



The IFS Deaton Review

# Inequality and the Covid-19 Crisis

Richard Blundell (IFS and UCL)

5th ANNUAL RESEARCH CONFERENCE

The economic consequences of the pandemic crisis

Banco de España

Madrid, December 1st and 2nd 2022

“Inequality and the COVID Crisis”

*Annual Review of Economics*, Vol 14, 2022.

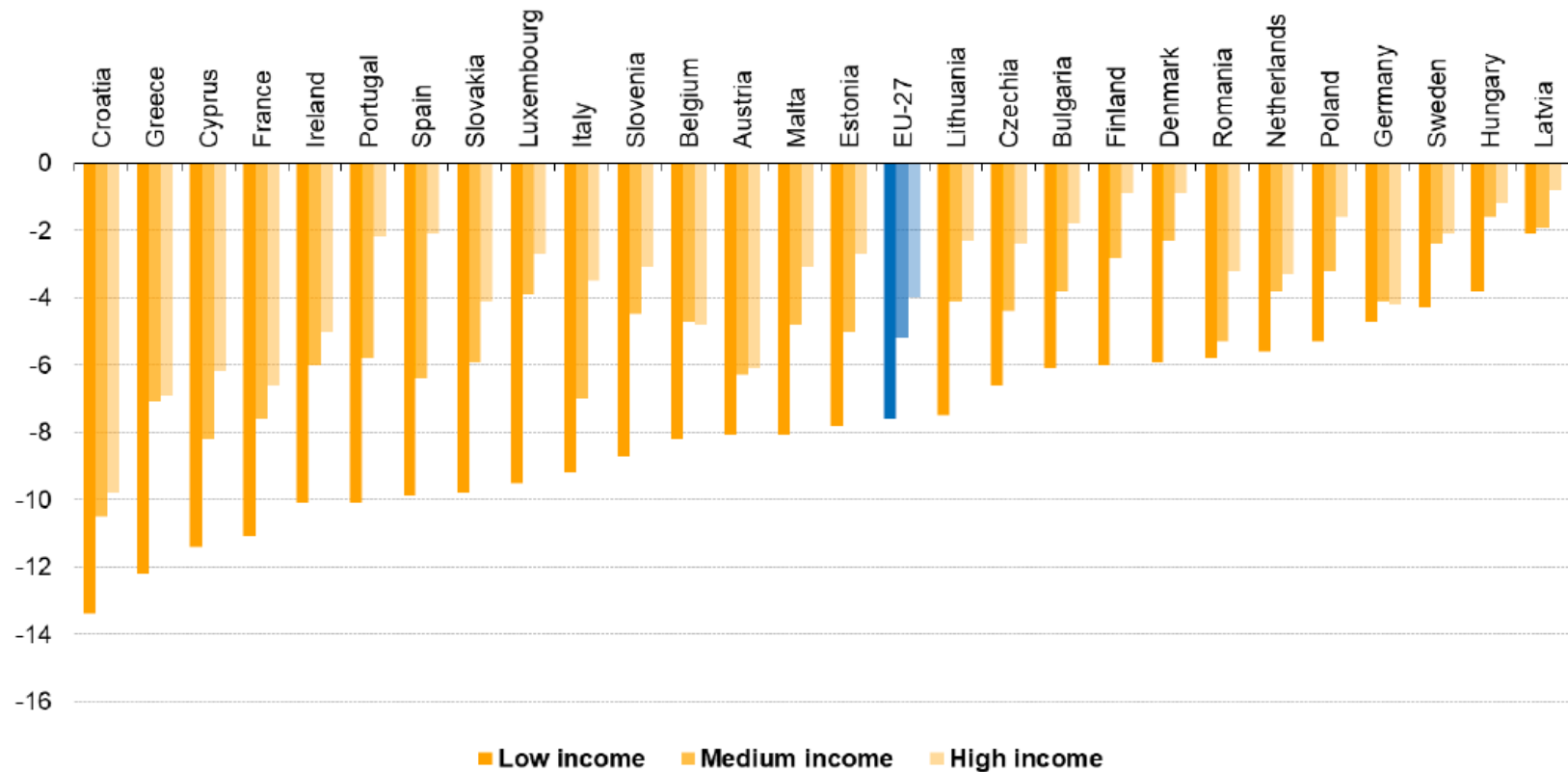
and drawing from the Deaton Review

<https://www.ifs.org.uk/inequality/>

# Inequality and the Covid-19 Crisis

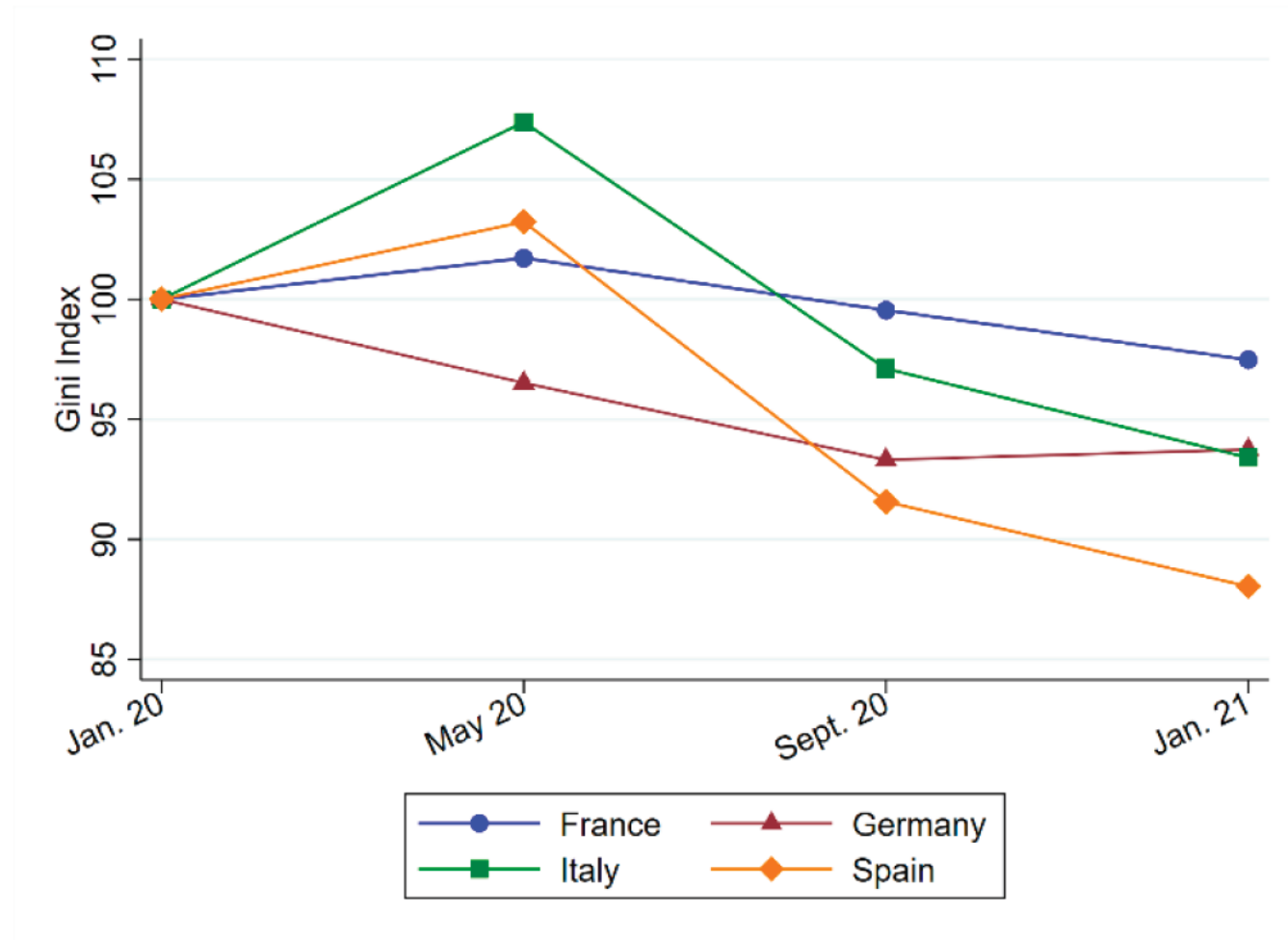
- Far from pushing inequality down the agenda, the pandemic has reinforced the need to deal with the challenges posed by inequality,
  - highlighting many existing inequalities – in education, training, income, work, health, savings and wealth; by ethnicity, age, geography, ...
  - at the same time, opening up new fissures along dimensions that were previously less significant – working at home, digital access, space at home
- Will there be a new emphasis on building a fairer society but with the challenge of doing so with unprecedented levels of (peace time) debt?
- Or, will the increase in demand for e-commerce and IT dominate? -> an increase in the education premium and for work from home.
- Increases in welfare benefits and social insurance have provided a temporary shield in many economies, and the vaccine success has helped speed up recovery, but longer-term inequality challenges remain.
- We can't hope to address these longer run concerns about post-pandemic inequality by tax and welfare cash transfers alone -> challenge is to design a balanced policy mix.

# Loss of income from employment between 2019-Q2 and 2020-Q2 in the EU, before government compensation, by income



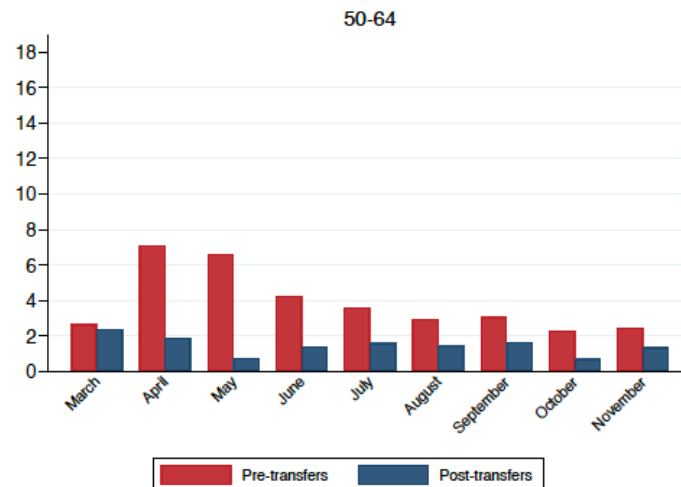
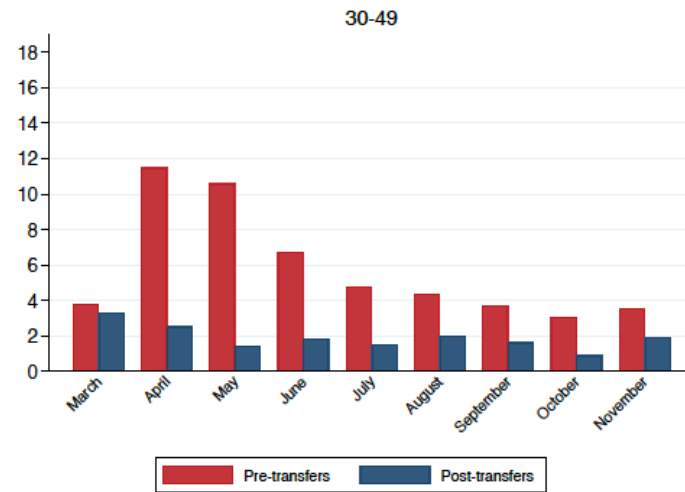
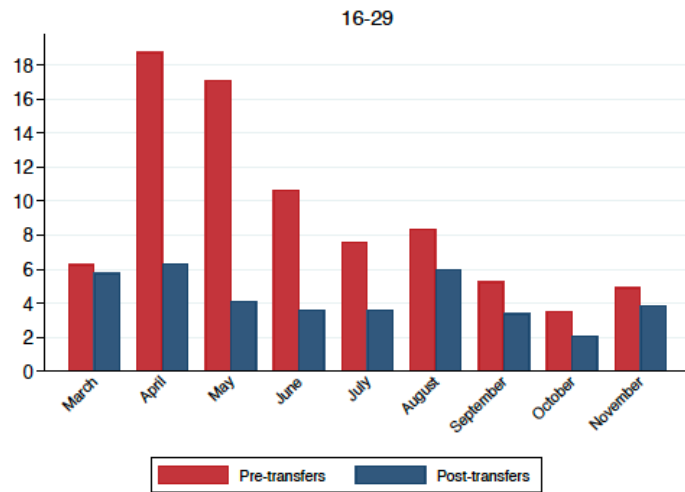
Source: Eurostat, Impact of COVID-19 on employment income - advanced estimates (December 2020)

# Evolution of the Gini (with policy) in France, Germany, Italy and Spain



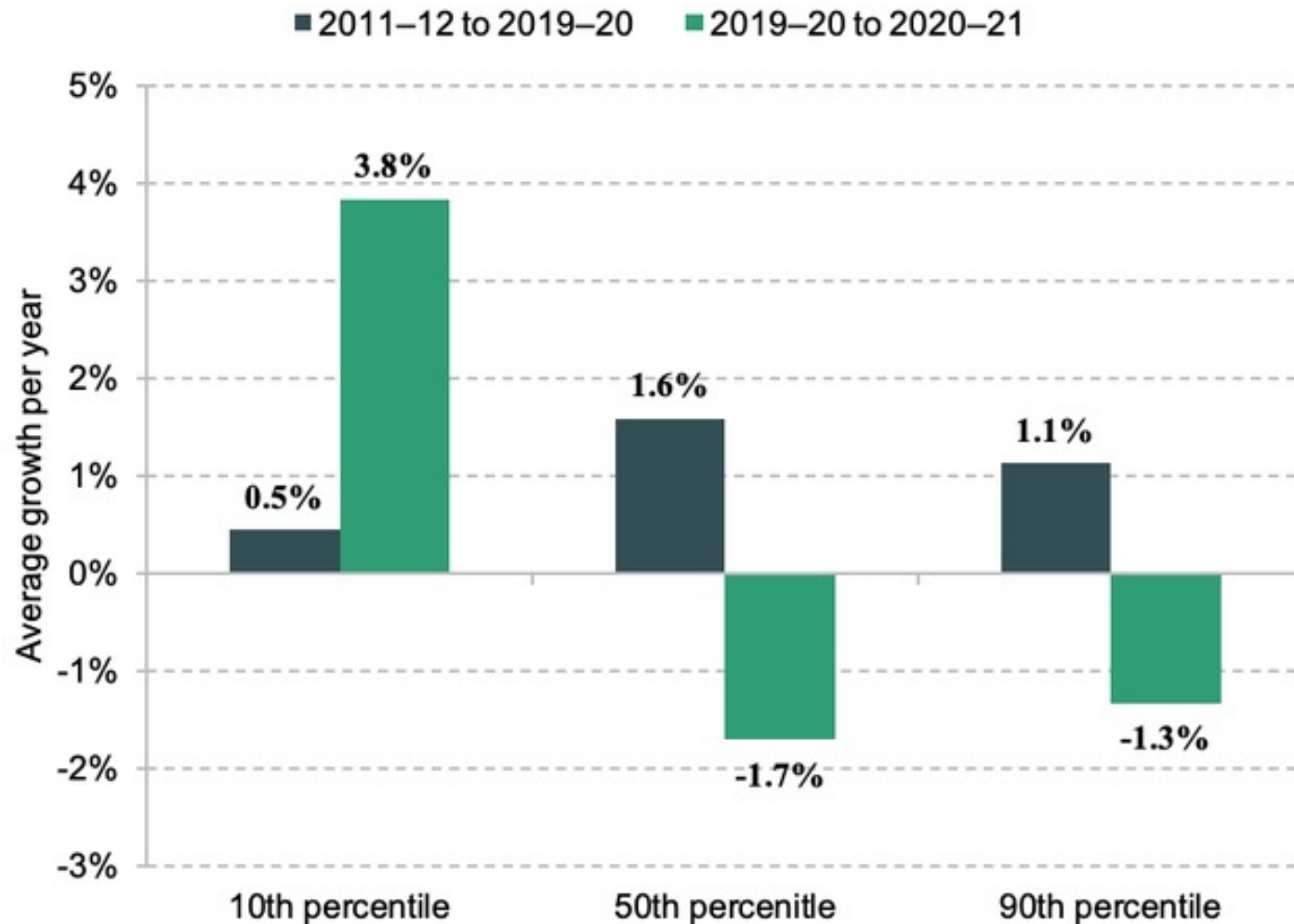
Notes: COME-HERE data, PSE & UL, 2021

# Evolution of the Gini in Spain during the pandemic without and with policy by age group



Notes: Differences-in-differences in Pre- and Post-transfer Gini with respect to February 2020 (relative to 2019).  
Source: Aspachs, Durante, Graziano, Mestres, Montalvo and Reynal-Querol (2021); CaixaBank Research.

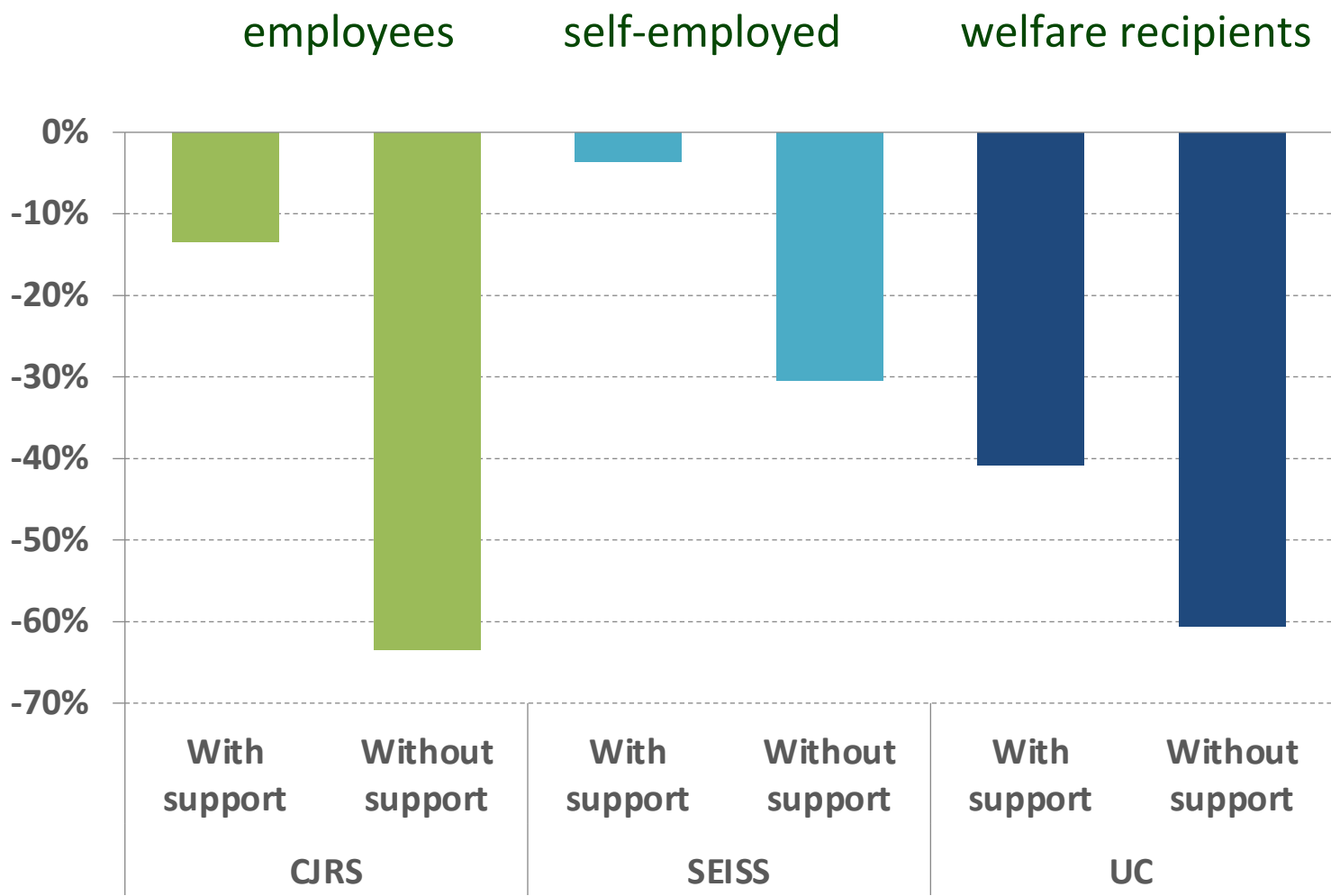
# UK Distributional Analysis for First Year of Pandemic using Admin Data



Source: IFS analysis of DWP/Treasury data, 2022.

A lack of contributory benefits in UK meant new schemes invented as the pandemic took hold – shone a light on problems with the social safety net

Change in income for recipients of different income support schemes:



Source: IFS Deaton Review, 2021, “Income protection policy during COVID-19: evidence from Money Dashboard bank account data”

# Evolution of the Gini during the pandemic without and with policy

Citation Countries	Method	Without policy response	With policy response (Overall effect)
Almeida et al. (2020) EU (27)	Simulating effect of policies	+3.6%	-0.7%
Brunori et al. (2020) Italy	Simulating effect of policies	+0.67% (0.3396)	-0.67% (0.3396)
Clark et al. (2020) DE, ES, FR, IT, SE	Evolution over time	+2.17% (0.322)	-2.48% (0.322)
Li et al. (2020) Australia	Comparison market and post-tax and transfers income	+3.33% (0.539)	- 7.57% (0.330)
O'Donoghue et al. (2020) Ireland	Comparison market and post-tax and transfers income	+20.64% (0.499)	- 6.62% (0.317)
Palomino et al. (2020) EU (29)	Simulating effect of policies	+3.5% to +7.3%	NA

Source: Stancheva (Economic Policy, 2021).

- But most policies have been temporary, and income is a narrow measure of the impact on inequality.... we need to go *beyond the Gini* and look at the underlying drivers and the longer-run implications for inequality.
- Theme: policy has been surprisingly effective at compensating the short-run impact on inequality but quite poor at addressing the longer-term impacts....



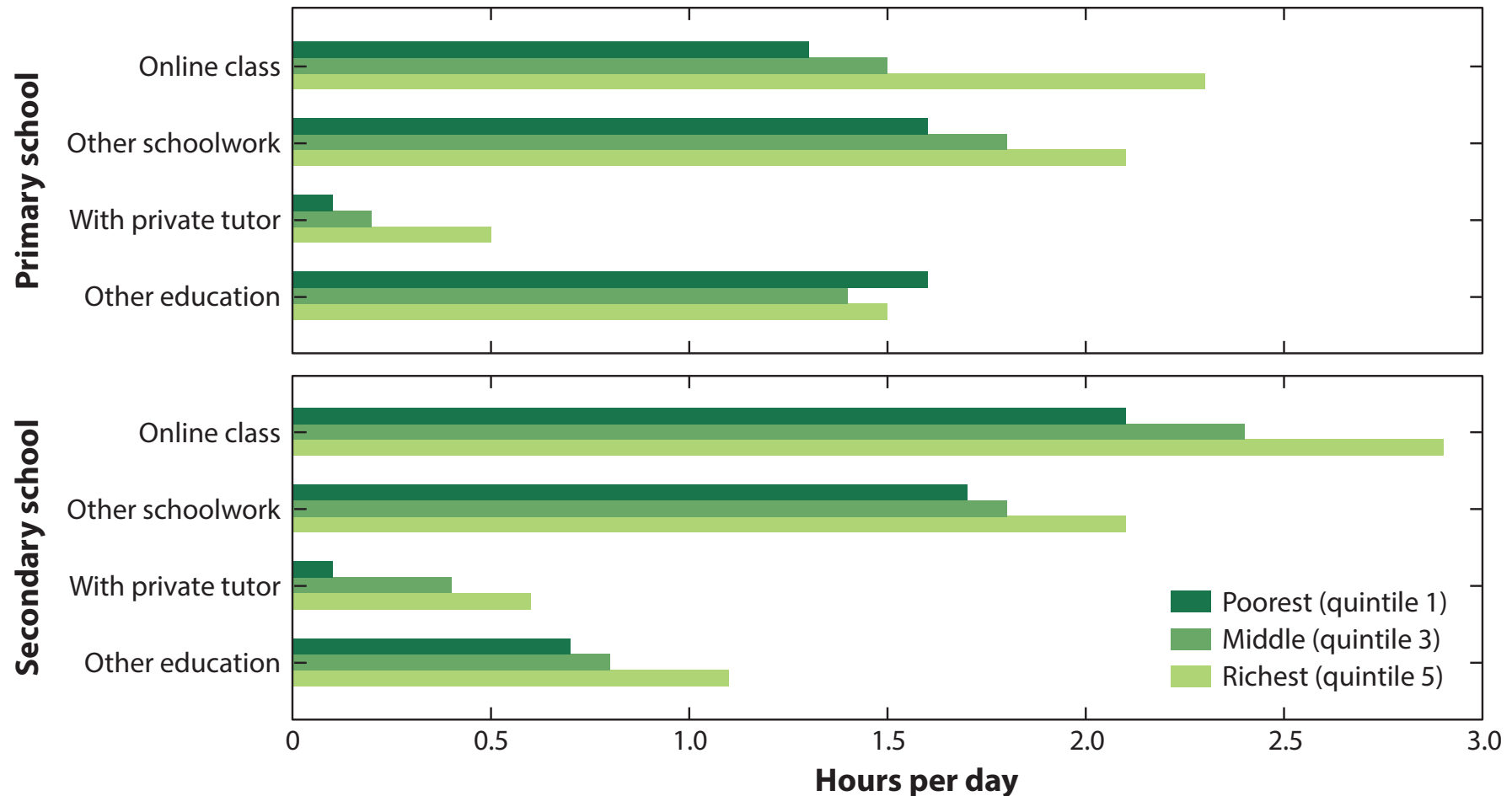
Prior to the pandemic, a range of key longer-term economic inequalities had become more important:

- Educational outcomes and parental inputs varied significantly by socio-econ background, fewer paths to good jobs for non-university educated.
- Increasing earnings inequality, with persistent adverse labour market shocks, coupled and poor wage progression for lower educated workers.
- Diverging life-cycle wage profiles by education and by part-time work, and low rates of on-the-job training for lower educated workers.
- Increasing in-work poverty, with employment alone (increasingly) not enough to escape poverty and low earnings.
- Increasing family earnings inequality-> female labour supply doing little to off-set the rise, due to leave, part-time work, gender gap & assortativeness.
- Large differences in prosperity of different regions - left-behind areas with low education outcomes, poor wages, and low social mobility.
- Increasing concentration of income and wealth at the top with a large fraction of poorer households with low savings and high debt.
- And the impact of Covid-19?

# To focus ideas, we develop a “life-cycle” view of the impact of Covid-19

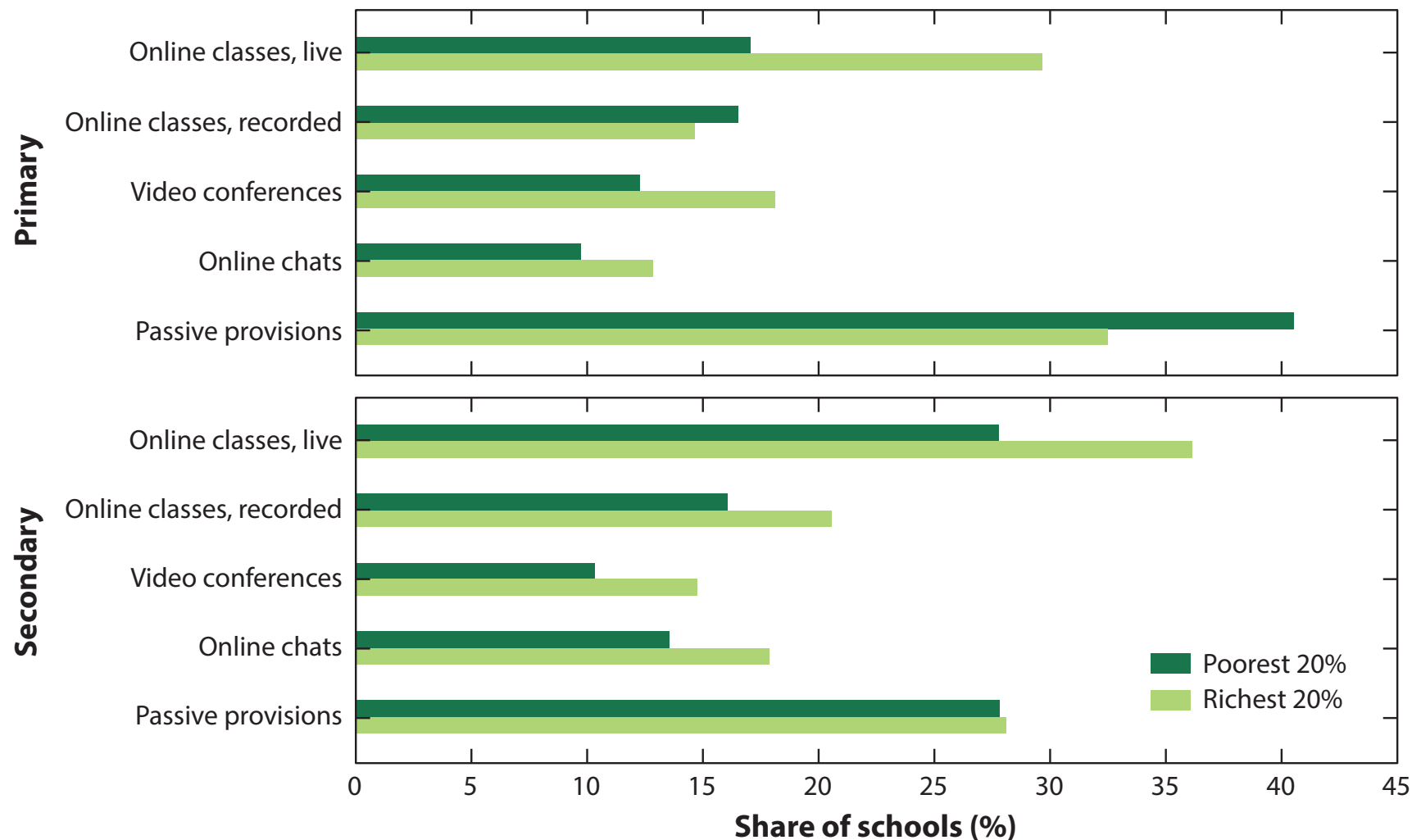
- I. Loss of learning; in early years, in schooling and in training:
    - educational inputs have varied strongly by socio-economic class;
  - II. Loss of work:
    - fall in hours and earnings larger for young, lower educated and solo self-employed, strong earnings gradient in ‘work from home’ & ‘e-commerce’.
  - III. Increased demands for childcare at home:
    - gender bias in hours of childcare.
  - IV. Increase in isolation and poor mental health:
    - initial impacts were particularly acute for young mothers.
  - V. Gaps in the social safety net:
    - cash transfers and furlough schemes during the pandemic have highlighted short-comings in existing welfare and tax systems.
  - VI. Increase in savings, housing and financial wealth inequalities:
    - increasing the squeeze on recent generations, especially individuals from low SES backgrounds.
- Looking beyond cash welfare, in-work benefits and the minimum wage:
  - -> the dynamic complementarities across the life-cycle make the human capital losses very hard to address - motivating a broader post-Covid policy agenda.

# I. Loss of learning: Children's daily learning time during lockdown 1: gaps in educational activities by family income



Source: Institute for Fiscal Studies–Institute of Education Survey data. Real-time data on children's experiences during home learning. Note similar results across Europe and North America.

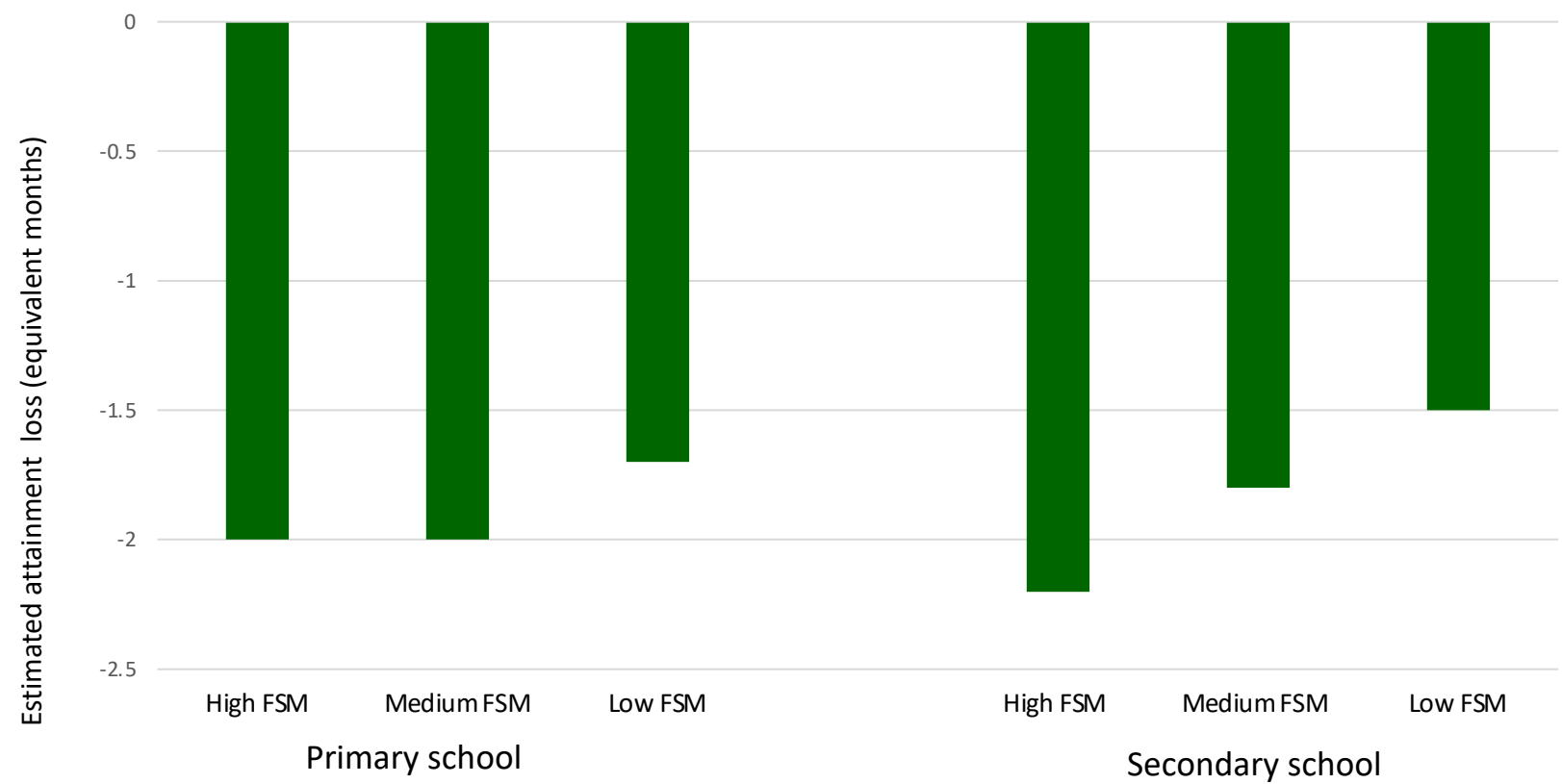
# When schools *re-opened*: home learning provisions during periods of self-isolation in the Autumn 2020 term



Source: Institute for Fiscal Studies–Institute of Education Survey data, wave 2.

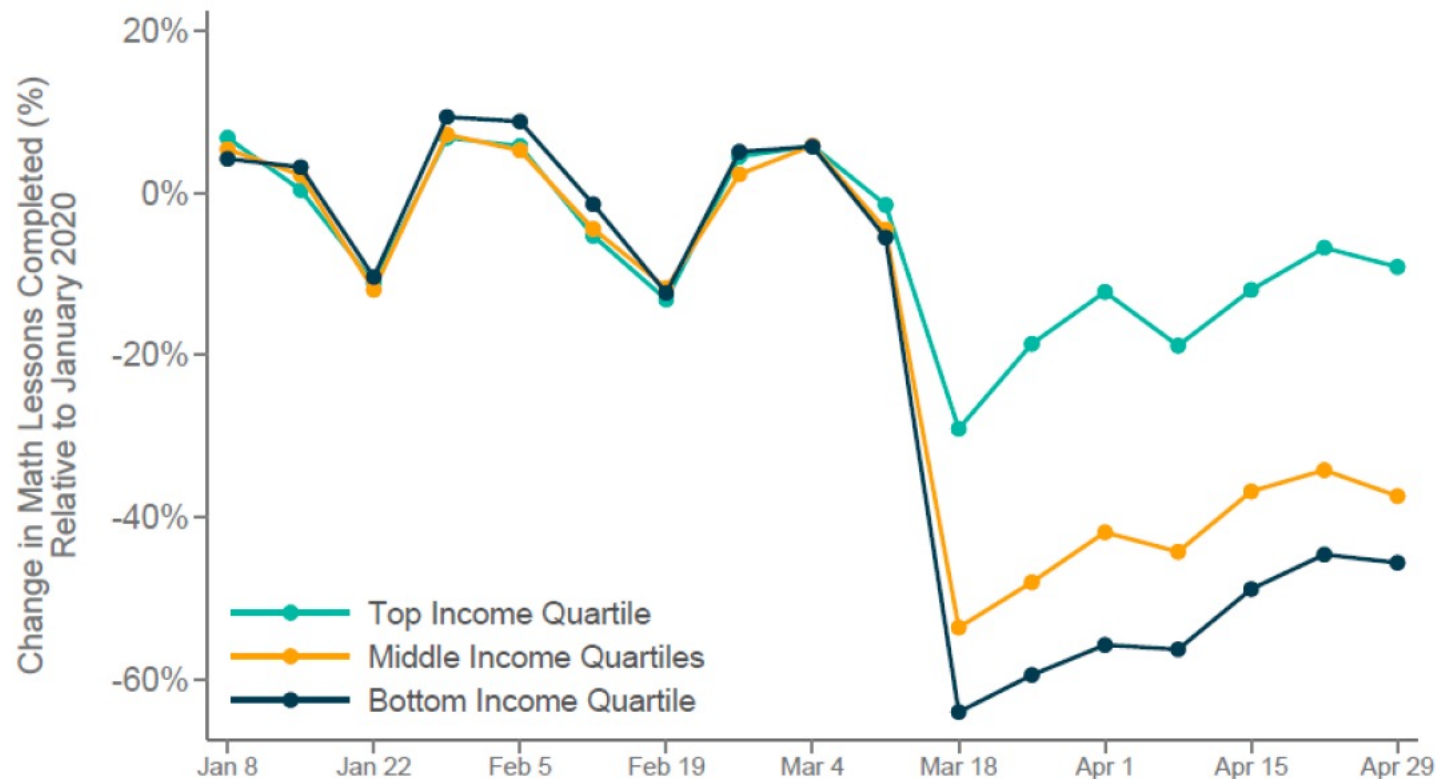
Note, Engzell (2021) and Halloran (2021) show ineffectiveness of online teaching for children from low SES backgrounds.

# Attainment loss: Mean attainment loss in autumn 2020, reading for primary & secondary aged pupils by level of disadvantage in the school



Notes: ‘High FSM’ means that 25% or more children attending school are entitled to Free School Meals; ‘Medium FSM’ and ‘Low FSM’ mean 10%-25% or <10% of children attending school are entitled to Free School Meals, respectively. Rates of learning loss use prior performance by pupils in the previous year, adjusted for historic rates of progress. Source: IFS analysis of NPD data (2021).

## Loss in learning: Change in Math Lessons Completed in the U.S. Relative to January 2020, by income group

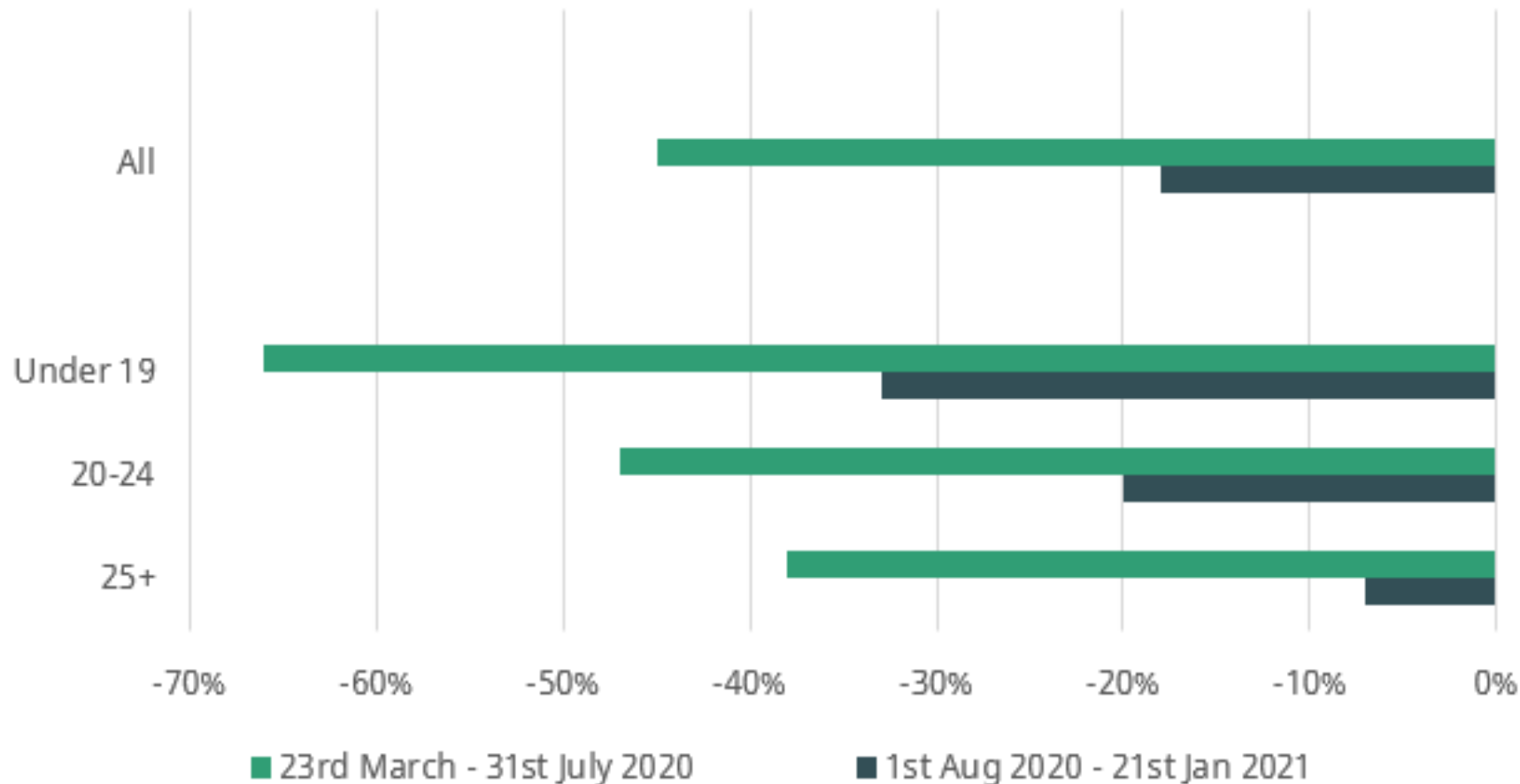


- Note: Similar results on overall loss from closures and excess loss for children from poorer backgrounds in Netherlands and Germany, e.g. Fuchs-Schündeln (CEPR, 2022) on longer term implications of closures in Germany and US.

Source: Chetty et al. (2020). Notes: Shows the change in online math assignments completed by students in the U.S. relative to January 2020, by three groups of schools, ranked into quartiles based on their share of students eligible for free or reduced price lunches.

## Loss in learning: work-related training and apprenticeships.

Change in number of Apprenticeship starts during pandemic compared to same time a year earlier, by age - a key route to wage progression for lower-educated.

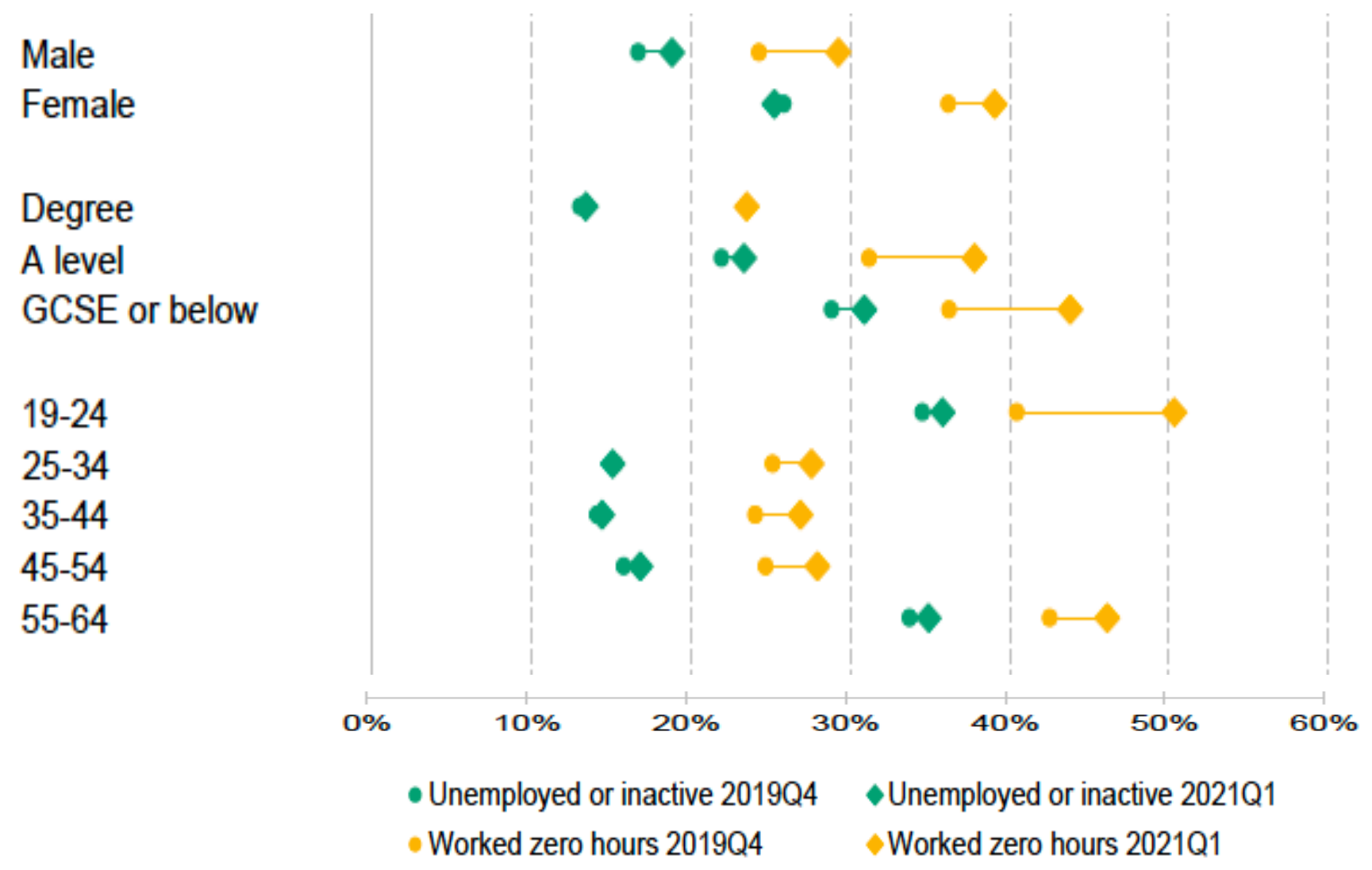


Source: Authors calculations, real time data, IFS.

Note: work-related qualification training has similar average return to schooling.

# Loss of work experience: Share not working, by gender, education & age

UK 2019Q4 and 2021Q1



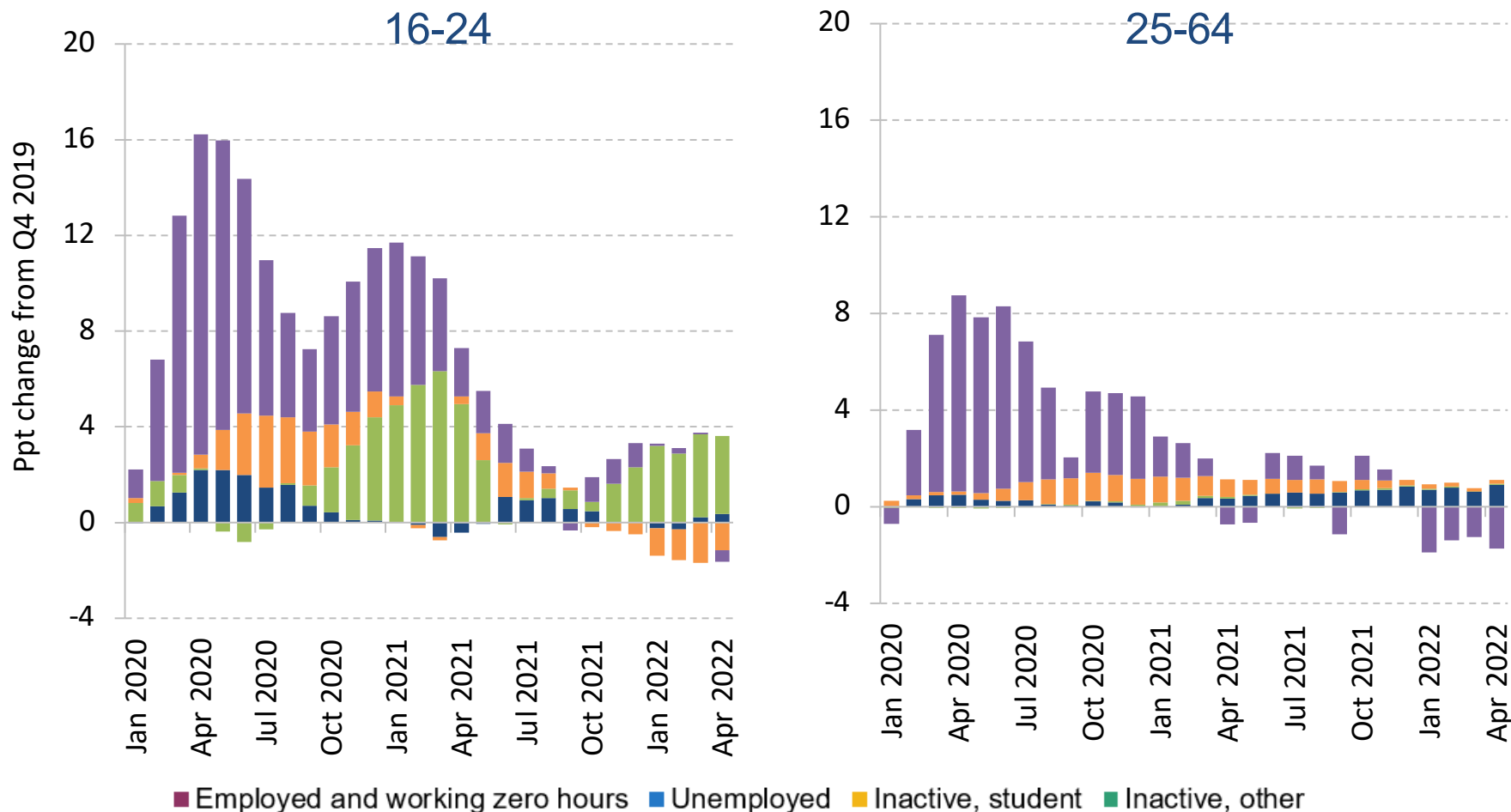
Source: IFS 2021, UK Quarterly Labour Force Survey

Notes: Includes people aged 19–64.



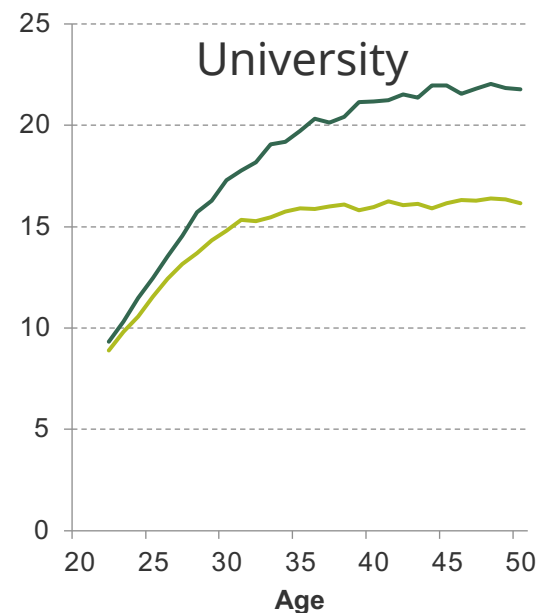
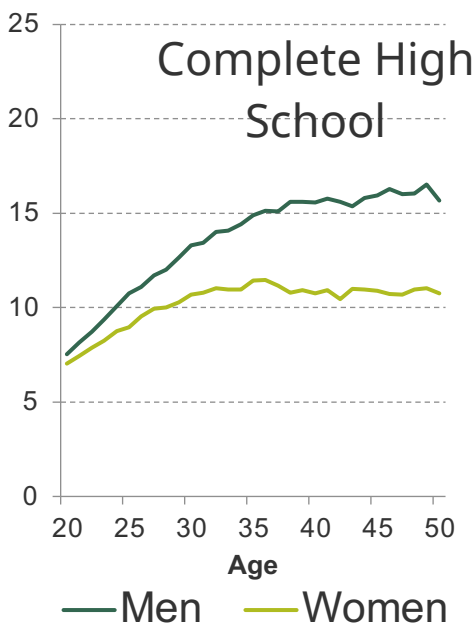
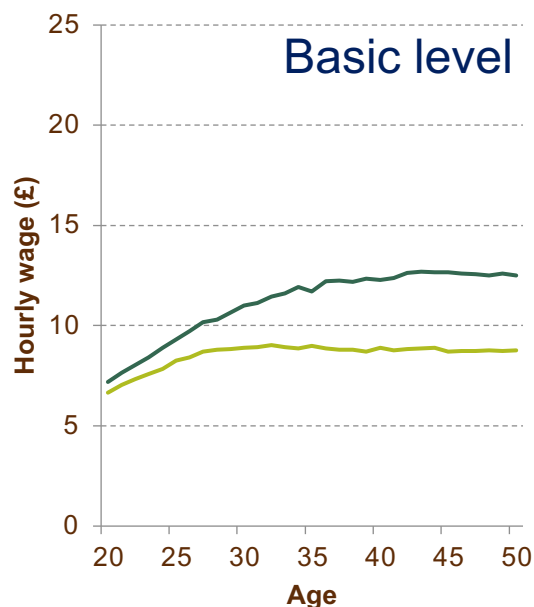
The pandemic represented a significant labour market shock  
- particularly for young people, a loss of work experience and work-related training, key for career progression.

### Change in share not working since Q4 2019



Source: IFS Analysis of Quarterly Labour Force Survey 2019Q4-2022Q2

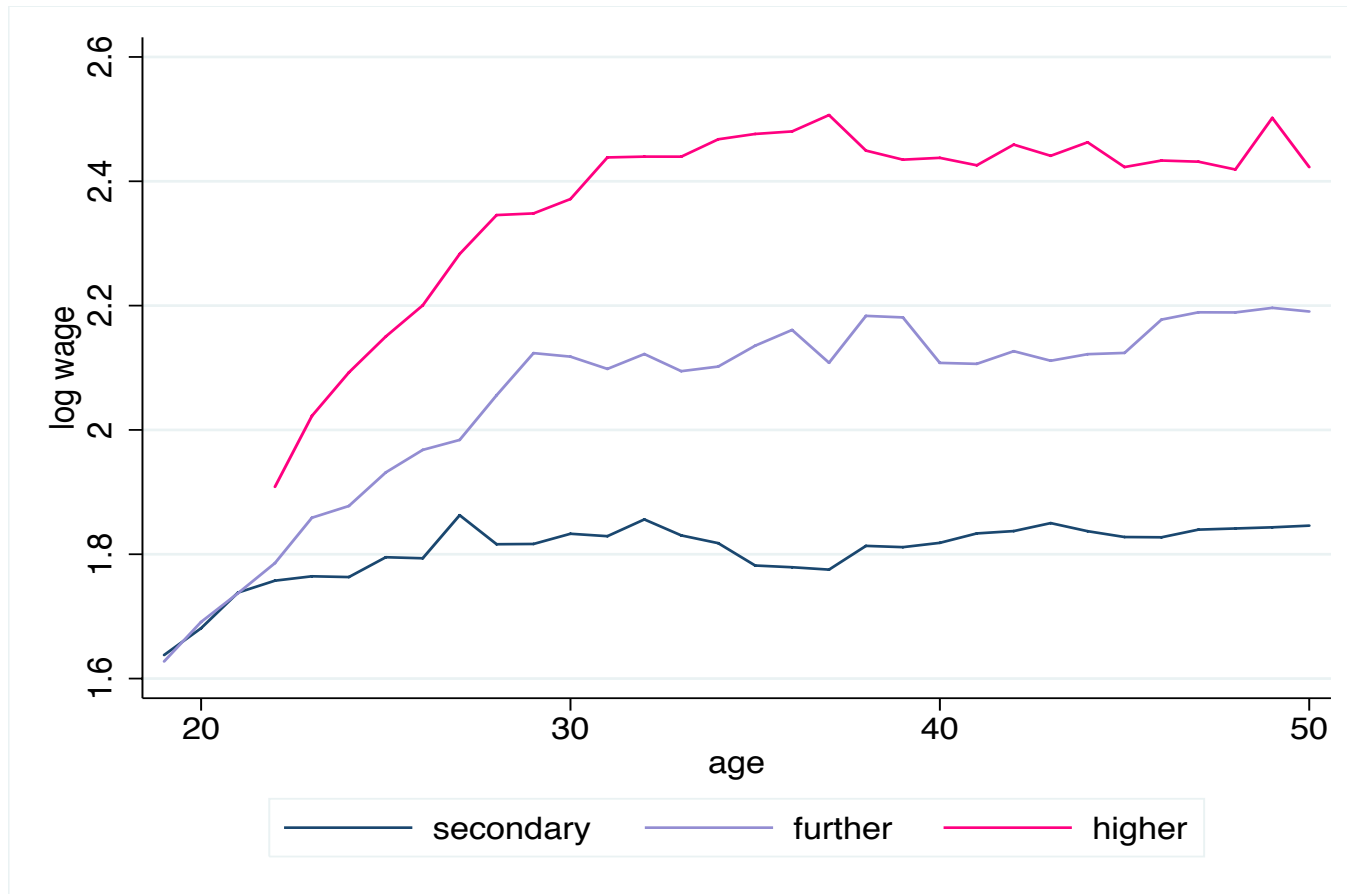
It's depressing at the bottom: wage profiles by education and age  
- returns to experience are *complementary* with formal education level



Work experience matters less for low educated but still key for middle educated.  
Initial education is vital to get the returns to work experience -> complementarity  
makes it very hard to redress human capital losses at school through work experience.

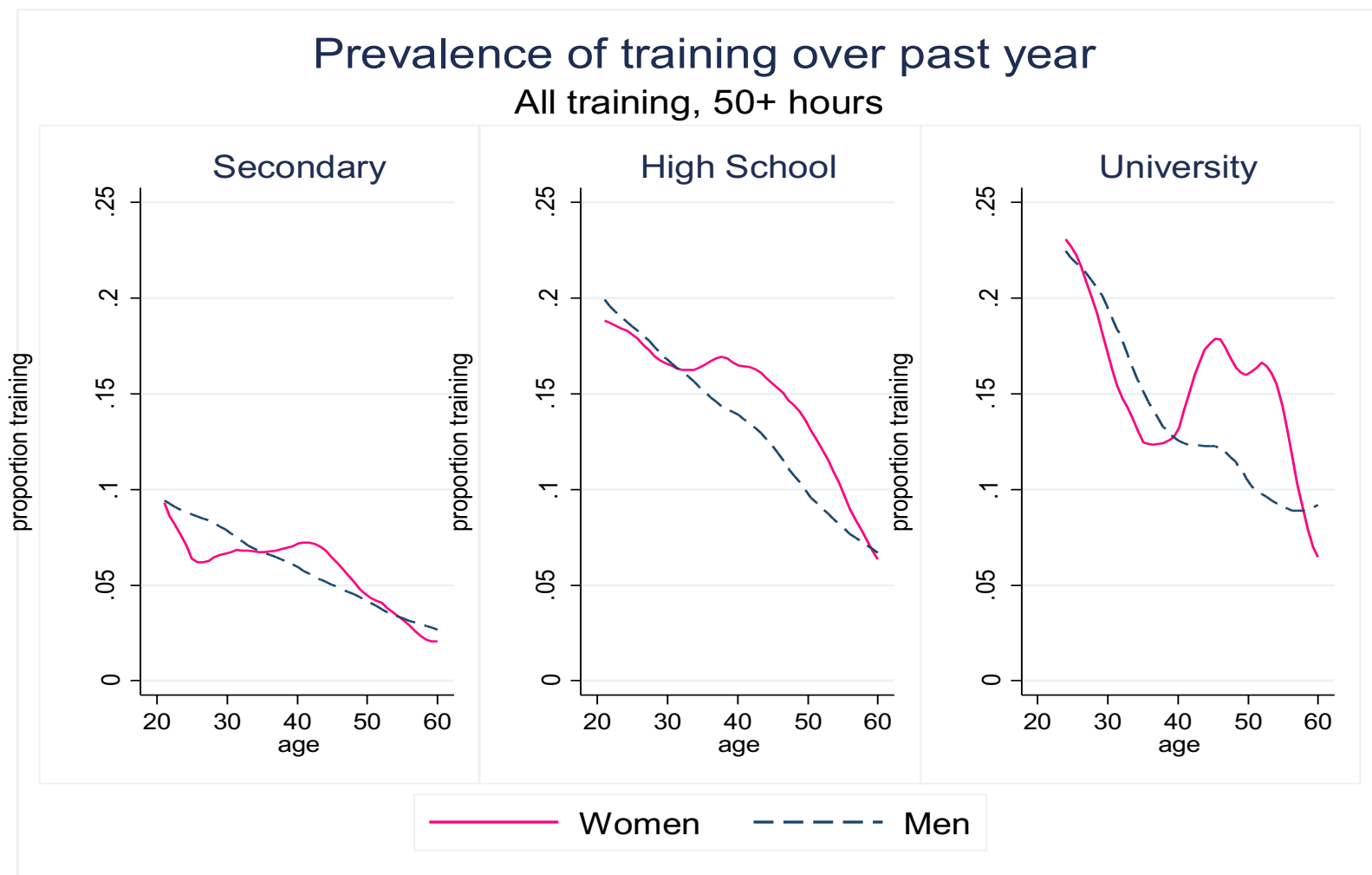
# It's depressing at the bottom: wage profiles by education and age

- returns to experience are *complementary* with education



Find diverging wage progression by education and by part-time work with low rates of on-the-job training for lower educated workers.

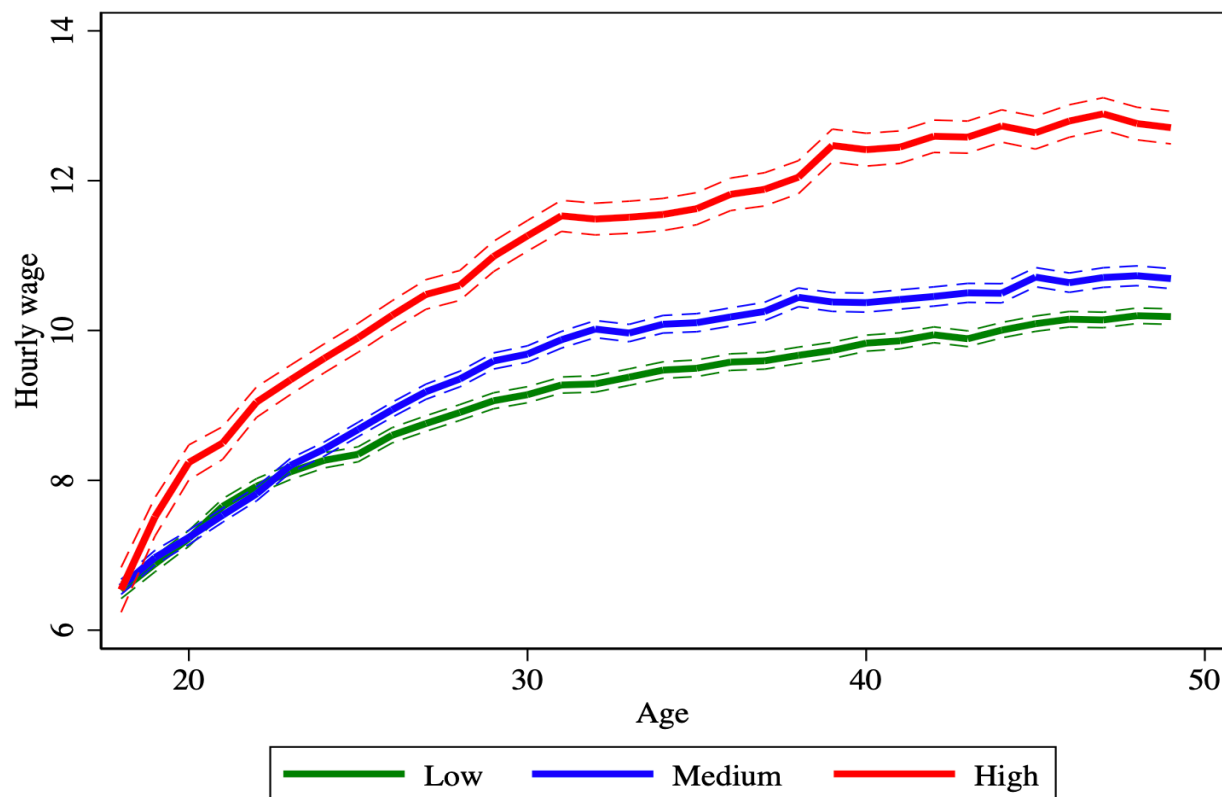
# Training incidence by gender and education



Work-related training has a lower incidence and lower pay-off for lower educated but find significant returns for firm-based qualification training -> with key role for matching with firms with higher skilled workers. Soft skills matter in the match.

# The type of skills and the match with firms matter

Wage progression for lower educated workers according to skill intensity: soft skills



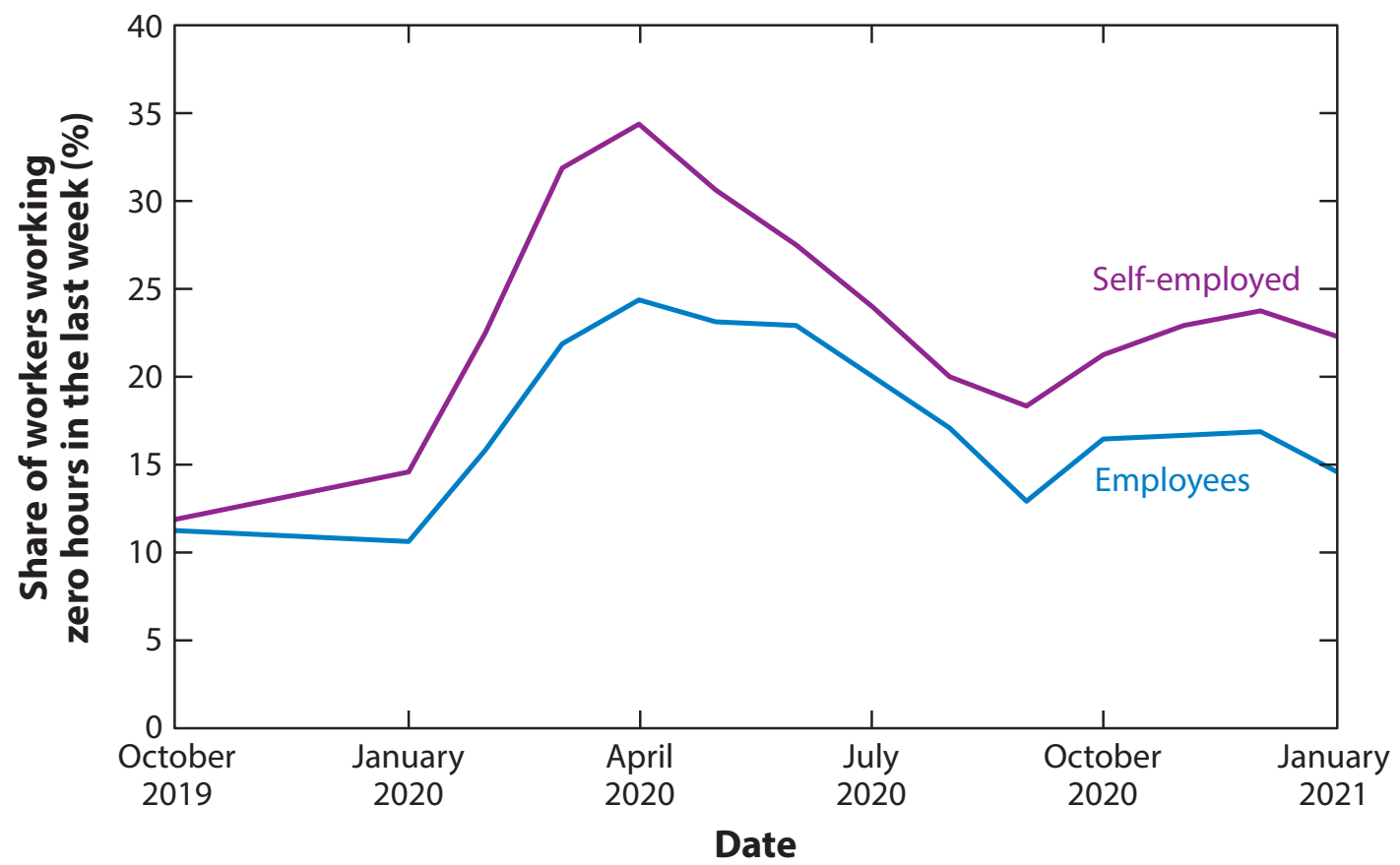
Loss of *soft skill* development at work particularly acute for the lower-educated

Notes: Data from Annual Survey of Hours and Employment (ASHE) 2004-2019

Source: Aghion, Bergeaud, Blundell and Griffith (2022)

# Loss of work: larger impact on self-employed

Share of workers working zero hours in the last week, by employment status

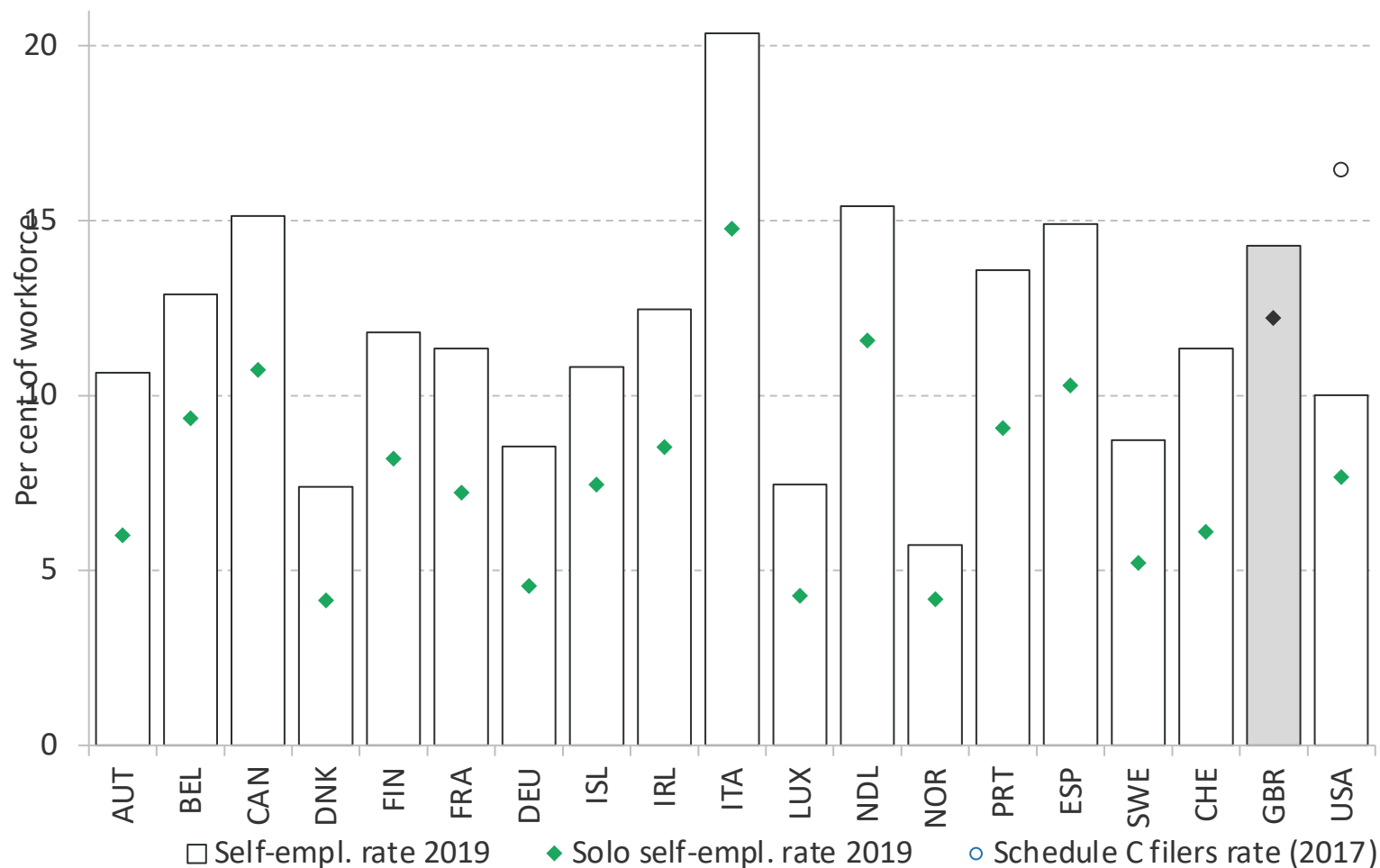


Self-employed more severely hit by covid and poorly served by current tax benefit systems. Not covered by minimum wage, sickness benefits or NI. Almost no access to training.

Source: IFS Deaton Review 2021. Data: UK Quarterly Labour Force Survey, aged 19–64.

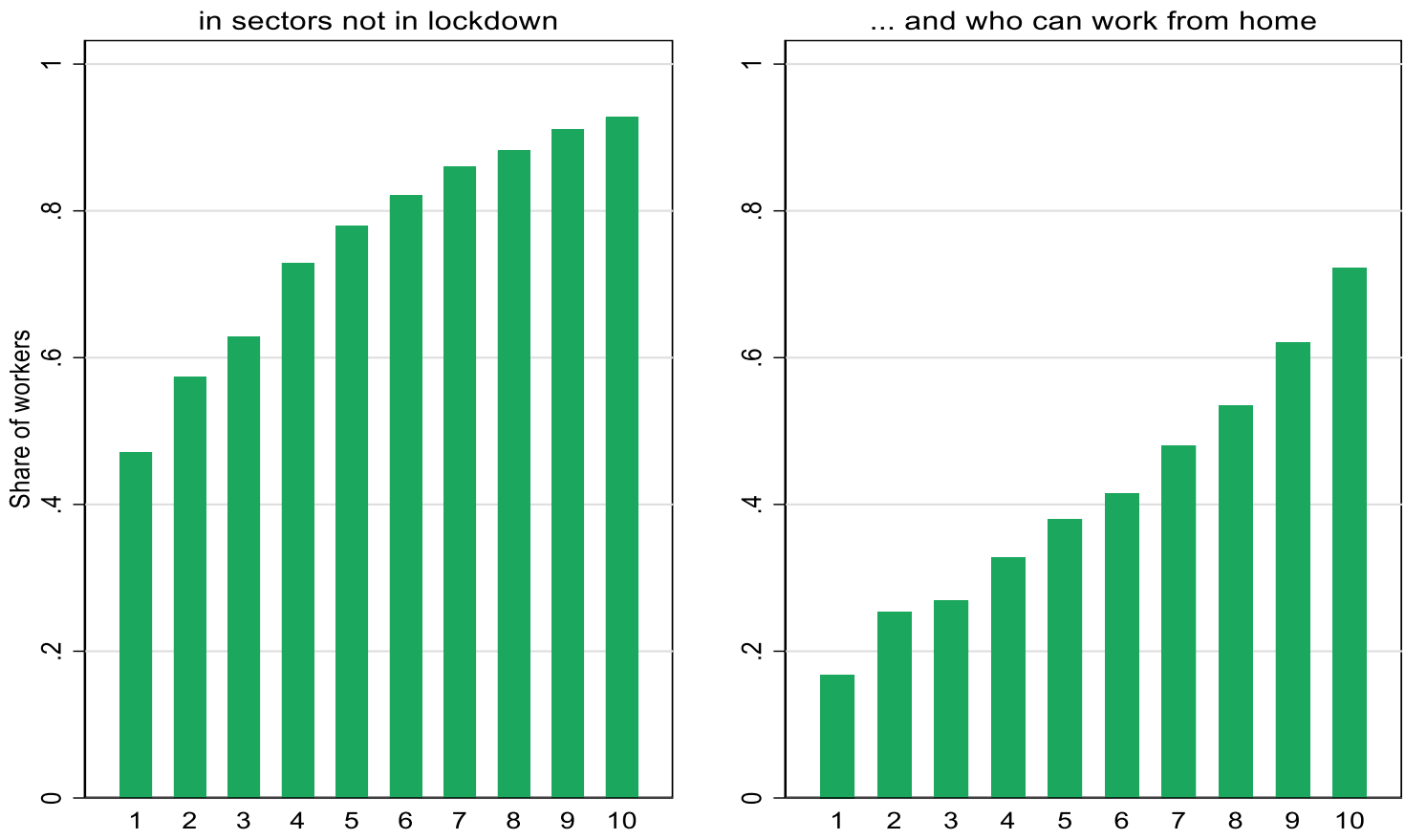
# Self-employment across Europe and North America

## Self-employment as percent of workforce



Source: IFS Deaton Review, IFS, 2021

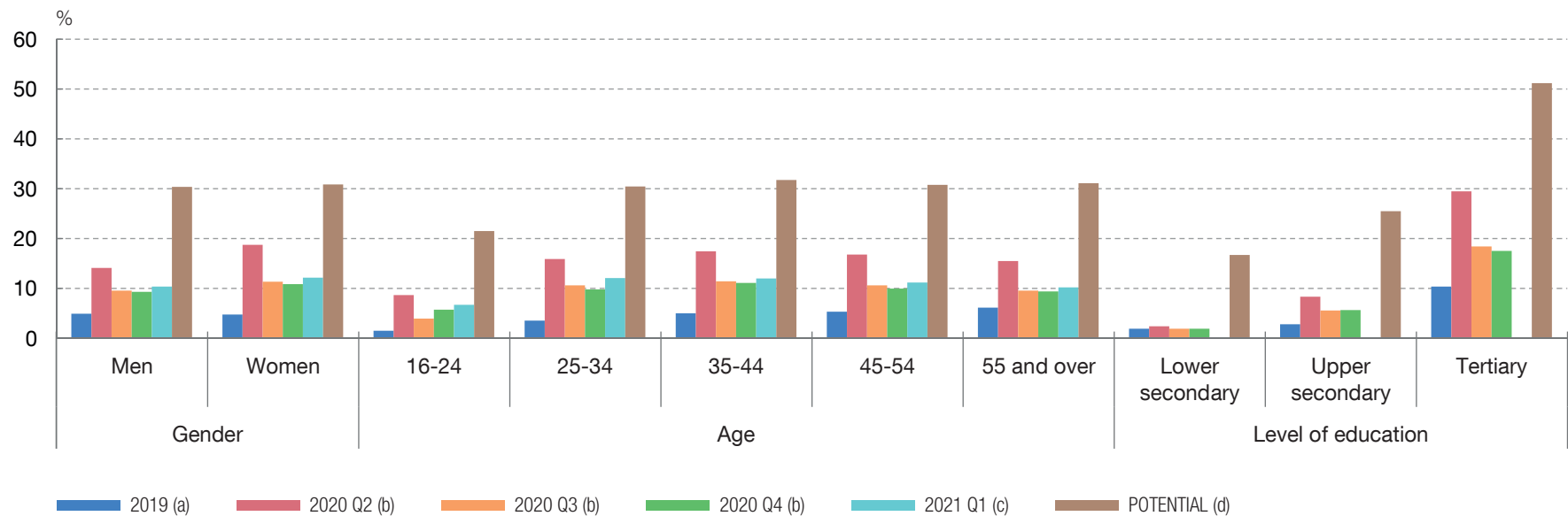
# Loss of work: Share of workers in sectors not in lockdown and who could work from home, excluding key workers, decile of earnings distribution



Source: Blundell et al. (2021), using Labour Force Survey, quarters 1–4 2019, waves 1 and 5 only.

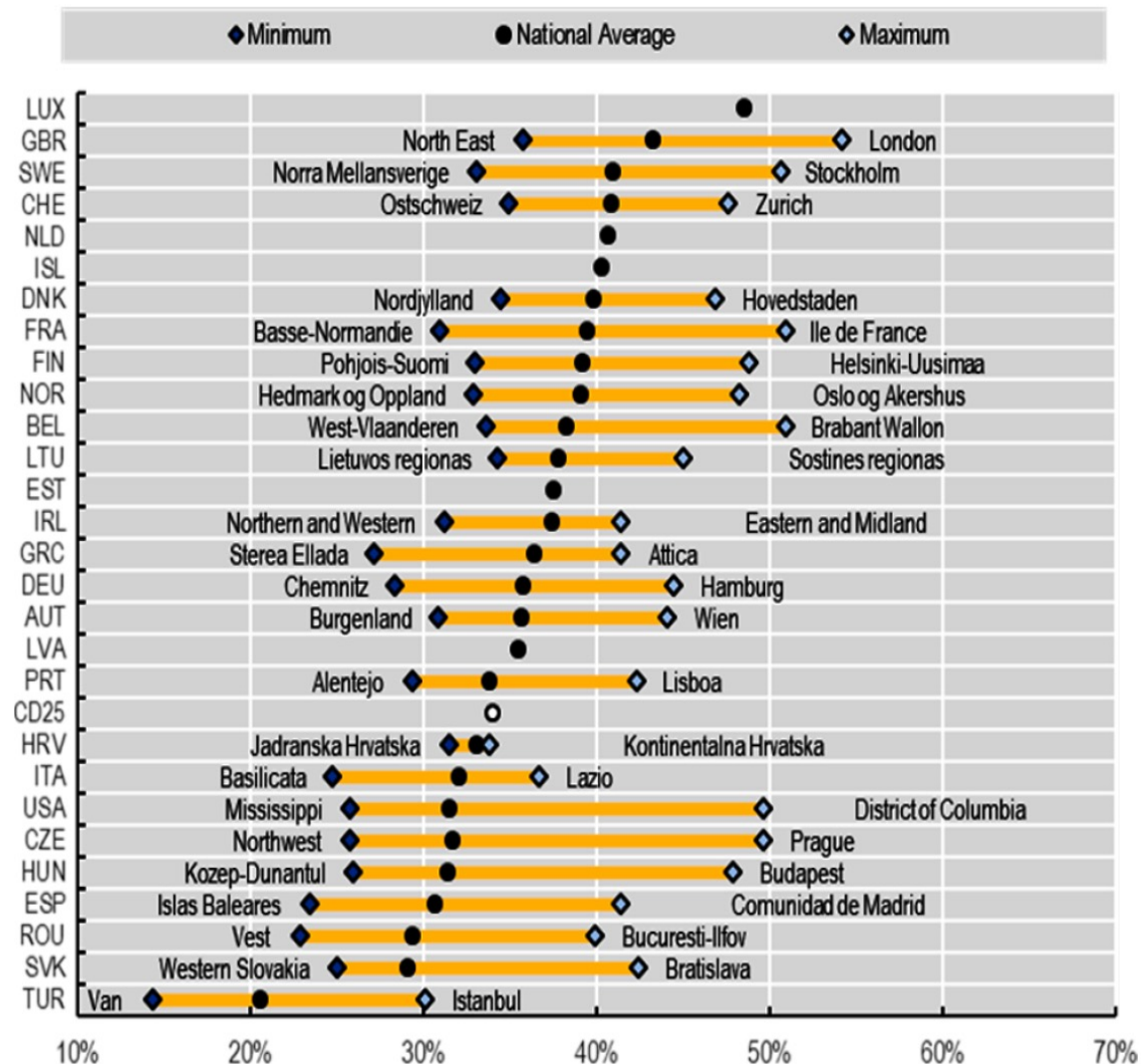


# PROPORTION OF PEOPLE WORKING REMOTELY AT LEAST HALF OF THE WORKING WEEK, BY SOCIODEMOGRAPHIC GROUP



Source: INE España (EPA, microdata from the 2019 annual sub-sample and the 2020 living conditions module).

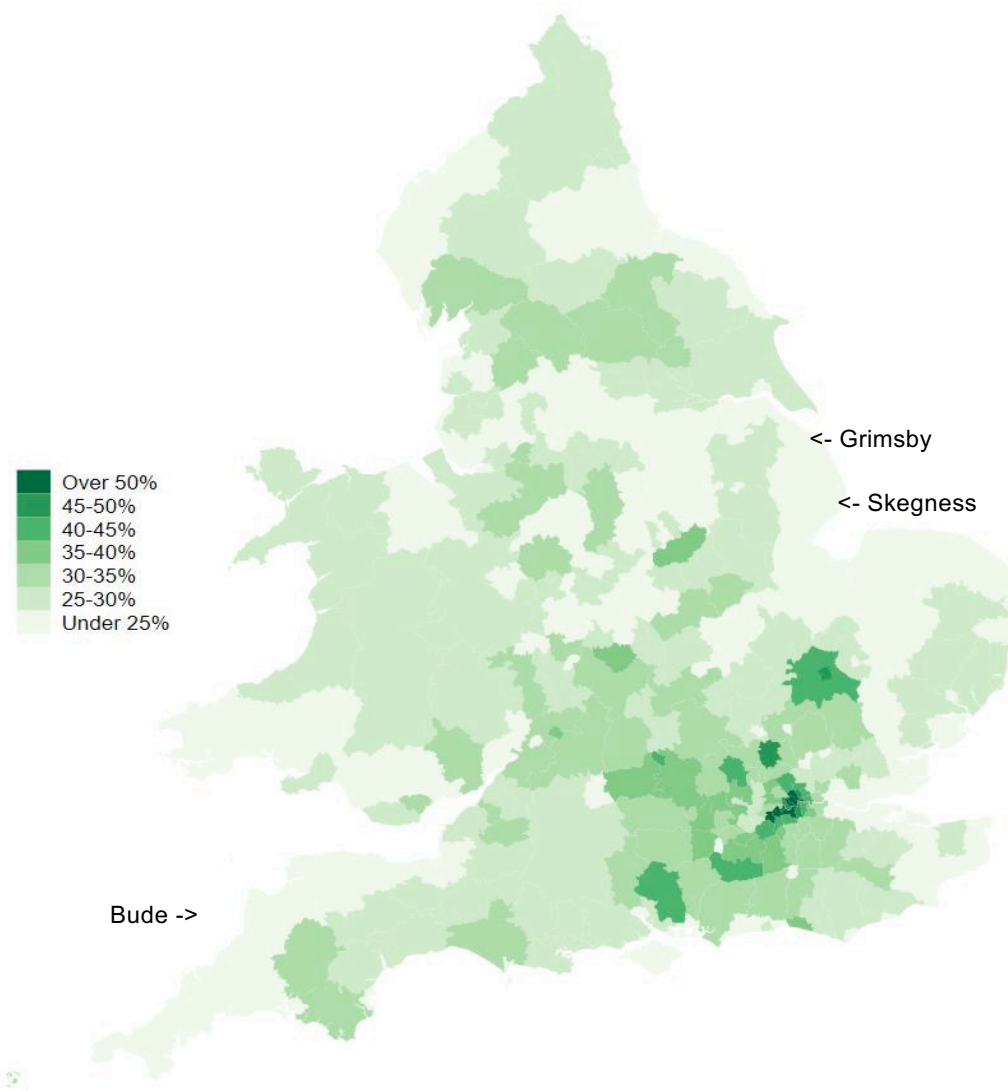
# Loss of work – geography matters: Share of jobs that can potentially be performed remotely, between and within countries in Europe



Source: Ozguzel et al. (2021).

# Regional disparities in education

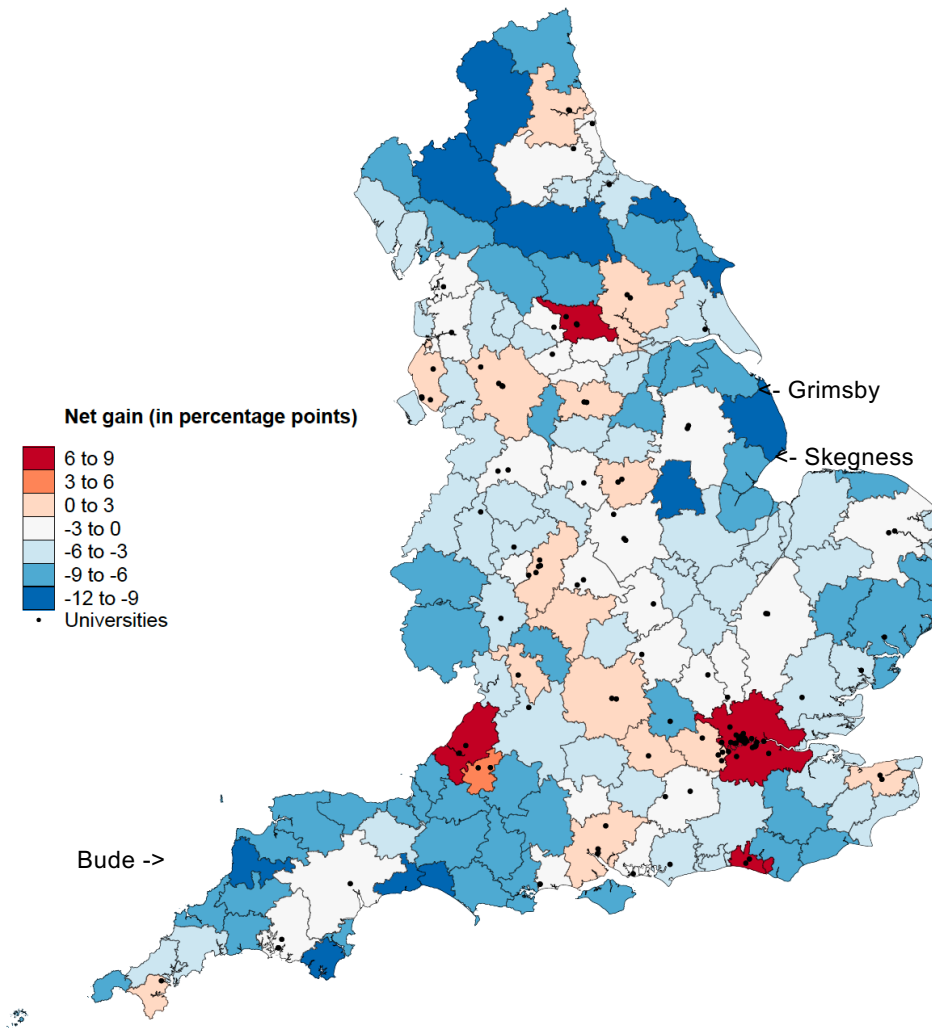
## Share of Population (England and Wales) with Post A-level Qualifications



Source: Blundell et al. 2021 (Figure 1).

# Educational flight: Regional disparities in education

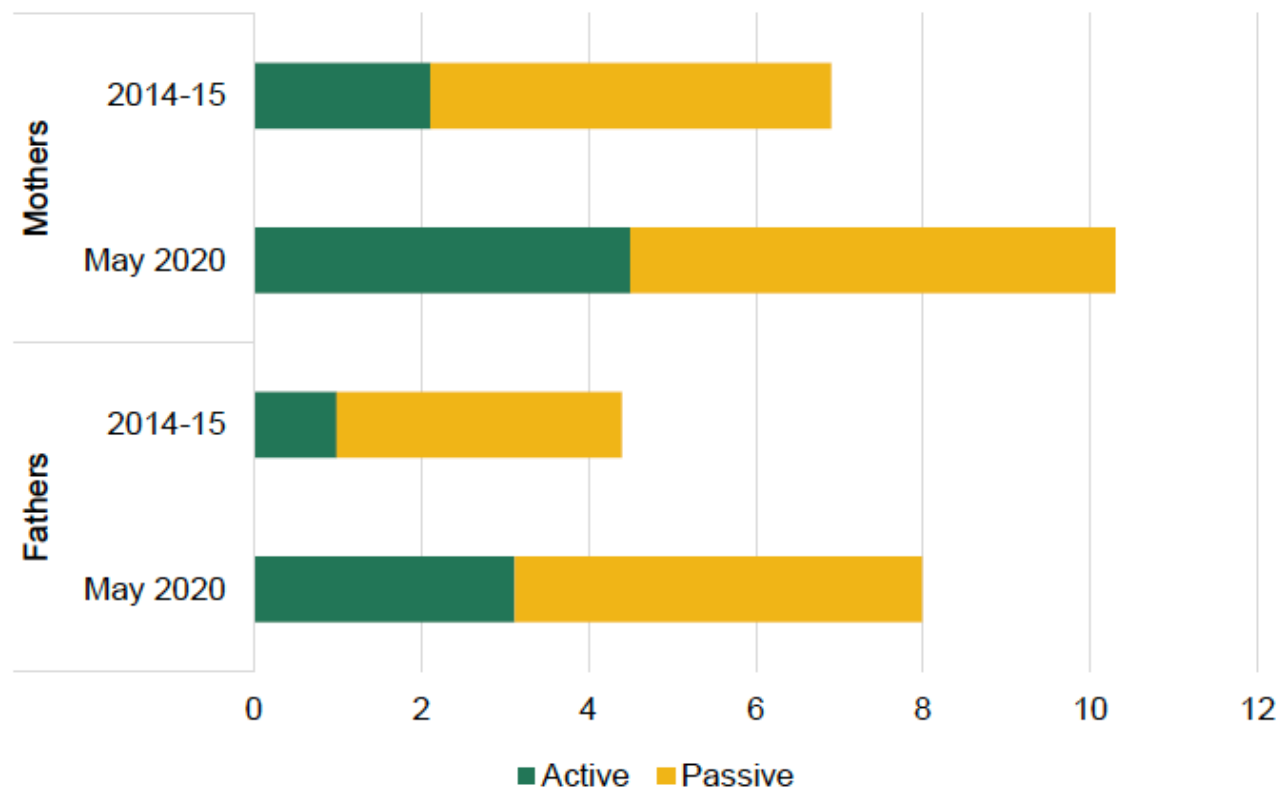
Change in share of (future) graduates in TTWA, age 16 to age 27



Note: IFS. NPD, LEO Data. Net gain is the percentage point difference between the share of 16-year-olds from the area who went on to be graduates and the share of 27-year-olds who live in the area who are graduates. Black dots signify universities. IFS Deaton Review (2022).

### III. Gender and childcare:

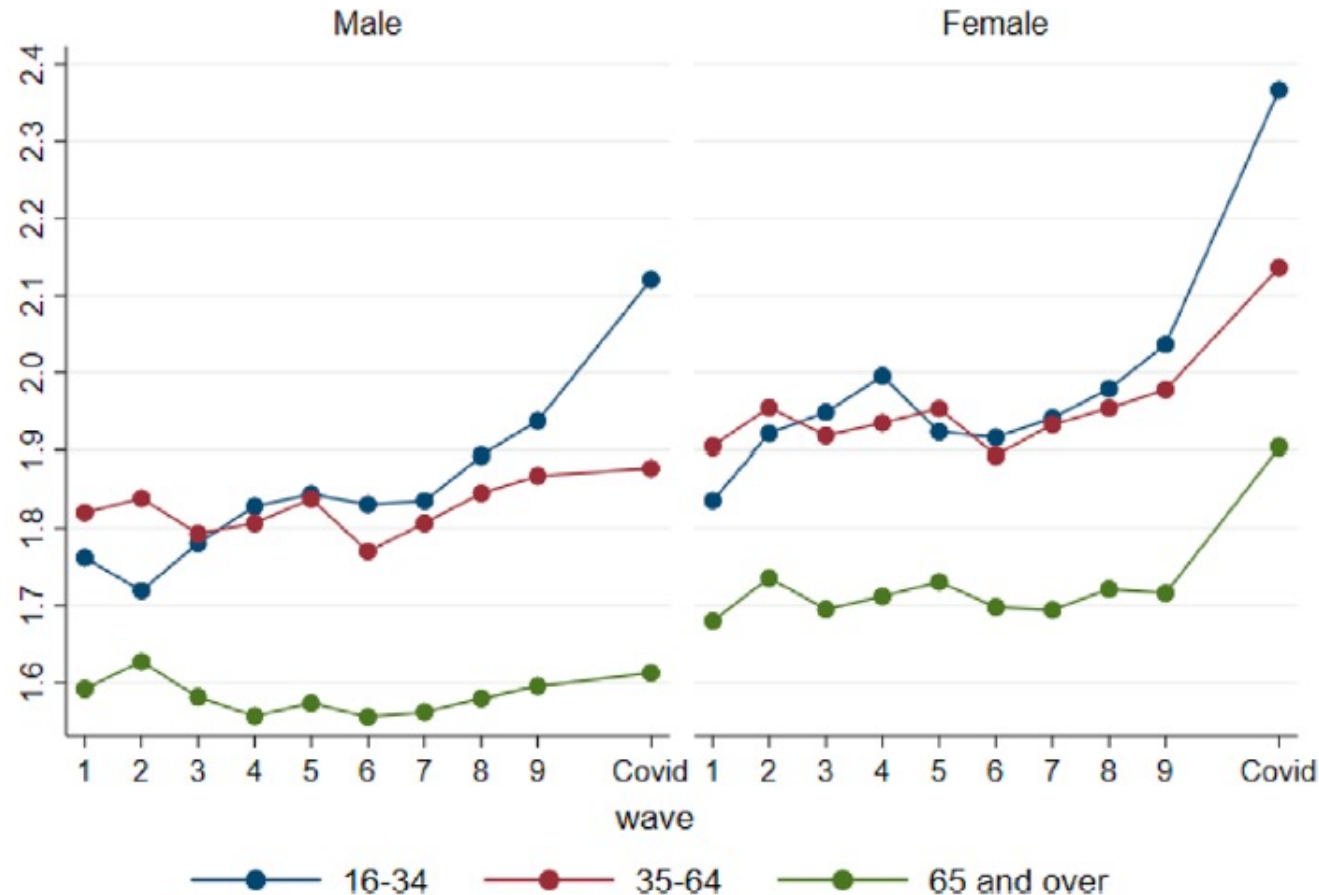
Hours spent on active and passive childcare, before and during the lockdown



Source: Andrew et al (IFS, 2021)

## IV: Mental health

Unhappy or depressed, by gender and age group,  
UK HLS waves 1–9 (January 2009 to May 2019) and April 2020

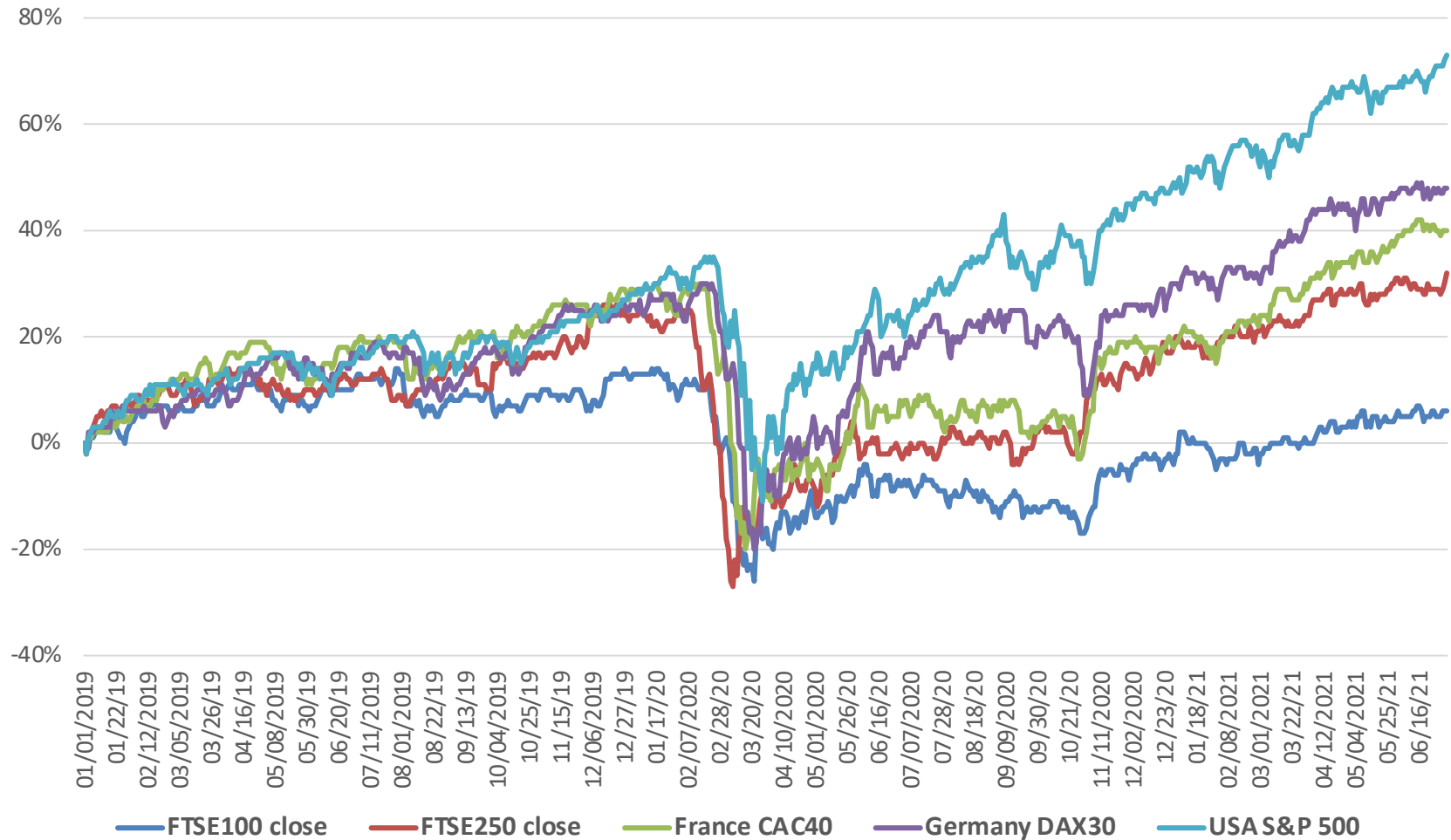


Notes: UKHLS waves 1–9 and April COVID-19 survey.

Source: Banks and Xu (IFS Deaton Review, 2022)

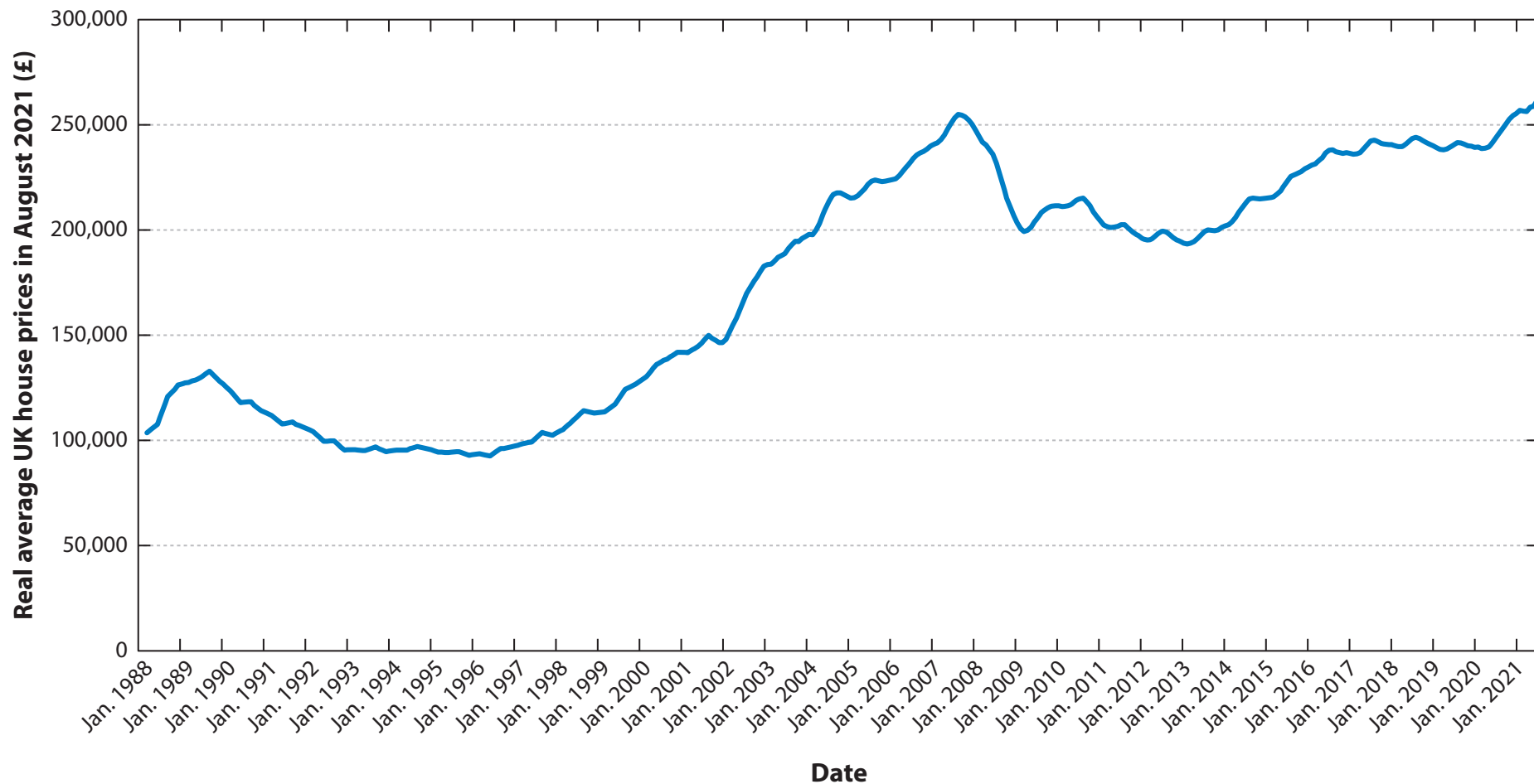
# V: Increase in savings, housing and financial wealth inequalities.

Change in major stock market indices in UK, USA, France and Germany since January 2019.



# Increase in savings, housing and financial wealth inequalities.

## Real average UK house prices 1988-2021



Data from HM Land Regist. (2021), deflated using the CPIH inflation index, 3-month rolling averageCPIH deflated, August 2021 prices



# The longer-term inequality challenges

## Educational inequalities

- The loss of learning hit people from poorer backgrounds harder, while higher income parents are more able to work from home, have better access to internet, have space to educate their children and have increased savings.

## Wage and employment inequalities

- Increased reliance on technology and home working favours the educated - young low earners were mostly in shut-down sectors, with strong negative impact on self-employed and have a large loss in work-place training and work experience.

## Gender inequalities

- Childcare and housework has fallen far more on mothers than on fathers.

## Income support and cash welfare

- Tax credits and cash transfers have been successful in supporting incomes but lack incentives for human capital investments and wage progression.

## Wealth inequalities

- The older higher educated have seen their financial and housing assets increase.

Health inequalities and long covid.... higher for low SES and non-whites.

## Focus on three key issues: taking a life-cycle view of human capital

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The pandemic caused a huge loss of educational inputs, workplace training and work-experience for the lower educated. All displayed a strong social gradient.

1. Loss of early years inputs at pre-school
2. Loss of learning at school
3. Loss of work experience and work-related training/apprenticeships

Micro-econometric evidence suggests that these human capital losses are long-term and hard to reverse

- Returns to parental inputs for pre-school children much lower for children of lower-educated parents;
- Returns to parental inputs for children of formal school age much lower for children from low SES families;
- Returns to work experience are complementary with formal education levels but remain significant for those with more than basic education levels;
- Returns to work-related training are also complementary with formal education levels but particularly important for progression for those below university;

Dynamic complementarities in make these losses particularly hard to address.

# Towards a post-covid reform agenda – putting flesh on the ‘good jobs’ idea

## Educational disadvantage and diverging educational outcomes

- offset the learning loss in multiple subjects, especially for low SES families - returns are high.

## Vocational skills and a path to good jobs for those below university

- poor wage progression and fallback in vocational training suggests a focus on the firm match and accredited skills that can enhance career progression.

## Solo self-employment and new forms of work

- aligning effective tax rates, benefit eligibility, and training access.

## Redesigning welfare and cash transfers

- accounting for impacts on wage progression, with incentives for firm-based qualification training.

## Differences in prosperity between places

- policies to attract entry of frontier firms that employ a mix of educational groups, essential for agglomeration, and to reverse educational flight.

## Stalling gender gap in earnings and care

- quality childcare provision, with tax credits for training to replace lost work experience.

## Generational inequalities housing and wealth.

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