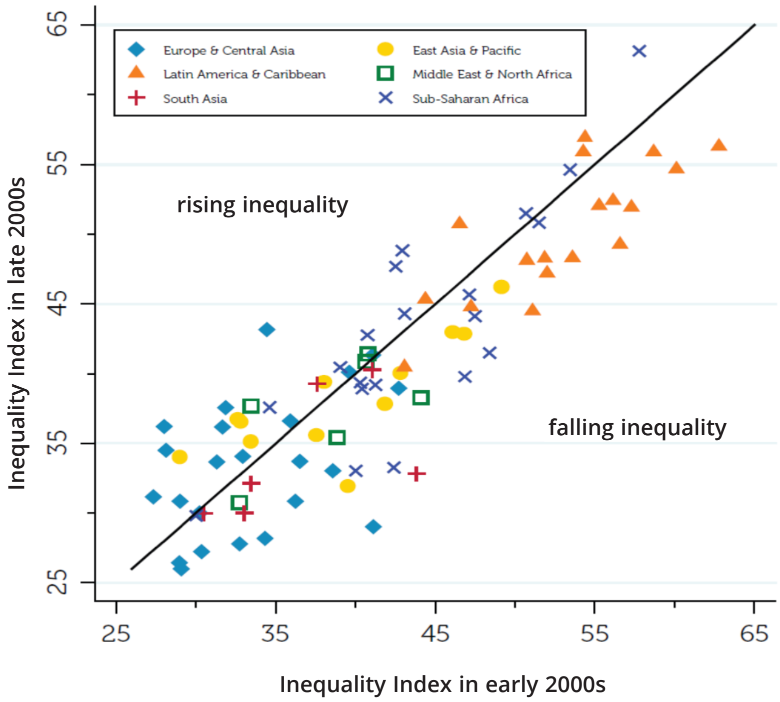
For example, in the East Asia region, the Philippines and Thailand experienced declining inequality, while inequality increased in China and Indonesia. Some South Asian economies experienced reductions in inequality, but in India it has increased due to the growth of urban incomes relative to rural incomes. In Eastern and Central Europe, most transition economies experienced rising income disparities, but inequalities fell in countries like Bulgaria, Kazakhstan and Moldova. In Latin America, the majority of countries witnessed reductions in inequality although a few have become more unequal[5]. In advanced countries, notable increases in inequality are observed in some countries[6] while small reductions are seen in others[7].

Two charts below show the extent of diversity of income inequality situations across countries. They affirm that simple generalisations by dividing countries into groups according to their levels of development could fail to capture important nuances needed for analysing the issue of income inequality in each country.

> "The income of an average citizen in a poor country is now closer to the income of the average citizen of a rich country.[8]"

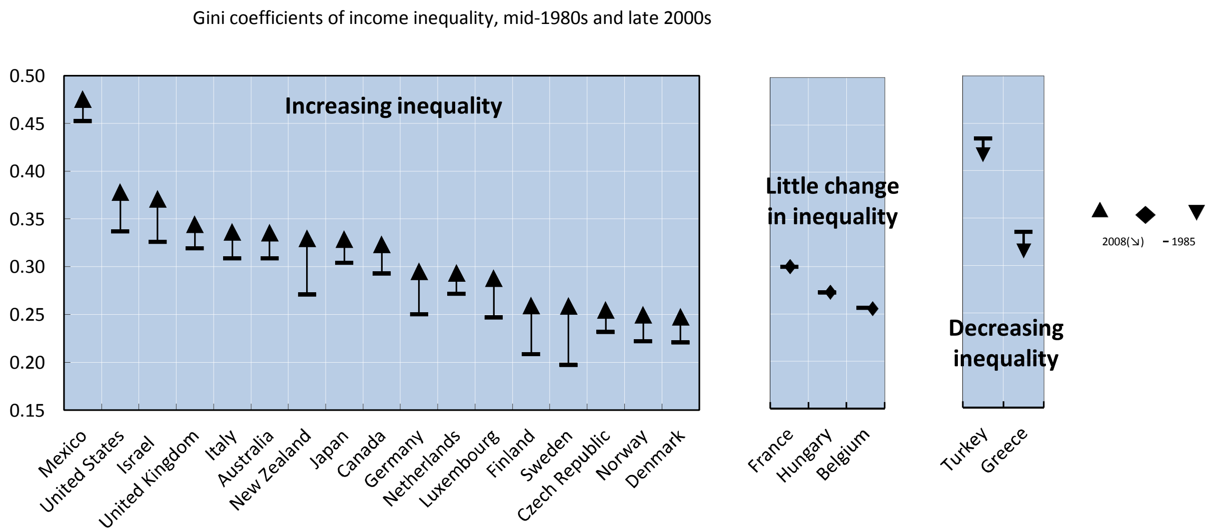
[3] Inequality in Focus: An overview of global income inequality trends, Volume 1, Number 1, April 2012, The World Bank
[4] Inequality in Focus: An overview of global income inequality trends, Volume 1, Number 1, April 2012, The World Bank
[5] Honduras and Guatemala, according to Inequality in Focus: An overview of global income inequality trends, Volume 1, Number 1, April 2012, The World Bank
[6] Finland, Germany, Sweden and the United Kingdom, according to Inequality in Focus: An overview of global income inequality trends, Volume 1, Number 1, April 2012, The World Bank
[7] Greece, Ireland and Turkey, according to Inequality in Focus: An overview of global income inequality trends, Volume 1, Number 1, April 2012, The World Bank
[8] Inequality in Focus: An overview of global income inequality trends, Volume 1, Number 1, April 2012, The World Bank

*Changes in Inequality in Developing Countries*




*Sources: World Bank. World Development Indicators and World Bank 2012. "China 2030"*

*Income inequality increased in most, but not all OECD countries*




*Source: OECD Database on Household Income Distribution and Poverty.*

This is a complex and differentiated picture which should lead all involved in the income inequality debate to understand that the situation, the underlying causes, and effective policy approaches will differ widely among and within countries and regions.

## The central role of economic growth

UNDERSTANDING THE ROOT CAUSES OF INCOME INEQUALITY IN ANY PARTICULAR CONTEXT IS ESSENTIAL TO EFFECTIVELY AND EFFICIENTLY ADDRESS IT.

But one factor must underlie all policy responses: an effective and efficient answer to income inequality requires policies to promote sustainable economic growth, taking into account the specific structural drivers of income inequality in each economy, and complementing the growth policies with growth-friendly enablers of social inclusion.

Thus for example, policy recommendations, such as minimum wage policies, that aim solely to redistribute or to increase or equalise wages[9] when the inequality is most often the visible symptom of a deeper difficulty, will fail to tackle the root of problem.

### GROWING THE ECONOMIC PIE

Redistribution and fiscal spending require resources. Infrastructural and social investments can allow more to benefit from growth and from improvement in living standards.

However, such investments cannot be sustained without economic growth, especially under reduced fiscal space[10]. Hence, economic growth must happen first in order to grow the economic pie.

### REINFORCING INCLUSIVENESS

Pro-growth institutions and policies will on average raise the incomes of the poor by an equal proportion.

Within countries, incomes of two groups (those at the bottom 20% and those at the bottom 40% of the income distribution) generally increase by an equal proportion when the average income increases as a consequence of economic growth[11].

Indeed, sustainable economic growth can foster inclusiveness by enabling more people to be employed; work is the channel through which the benefits of economic growth spread and living standards improve. For example, in East Asia Pacific, work has brought more people out of poverty and closer to middle class prosperity faster during the past 30 years than in any place and at any other time in history[12].

### ADDRESSING GLOBAL INEQUALITIES

Economic growth in poor countries has helped to reduce global income inequalities. As mentioned, globally, significant poverty reductions in developing countries due to rapid economic growth facilitated the steady decline in income inequality across countries between 1981 and 2011.

According to the World Bank[13], "location" accounts for more than 50% of global income inequality today. This means that individuals with the same capacities but born in different countries will have entirely different incomes, after adjusting

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9 See IOE Guidance Paper on the Minimum Wage, 2014; and IOE Guidance Paper on the Living Wage, 2014.
10 OECD (2011), "Divided we stand: why inequality keeps rising"
11 Dollar, D. et al: Growth still is good for the poor, The World Bank Policy Research Working Paper 6568, 2013
12 World Bank. 2014. East Asia Pacific at Work: Employment, Enterprise, and Well-being. Washington, DC: World Bank. License: creative Commons Attribution CC BY 3.0
13 Milanovic, B., Global Income Inequality by the Numbers: in History and Now, The World Bank Policy Research Working Paper 6259, 2012

for price differences between the countries. Economic growth in developing countries can thus contribute substantially to reduce global income inequalities. This is important so as not to lose sight of the big picture; namely, that the lives of all people around the world should improve.

Furthermore, as economic growth in developing countries improves the incomes of more people, the global consumer base expands and the global production structure adapts, creating more economic opportunities and progressively benefitting all economies.

It is also important to bear in mind that growth, as it returns to a market, will not necessarily be uniform across all sectors of the economy. Growth takes time to "bed in", to be seen as consistent and encourage employment growth. It may be that initial employment growth, such as experienced by the UK and the US in 2014, is found in lower-paid occupations, but may well be the catalyst needed for employment decisions in higher income occupations.

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## Policy recommendations

GENERALLY, ECONOMIC PROGRESS LEADS TO SOCIAL PROGRESS. HOWEVER, THE LINK BETWEEN ECONOMIC AND SOCIAL DEVELOPMENT IS NOT ALWAYS AUTOMATIC, STRAIGHTFORWARD AND COMPLETE.

This is when focused policies to promote inclusion become necessary. For example, increasing labour market flexibility to enable sustainable economic growth needs to be supplemented by measures to promote employability and to improve social protection systems. An additional example centers on policies that encourage innovation and entrepreneurship to stimulate growth and employment.

Such policies can have negative spillovers on wage polarisation as they tend to favour higher-skilled individuals and more productive and profitable firms capable of making investment expenditures. Hence, policies need to be complemented with lifelong skills developments and targeted and temporary support to small firms so that less skilled individuals and less profitable firms can cope and adapt.

Nevertheless, there are win-win pro-growth policies, such as pro-growth structural reforms to enable human development, facilitate access to education, activate more people into employment, integrate immigrants, create an enabling environment for small and medium-sized enterprises, and also, facilitate transitions to a formal economy[15].

The pillars of sustainable enterprises, as agreed in the 2007 Tripartite Resolution on Sustainable Enterprises achieved in the International Labour Conference, embody elements for both sustainable and inclusive growth[16]. This Resolution is based on a tripartite consensus on the importance of fostering enterprise creation and of guaranteeing an equitable, efficient combination of human, financial and natural resources.

"The link between economic and social development is not always automatic ... This is when focused policies to promote inclusion become necessary...policies that encourage innovation and entrepreneurship."

14 Milanovic, B., Global Income Inequality by the Numbers: in History and Now, The World Bank Policy Research Working Paper 6259, 2012

15 OECD (2012), "Reducing income inequality while boosting economic growth: can it be done?"

16 International Labour Office, Geneva. "Conclusions concerning the promotion of sustainable enterprises." International Labour Conference, June 2007. http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_093970.pdf

**STRUCTURAL POLICIES**

Policies to stimulate aggregate demand have a role to play in promoting economic and employment growth. However, these are not and should not be seen as a panacea. Economic growth is not driven by any single factor and it is important not to lose sight of the other side of the equation, i.e. the equally urgent imperative for supply side structural policies.

Furthermore, demands for increasing wages to stimulate growth through increasing consumption can be counterproductive in the context of low earning prospects and an uncertain economic environment where companies have no confidence in the growth capacity of their businesses. The risk is that firms with potential to grow and create jobs over time but unable to absorb a rise in labour costs in the short-term will either resort to automation or be pushed out of business, with the consequent destruction of firms and jobs. Such a setback to employment creation is likely to disproportionately affect low-skilled workers, thus further aggravating income inequality.

Policies must therefore work together to set in motion a virtuous cycle of stronger investment and output growth over the medium and long-term, with the aim of enhancing growth potential. Merely stimulating aggregate demand by injecting liquidity into the economy without addressing supply-side constraints is not a long-term solution. It can lead to inflation and a waste of resources if massive liquidity fails to find feasible investment opportunities.

While cyclical measures can be useful stabilisers to mitigate the fluctuations in the business cycle, they are not sufficient as a medium to long-term solution to enable continued economic growth. Investment needs to be encouraged and short-term anti-cyclical measures used temporarily in a strictly targeted fashion for greatest impact.

**POLICIES TO CREATE AN ENABLING ENVIRONMENT FOR SUSTAINABLE ENTERPRISES (EESE)**

A key part of the policy response involves supporting entrepreneurship and enterprise creation, thus creating jobs. Enterprises are the principal source of economic growth and employment, as well as the creators and major providers of most of the goods and services society requires. Sustainable enterprises provide formal work, ensure continued innovation and improve living standards and social conditions, all of which are central to sustainable development.

Factors such as a clear rule of law and access to remedies, infrastructure development, reduction of red-tape and unnecessary bureaucratic hurdles to establishing and running a business, opening protected sectors to competition, securing property rights, improving access to finance, smart regulation, improving the efficiency of administrative systems can all encourage enterprises to establish in the formal economy, unlock investment opportunities and, improve productivity and the efficiency of the overall economy.

There are other ways in which an enabling environment for sustainable enterprises can tackle income inequalities while promoting growth.

***Addressing Informality***

In some developing countries, income inequalities are greatly exacerbated by the existence of large informal economies[17]. Estimates indicate that

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"In some developing countries, income inequalities are greatly exacerbated by the existence of large informal economies."

[17] In some countries, especially when the formal economy is considered undesirable (such as being fraught with cumbersome rules or weak administrative capacity), informal economy is chosen deliberately by its operators for other reasons and the wage level may not necessarily be lower than that in the formal economy.

informal employment accounts for 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa. If agricultural employment is included, the percentages in some countries, e.g. India and many sub-Saharan African countries, rise to beyond 90%[18].

It has been demonstrated, for example, that informal employees in Nepal and Sri Lanka earn significantly less than those in the formal economy[19] and informality plays an increasingly important role in explaining earnings inequality in countries such as Serbia[20]. In East Asia and Pacific, widespread economic informality is the main reason affecting people's well-being.

A large informal economy creates constraints on development when it starts to limit innovation and productivity, when the tax base is so small that governments find it difficult to provide or sustain public goods, and when working informally reduces the options that households have to manage shocks to their welfare or makes it more difficult for them to seize available opportunities[21].

By promoting an environment for sustainable enterprises, more enterprises will be encouraged to set up in the formal economy, increasing the opportunity for economic activity and work.

### *Improving Enterprise Productivity*

Productivity gaps among firms within industries, as well as between industries, may be important contributors to income inequality.

Such gaps can become more important over time[22]. Inequalities can arise from the fact that small firms often lag behind their larger counterparts in terms of profits and productive investment[23]. An enabling environment for sustainable enterprises can contribute to increasing productivity, especially in small and medium-sized enterprises, which in the long-term improves wages and living standards.

### *Promoting Education, Training and Lifelong Learning*

According to the OECD (2011)[24], "the main driver behind the rising income gap has been greater inequality in wages and salaries, as the high-skilled have benefitted more from technological progress than the low-skilled. Up-skilling of the workforce is by far the most powerful instrument to counter rising income inequality. The investment in people must begin in early childhood and be followed through into formal education and work." The promotion of education, training and lifelong learning is a key pillar of sustainable enterprises.

As labour-intensive manufacturing sectors move to developing countries to gain a comparative advantage in labour costs, advanced economies need to be able to tap into higher value manufacturing to continue capturing global growth. Not all individuals will be ready for re-skilling in order to move up the value chain. For instance, the basic skills

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18 Men and Women in the Informal Economy, International Labour Organization, 2002. ISBN
19 Kazekami, S., 2011, "Changes in informal employment: evidence from Asian Productivity Organisation member countries", APO Working Paper Series
20 Krstic, G. and Sanfey, P., " Earnings inequality and the informal economy: evidence from Serbia", European Bank (2010)
21 East Asia Pacific at Work: Employment, Enterprise, and Well-being. Washington, DC: World Bank. 2014. License: Creative Commons Attribution CC BY 3.0
22 Faggio, G. Salvanes and Van Reenen (2007), "The evolution of inequality in productivity and wages: Panel data evidence", Centre for Economic Performance Discussion Paper no 821, Aug 2007, London School of Economics and Political Science. Individual and firm level data were used.
23 ILO Press Release, "Rising unemployment and increasing inequalities in advanced economies", 03 June 2013.
24 OECD (2011), "Divided we stand: why inequality keeps rising"

of adults in the U.S. have been found to be relatively weak by international standards, despite a relatively high level of educational qualifications, with little improvement over generations[25]. This gap should be a key focus for policymakers. Lifelong learning is also crucial to continued skills development, especially for lower-skilled workers, boosting their productivity potential and future earnings.

In promoting education and training, efficiency matters and stronger links between education systems and labour markets need to be forged to ensure the employability of graduates and their readiness for the world of work. Integrating education, training and lifelong learning with the work of establishing sustainable enterprises effectively captures the synergies that exist between them, ensuring optimal results.

## POLICIES TO ENABLE SOCIAL INCLUSION

### *Equality of Opportunity*

The key here is "access for all". As every individual is different with different sets of skills and preferences, it is of course not possible to ensure equality of outcomes. Indeed, a focus on outcomes could disincentivise effort and be counterproductive.

However, the principle of the level playing field is fundamental to tackling income inequality: everyone should have access to equal opportunities and to basic services. Equality of opportunity requires that gender, caste, ethnicity, birthplace and family background etc. do not influence a person's access to basic services and thus predetermine lifetime chances of improvement and success.[26]

Across OECD countries, policies to ensure provision for education and basic health care for all have reduced income inequality by one-fifth on average over the 2000s[27]. In Latin America, improved access to education has been a key driver of falling inequality[28]. Generally speaking, a rise in the share of workers with upper secondary education is associated with a decline in labour earnings inequality[29].

There should be equal access to employment opportunities. Some models of labour regulation have distributional consequences that favour certain groups of individuals at the expense of others, including women, young people, the elderly, people with disabilities, minorities, and those engaged in forms of employment such as part-time or self-employment. By creating labour market segmentation and labour force exclusion, such models lead to inequality of opportunity and income inequality.

Moreover, labour regulation and social protection should not favour any one sector, location or manner of economic engagement over others.[30] Policymakers should avoid focussing on any one form of employment, which may no longer be the norm; nor should they demonise or unduly constrain any form of legitimate work such as temporary and part time work. Rather, they should be thinking about how to ensure that social protection etc. can be adapted to meet the need of emerging forms of work.

> "The principle of the level playing field is fundamental to tackling income inequality."

> "Generally speaking, a rise in the share of workers with upper secondary education is associated with a decline in labour earnings inequality."

[25] OECD (2013), Time for the US to reskill? What the survey of adult skills says, OECD Skills Studies, OECD Publishing
[26] Ferreira, F., Inequality in Focus, Apr 2012, The World Bank
[27] OECD (2011), "Divided we stand: why inequality keeps rising"
[28] P Azevedo, J. et al, 2013, "Fifteen years of inequality in Latin America: how have labour markets helped?", The World Bank Policy Research Working Paper 6384
[29] Fournier and Koske, 2012
[30] World Bank. 2014. East Asia Pacific at Work: Employment, Enterprise, and Well-being. Washington, DC: World Bank. License: creative Commons Attribution CC BY 3.0

### *Targeted Transitional Programmes*

As countries move up the value chain or restructure their economies, workers released from some sectors may not have the relevant skill sets and competencies to transition into growing industries. They will become unemployed, be pushed into the informal economy or into lower paid jobs. If such changes are not anticipated with the appropriate transitional programmes, permanent structural problems could develop, exacerbating income inequalities.

To maintain competitiveness, policies are needed to tackle adjustment costs and the adverse transitional impacts of structural transformation, while ensuring that the environment is conducive for enterprises to grow, invest and hire.

Policies should ensure that those disadvantaged by one reform, benefit from another. Synergies between policies must be fostered. Worker assistance, such as targeted insurance programmes and retraining, are crucial. Protection should not be tied to where or how a person works, i.e. in designing programmes for social protection, the aim should be to protect people rather than jobs.

### *Growth Friendly Redistribution*

Redistribution strategies, when well-designed, can improve equity[31]. Such strategies include social safety net programmes, health and education expenditure, means-tested childcare etc. that shift income relativities, and how to generate the revenue to sustain these, such as through well-structured progressive income tax policies and benefits which create the right incentives mechanism for consumption, investment and employment. These all have a place.

However, redistribution policies need to be carefully designed to be growth-friendly and efficient. Improvements in equity will not necessarily flow automatically from redistribution policies as such, or from simple increases in social expenditures. Redistribution policies that strengthen human capital, such as improving access to education, will enhance efficiency and reduce income inequality over the long-term. The design of redistribution policies should prevent costly trade-offs between income inequality and efficiency. For example, to make social transfers more efficient, there could be greater use of active labour market programmes and in-work benefits for social benefit recipients[32].

Redistribution policies should not act as a disincentive; in some cases, "inactive" benefits for those out of work have resulted in reduced activity rates and exacerbated the trend towards higher market-income inequality[33].

Furthermore, whatever the nature and degree of redistribution, it must be fiscally sustainable, using fiscal instruments that achieve their distributional objectives at a minimum cost to economic efficiency. Comparisons also need to be made between the benefits of additional spending on redistribution versus the benefits of increased spending in other priority areas, such as infrastructure, to ensure an efficient and optimal use of resources[34].

### *Balanced migration policies*

Given that birthplace can affect income and access to opportunities, well-balanced and properly designed migration policies can play an important role in breaking the vicious cycle of poverty and in tackling global income inequalities.

> "To maintain competitiveness, policies are needed to tackle adjustment costs and the adverse transitional impacts of structural transformation."

> "Redistribution policies that strengthen human capital, such as improving access to education, will enhance efficiency and reduce income inequality over the long-term."

> "Migration has been found to be beneficial to total global output and in reducing global poverty and global inequality."

[31] OECD (2012), "Tackling income inequality: the role of taxes and transfers". On average in the OECD economies in the late 2000s, income inequality after taxes and transfers was about 25% lower than that before taxes and transfers. When in-kind benefits such as public spending on health, education and housing are included as redistribution policies, inequality is further reduced by more than 10%, as measured by GINI index.

[32] IMF (2014), "Fiscal policy and income inequality"

[33] OECD (2011), "Divided we stand: why inequality keeps rising"

[34] IMF (2014), "Fiscal policy and income inequality"

Migration has been found to be beneficial to total global output and in reducing global poverty and global inequality[35].

Nevertheless, migration policies should also be carefully structured and complemented to avoid brain drain or squeezing out of local workforce with a loss of access to services due to growing competition for existing resources resulting from population increase.

## Conclusions: The need for a multifaceted approach

AS PREVIOUSLY ESTABLISHED, THE PROBLEMS THAT RESULT IN INCOME INEQUALITY ARE DIVERSE, COMPLEX AND DEEP-ROOTED; AND SO TOO MUST BE THE MEANS TO ADDRESS THESE PROBLEMS.

Solutions should be diverse and designed to work together in a coherent package that acknowledges the respective roles of various stakeholders.

Such means include integration policies to tackle stigma and discrimination; addressing the problem of weak institutions; creating an enabling environment for sustainable enterprises in the formal economy, particularly SMEs; designing programmes to retrain retrenched workers and promote employability; and promoting awareness of the importance of equal access to education.

Partnership is important. Responsibility for addressing income inequality should not fall solely or even predominantly on the shoulders of enterprises, which cannot and should not replace public authorities or assume the roles of other societal actors. There are limits to what business alone can do, and expectations should be grounded in this reality. The primary role and focus of an enterprise is to succeed in its markets and deliver the products and services, wealth, employment and incomes that people depend upon. Expectations on enterprises should never jeopardise that role nor detract from that focus.

Businesses are the community at work, be they small, medium or large, national or international in their scope. Members of society that come together to form a business do so for a specific purpose: to create saleable and tradable goods and services with a view to making a profit – all within the legal and regulatory frameworks set for them by society. Profit is crucial to business: it is used as a return to investors, to invest in new technologies and new products, to meet employees' wage and career expectations, and to pay taxes and make other contributions to government as legislation and regulations specify. Healthy business returns are important; without them, there would be no resources for business to promote social progress.

This paper attempts to describe a complex issue and to offer a constructive and practical contribution to the discussions on tackling income inequality. The causes and situations vary across the globe, and so too will effective actions.

> "Solutions [to tackling income inequality] should be diverse and designed to work together in a coherent package that acknowledges the respective roles of various stakeholders."

> "Business calls for a case-by-case approach, where concrete action is based on sound analyses, and there is continuous assessment of the impacts of measures taken."

[35] Hanson (2010); Walmsley and Walters (2006); Callejo and Fuentes (2011). Walmsley and Winters (2003), Relaxing the restrictions on the temporary movements of natural persons: a simulation analysis, Journal of Economic Integration, Volume 20, Number 4, December 2005, pp 688 – 726: If the foreign-born labour force in developed countries rose to represent 3% of the domestic labour force, this would reduce global poverty by more than all the aid and development programmes do.

The IOE is the largest network of the private sector in the world. With 150 business and employer organisation members in 143 countries, it is the global voice of business.

**The Global Voice of Business**


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