



Inequality

The IFS Deaton Review

Covid-19: the impacts of the pandemic on inequality

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**Nuffield
Foundation**

Covid-19 and inequalities

Far from pushing inequality down the agenda, the pandemic has reinforced the need to deal with the challenges posed by inequality

- Highlighted existing inequalities
 - Savings and debt
 - Housing
 - State of benefit system
- Exacerbated some inequalities
 - By income
 - Intergenerational
 - Gender
 - Ethnicity
- Long-term legacy on inequality

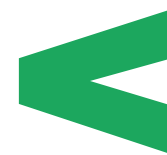


This presentation



Next presentation

Sector shutdowns and home-working have hit low-paid workers the hardest



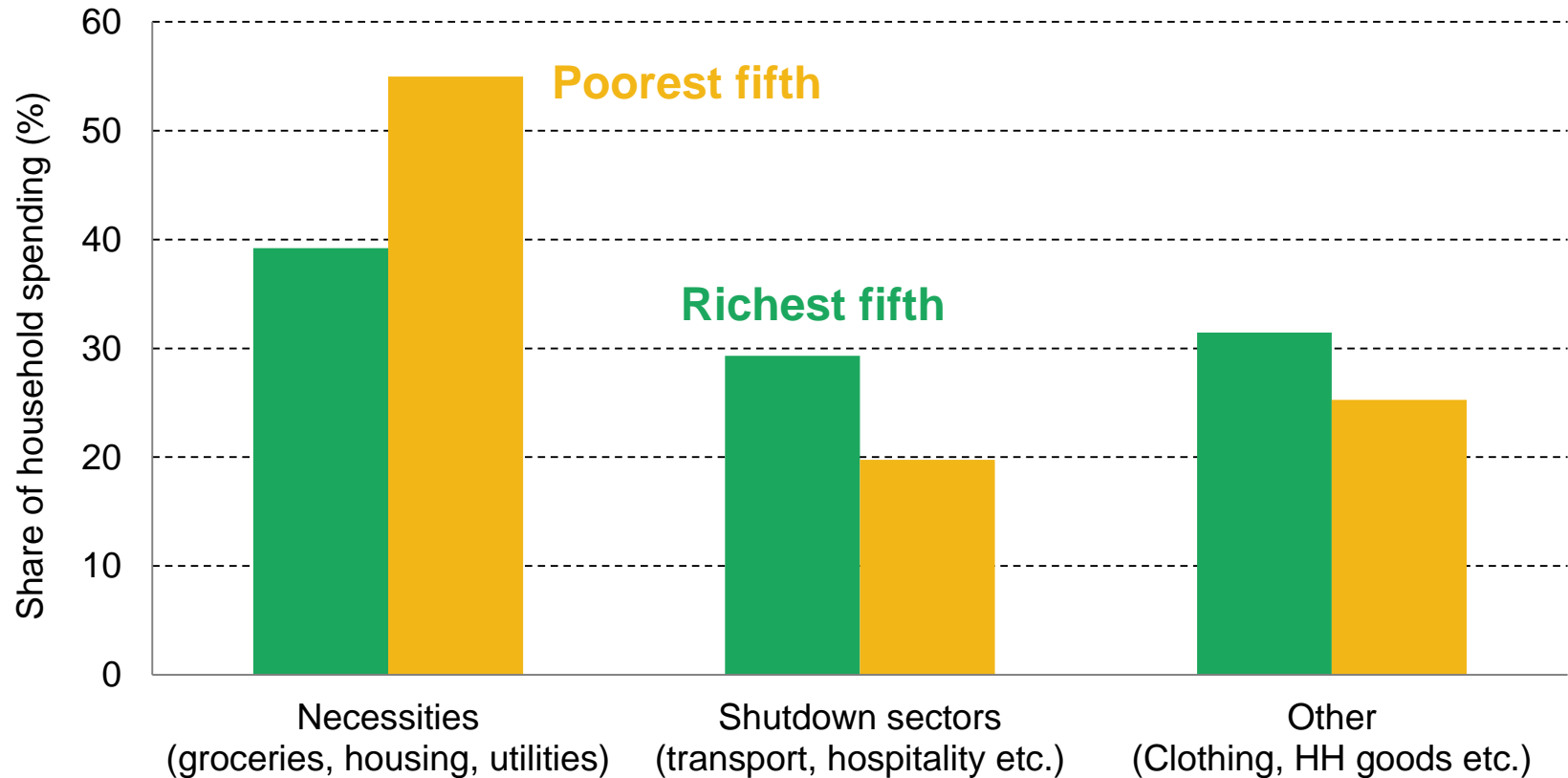
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Source: Blundell et al. 2020

Whilst high-income families may be forced to save

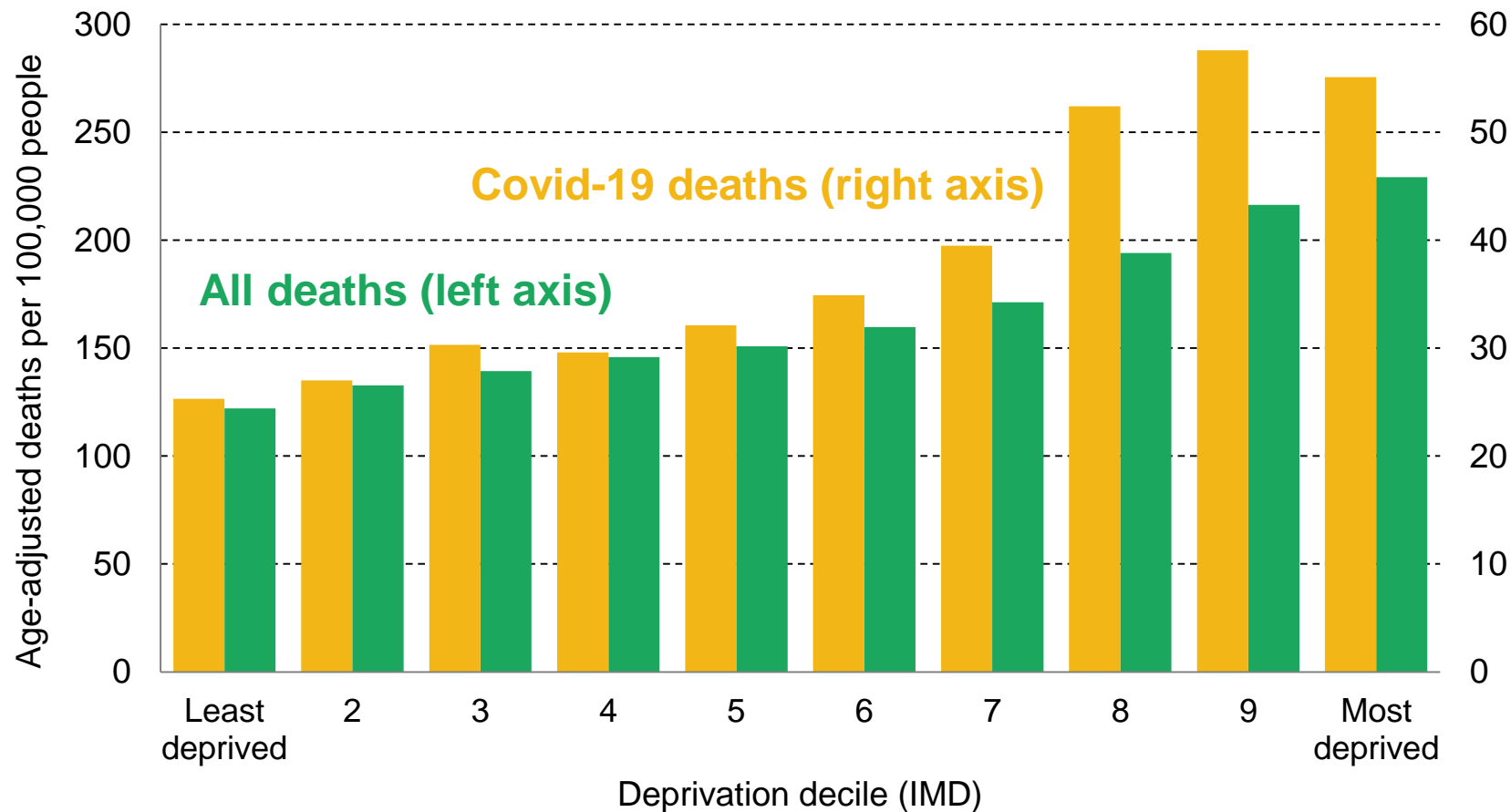


Source: Crawford et al. 2020

Covid-19 death rates are much higher in more deprived areas



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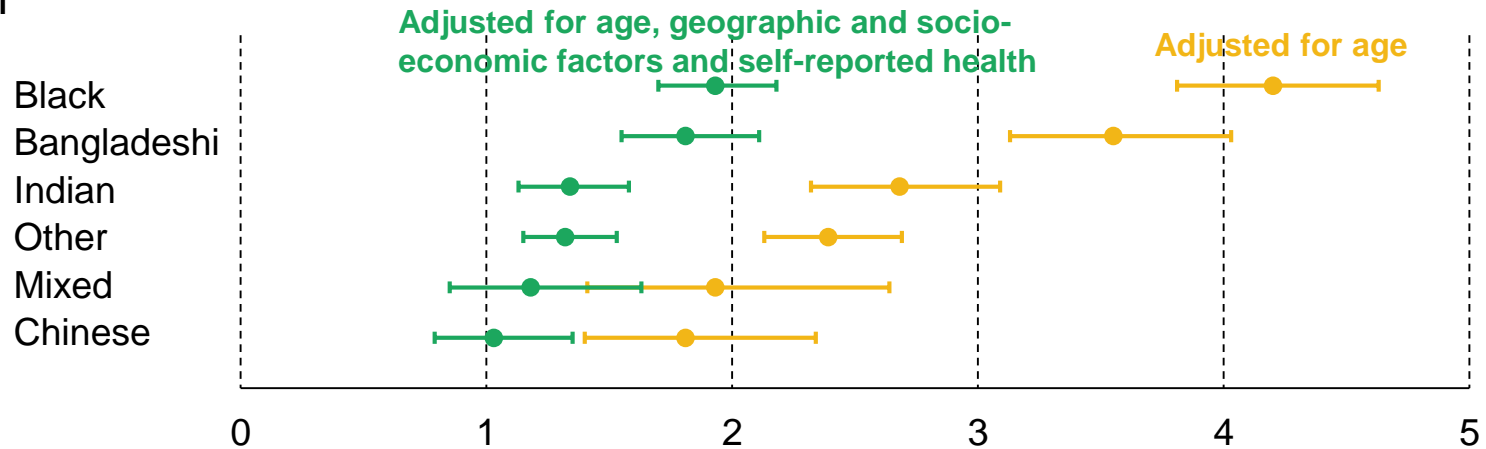
Source: ONS 2020

Ethnic minorities have higher Covid-19 death rates even adjusting for demographics

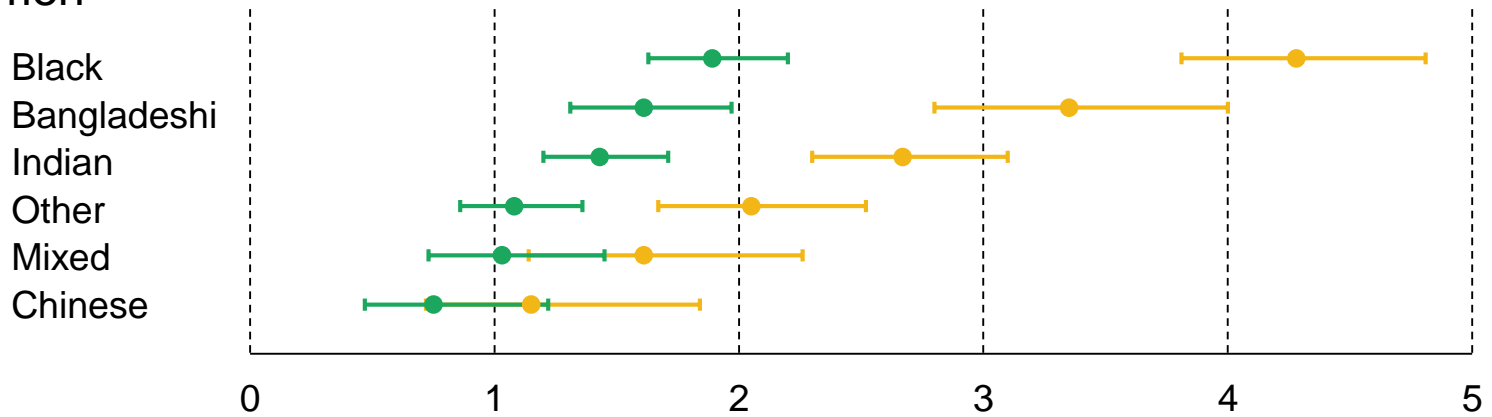


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Men



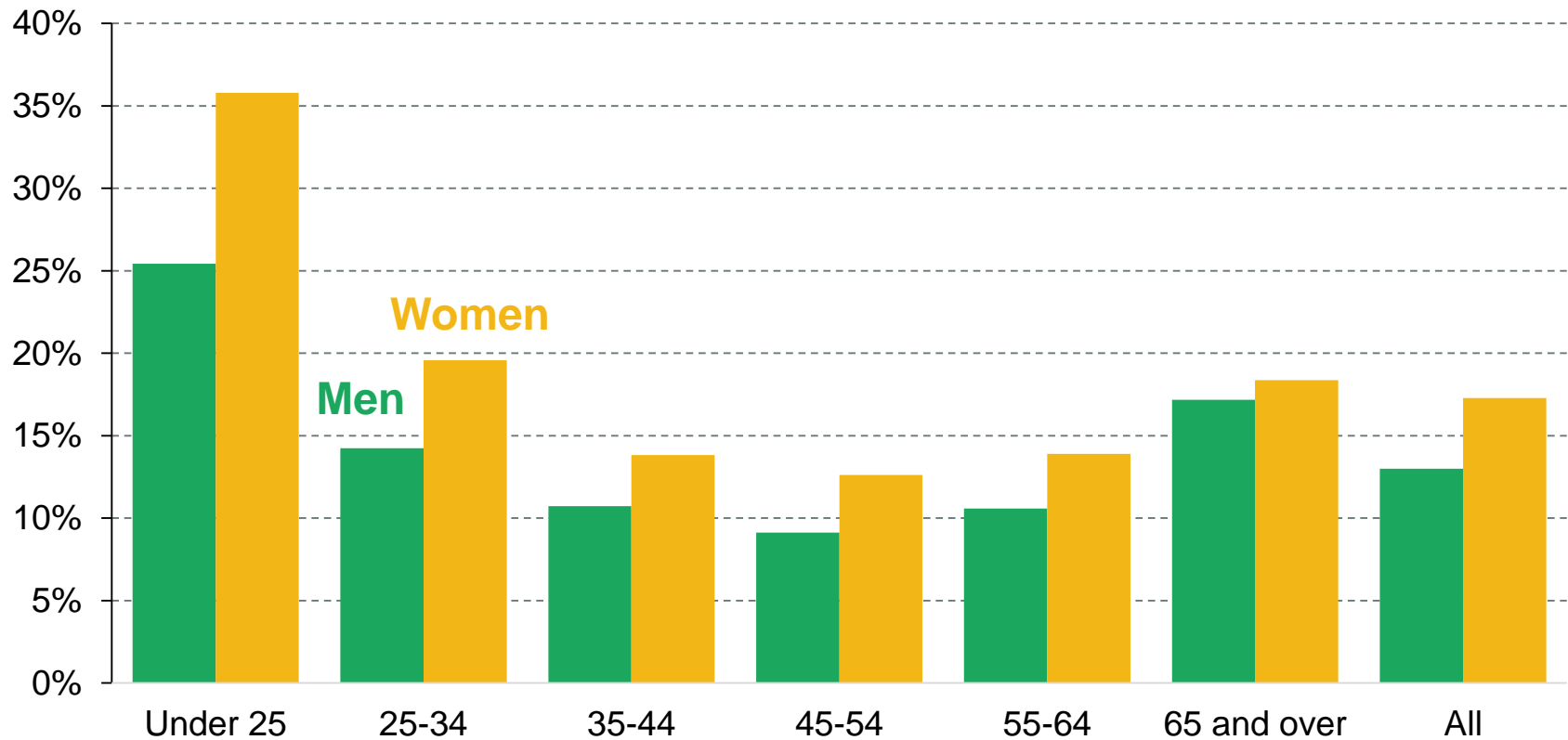
Women



Source: ONS 2020

Likelihood of dying from COVID-19 compared to white ethnicity

Young people are much more likely to work in shutdown sectors

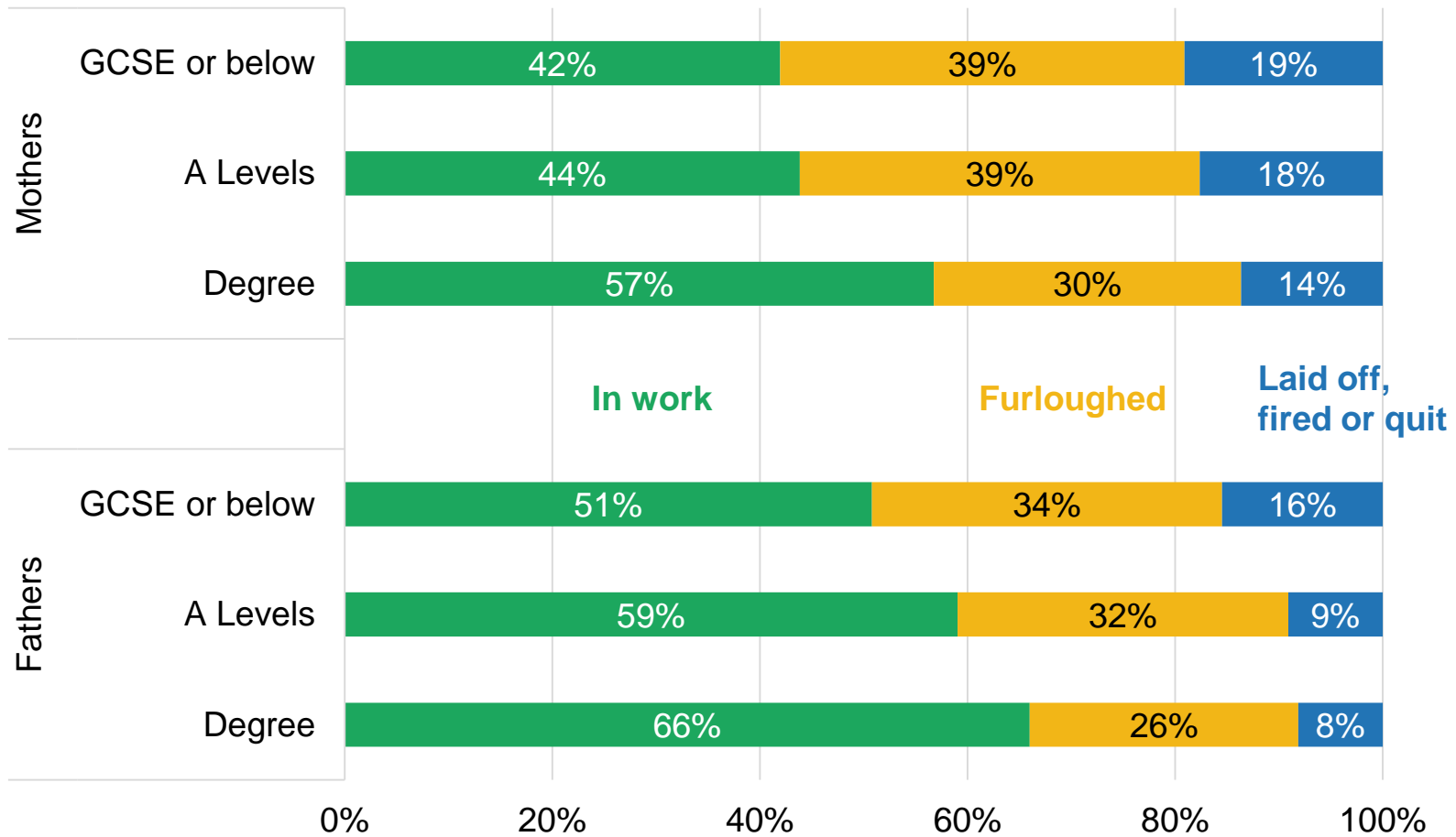


Source: Joyce and Xu 2020

Mothers are more likely to have had their careers disrupted

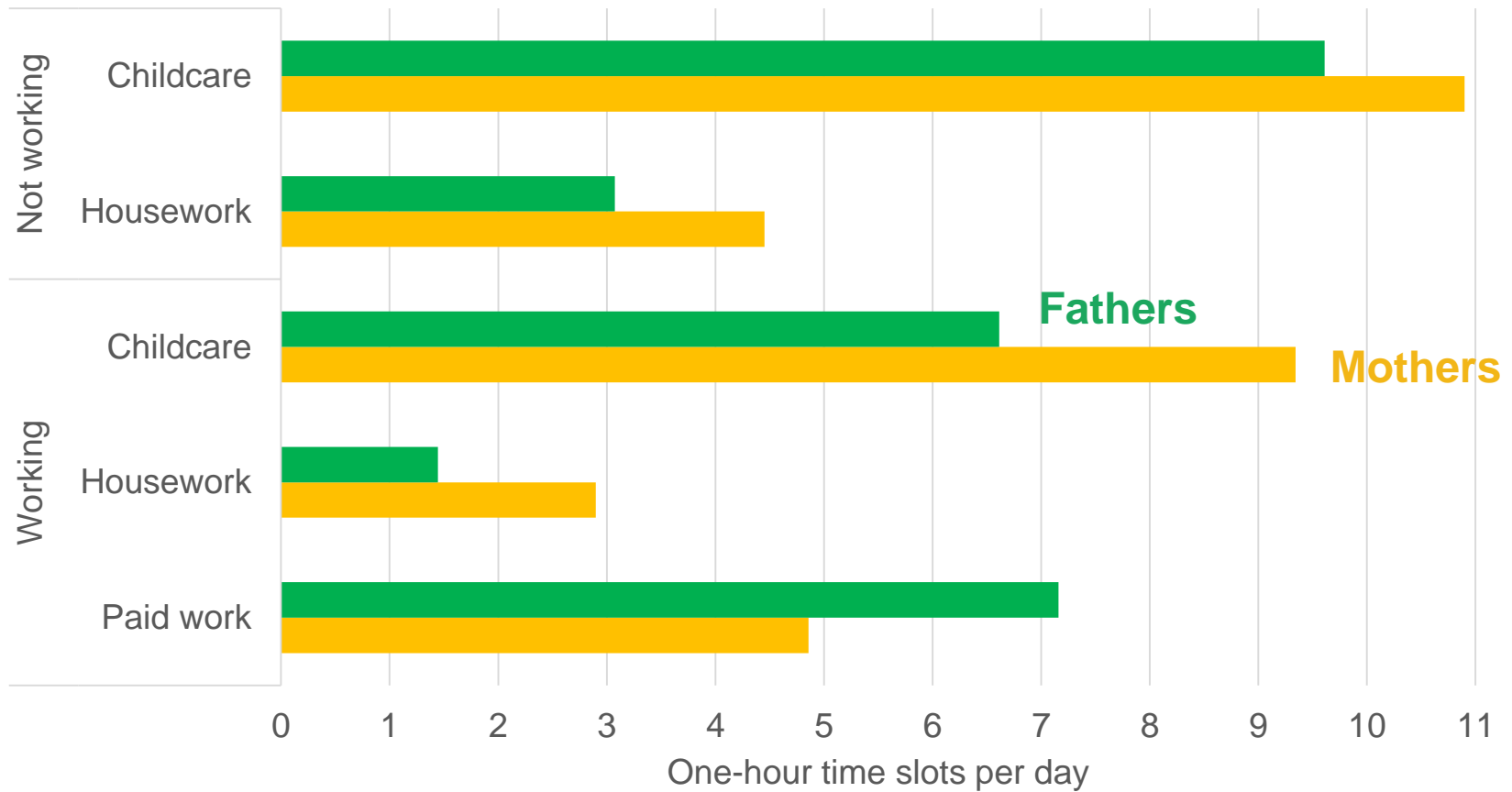


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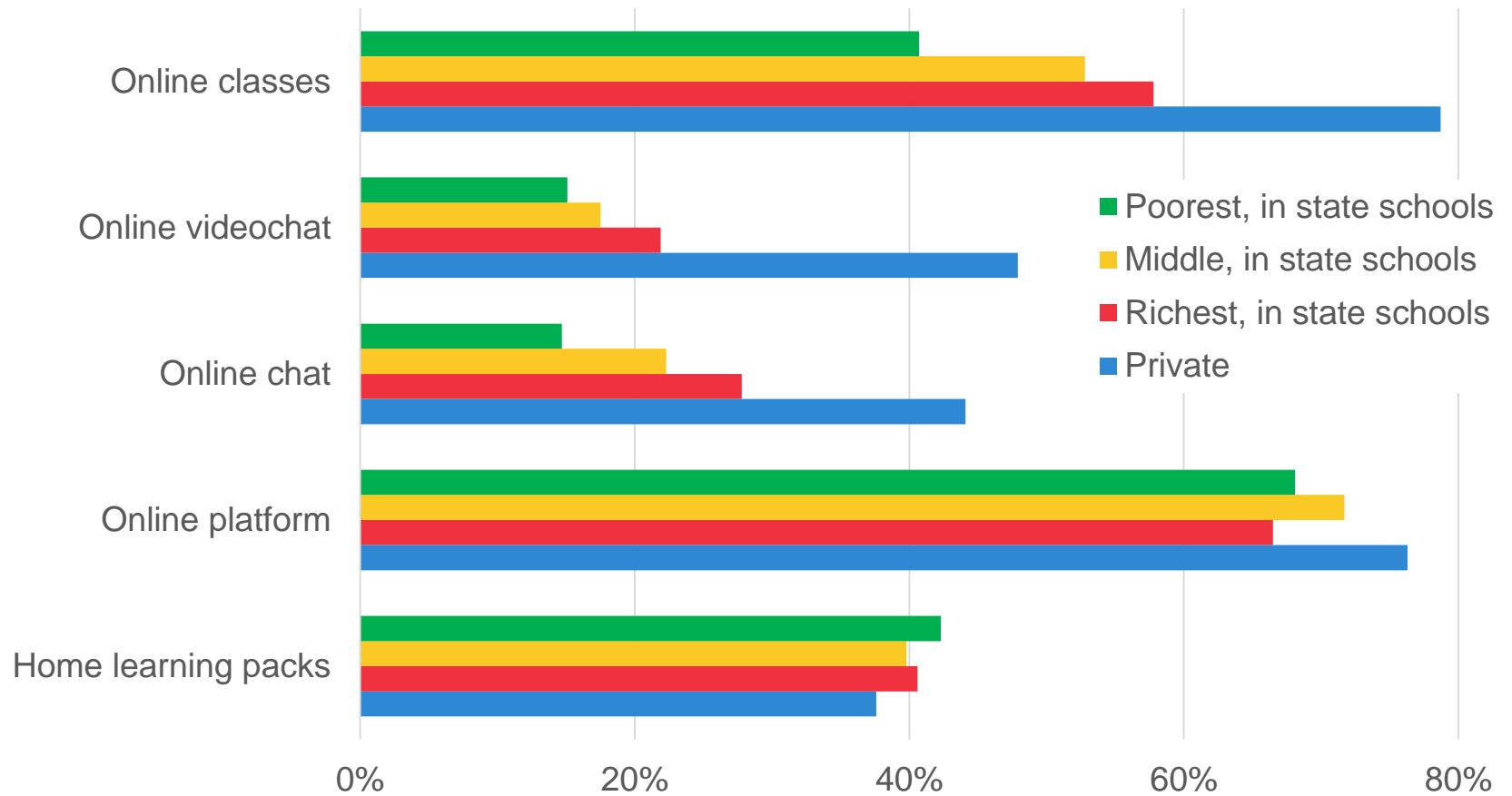
Source: Andrew et al. 2020

And bear most of the additional childcare



Source: Andrew et al. 2020

School closures are likely to exacerbate educational inequalities



Source: Andrew et al. 2020

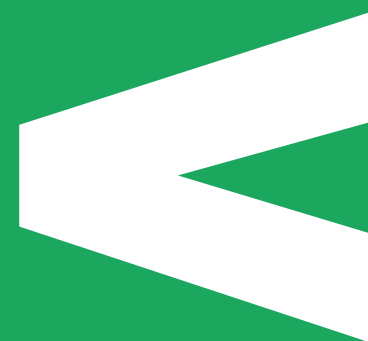


Covid-19 and Inequality Risks, Opportunities and Policy Challenges

Richard Blundell

Joint work with Monica Costa Dias, Robert Joyce and Xiaowei Xu

An IFS initiative funded
by the Nuffield Foundation



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After Covid-19...

Risks, opportunities and policy challenges



We have seen how the pandemic has exacerbated existing inequalities

- in wages, employment, health, gender, ethnicity, education, and across generations...
- *and* has opened up new fissures along dimensions that were previously less significant – working at home, home schooling, use of public transport,..
- following a decade of stagnation in median earnings, a high level of inequality in labour incomes, benefit cuts, and poorer households facing low savings and high debt.

There are many policy challenges but there are opportunities too

- not only to address some of the most adverse impacts of the pandemic, but also to tackle some of the most pressing underlying longer-term inequalities.

Will there be a new emphasis on building a fairer society?

- despite the challenge of doing so while facing unprecedented levels of (peace time) debt.

To answer these questions requires an understanding of the array of different inequalities in society and how they interact with each other

→ the IFS-Deaton Review!

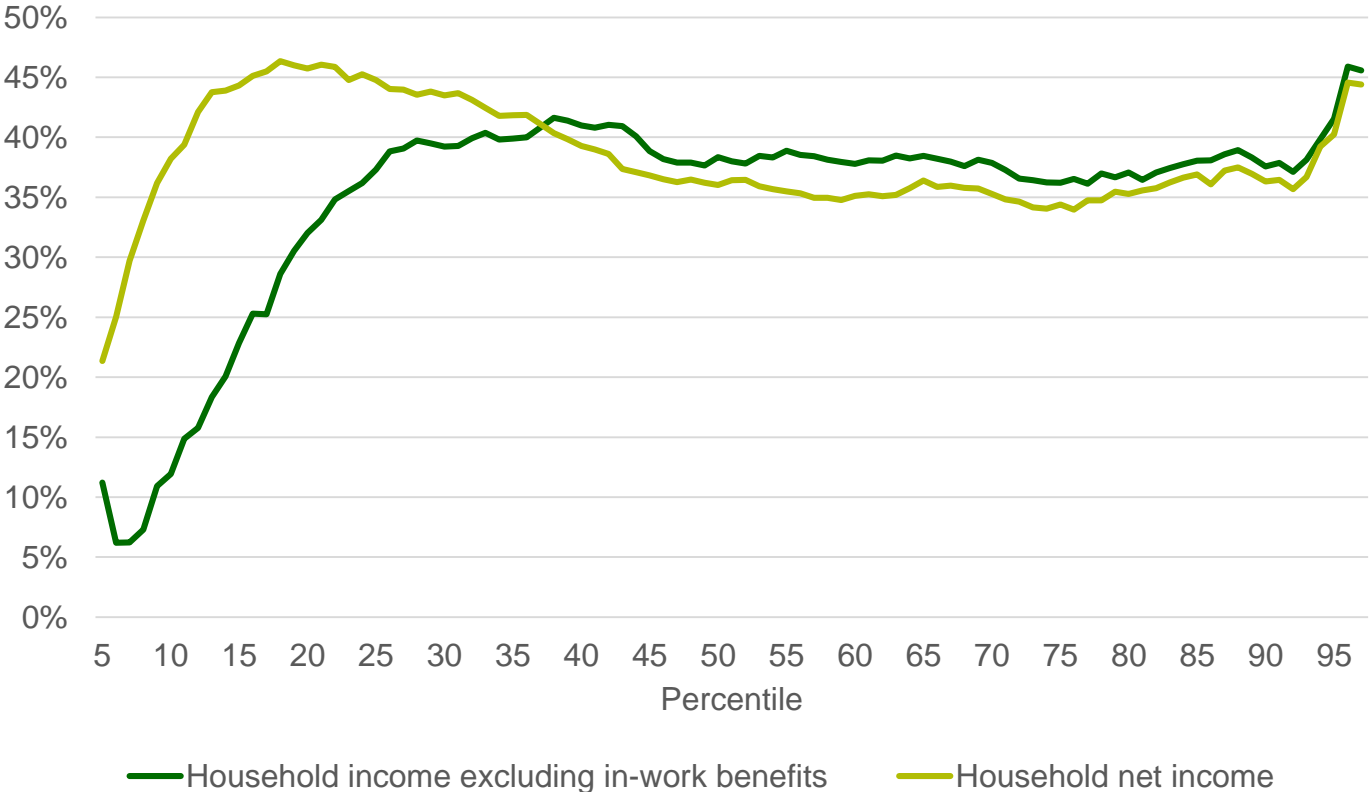
Incomes at the bottom have been increasingly supported by in-work benefits



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Growth in average household incomes 1994–95 to 2018–2019

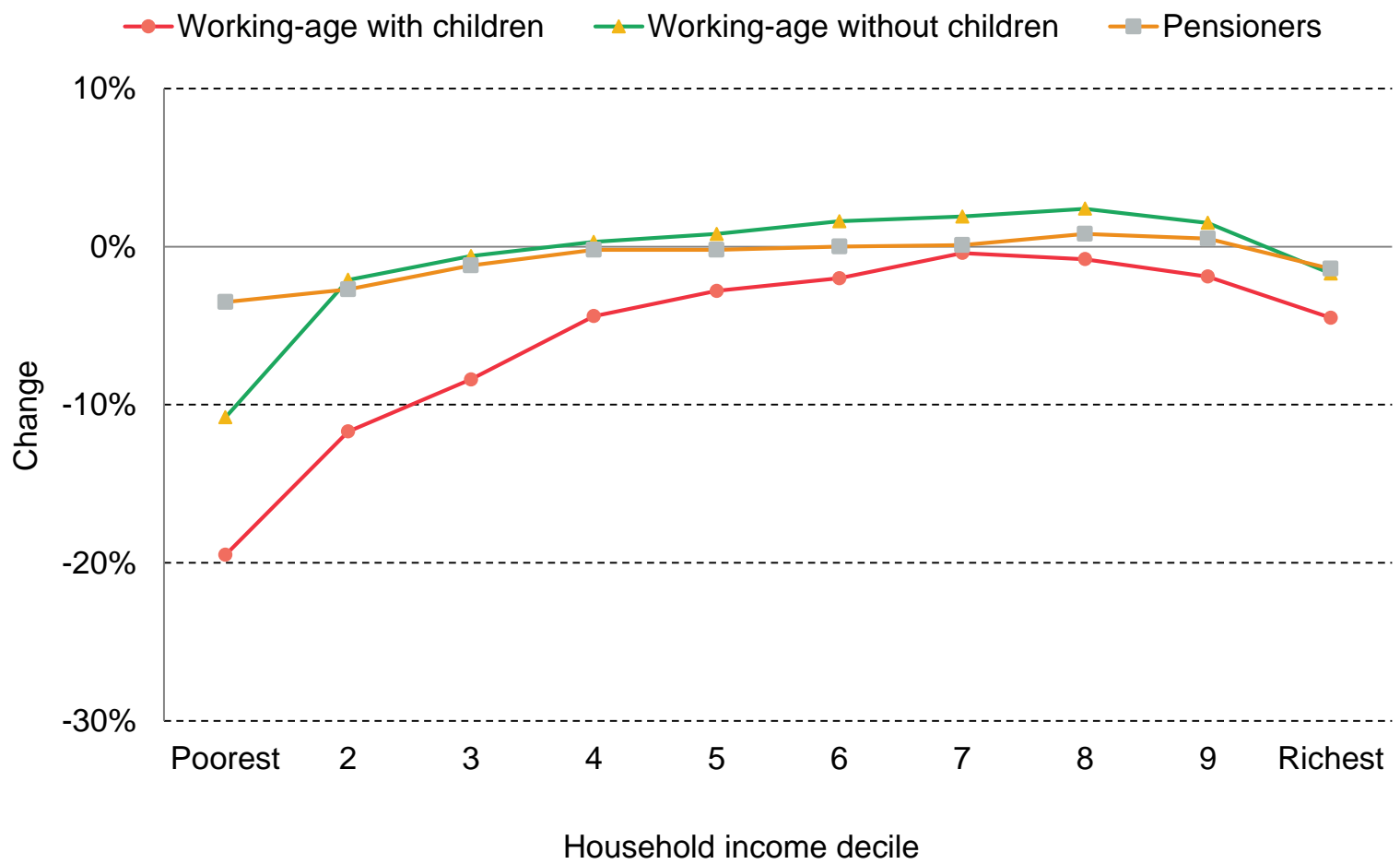


Source: IFS calculations, Family Resources Survey, Benefit unit level
Notes: In-work benefits defined as all benefits going to working households

Recent benefit cuts have fallen heaviest on working age families



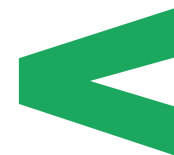
Change in net household incomes due to tax and benefit reforms, by income, 2010–19



Source: IFS calculations, Family Resources Survey and IFS tax and benefit model.

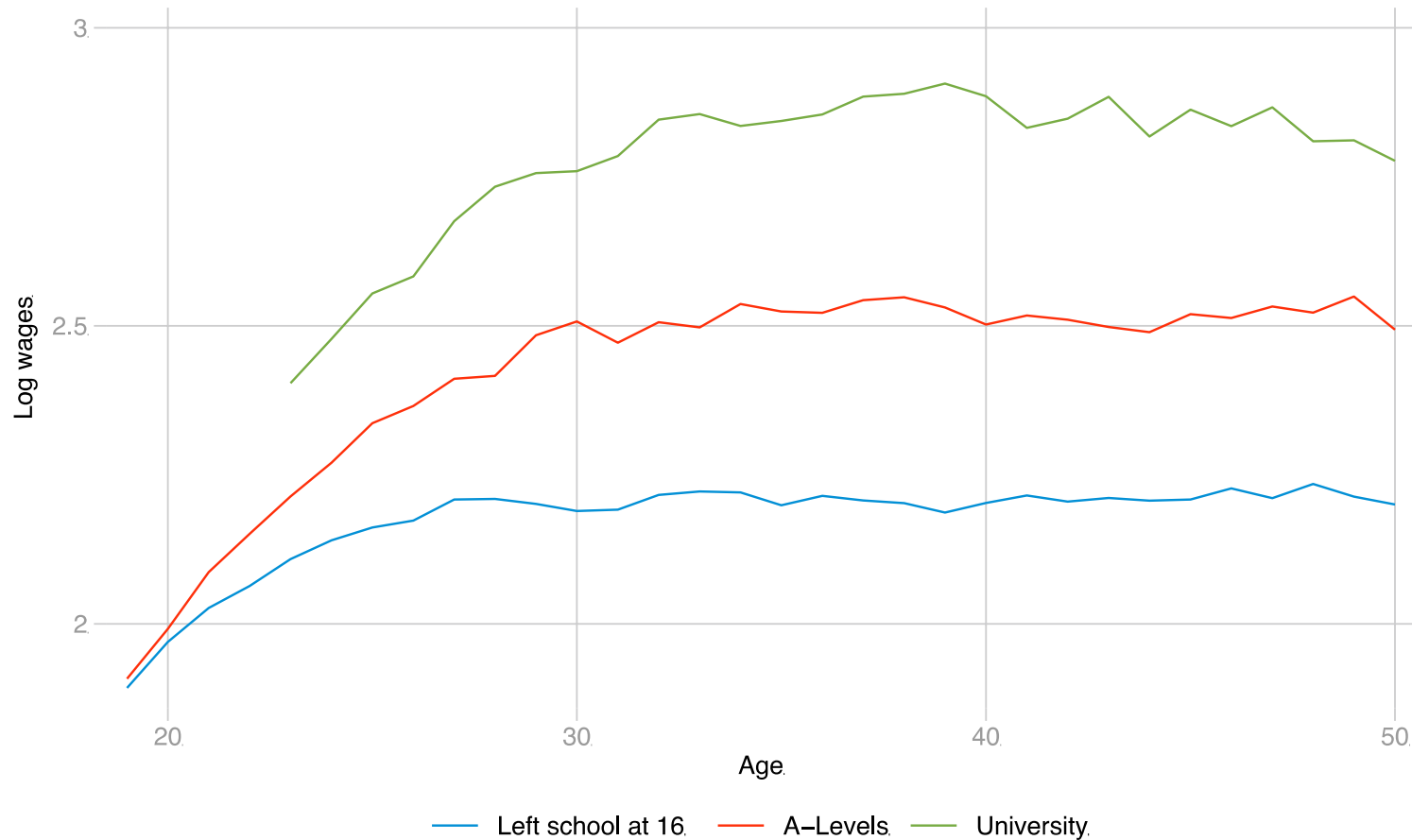
It's depressing at the bottom

- wage profiles by education and age – UK women



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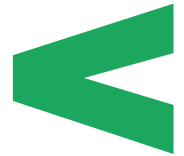
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Source: IFS calculations, UK HLS.

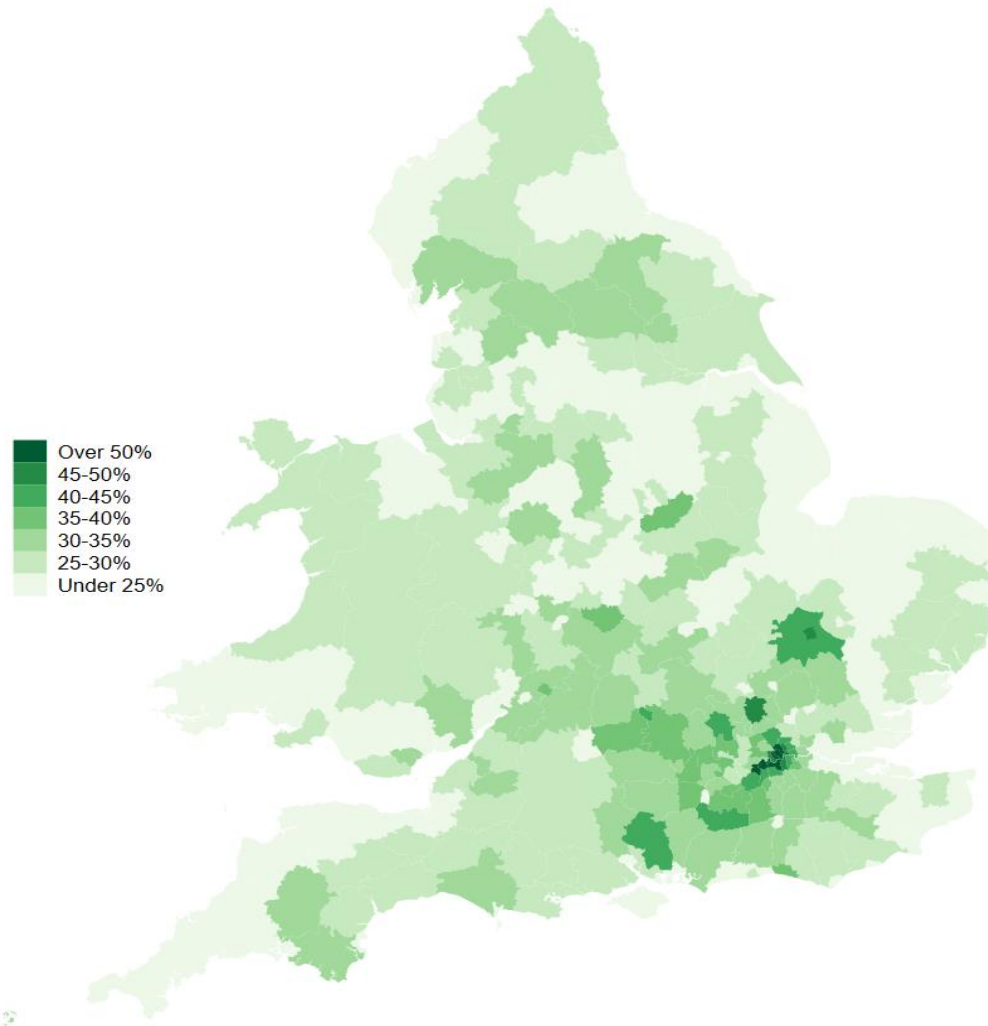
Large geographic disparities in education and skills

Share of population with post-A-level qualifications



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Note: Share of the population with Level 4 or above (post-A-level) qualifications from the 2011 census.

Where are the risks?



Wage and employment inequality

- Low earners are mostly in shut-down sectors, being furloughed and at risk of unemployment.
- The self-employed and those with insecure work arrangements more likely to report negative impacts.
- Increased reliance on technology and home working favours the more highly educated at the expense of others.

Generational inequalities

- Younger workers more likely to have lost their job and experienced a reduction in earnings during the lockdown.
- Those who would have entered work this year face long-term scarring from the collapsing labour market.
- After a tough decade, this could knock the younger generation back once more.

Gender inequalities

- Childcare and housework has fallen far more on mothers than fathers.
- Could further inhibit wage progression for mothers, when progress in closing the gender gap has already stalled.

Educational and family inequalities

- Children in poorer families have lost more from school closures while higher income parents are more able to work from home, have space to educate their children and have savings for any unforeseen expenditures.
- This could put back years of slow progress on social mobility.

With additional risks from enhanced health inequalities and the severe impacts on ethnic minorities....

Of course, some inequalities may be reduced as house prices take a hit, high earners get less support during furloughing, but most of the changes are pointing the other way...

Take three key pre-Covid challenges



1. 'levelling up' prosperity across the UK;
 2. generational inequalities;
 3. gender inequality.
-
- **The pandemic may have moved us backwards...**
 - In terms of levelling up, the most deprived areas are also those where the most vulnerable live and where new jobs will be slowest to appear. They are the places where already fragile high streets are further threatened by online commerce.
 - In terms of generational inequalities, younger generations face the largest scarring effects on job prospects, paying a larger amount of the cost of lockdown via higher taxes in both the short and longer terms.
 - In terms of gender inequalities, women are more likely to work in shut-down sectors and, crucially, have been taking a disproportionate share of the huge childcare responsibilities parents are shouldering, with likely longer term impacts on earnings. Women seem to have suffered most from mental health deterioration too.

But there are opportunities



1. Changes in attitudes – tipping point for changing social norms
 2. A desire for large scale policies to address long-standing inequalities
- More people will have experienced the welfare state, which could change attitudes. The UK safety net has been challenged by the fall of earnings and employment across the distribution. A new emphasis on social insurance, which has all but disappeared in the UK.
 - The large numbers of young lower earners coming out of lockdown could force a rethink of further education and vocational training, focusing on skills to complement new technologies.
 - The experiences of people working from home could provide the tipping point for a change in the way we work. Which might spread prosperity more evenly across the country.
 - Women are more likely to be key workers, and any pressure to increase the pay of key workers could help reduce gender inequalities, as well as income inequality overall.
 - The experiences of childcare among many more men could provide a change in social norms to generate an even balance in childcare that has been so hard to achieve to date.
 - Health, economic and educational disadvantage come together and shine a light on pockets of local deprivation, giving additional urgency for effective place-based policies that build resilient communities.

(Some) policy responses and challenges



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The safety net:

- Will the increased generosity in sick pay, housing benefit re-alignment, and Universal Credit be reversed?
- UC will need redesign to further enhance earnings progression rather than income support and employment.
- Should we move the welfare system toward social insurance with higher replacement rates for moderate earners?

Education and training:

- Children, especially poorer children, who are missing out on school will need additional teaching post crisis.
- Re-think vocational, FE and ALMPs to focus on skills that complement wage progression and green technologies.
- Look again at tax subsidies and tax credits for training, and training that replaces lost work experience of parents.

Wage inequality:

- Will there be pressure to enhance wages of low paid 'key workers'? Or will the increase in demand for e-commerce and IT dominate with an increase in the education premium and for those who can work from home?

Levelling-up:

- There are dangers to be navigated here: we want levelling-up, not levelling-down, and make sure we do not lose out on the agglomeration benefits of large and successful cities with research universities.

Market power:

- Large, already-successful firms could find themselves in a position to capture a larger market share and have greater influence on prices and wage-setting. Re-think competition policy for firms and workers.

In each case is it clear that pre-emptive and forward-looking policy will be crucial!



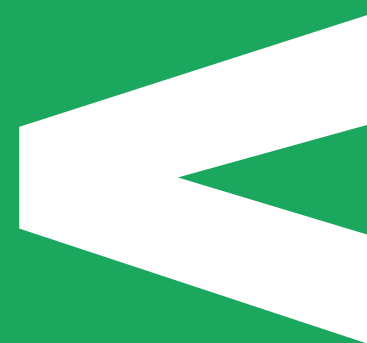
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Briefing Note published today!

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