

// Sarra Ben Yahmed, Lorenzo Cappellari, Daniele Checchi, Miles Corak,
Stephen Jenkins, Guido Neidhöfer, Michèle Tertilt, Mariano Tommasi

COVID-19 and Inequality

The COVID-19 pandemic and the socially distanced economy reveal longstanding inequalities that have been growing wider and wider for decades. This Policy Brief summarizes and contextualizes some of the main results of the Webinar “COVID-19 and Inequality: Research Perspectives on the Worldwide Effects of the Pandemic on Economic and Social Inequality”. The event was organized on 19 June 2020 by ZEW Mannheim in cooperation with Università Cattolica del Sacro Cuore di Milano (UniCatt) and the Society for the Study of Economic Inequality (ECINEQ).

Please, find here the slides of each single presentation and the recording of the session:
www.zew.de/en/zew/news/does-the-coronavirus-pandemic-worsen-inequality



KEY MESSAGES

- As far as the reduction of inequalities is concerned, the main recommendation is to prioritize the most vulnerable groups, both during the course of the outbreak and in immediate post-pandemic times.
- This should be done granting health care provision, including access to testing for the presence of the virus free of charge for people with symptoms compatible with COVID-19. If limited testing capacity is available, prioritise people with higher probability of spreading the virus, especially to people at risk.
- Reallocate budgets to benefit those mostly affected by the crisis. Based on already existing public expenditure schemes, concentrate job stimulus on vulnerable workers, as well as fiscal stimulus on families and enterprises at risk. Expand the safety net to protect citizens against uninsurable risks.
- Concentrate efforts on schools and education to prevent increasing educational inequality. First, making schools a safe environment with more space, more teachers, and maintaining them open as long as possible. Second, providing alternative digital resources to support learning from home and avoid learning losses. Offer additional and targeted support to pupils at risk to fall behind.
- Promote the increase in flexible work arrangements and expand parental leave policies.
- Support actions by local organizations that know the specific needs of vulnerable people in the territory.
- The large use of new information and communication technologies in every sector and in education has made clear that investments in digital infrastructures and competences are essential. Policies should aim at enhancing these technologies and reducing digital divides.

COVID-19, THE BIG DIVIDE?

The COVID-19 pandemic and the socially distanced economy reveal longstanding inequalities that have been growing wider and wider for decades. Firstly, pre-existing inequalities vehemently interact with the mortality associated with the disease. Evidence for several countries has shown that infection and mortality rates have been higher among older people, ethnic minorities, and in more deprived areas.¹ Since economically vulnerable families live in poorer sanitary conditions and often in densely populated dwellings and neighbourhoods, it is much more complicated for poorer households to comply with social distancing and keep the risk of contagion low. Also, poor people usually cannot afford to stop working and low-wage jobs are likely to have features that increase the likelihood of infection. Working from home is almost exclusively possible in jobs at the top of the distribution of earnings.

Secondly, the economic and social impact of the pandemic has been highly unequal as well. Indeed, COVID-19 has exposed and further exacerbated inequality in multiple dimensions creating an asymmetric economic shock with differential impacts on sectors, countries, and geographical areas within national borders. As a consequence, the strength and persistence of the COVID-19 crisis has been different across population groups. The lockdowns had strong direct effects on informal workers and on shut-down sectors where low-wage earners, women, young people, immigrants, and ethnic minorities are overrepresented.² Conversely, the share of individuals able to work from home, and not affected by temporal job loss, increases along the wage distribution.³ Hence, the economic crisis has hit especially families with lower socio-economic status. High-wage earners have been less likely to reduce working hours during this period. Due to the situation, a significant share of the lower middle class might fall under the poverty line, while between 71 and 100 million people worldwide may be pushed into extreme poverty.⁴

While past recessions affected disproportionately male jobs, this time in most countries women have faced larger employment losses since the start of the crisis. For instance, while the U.S. unemployment rate was similar for men and women just before the outbreak of COVID-19, in March 2020 female unemployment was almost 3 percentage points higher than the male unemployment rate.⁵ The high share of women in sectors that were shut down due to COVID-19 is one explanation for the current gender unemployment gap. Moreover, the closure of schools and day care centres affected negatively women's ability to maintain their usual working hours.⁶ This has been particularly difficult for single-mothers, who represent a significant share of the population: about 30% of women in Sub-Saharan Africa and Latin America, almost 20% in the U.S. and Canada, and 9% in Western Europe.⁷ However, also among households with two parents, evidence for many countries shows that mothers keep on spending much more time on childcare than fathers during the lockdown.⁸ The increased gender gap in working hours during the pandemic, even over a short period, is likely to be detrimental for mothers' careers.

What adds to the short and medium term impacts of the pandemic, are its longer run implications. Children, especially those from poor and vulnerable families, are heavily affected by school closures, parental job loss, and other multiple social and economic consequences related to COVID-19.⁹ These additional difficulties should cause unequal learning losses, while having serious repercussions on children's mental and physical health. The further decline in the opportunities of disadvantaged children to improve their education is strongly connected to their future earnings as adults, and, hence, to an increase in income inequality over the course of time.¹⁰ Consequently, the crisis is not only likely to increase inequality in the short and medium run, but also to accentuate the persistence of inequality over time, and widen the gap in the long run distribution of resources.

COVID-19 reveals longstanding inequalities

Women and children are particularly affected

Rising inequalities call for targeted social policies

As the outbreak of COVID-19 expanded globally, the capacities of countries to react to the situation crucially have depended on the fiscal space, health system capabilities, social capital, institutional preparedness, and political willingness to respond swiftly with targeted policies.¹¹ Consequently, the impact of the pandemic has been very unequal across countries. Latin America is estimated to be the region facing the strongest economic impact with a contraction of growth by 7.2%, while in East Asia and the Pacific growth could be very scant, but positive around 0.5%.¹² Nonetheless, there might be also reasons for a more optimistic outlook grounding in the short-term policy responses to the pandemic. In many countries the social security system has cushioned job loss and earnings falls with cash transfers and job furloughing. This had important consequences. For instance, the downturn in labour earnings has not been accompanied by such a drastic fall in household incomes due to, for example, bonuses to the self-employed, as well as the extension of lay-off coverage, of unemployment subsidy duration, and of the basic income to foreign citizens.¹³ The need to recur to the social safety net, the experience of job furloughing, and lay-offs have been so widespread that they not only spurred various forms of solidarity, but may also have lost part of their negative stigma. Despite concerns that the benefits uplift may not be sustainable in the long term, the crisis could be a chance to adopt permanently new policy tools and overall redesign social policies to better tackle poverty and inequality. Moreover, working conditions in some low-wage occupations could improve following scandals of high contamination rates in crowded and poor work environments. At the same time, the importance of the health care system and the personnel employed therein has been widely recognized. Furthermore, the increased take-up of working-from-home could generate a permanent increase in flexible work arrangements. This could reduce traffic in cities, raise well-being, have a positive effect on the working conditions of parents, and eventually narrow the gender gap. Indeed, fathers who have been working from home took over more child-care responsibilities, and the proportion of shared childcare has increased during the lockdown.¹⁴ This trend could contribute to changing gender norms in the future.

Unequal impact of COVID-19 calls for action

An opportunity-enhancing menu for public policy

In order to mitigate the inequality-increasing impacts of the COVID-19 pandemic, while taking advantage of the experiences made in this particular time, the role of sustainable public policies will be crucial. Hereby, the dual objectives of saving lives while safeguarding the economy go hand in hand. Keeping infections low is the best policy to prevent lockdowns and ensure that the population keeps on using services. To do so it is essential to “trace, test and quarantine”.¹⁵ As far as the reduction of inequalities is concerned, a recommendation for future economic policies is to prioritize the more vulnerable population groups, both during the course of the outbreak and in immediate post-pandemic times.

Saving lives while safeguarding the economy

AUTHORS

Sarra Ben Yahmed, ZEW Mannheim

Lorenzo Cappellari, Università Cattolica del Sacro Cuore, LISER and ZEW Research Associate

Daniele Checchi, University of Milan and the Italian National Social Security Institute

Miles Corak, The Graduate Center, City University of New York

Stephen Jenkins, London School of Economics and the Society for the Study of Economic Inequality

Guido Neidhöfer, ZEW Mannheim

Michèle Tertilt, University of Mannheim and ZEW Research Associate

Mariano Tommasi, Universidad de San Andres and Center of Studies for Human Development

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Editorial responsibility: Matthias Ruchser · kommunikation@zew.de

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