



The IFS Deaton Review

# Inequality and Covid-19

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RES Webinar

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*IFS Deaton Inequality Review*

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



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# Inequality and Covid-19

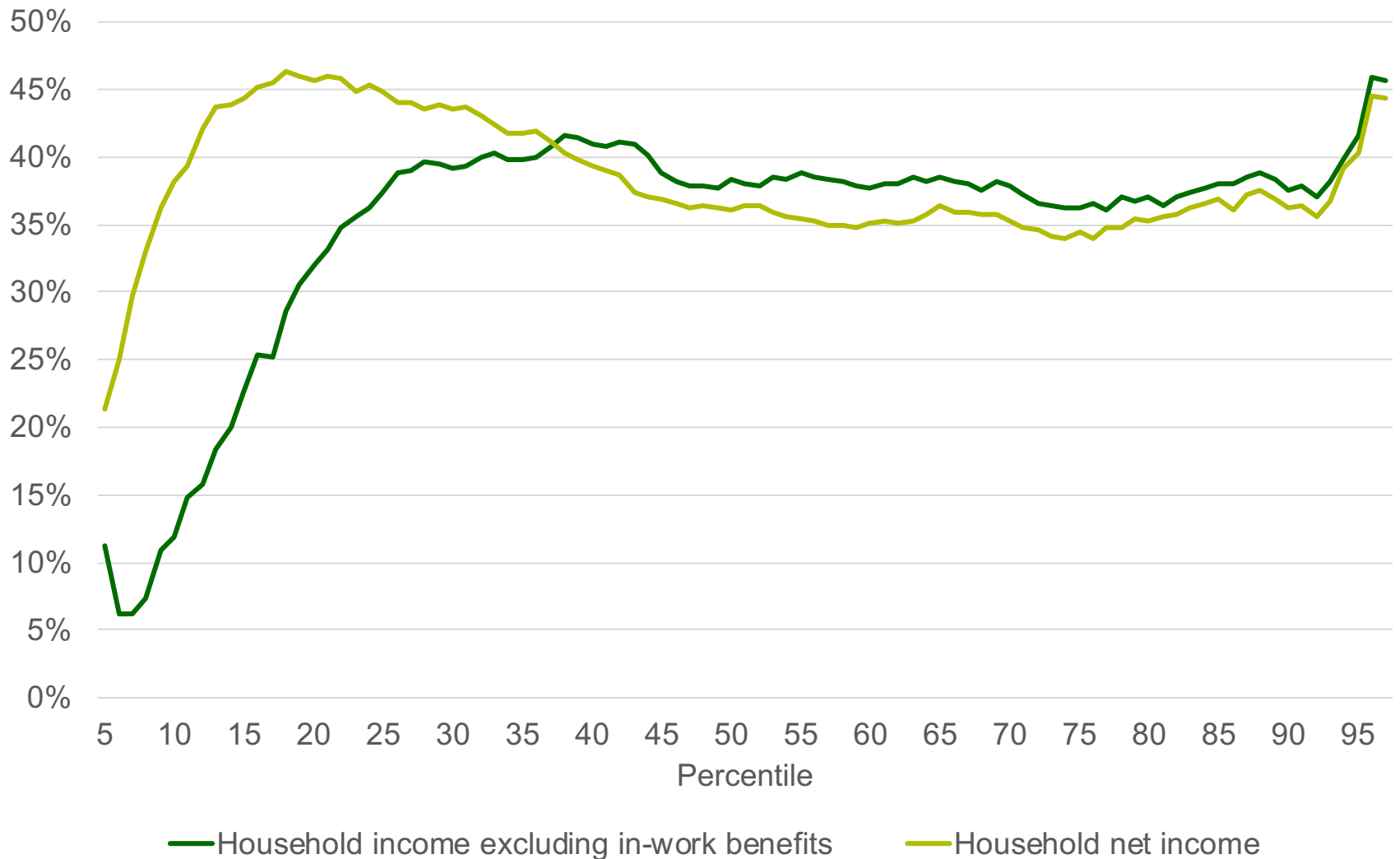
- Far from pushing inequality down the agenda, the pandemic has reinforced the need to deal with the challenges posed by inequality.
  - highlighted existing inequalities – in income, work, health, education, housing, savings; by ethnicity, age...
  - at the same time, opening up new fissures along dimensions that were previously less significant – working at home, housing, green space...
- A new emphasis on building a fairer society but with the challenge of doing so while facing unprecedented levels of (peace time) debt.
  1. Where did we stand: inequalities before the Covid-19 pandemic (BC)
  2. During Covid-19 lockdown: Impact and policy responses (DC)
  3. Coming out of lockdown: re-building the economy and society (AC)

# Where we were before coronavirus (BC):

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- A decade of stagnation in median earnings
- Household earnings inequality in the UK has risen since the 1990s
  - but much of this has been offset by increases in the generosity of in-work benefits, increased employment and two-earner couples.
- Benefit cuts have eroded the safety net and weakened the link between people's actual needs and what the system would cover
  - value of out-of-work benefits has fallen relative to earnings since the 1970s.
  - benefits frozen in cash terms for four years.
  - the benefit cap, the 2-child limit, changes in housing benefit for private sector rents and the so-called 'bedroom tax' have further de-coupled benefits from actual needs.
- A large fraction of households have low savings and high debt
  - especially among, but not limited to, poorer households.
- The loss of work and earnings from the pandemic and the resulting lockdown has brought the effectiveness of the safety net into sharp focus
  - 1.8m new UC claims in four weeks after social distancing.

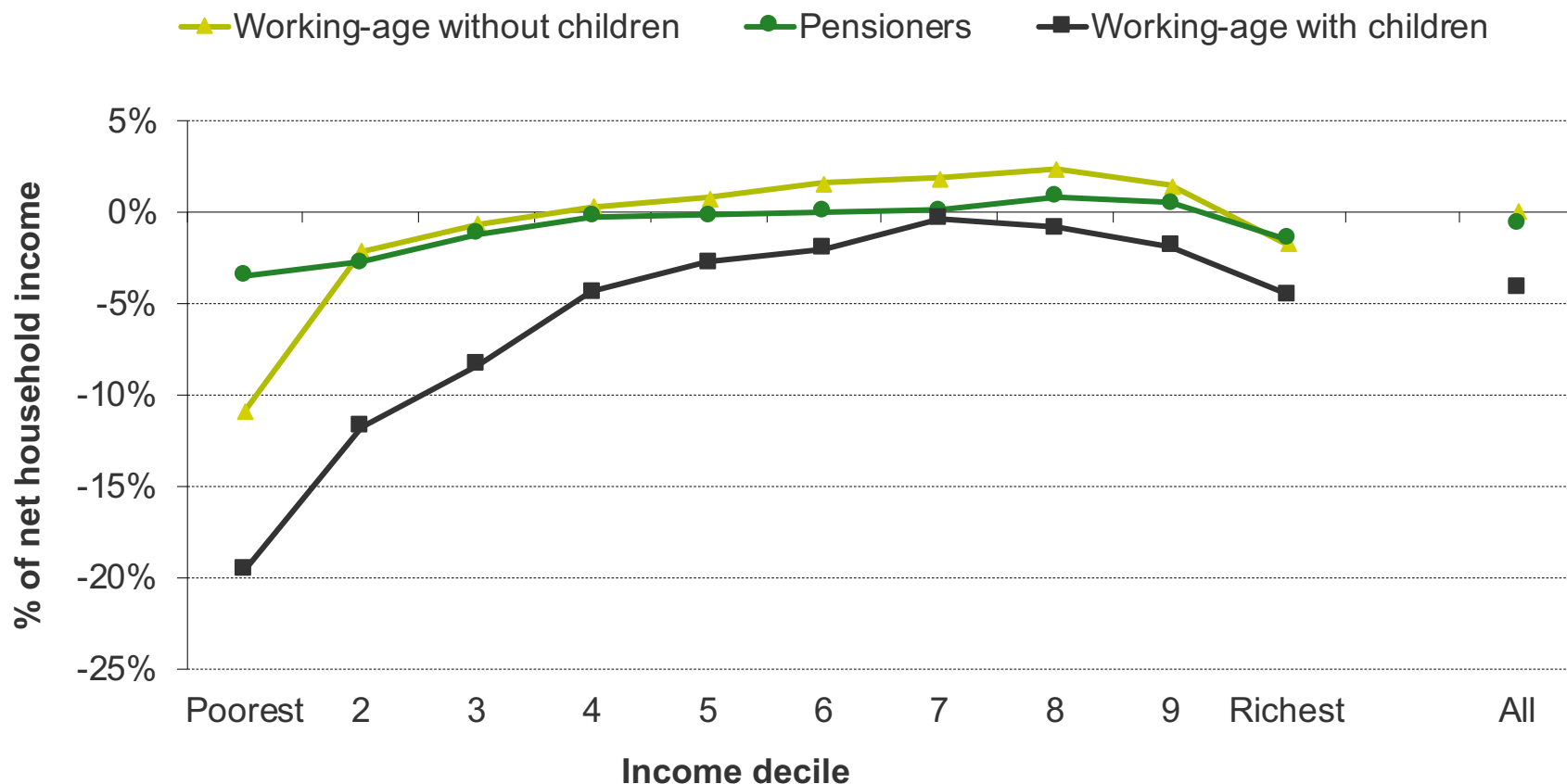
# Growth in average household incomes 1994–95 to 2018–19



Source: IFS calculations, Family Resources Survey, Benefit unit level

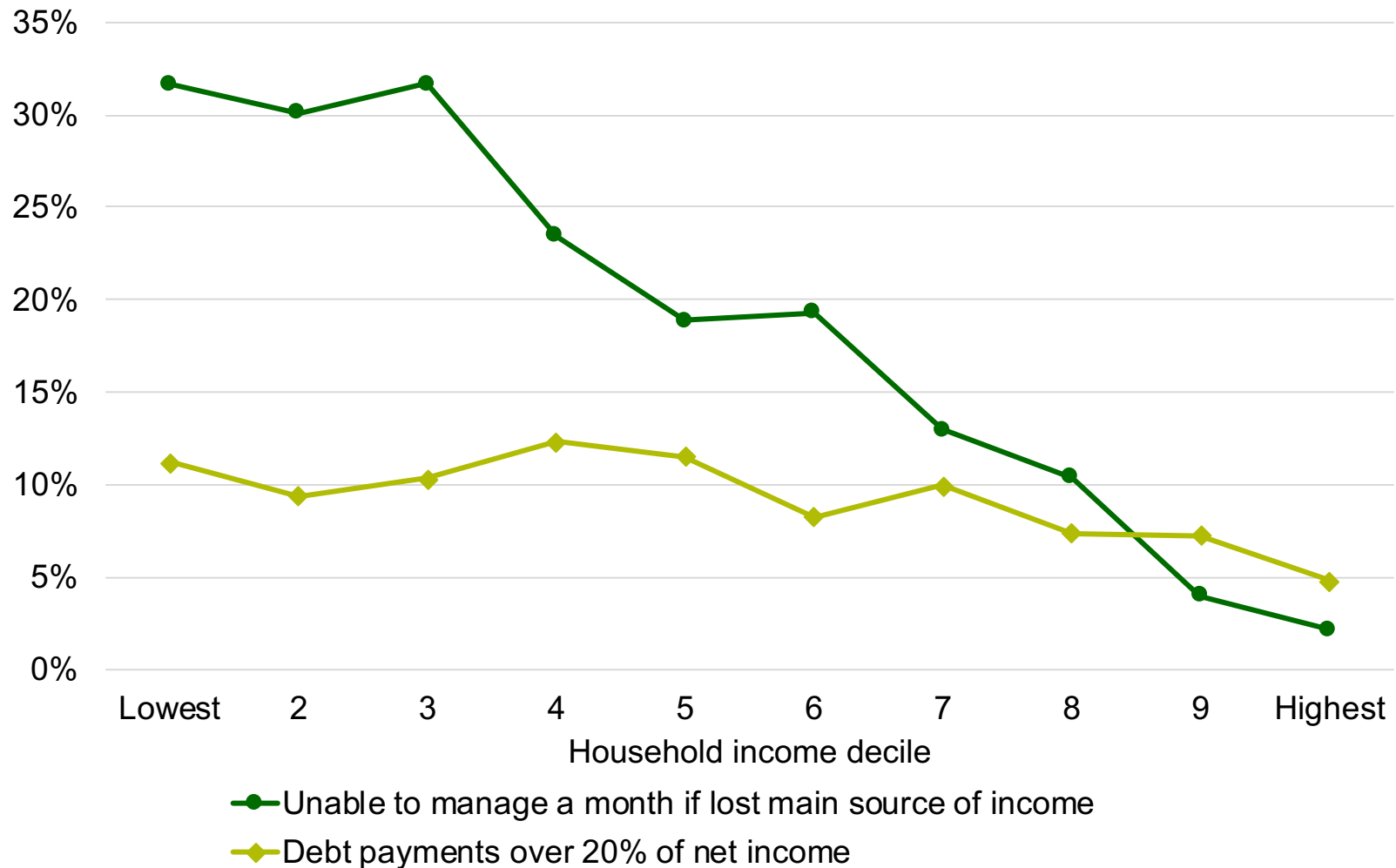
Notes: In-work benefits defined as all benefits going to working households

# Impact of tax and benefit reforms, April 2010 to April 2019, with all reforms fully in place, split by household type



Source: [Bourquin et al. 2019](#) using the Family Resources Survey 2017–18, the Living Costs and Food Survey 2017–18, and TAXBEN, the IFS tax and benefit microsimulation model.

# Liquid savings and debt by household income

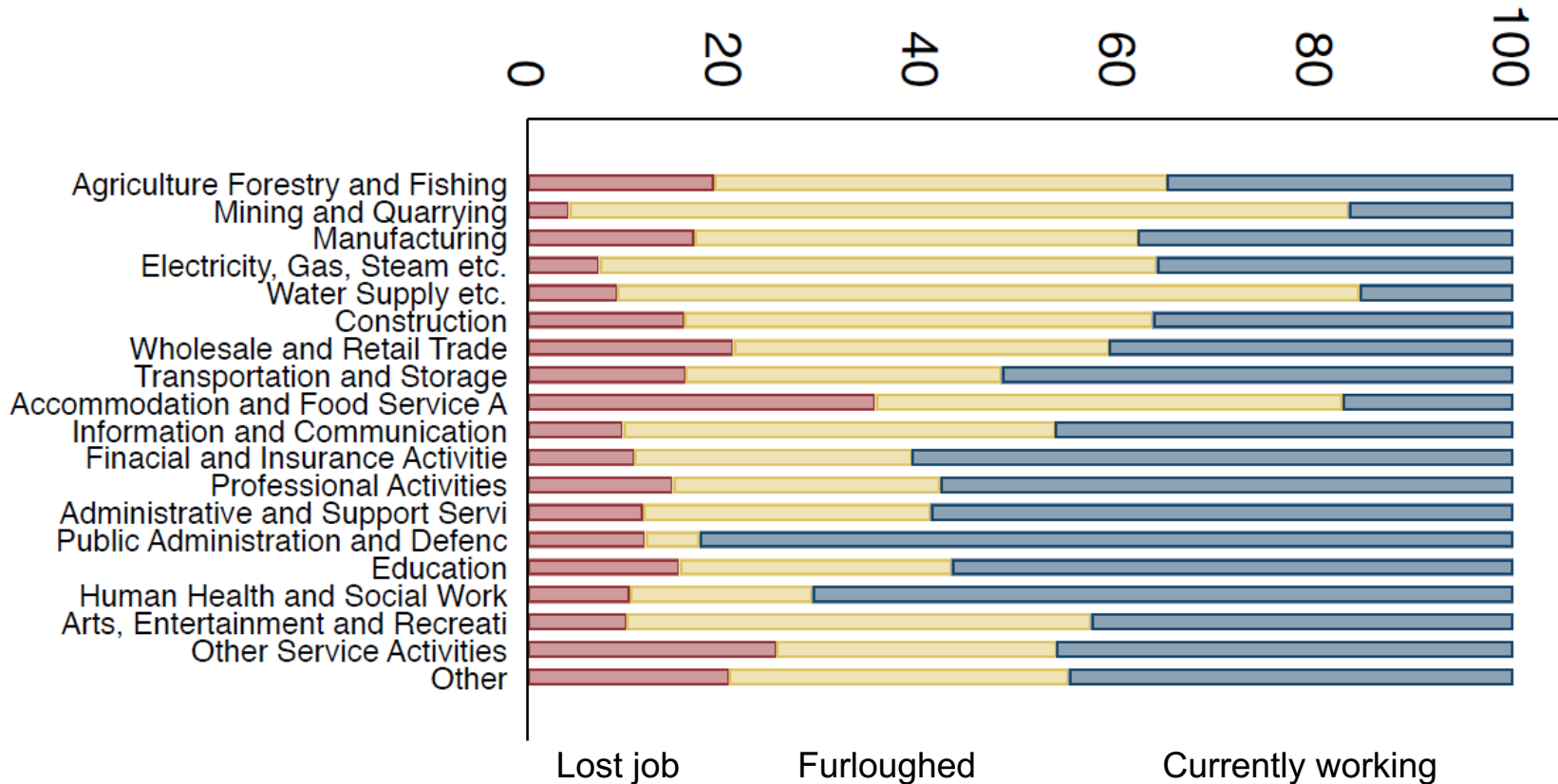


Source: [Sturrock 2020](#) (individual level) and IFS calculations using Wealth and Assets Survey (benefit unit level)

# The lockdown has emphasized inequalities:

- Inequalities across types of workers:
  - those who can work at home, those who are key workers, those who need to commute to work on public transport, those in shutdown industries
- Inequalities across families:
  - those who have children, those who are single parents, available childcare
- Inequalities in resources:
  - those who have savings, those who have houses, those with gardens or near open space, pensioners who rely on DC vs DB pensions, wealth.
- Health inequalities:
  - those who have long term health conditions, those that care for the vulnerable
- Education inequalities, exacerbating intergenerational inequalities:
  - those who have access to online education, those who have educated parents, those who are leaving school and graduating this year
- These have highlighted the declining position of the young and poor; and the erosion of generosity of the safety net for those without employment.
- We might all be in this together but we are not all in it equally.

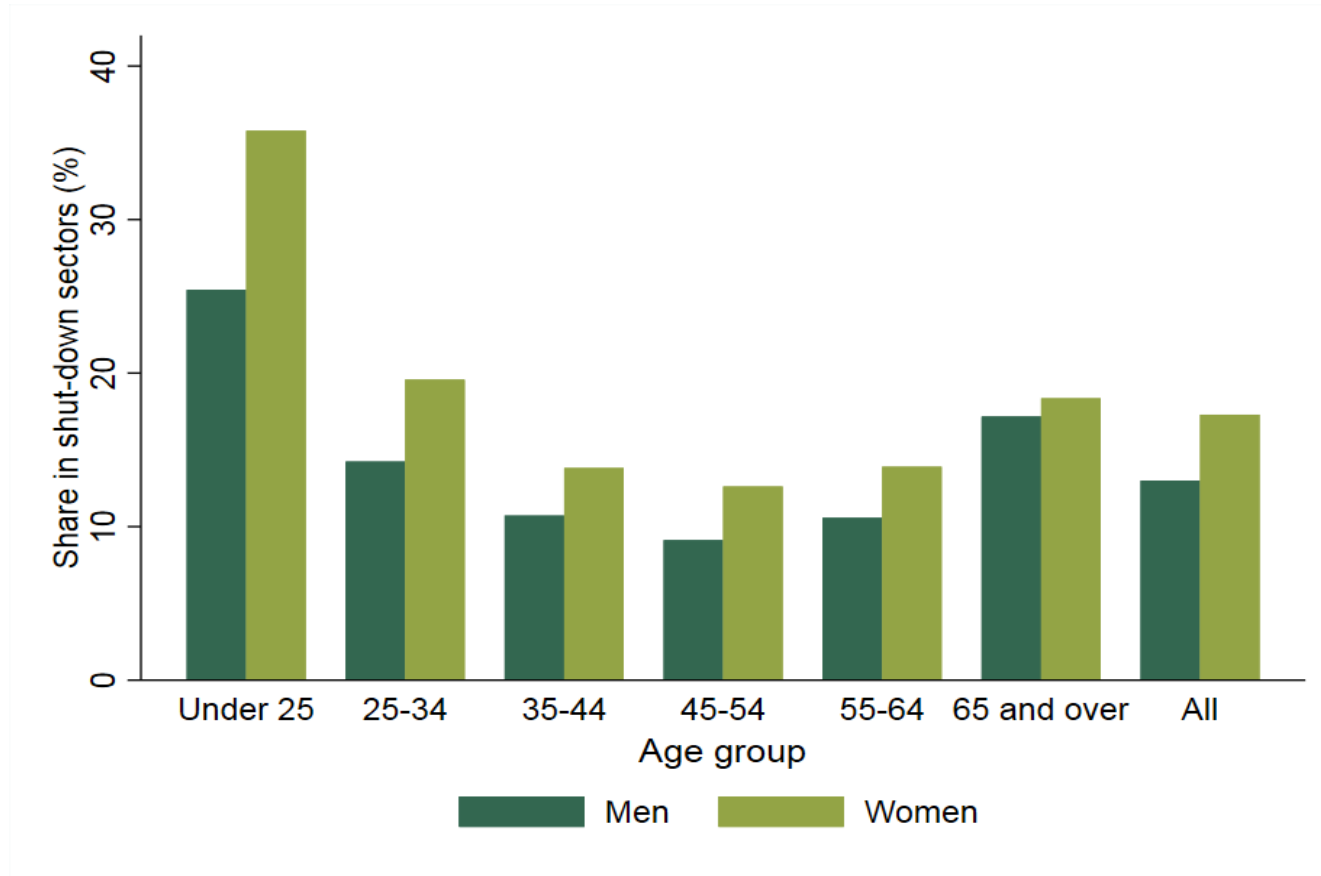
# What is the (pre-crisis) workforce doing?



Source: Adams-Prassl, Boneva, Golin, and Rauh, 2020



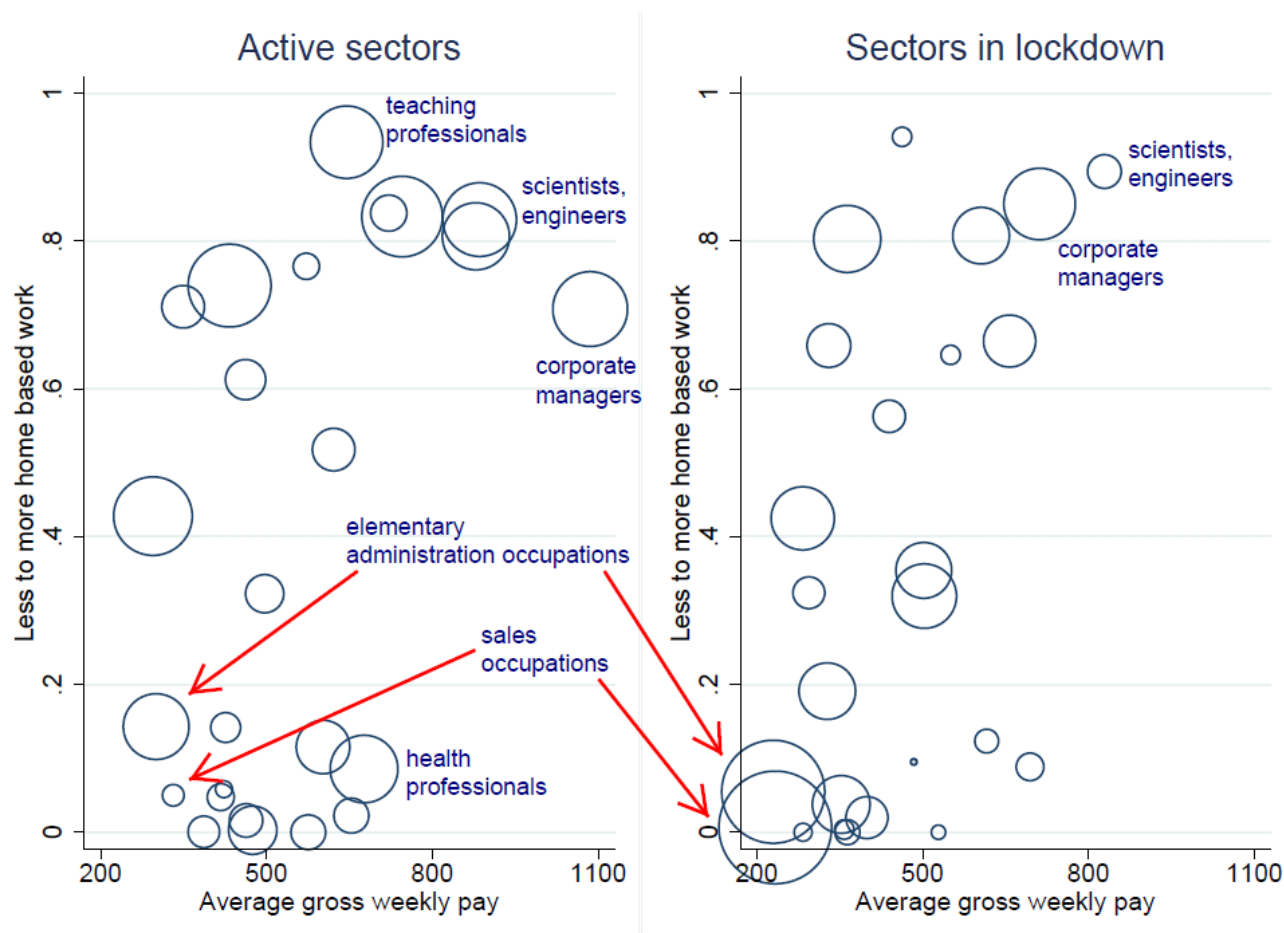
# Nearly a third of employees aged < 25 are in sectors currently shut down



Source: [Joyce and Xu \(2020\)](#) using the Quarterly Labour Force Survey Q1-Q4 2019, Waves 1 and 5 only.

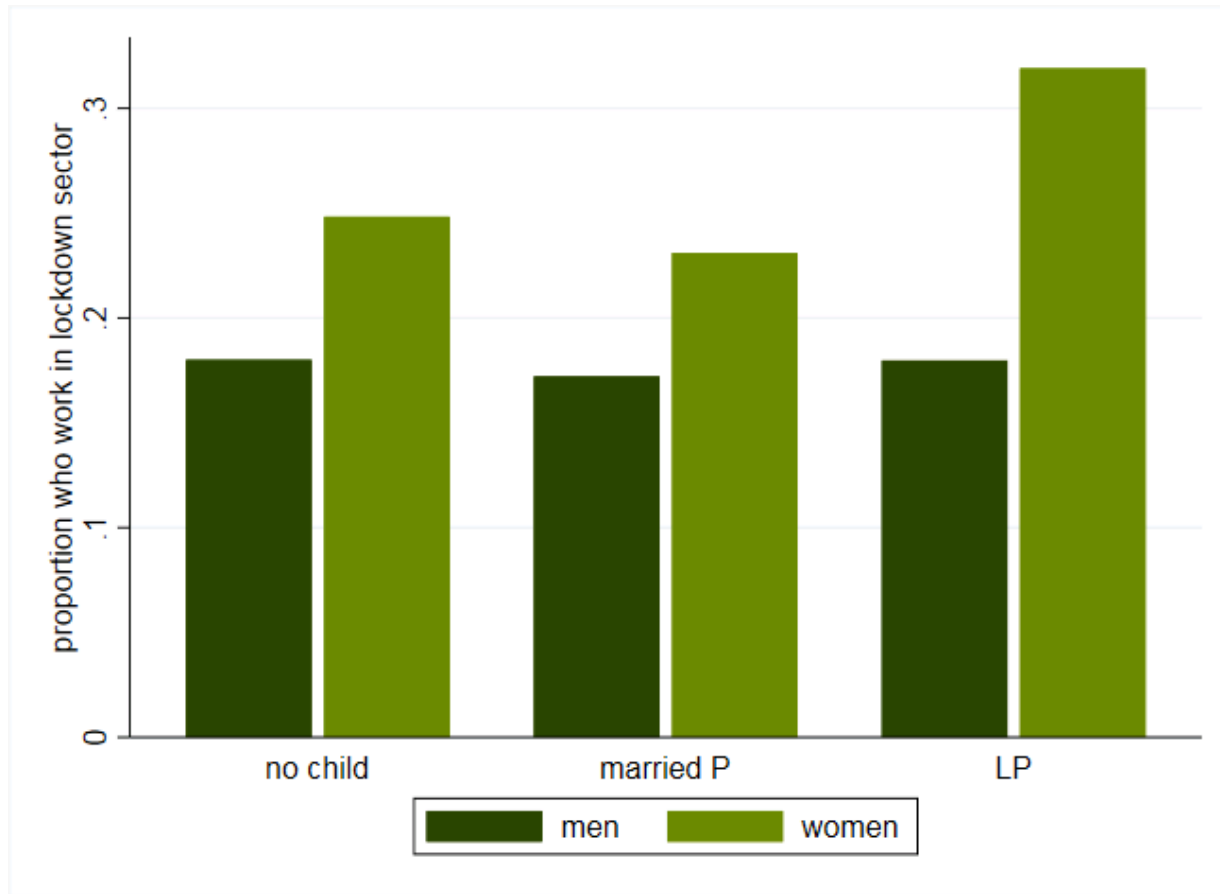
Notes: Employees only. Excludes workers in full-time education.

# Workers in lockdown sectors are lower paid and less likely to be able to work from home



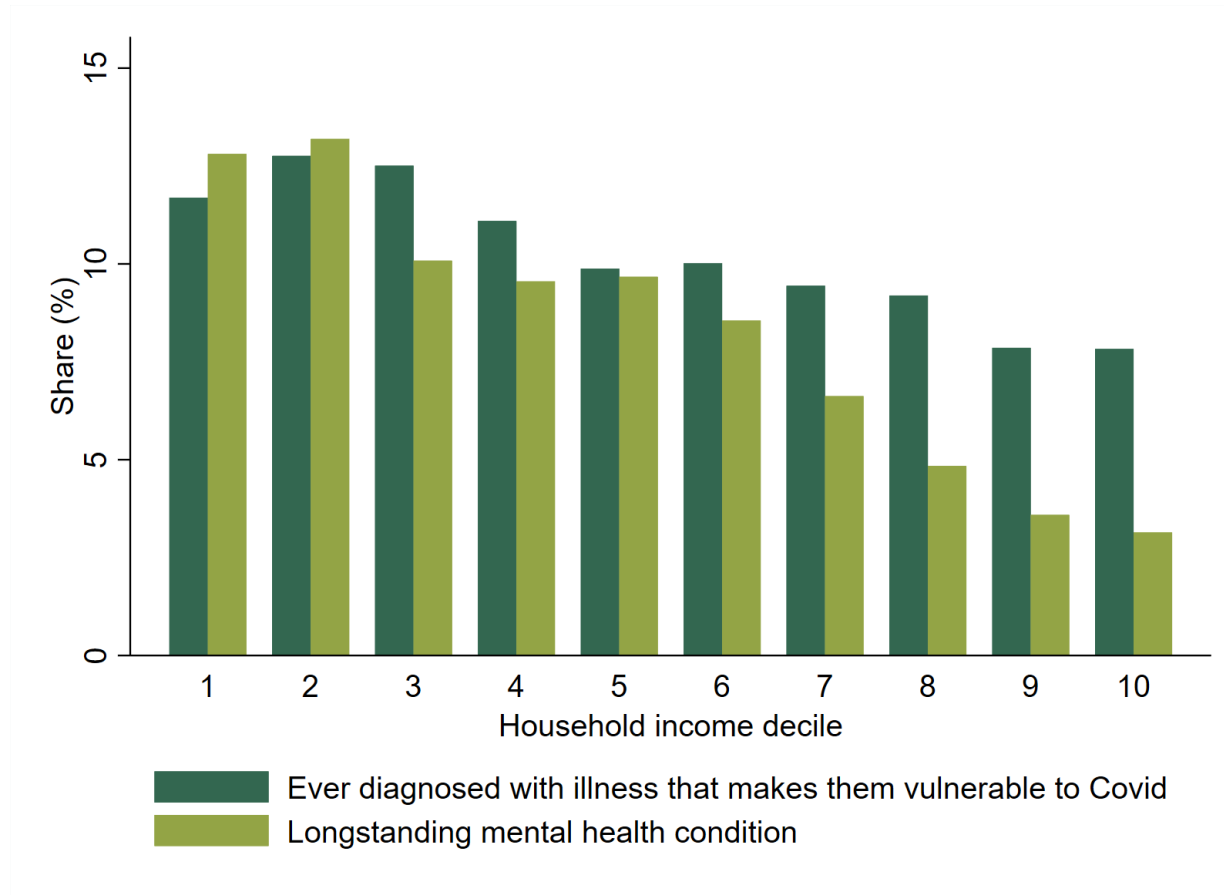
Notes: IFS calculations. LFS for the years 2018-19, adults aged 20-60. Pay in Dec 2019 prices. O-net data used to identify occupations that are amenable to work from home. Use classification in Dingel and Neiman (2020) to identify occupations that cannot be worked from home.

# Proportion working in lockdown sector by family status and gender



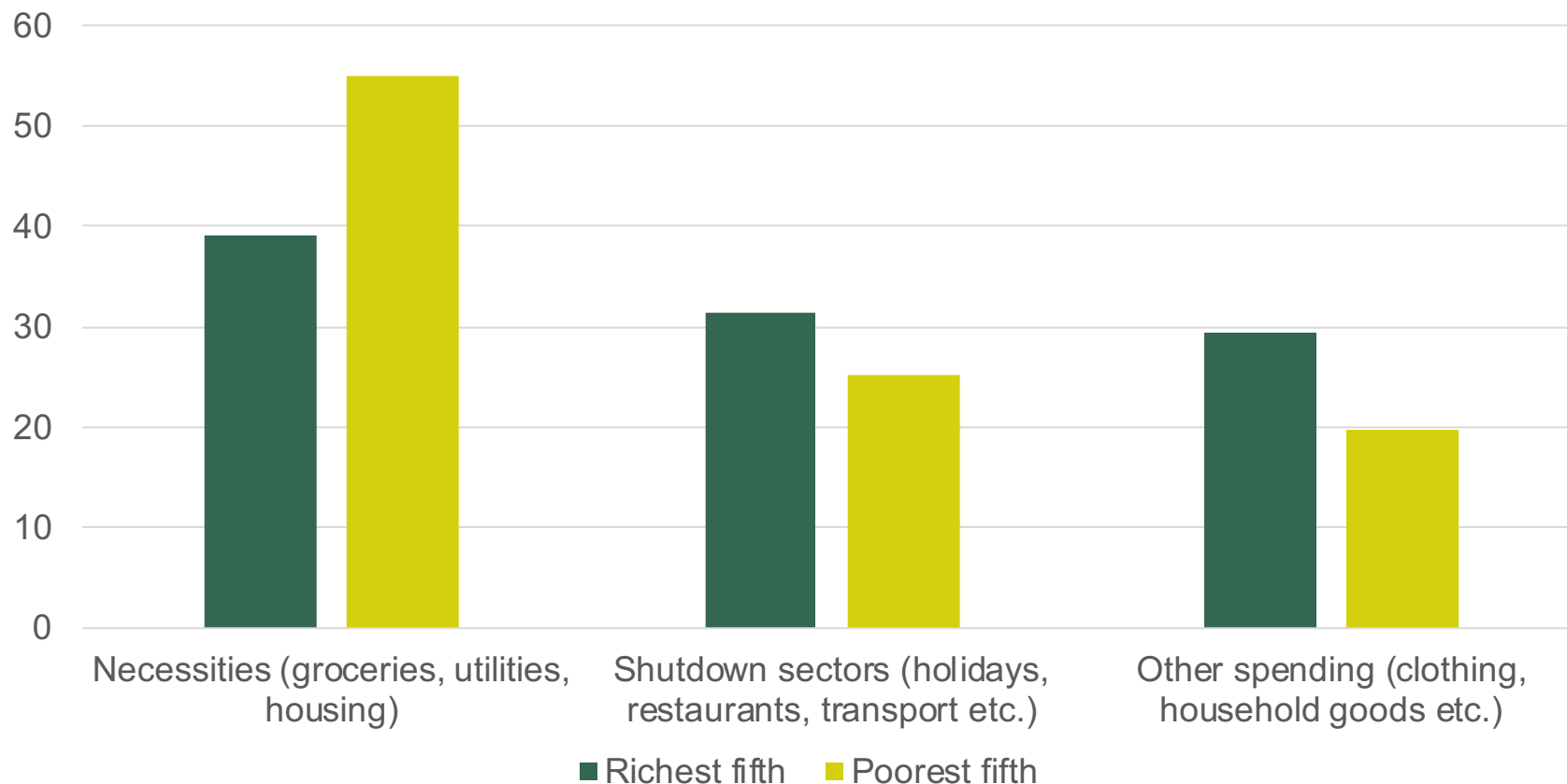
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# Medical vulnerability to virus or social isolation by household income



Notes: IFS calculations using UKHLS (ever diagnosed) and FRS (mental health). Diagnoses include asthma, congestive heart failure, coronary heart disease, emphysema, chronic bronchitis, cancer or malignancy, diabetes and high blood pressure. Mental health based on self-reported mental health condition lasting or expected to last over 12 months. Net incomes equalised using modified OECD scale.

# Average share of spending on different categories for the poorest and richest working households



Source: [Crawford et al. 2020](#) using the ONS Living Costs and Food Survey, 2017.

Notes: Figures are given as a share of total household spending including mortgage interest and capital costs. Calculations are restricted to households where the household head is working. All figures are weighted using LCFS survey weights. Income quintiles are defined using household income equivalised using the adjusted OECD equivalence scale.

# Policy responses during the lockdown (DC):

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- **Furloughing**
  - Preserves value of worker-firm matches.
  - Discourages part-time work (vs short-time schemes e.g. Germany)
  - May discourage taking up work in critical sectors: income effects and exclusivity contracts. May discourage firm's innovation to encourage working from home.
- **Support for the self-employed**
  - Growing share of people in work (15% in 2019).
  - Very generous but many left out: newly self-employed, those with less than 50% of earnings from self-employment, those earning >£50k.
- **Adjustments to the safety net**
  - £1,000 pa UC supplement, re-alignment of HB with 30<sup>th</sup> percentile local rents, sick pay rules relaxed.
- **The UK safety net – particularly the last decade of cuts – have been challenged by the fall of earnings and employment across the distribution.**
  - Cuts since 2010 have further de-coupled support from actual costs.
  - Looking even less like social insurance.

# Coming out of lockdown

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- The process of opening up should be mindful of inequalities:
  - reducing furloughing: allowing part-time work and work in other firms; which types of workers and firms/industries?
  - opening schools: impacts by family type, income group and ethnicity/race
  - relaxing social distancing: enhancing testing capacity and preventing re-infection risk for (key) workers;
  - reversing the changes to sick pay, housing benefit re-alignment, Universal Credit basic amounts increase, etc., ?
- Key role of re-opening supply chains and the value of coordination of policy across countries.
- Changes in the structure of industry, trade and off-shoring
  - regulating the market power of (large) surviving firms and restructuring innovation policy (investors already think they will increase their power).
- Repairing lost education investment and likely longer-term impacts of graduating in the lockdown.

# The longer run - after coronavirus (AC):

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- Financing the deficit and fair taxation.
  - A new social contract? A new Beveridge report?
  - Enhancing fiscal capacity and trust in government at a time of increased populism?
- A 'just system of rewards'
  - Intergenerational redistribution – the already squeezed young working age...
  - A new emphasis on social insurance (which has all but disappeared in the UK) rather than simply redistribution.
  - More people will have experienced welfare/state help, will this change attitudes?
- Enhancing wages of healthcare workers and other key workers.
  - More likely to be female and are somewhat lower-paid, have done relatively poorly in recent years.
- Increase in demand for e-commerce and IT
  - A further increase in the education premium?
  - Changes in preferences for working from home?



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