

IIPP COVID-19 BRIEFING PAPER 02
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INEQUALITY, UNEMPLOYMENT AND PRECARIETY

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Summary

The COVID-19 pandemic is causing an economic crisis that the world has not witnessed since the Great Depression of the 1930s. The projected loss of jobs is expected to be at least 230 million worldwide in the second quarter of this year. Even those who maintain their jobs, face dramatically deteriorating working conditions: essential frontline workers in healthcare and food provisioning sectors are severely exposed to the virus. Many of these workers are in lower paid sectors and steps should be taken by governments to improve their working conditions and ensure they are appropriately remunerated both now and going forward.

Governments should ensure income and basic necessities for all citizens to allow them to self-isolate during the pandemic. Universal basic income – permanent cash transfers to all citizens – along with generous unemployment benefits and job guarantee programmes have equity and macroeconomic advantages for the medium and long term. Workers can retain employment through government wage-compensation for firms. Corporate bailouts should be used to restructure the economic system with a new directionality and conditioned on keeping workers employed.



Source: Tom Parsons, Unsplash

Such a forward-looking approach allows the setting of principles for the post-crisis economy: public policy should focus on reshaping institutions towards a full employment strategy. Attention should be shifted from balancing budgets to balancing the economy by achieving societal missions. In emerging economies, there is an urgent need to provide debt relief to allow them to focus on their long-term inclusive growth strategy.

Summary of Proposals:

Proposal 1: Protect the livelihood and health of exposed frontline workers with governments taking the initiative to produce necessary protective equipment

Proposal 2: Guarantee a dignified minimum level of income provide necessary goods and services for all those who cannot or should not find work during and after the crisis

Proposal 3: Assist developing countries in meeting financial needs and develop their own inclusive growth agenda. Debt relief and improving working conditions are paramount

Proposal 4: In the long-term, governments should focus on improving inclusive wellbeing indicators that incorporate non-monetary aspects - including health provision, working conditions, and environmental degradation – instead of GDP growth

Context

Jobs and Unemployment

The COVID-19 pandemic has caused a simultaneous negative shock to global supply and demand. On the supply side of the economy, workers are not able to work due to either sickness or the lockdown imposed on firms to limit the contagion. Global supply chains have been severely disrupted. On the demand side, mass dismissals of workers and lack of sales due to the universal lockdown has forced households and firms to cut back on spending and investment, leading to further economic stagnation due to under-consumption. In these uncertain times, the government is the only actor able to stabilize the economy effectively.

The IMF forecasts global goods and service production and income (GDP) to contract by 3 per cent in 2020 (IMF). This is much worse than the Great Financial Crisis (GFC) of 2008-9, where GDP declined by 0.1 per cent. In 2009, India and China had a GDP growth rate of 8 per cent, while the current forecast for 2020 is below 2 per cent. The Euro Area is forecasted to be severely impacted with a 7.5 per cent reduction in GDP, with Italy and Spain being the worst-hit cases.

Developing countries like Mexico, Brazil and South Africa face equally extraordinary hardship. Emerging economies have been badly hurt even before the pandemic reached them (Gouzoulis and Constantine 2020). Falling export and tourism revenues, reversals of capital flows, and sharp currency depreciation, have been added to the pre-existing debt servicing issues. Extensive lockdowns and containment measures also negative effects similar to advanced economies, triggering a downward spiral.

The International Labour Organisation (ILO) estimated global work hours to fall by 6.7 per cent equalling 230 million full-time jobs in the second quarter of 2020 (ILO 2020). Most unemployment will occur in lower- and upper-middle-income countries, with many of them located in Asia and the Pacific. Expected unemployment is equivalent to 150 million full-time jobs. However, the actual number of impacted families will be substantially greater, since many rely on less than full-time income and informal work relationships. These developments are likely to lead to a further global demand contraction.

Inequality: Causes and Consequences

The COVID-19 pandemic clearly impacts the population unequally. The nature of the crisis exacerbates existing structural weaknesses, socioeconomic inequalities, and working conditions (Silvers 2020). The most vulnerable and low-paid individuals face a higher risk of contracting the disease. Hence, increased risk of sickness, due to poor working conditions, further exacerbates pre-existing inequalities. Therefore, societies risk being caught in a pandemic-inequality accelerator, with experts warning about the possibility of a “disease-driven poverty trap”, particularly in developing countries (Bonds et al. 2009).

The inability of low-paid workers to avoid infection risk is directly linked to the nature of their jobs and the working conditions they face. In the US, only 9.2 per cent of workers can work remotely, a fact that highlights how the institutionalised distribution of income already burdens the frontline workers. In New York City, the least affected neighbourhoods had the highest median income, the lowest poverty rate and by far the highest share of college-educated. This is unsurprising, as high-skilled jobs can usually be done remotely (NYU Furman Center 2020). Furthermore, the neighbourhoods with most COVID-19 cases per inhabitant had larger shares of the population without internet access and lack of computing devices compared to the least affected. In terms of avoiding contact, people in the most affected neighbourhoods were more reliant on public transport and more likely to live in overcrowded rental apartments.

In terms of racial and ethnic inequality, Black and Hispanic citizens are more likely to live in the worst affected neighbourhoods, while Asian and White are more likely to live in the least affected areas. According to the NY state authorities. For every 100,000 persons of each race/ethnicity in the state (excluding NYC), 36.3 Black and 34 Hispanic persons have died, in contrast to 19.5 Asian and 9.3 White persons (Department of Health, New York State 2020). This reflects existing socioeconomic inequalities, as Black and Hispanic households have a markedly lower median income and fewer opportunities for education and a more well-paid job that can be done remotely.

The example of New York illustrates the broader dynamics of the pandemic-inequality accelerator. The need to care about public health with a collective view is underscored by vulnerable communities functioning as an accelerator of contagion for the whole community. This is of great importance for densely populated emerging economies. For instance, epidemiological studies have demonstrated how fast virus can spread in the slum areas of Delhi (Chen et al. 2016). Therefore, it is paramount to ensure people can stay at home during lockdowns and access health care regardless of their income and job status.

Informality

An important aspect of global vulnerability is informal employment. In developing countries, around 70 per cent of all workers are informal and have no legal or social protection to help them tide over this crisis. The International Labour Organization (ILO) (Financial Times 2020) has reported that 1.6bn workers in the informal economy face “massive damage” to their livelihoods. Unemployment and underemployment are rising rapidly even in countries that have little unemployment benefits, while self-employed people are unable to earn their living. Farmers also face significant difficulties because of constraints posed by lockdowns. Women workers are particularly affected since they are more likely to lose their jobs and wage income. Consequently, they are more likely to be in occupations that expose them to the disease without adequate protection, but also more susceptible to domestic abuse during lockdowns.

In some countries, loss of incomes over several weeks or months can even threaten their very survival, with hunger emerging as a major problem. The ILO reports that the countries with most informality also have the least coverage of social protection, thus, surviving in a lockdown scenario under these circumstances becomes dramatically difficult. Accordingly, universal welfare provision must be unconditional and independent of employment status.

Recommendations

Short Term Response: Health, Security and Essential Provisioning

Safeguarding livelihoods

There is an urgent need for governments to keep the majority safe, secure and supplied while in lockdown and critical supply chains and social services continue to function. Governments must ensure income and basic necessities for all citizens, which will allow them to stay home during the contagion. Forcing people to interact due to lack of basic provisioning aggravates both existing inequalities and undermines public health efforts. This can be achieved through sufficient unemployment insurance and wage-replacement for firms that keep employees on payroll during the lockdown. Bailouts of ailing corporations should be used to keep workers employed by their workplaces and thus preserve the productive organisation of society.

In countries with many informal workers, household support could be supplied by decentralised authorities distributing pre-paid debit cards to all citizens to avoid exclusion of e.g. unbanked citizens. Economic security should also be protected through a moratorium on evictions, foreclosures, and utility stoppages. Essential public services may come under pressure as tax revenues diminish for local authorities, thus, increased central government support is essential.

Protecting exposed workers & Production

It is of principal importance to protect frontline workers who provide essential services, including healthcare and food supply. These are often poorly paid and their access to protective gear is limited. Workers in fields, warehouses, transportation, stocking, checkout and delivery were already poorly paid and ill-treated in most countries. The virus has not changed this despite our dependence on their daily efforts.

Governments should accelerate and coordinate the production of protective equipment, tests, and, eventually, vaccines – and prioritise the distribution holistically. Promoting free-market solutions result in speculative behaviour and essential goods not going to the persons most in need. An expanded government role would be able to enforce a more ethical distribution limited essential goods and protect those in need.

Medium-term Strategy: Reshaping the Economy and Rewarding Essential Workers

Value essential services

The care economy has been subdued and unrecognised for too long. The crisis has highlighted the value of care and other essential services. This calls for a reappraisal of the welfare state project along with an update to a new digital age. In recent years, proponents of Universal Basic Services (UBS) (UCL Institute for Global Prosperity 2017) argue for the provision of free public services to all residents. Initially, healthcare, education, and legal support must be the priorities of such a programme. Eventually, in the longer term, this should extend to universal free provision of shelter, food, transport, care services, and information. Clearly, the second part requires more careful planning and substantial coordination.

A return to 'universalism' from the philosophy of means-tested programmes would reduce the cost of living and deprivation – and strengthen social cohesion. UBS shifts essential services from the market economy to collective provisioning. This not only lowers costs through economies of scale but also avoids the moral hazard engendered by the profit motive, which, as demonstrated by the US privatised healthcare system, may solidify existing inequalities. Such an agenda is particularly important for developing economies, thus, international institutions like the IMF and the World Bank must coordinate and encourage such efforts, instead of promoting free-market reforms, like private financial intermediation, which tend to harm particularly the precariat (Gouzoulis and Constantine 2020).

Macroeconomy

Public policy should shift its focus back on targeting full employment and public investment that maximises social welfare. Moving from 'balancing budgets' to addressing big social challenges is essential. Most governments are not taking advantage of their financial ability to solve major social problems. Wellbeing indicators and solutions to grand political challenges should be the actual targets, instead of GDP growth.

The implications of current short-termist proposals on the post-COVID-19 economy include a grave risk of a reversal to austerity policies when the pandemic recedes, as was the case after financial contagion dampened in 2009. The G20 finance ministers committed themselves to "repairing government balance sheets" and "structural reforms" to "raise productivity" in their 15 April statement.

This may well be a prelude for the repetition of austerity policy mistakes of the last decade. The European Central Bank has launched a EUR 750 billion bond-purchasing programme to support the debt issuance capacity of member states, which does not appear to be a politically sustainable solution. A recent agreement among leaders speaks of "innovative financial instruments" to fund a 'Recovery Fund', but it also precludes future austerity by aiming to give "help spread [costs] over time".

The Eurozone needs a central fiscal authority to be able to deficit spend. This could be de facto achieved with common debt issuance (i.e. Eurobonds or Coronabonds) that would disperse proceeds evenly to member states and be backed by the ECB to provide certainty of funding. This is a time for European solidarity and not stringent conditionalities. The Eurozone has chronically underperformed economically as it has never having crossed below 7 per cent unemployment due to self-inflicted austerity that includes welfare state retrenchment.

Work conditions

The deprived conditions of many workers should be addressed in a strategic way. Crucially, the bargaining power of workers should be strengthened to enable them to demand better working conditions and achieve more dignified work experience (Silver 2019). Many former 'good' jobs in the industry in advanced economies were no longer well-remunerated when they were offshored to developing countries. In this respect, this problem requires transnational coordination, with a primary focus on emerging economies which have become more appealing investment destinations due to their low wage cost and poor working conditions. Therefore, the primary goal should be to make the pre-tax distribution of income more egalitarian by putting a halt on the global race the bottom in terms of wage costs.

Several public voices call for Universal Basic Income (UBI) to soothe the consequences of the current crisis (Ghosh et al. 2020). Indeed, UBI is necessary, but it should also be accompanied by a generous unemployment insurance programme and, eventually, a permanent public job guarantee scheme.

Conclusions and Summary of Proposals

The COVID-19 pandemic has highlighted the detrimental social effects of existing inequalities, with its negative consequences burdening disproportionately the most vulnerable social groups. Low-paid workers who provide essential services and work under poor working conditions face the greatest health and economic dangers. Governments must take a more active role in addressing the short-term impact of the pandemic on inequalities, but also use this crisis as an opportunity to reshape the economy by improving working relations and prioritising a more egalitarian income distribution. The necessary actions include both domestic policies and transnational initiatives:

Proposals:

- Provide minimum basic income and services to all citizens, and pause evictions, foreclosures, and utility stoppages, until the society fully recovers. Retain such measures for most vulnerable social groups as a permanent measure.
- Prioritise the protection of frontline workers with governments taking the initiative to produce necessary protective equipment if need be.
- Public and private debt relief for advanced and developing economies to allow them to implement income policies.
- Guarantee that any income support will be received by developing or advanced nations in the context of tackling the COVID-19 crisis will not involve future austerity measures to repay any relevant debt.
- Protect essential low-paid workers in both emerging and advanced economies by improving drastically working conditions to permanently end the global race to the bottom.
- Governments must shift their focus from the short-termist goal of GDP growth maximisation to maintaining full employment, improving more inclusive wellbeing indicators that incorporate non-monetary aspects such as health provision and working conditions (e.g. ISEW, GPI, and HDI), and addressing major political and social challenges, like climate change.

Enquires

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