

Economics: How has the COVID-19 pandemic impacted inequalities?

Covid 19: The Inequality Virus

At the beginning of the pandemic, public figures such as Madonna and the then New York Governor Andrew Cuomo labelled Covid-19 ‘the great equaliser’ implying that it would serve to reduce inequality¹; however, contrary to initial expectations, Covid-19 is no universal experience. While the virus does not choose who it infects, certain demographics are more vulnerable to its consequences. These discriminating effects further exacerbate new and historic socioeconomic disparities², intensifying a prejudiced status quo: *we are all in the same storm but not in the same boat*.

According to Thomas Picketty’s renowned hypothesis $r > g$, when g is low, wealth accrues faster from r than labour³, therefore accumulating with economically-affluent agents. His concerns about wealth inequality seem to have manifested; depressed economic growth rates⁴ during the pandemic seem to have increased capital gains⁵ which accrue to the richest.

¹Comments:<https://www.thechicagoschool.edu/insight/from-the-magazine/the-great-un-equalizer/>

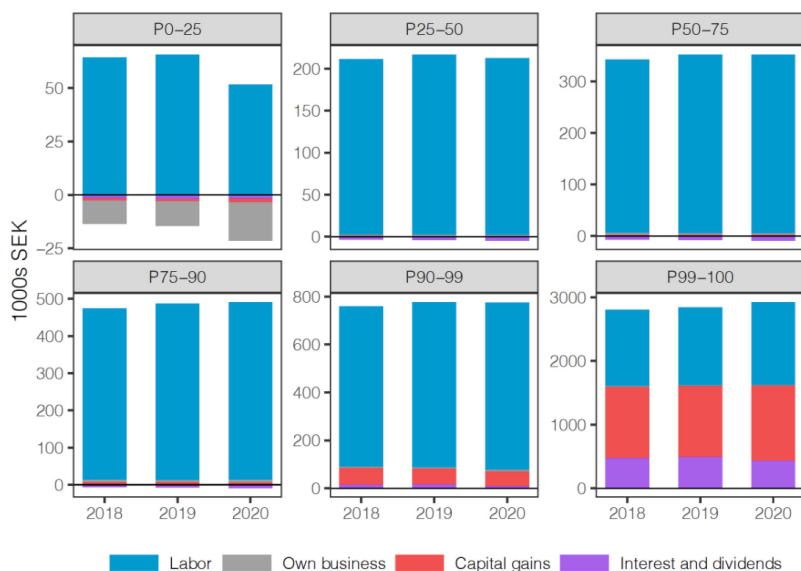
²New inequalities refer to those caused by technology and access to information, namely topics revolving around the digital divide and automation. Historical inequalities refer to racism, sexism and other forms of discrimination against minorities. Both these topics will be explored in the essay.

³ Picketty’s *Capitalism in the 21st Century*. g refers to the economic growth rate while r refers to the return from capital (includes profits, dividends, interest etc) The Growth in Wealth = Wealth x r ; the Growth in the Economy = GDP x g . If wealth is growing faster than the economy, the rich are going to get richer as the economy grows, since their relative share of the economy grows over time.

⁴ Depressed economic growth rates (g) are evidenced by drops in GDP. An example of the drop in global GDP can be found here: <https://www.statista.com/topics/6139/covid-19-impact-on-the-global-economy/#dossierKeyfigures>

⁵ Increased capital gains have been signalled by the stock market closing at record highs: <https://time.com/nextadvisor/investing/sp500-dow-record-breaking-days/>

Average Incomes and their composition, adult populations (2018-2020)



Source: www.voxeu.org

Trends in widening wealth inequality are evident: about \$4.9 trillion has been added to the top 1% of America's wealthiest households⁶ since the pandemic. Nearly 500 business tycoons, cryptocurrency investors and Silicon Valley CEOs have joined the ranks of Forbes' much coveted billionaire's list; Jeff Bezos is forecasted to be a trillionaire by 2026⁷.

Neoliberal forces of creative destructions have accelerated under capitalistic uncertainty, championing entrepreneurship. Since education is often a prerequisite to entrepreneurship in today's technological environment, innovation favours those already educated and rich.⁸ In April 2020, lockdowns forced the closure of businesses causing massive rise in layoffs and unemployment worse than the economic collapse seen in the Great Depression. The US Bureau of Labour Statistics estimated that employees in the bottom 20% of income distribution were four times more likely to lose their jobs than the

⁶ Time article <https://time.com/5974430/wealth-tax-covid-19/>

⁷ The Economist article: <https://www.economist.com/leaders/2020/05/02/big-tech-is-thriving-in-the-midst-of-the-recession>

⁸ Joseph Schumpeter overlooked the education barrier to entrepreneurship: <https://www.libertarianism.org/topics/schumpeter-joseph-1883-1950>

highest earning 20%⁹, confirming that low-wage earners were disproportionately affected. This is due to the fact that lower-wage workers have lower marginal revenues, reflecting differences in education, skill and productivity.

The beginning of the pandemic seemed promising for low-income earners in the US as they received relief packages which increased income levels and contracted income inequality. The same is true for some corporations¹⁰ that increased wages for essential workers. However, these government social security programmes may be pared back due to US's rising fiscal debt¹¹ while aforementioned private corporation benefits were fleeting. Arguments stating that inequality contrived by the pandemic is temporary in the Schumpeterian cycle are woefully unconvincing as economic literature has reached a consensus that epidemics have the worst impact on labour. The neoclassical macroeconomic Solow-Swan model¹² captures the consequences of pandemics as "*the disproportionate effects on the labour force relative to land (and later capital)*" (Jordà et al., 2021). Essentially, pandemics are a supply side shock: a negative shock to labour supply while leaving capital intact. The resulting scarcity of labour could have two impacts i) increasing wages for remaining low-income workers which contracts income inequality ii) reallocation from labour to capital causing unemployment and increasing income inequality. Although Covid-19 impacts occupations differently depending on their relative cost and potential for automation, the net effect tends towards the latter¹³. The changing currents towards capital and automation are believed to be structural, approximately 42% of job losses¹⁴ are expected to be permanent. This might be because employers have become accustomed to the changed business cycles that substitute labour for technology and thus

⁹ The Guardian article: <https://www.theguardian.com/business/2020/may/10/unemployment-due-to-covid-19-is-surely-worth-more-than-a-footnote>

¹⁰ Starbucks introduced a catastrophe pay to their workers and Kroger increased wages by \$2
<https://www.cnbc.com/2020/12/22/the-pandemic-made-low-wage-workers-essential-can-they-hold-onto-those-gains.html>

¹¹ The US president Biden signs debt ceiling rise, preventing a default: <https://www.cnbc.com/2021/12/16/biden-signs-debt-ceiling-increase-preventing-first-ever-us-default.html>

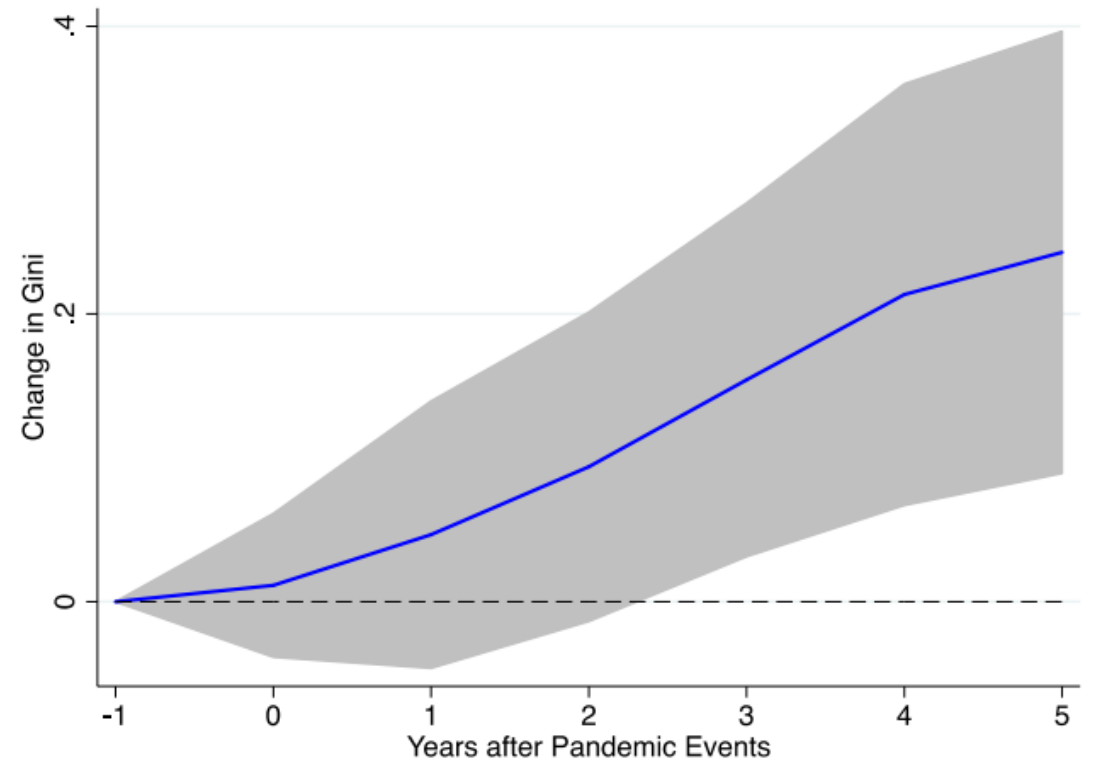
¹² The Solow Swan Model is an exogenous growth model of long-run economic growth. It considers capital accumulation, population growth and increases in productivity due to improvements in technology.

¹³ India is an anomalous case here, representing impact (i) described above. Research in the Indian market demonstrates that income inequality has narrowed during the pandemic as the income of the bottom quartile has grown by 13%. This is substantiated by The Economist

¹⁴ Forbes article: <https://www.forbes.com/sites/kenrapoza/2020/05/15/some-42-of-jobs-lost-in-pandemic-are-gone-for-good/?sh=3d1397a350ab>

continue doing so. Projections from the International Monetary Fund (IMF) confirm that the current pandemic may increase the global Gini coefficient by .2%¹⁵.

Impact of pandemics on net Gini—Restricted sample (1995-2019)



Source: www.imf.org

Increasing inequality threatens long-term liquidity. Vulnerable groups suffering from inequality of opportunity are likely to sell productive assets, which decreases investment in, for instance, education. Simultaneously, high-income earners have a lower marginal propensity to consume (MPC), and hence would've saved and invested in the pandemic. Consequently, the unequal distribution in capital reduces upward social mobility, ceteris paribus. Considering the

¹⁵ The IMF Paper: <https://www.imf.org/en/Publications/WP/Issues/2021/05/01/Will-COVID-19-Affect-Inequality-Evidence-from-Past-Pandemics-50286>

Although Covid-19 is a pandemic of much greater magnitude than any pandemic between 1995-2019, past pandemics are still a useful tool to forecast impacts. In addition, the results on income inequality have been greater in more severe pandemics (in terms of cases or in terms of output) which implies that redistribution effects of Covid-19 might be larger than those in the 1995-2019 sample, ceteris paribus

Unfortunately, data from the Spanish Flu epidemic is not readily available for analysis

requirement for large capital investments to escape an S-Shaped Poverty Trap¹⁶, this has effects that last generations. Particularly, Krueger's Great Gatsby Curve demonstrates that high inequality begets high intergenerational elasticity of income: India may plunge into the same state of rooted social immobility shared by Latin America¹⁷.

The direct and immediate impacts are those faced by workers in shutdown sectors, disproportionately representing female, young and minority workers. Data further shows that women are a third more likely than men to have lost their job, increasing gender inequality. Workers under the age of 25 were twice as likely to have worked in a shutdown sector than those above, deepening the generational gap in incomes. Pakistani and Bangladeshi workers, who are greatly represented in transportation, food and beverage industries, have borne the brunt of impacts since they are primary breadwinners in their households.¹⁸

Highly skilled workers tend to have more opportunities for telework¹⁹. In contrast, low-income earners are more likely to be engaged in adverse working conditions e.g., ergonomic hazards, laborious, repetitive, low job security, and are less likely to receive paid sick leave (PLS) which creates a situation where they are most exposed. Given that most of these workers live in areas of socioeconomic deprivation with high population densities, the virus is likely to spread among these groups. Unequal risk distribution to the virus is evident in the global economy. In the US labour market, low-paid workers are more likely to be employed in the frontline of key service industries or physical contact jobs.

¹⁶ Poverty Traps Explanation: https://ocw.mit.edu/courses/economics/14-73-the-challenge-of-world-poverty-spring-2011/lecture-notes/MIT14_73S11_Lec2_slides.pdf

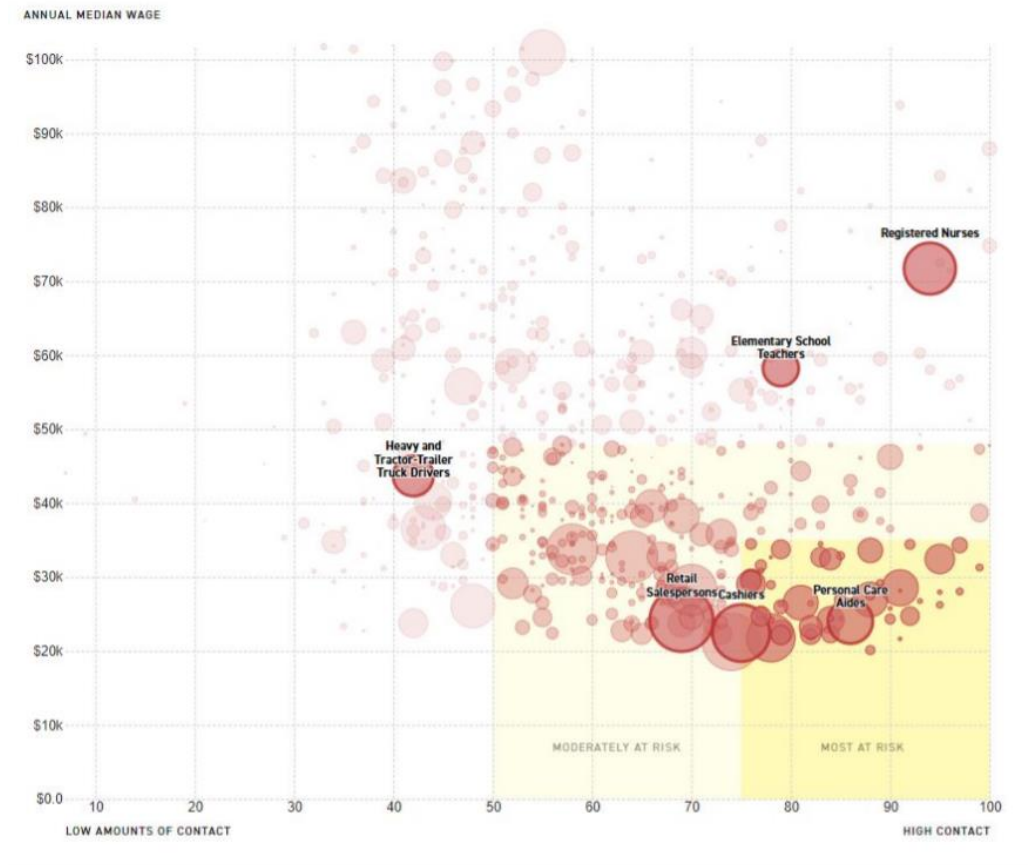
¹⁷Evidence of impacts of the pandemic on the Indian Economy: <https://theprint.in/opinion/india-risks-becoming-latin-america-on-the-great-gatsby-curve-must-manage-its-fisc-better/667645/>

The Great Gatsby curve is the relationship between income inequality and intergenerational income mobility. High intergenerational elasticity of income denotes low intergenerational mobility

¹⁸ Evidence for the impacts on shutdown sectors: <https://onlinelibrary.wiley.com/doi/10.1111/1475-5890.12232>. This data focuses primarily on economic impacts in the UK, but similar patterns can be found elsewhere.

¹⁹ Evidence: <https://newsroom.iza.org/en/archive/research/low-income-earners-suffer-most-from-the-covid-19-crisis/>

Which American workers are most at risk?



Source: www.politico.org

Similar concerns are replicated in England where BAME healthcare workers are among the worst exposed. Black healthcare workers experienced a death rate 4.3 times higher than white British workers (Moorthy & Sankar, 2020). Likewise, in Singapore, Covid-19 was contained until it reached foreign migrant worker dormitories in April 2020²⁰ where it ripped through the facility's unsanitary conditions causing a spike in cases.

Outside employment, low-income earners are persistently facing challenges around housing, education and food insecurity, which worsens their health. Since low-income earners are often those who face discrimination, Covid-19 is

²⁰ Evidence from the Guardian: <https://www.theguardian.com/world/2020/apr/23/singapore-million-migrant-workers-s%20uffer-as-covid-19-surges-back>

experienced as a syndemic that worsens their existing social conditions. Minority ethnic and marginalised groups are likely to have a greater number of Non-Communicable Diseases and underlying clinical factors like hypertension which increases the severity and mortality of Covid-19²¹. Indirectly, the pandemic doubled acute hunger to 260 million in 2020 and forced an additional 100 million people into absolute destitution²² worsening health outcomes.

Furthermore, health inequities exist when marginalised communities seek treatment. Outside discriminatory issues²³, the pandemic has forced hospitals into a crisis standard protocol which forces physicians to make decisions about the allocation of scarce resources. The triage (SOFA scores) prioritises those likely to survive long-term, systemically harming minorities who have existing comorbidities and lower life expectancies.²⁴

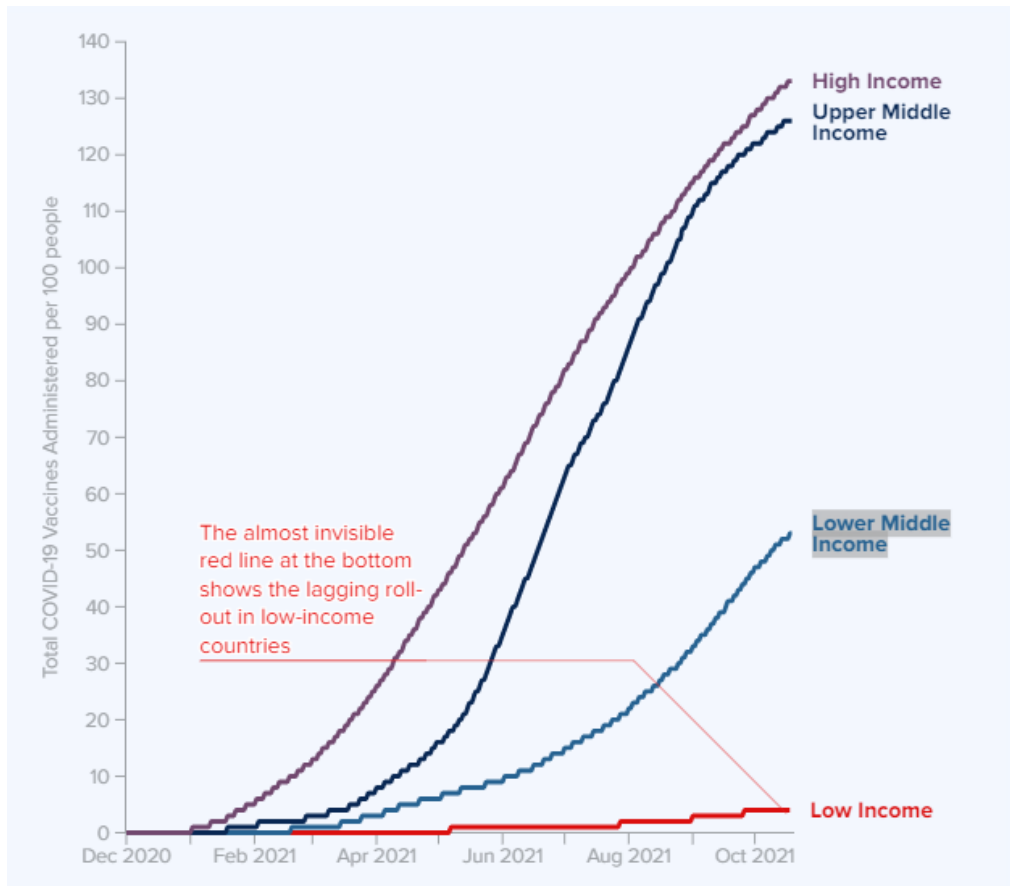
Globally, vaccine inequity in the healthcare industry has increasingly become a cause for concern; citizens in HIC are obtaining booster doses while many in LICs haven't been vaccinated yet.

²¹ Evidence: <https://jech.bmj.com/content/74/11/964#F1>

²² Evidence: <https://www.weforum.org/agenda/2020/10/covid-19-is-increasing-multiple-kinds-of-inequality-here-s-what-we-can-do-about-it/>

²³ Discriminatory issues may arise from prejudiced practitioners, most commonly against women of colour. This occurs because of lack of diversity in the medical field (lower rates of practitioners from minority communities).

²⁴ Evidence: <https://news.yale.edu/2021/09/20/triage-standards-during-pandemic-may-worsen-racial-disparities-treatment>
SOFA scores follow a utilitarian framework of maximisation where practitioners are expected to save those who are most likely to survive long-term. While such policies seem neutral on the surface, they disadvantage minorities who are more prone to sickness, either due to genetic or socioeconomic factors.



Source: www.data.undp.org

The United Nations Development Programme (2021) states that these disparities in vaccination rates set the pace for economic and labour recovery. According to GDP per capita forecasts, HICs and Upper Middle Income Countries are expected to make stronger and speedier recoveries, the latter U-shaped. Conversely, LICs are unable to relax lockdowns until widespread vaccination, which further harms workers in the informal sector dependent on daily wages. Furthermore, donor economies contracting has subsequently decreased the budget overseas aid which limits the funding pool for LICs²⁵. Therefore, international inequality will rise as LICs face a sluggish recovery coupled with repressed wages for most of their labour force.

²⁵ Evidence of Foreign Aid Cuts: <https://www.bbc.com/news/57362816>

This article provides evidence for the UK aid cut from 0.7 to 0.5% of GNI, representing a loss upwards of 4 billion pounds for aid. Similar evidence can be found for other wealthier economies

The pandemic has greatly disrupted the education sector by forcing a transformation to distance learning, an uncharted territory for both educators and students. While most students have experienced a learning loss, there is significant inequality between high and low income countries. Studies show²⁶ that while 50% of students worldwide did not have access to a digital device, these disparities were concentrated in low-income areas. For instance, 89% of students did not have a household laptop in Sub-Saharan Africa.

Furthermore, low achievers²⁷ decreased learning time by 4.1 hours daily (compared to 3.7 for high achievers) and replaced studying with detrimental activities such as watching TV which harm child development. Low achievers received less support from parents and schools, suggesting that students who need guidance the most are not receiving it. Girl's learning in the pandemic has significantly deteriorated as they struggle to balance schoolwork, household chores and low-paying jobs. Malala Fund's research estimates that 20 million girls who left secondary school may never return; Covid-19 is projected²⁸ to reverse the global progress in girls' education made over the past two decades. While most students are falling behind, Black and Hispanic students have borne the brunt of learning loss²⁹; not only are they more likely to be learning remotely, but they have also less access to the prerequisites for learning, namely digital literacy and stable Internet connection. Moreover, ethnolinguistic minorities are less likely to be taught in their mother tongue online, further increasing barriers to education. These differences can be illustrated by the schools in the US, where the schools with more students of colour are lagging behind.

²⁶ Evidence from the Human Rights Watch: <https://www.hrw.org/report/2021/05/17/years-dont-wait-them/increased-inequalities-childrens-right-education-due-covid>

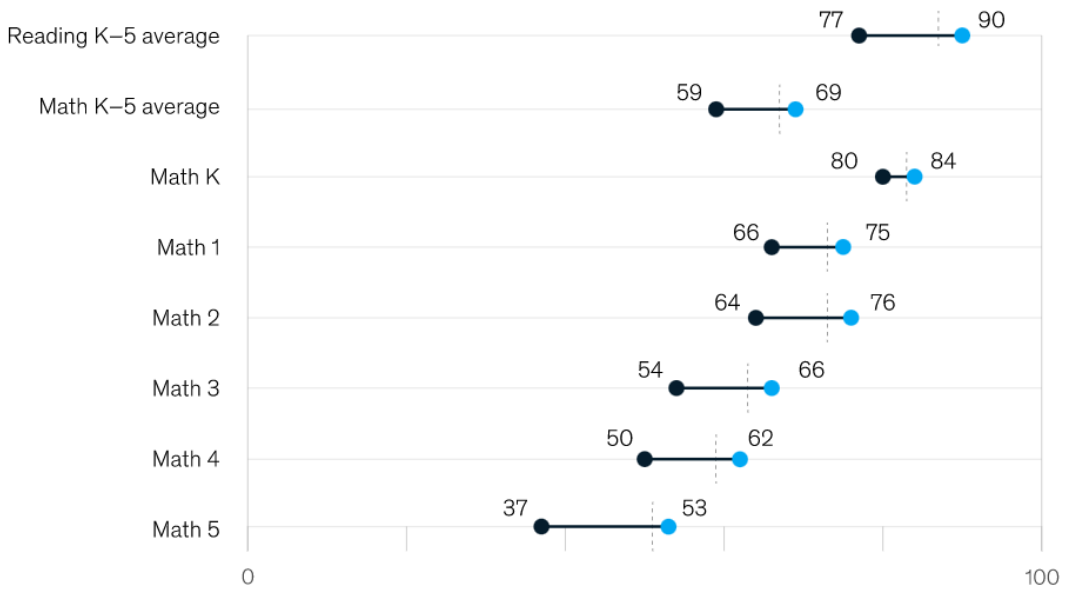
²⁷ Evidence: <https://www.cesifo.org/en/publikationen/2020/working-paper/covid-19-and-educational-inequality-how-school-closures-affect-low>

²⁸ Evidence from UNESCO: <https://en.unesco.org/news/covid-19-school-closures-around-world-will-hit-girls-hardest>

²⁹ Evidence from McKinsey and Company: <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19-and-learning-loss-disparities-grow-and-students-need-help>

Amount students learned in the 2019–20 school year, % of historical scores¹

● Schools with >50% students of color All schools average ● Schools with >50% white students



¹Percent of an “average” year of learning gained by students in 2019–20 school year, where 100% is equivalent to historical matched scores over previous 3 years. Source: Curriculum Associates

Source: www.mckinsey.com

These opportunity gaps will widen achievement gaps and later translate into income and vocational differences. The effects of the pandemic are estimated to reduce a white pupil’s future income by 1.6% over a 40 year working life, but disadvantaged groups may face decreases up to 3.3%³⁰ given a greater learning loss from online study.

The Covid-19 pandemic has served as an unprecedented economic wrecking ball whose impact has fallen brutally but unevenly across society. Although its consequences are uncertain, evidence suggests that the pandemic has served as an accelerant which has increased socioeconomic disparities among marginalised communities, leaving generational impacts. Furthermore, it has increased international inequalities between countries which shall dictate the pace of recovery for the coming years.

Word Count: 1639

³⁰ Evidence from McKinsey and Company: <https://www.mckinsey.com/industries/education/our-insights/covid-19-and-student-learning-in-the-united-states-the-hurt-could-last-a-lifetime>

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