



The IFS Deaton Review

Inequality and the Covid-19 Crisis

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Context and background

IFS-Deaton Review: Inequalities in the 21st Century

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



The IFS Deaton Review

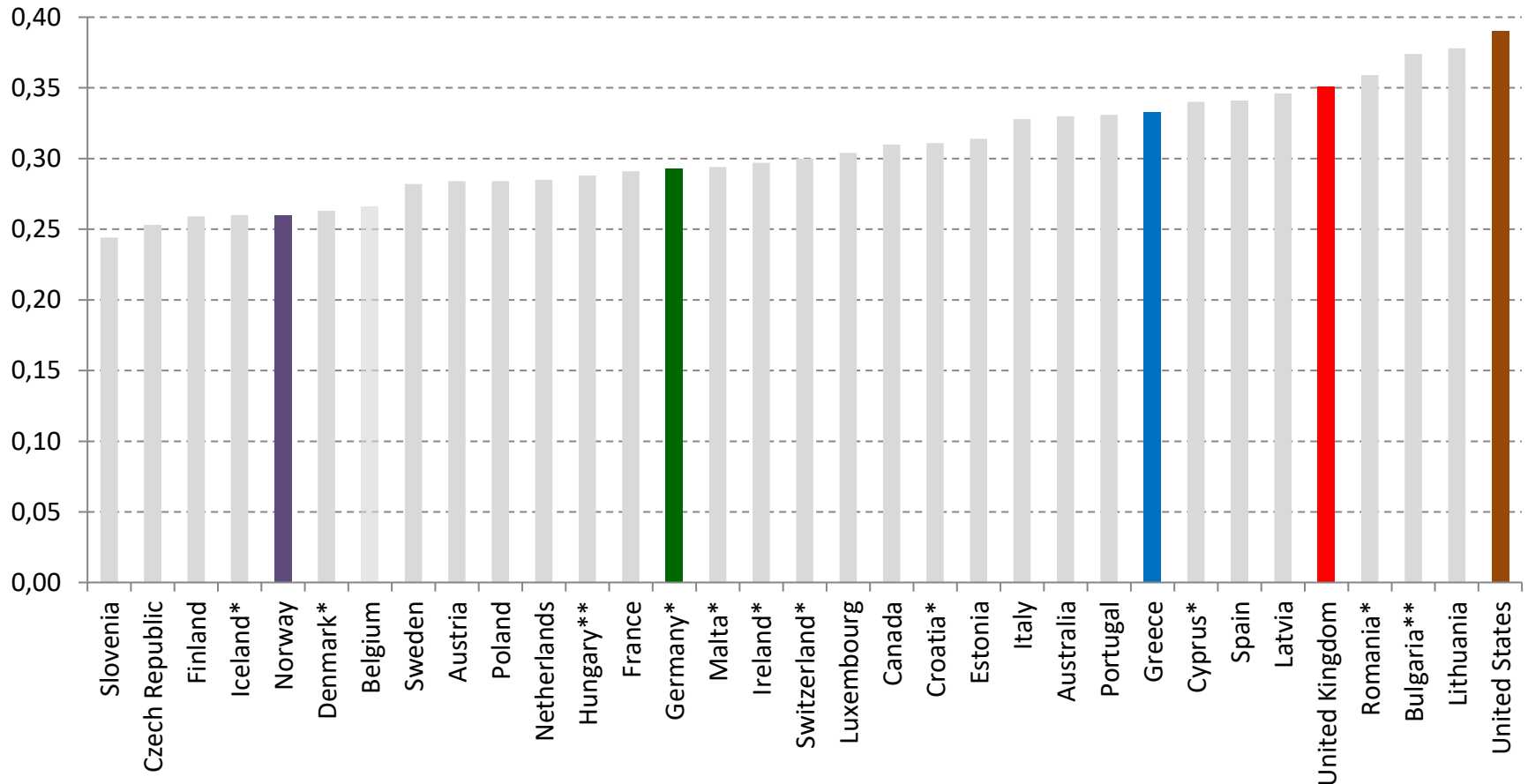
The IFS-Deaton Review: Inequalities in the 21st Century

A 5-year study, independent of government, chaired by Angus Deaton with an interdisciplinary panel, bringing together the best available evidence from across the social sciences to answer the big questions:

- Which inequalities matter most?
- How are different kinds of inequality related?
- What are the underlying forces that come together to create them?
- What is the right mix of policies to tackle the adverse impact of inequalities?
- For developed economies with the UK as the running example, but comparative in nature....

Measured by the Gini, the UK is unequal by European standards

Gini coefficient of equivalised net household incomes in selected countries



Figures from 2015 are marked with an asterisk (*). Figures from 2014 are marked with two asterisks (**). Data on EU states that joined in or before 2004 are from the OECD. Data on other countries are from the World Bank.

Source: Joyce and Xu, IFS, 2019



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Inequality is not just about income...

- Income inequality is important but so are inequalities in
 - wealth, work, consumption, education, health, political voice,
- Need to look at inequalities between groups as well
 - gender, ethnicity, race, generations, geography and place,
- The Review is a comparative study with an interdisciplinary panel, chaired by Angus Deaton
- Commissioned studies with commentaries from more than 60 leading expert researchers
 - <https://ifs.org.uk/inequality/themes/>



The IFS Deaton Review

Format of the Review

Much like the *IFS Mirrlees Review on Tax Reform*, the *IFS Deaton Review* will be published in several volumes....

I. Two volumes of evidence:

- detailed commissioned studies on different aspects of inequality, with complementary perspectives.

II. An accessible monograph written by the panel:

- sets out what has happened to inequality, why, and what can be done.

III. Country studies across Europe and North America:

- 17 countries drawing on key researchers & statistics offices
- Greece: Nikos Vettas (AUEB and IOEB), Svet Danchev, Niki Kalavrezou, Georgios Gatopoulos, Grigoris Pavlou

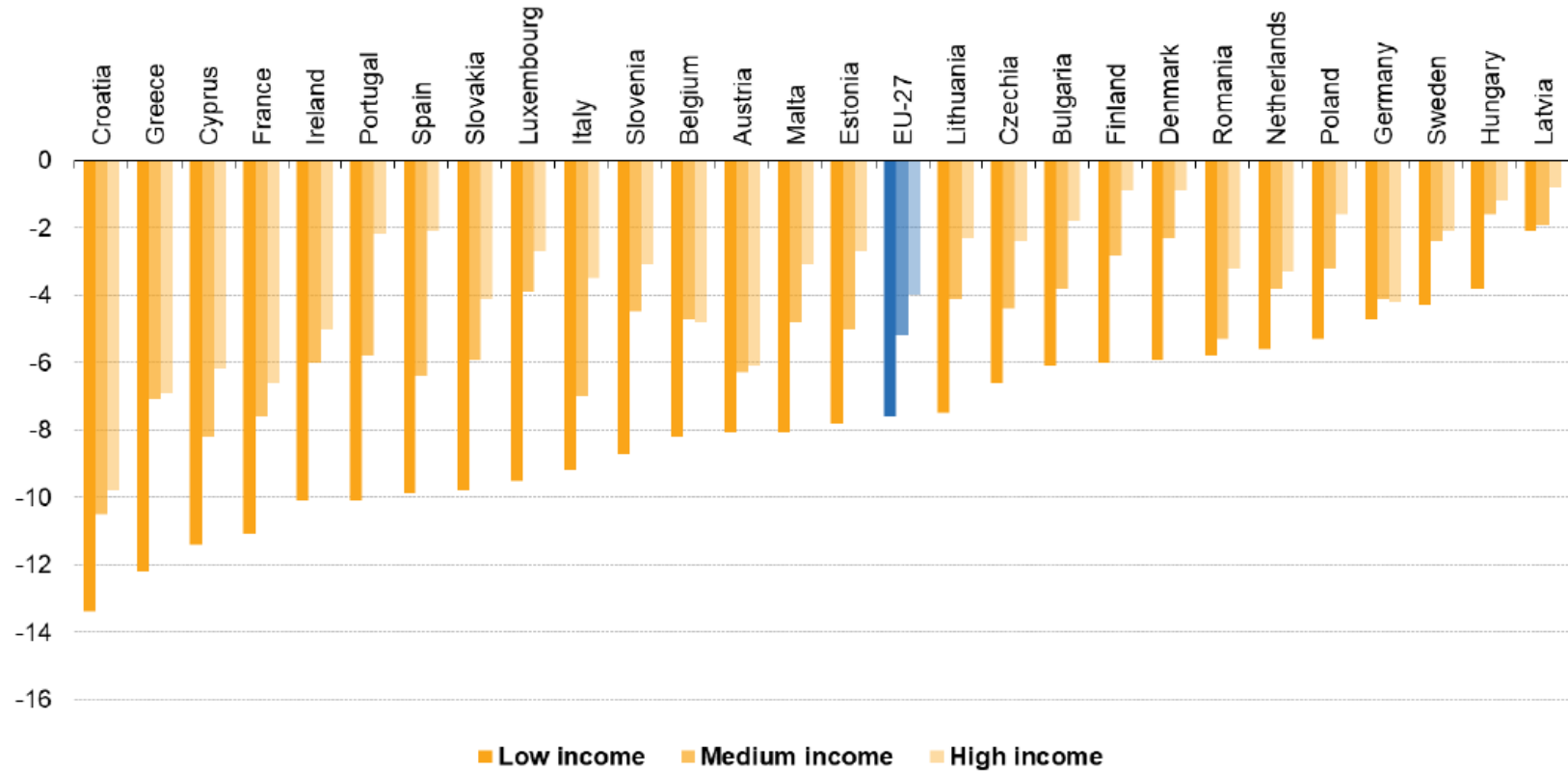
- -> latest updates at <https://www.ifs.org.uk/inequality/>

IV. In early 2020 came the Covid-19 pandemic...

Covid-19 and Inequality

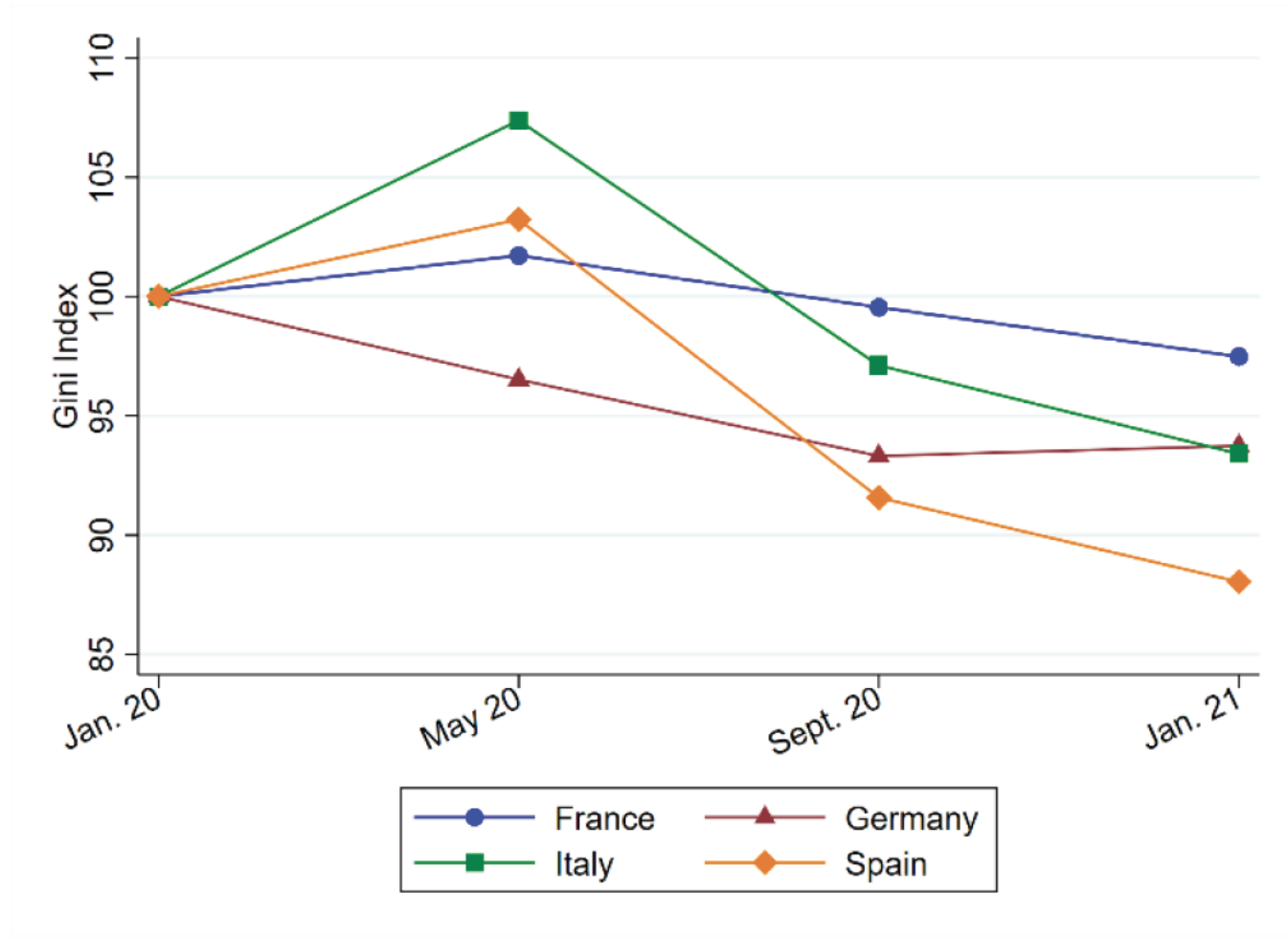
- Far from pushing inequality down the agenda, the pandemic has reinforced the need to deal with the challenges posed by inequality,
 - highlighting many existing inequalities – in education, training, income, work, health, savings and wealth; by ethnicity, age, geography, ...
 - at the same time, opening 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, 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 alone – challenge to design 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 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 drivers and the longer-run consequences of inequality.

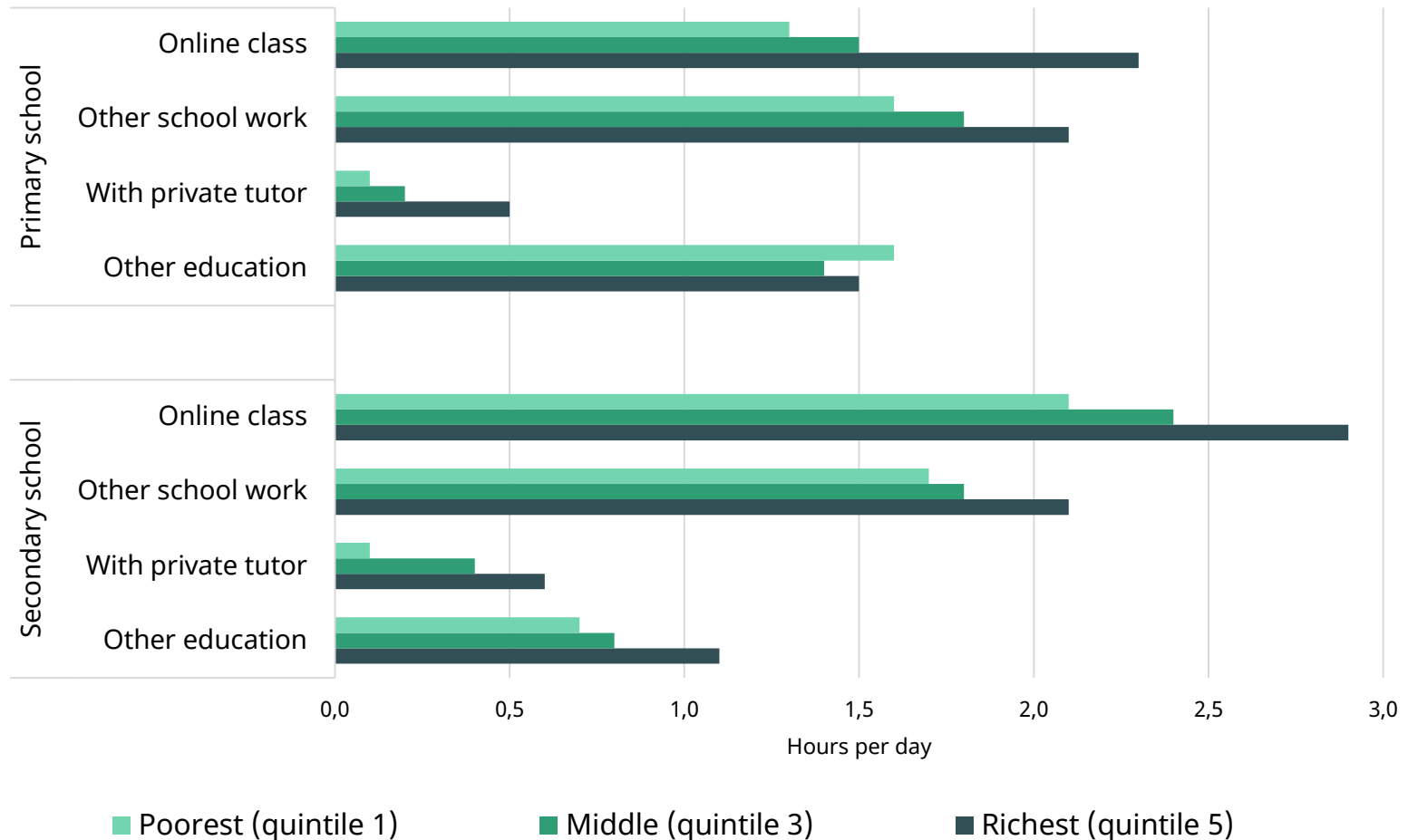
Prior to the pandemic, a range of economic inequalities had become more salient:

- 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 offset the rise, due to leave, part-time work, gender gap & assortativeness.
- Large differences in prosperity of different groups and between different regions - left-behind areas with low education outcomes, poor wage progression, 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; low self-insurance.

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:
 - schooling inputs and attainment have varied strongly by socio-economic class; reductions in work-related training for non-university educated.
- II. Loss of work:
 - fall in hours, employment and earnings larger for young and lower educated, strong earnings gradient in ‘work from home’ & ‘e-commerce’. But what of the bounce back?
- 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:
 - pandemic has highlighted short-comings in existing social insurance and welfare support, new schemes often effective and more generous but largely temporary.
- VI. Increase in savings, housing and financial wealth inequalities:
 - increasing the squeeze on recent generations, especially individuals from low SES backgrounds.

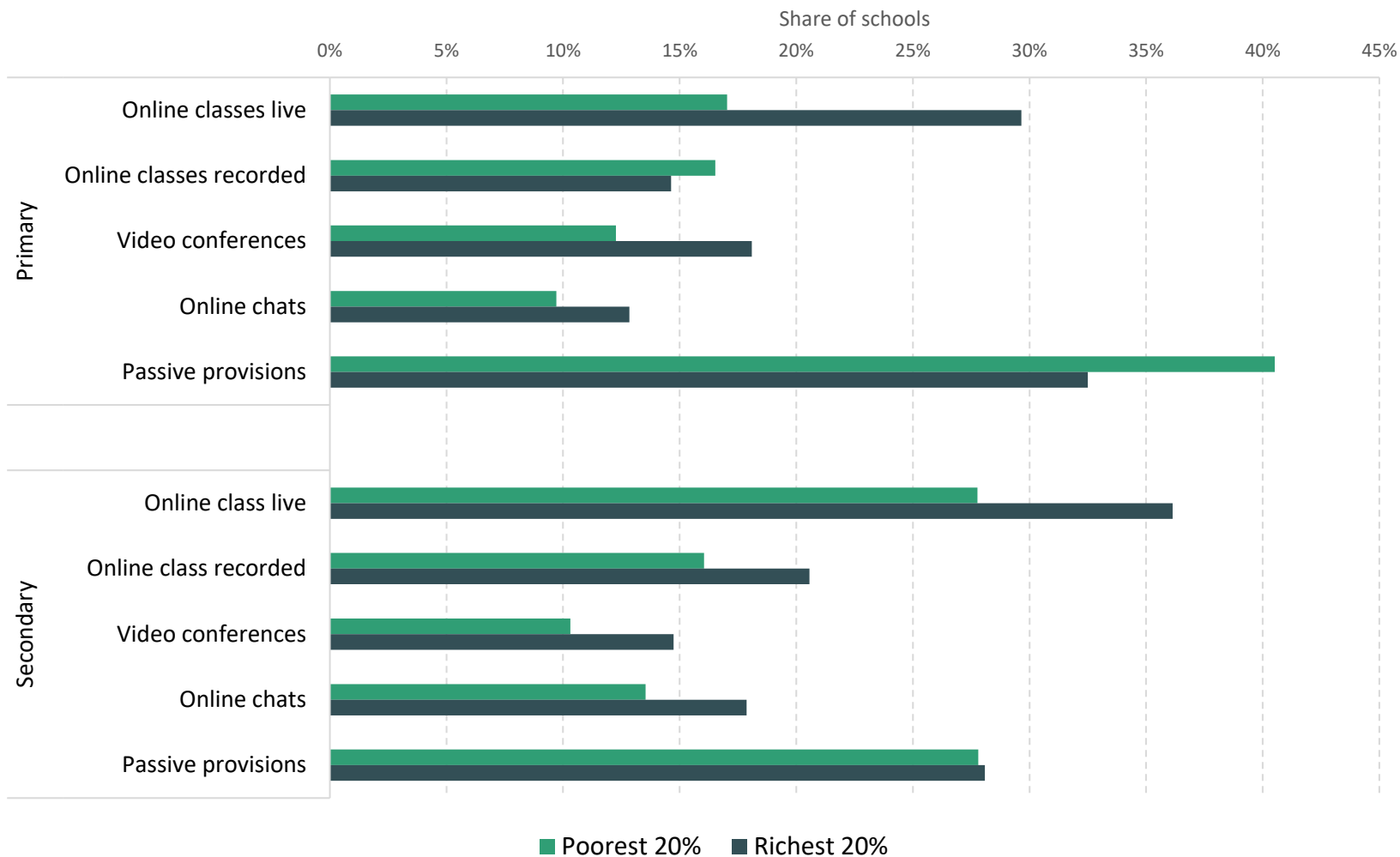
I. Loss of learning: Children's daily learning time during lockdown 1: gaps in educational activities by family income



Source: IFS–IoE Survey.

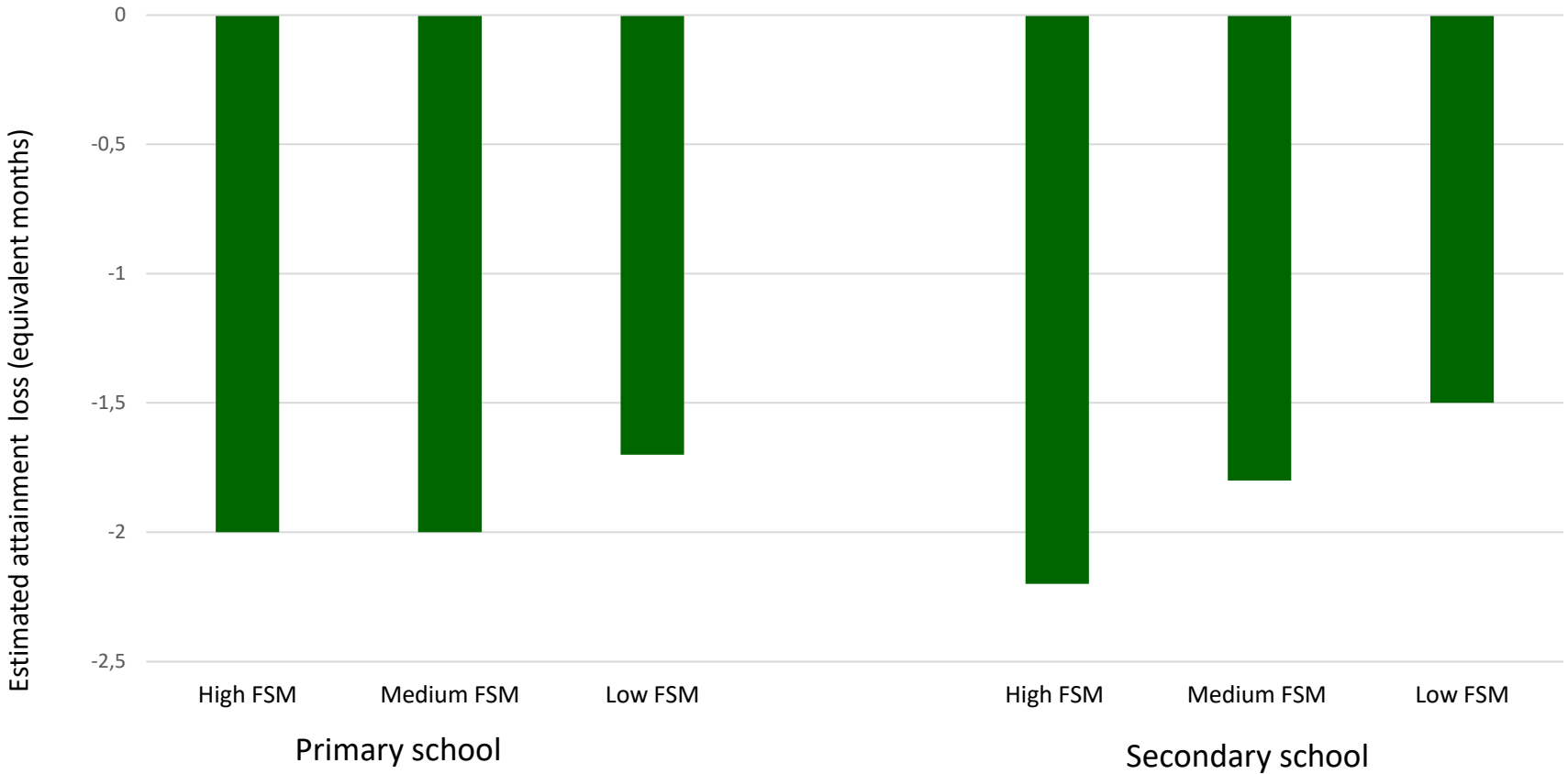
Note similar results across Europe and North America.

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



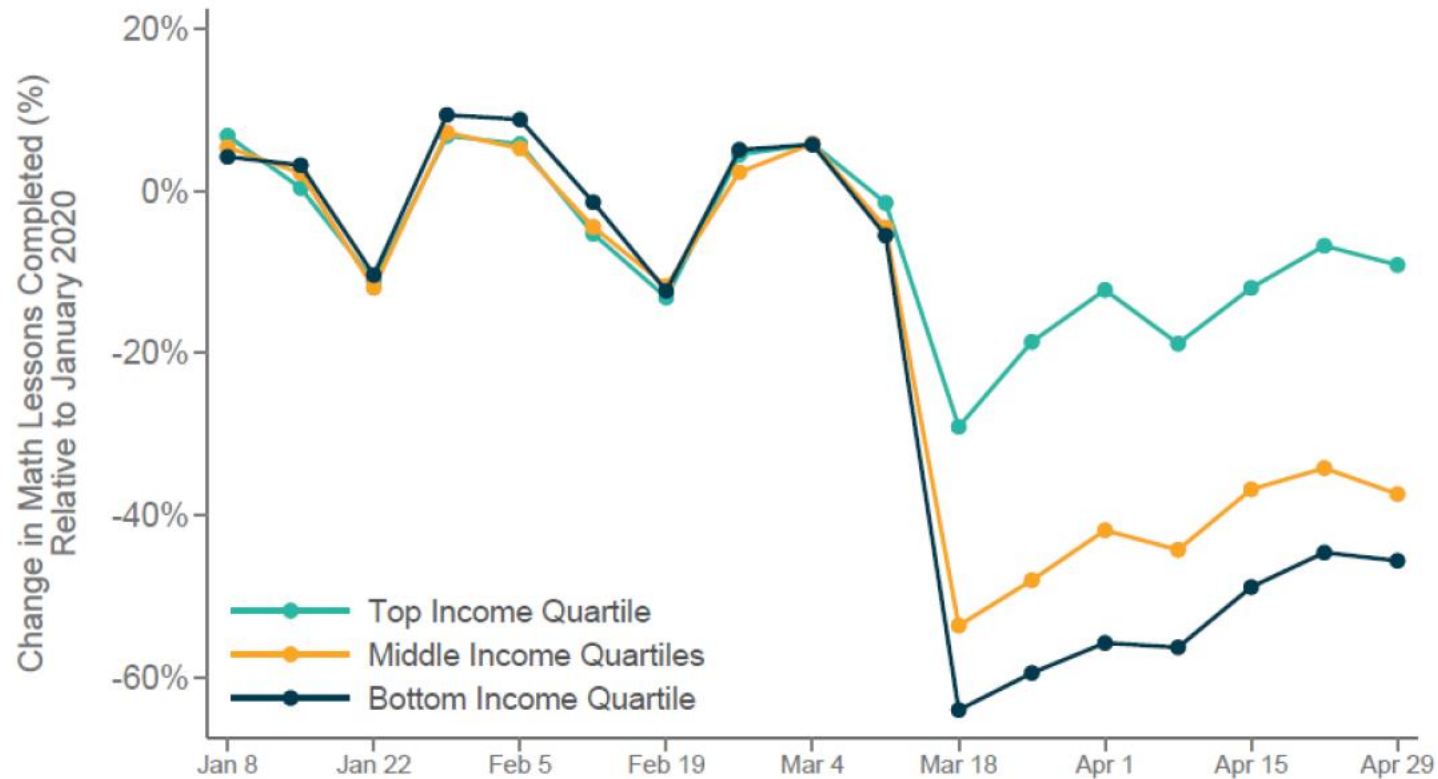
Source: IFS–IoE Survey, wave 2. Note, Engzell (2021) and Halloran (2021) show ineffectiveness of online teaching for children from low SES backgrounds.

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

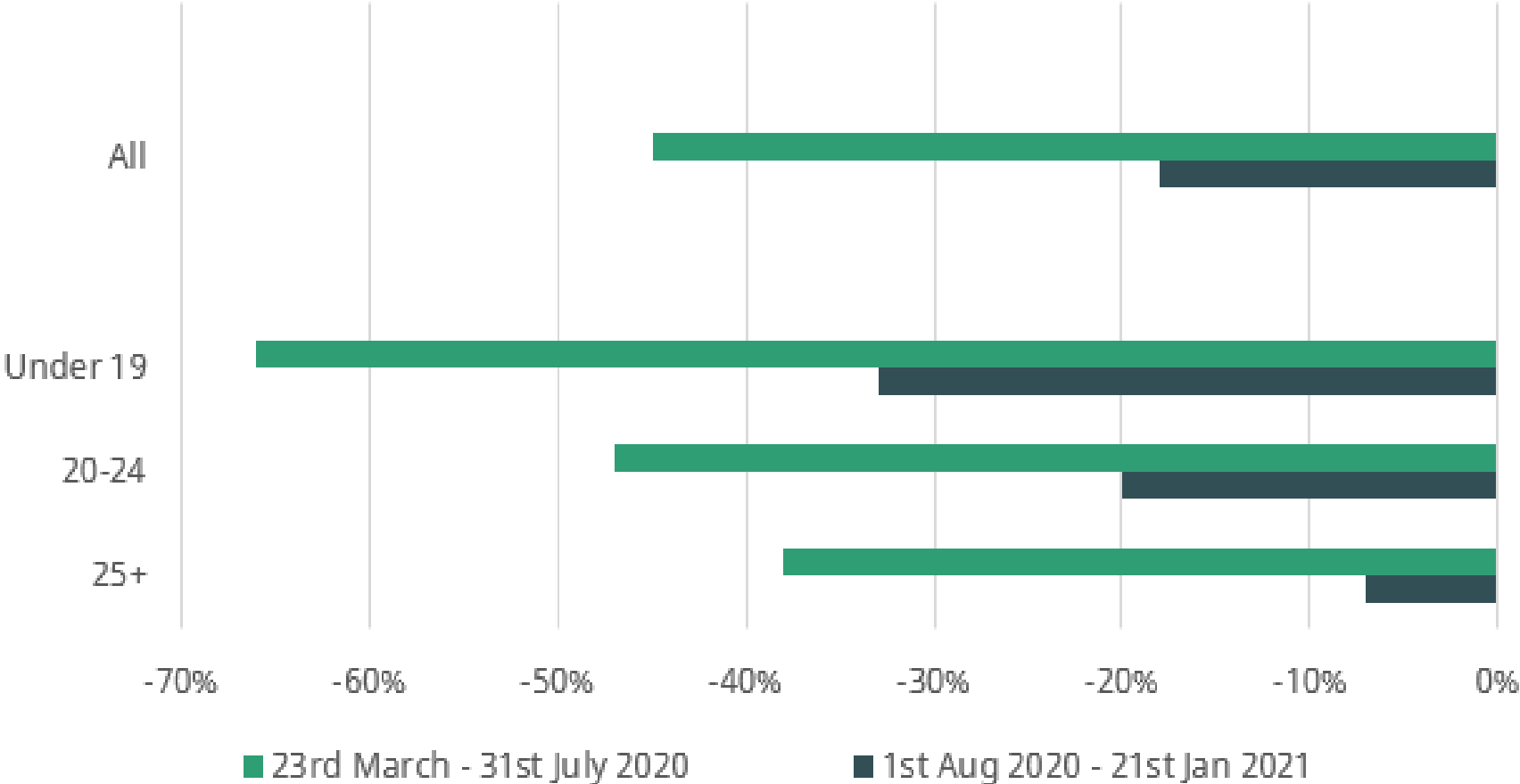


- Note: Similar results on overall loss from closures and excess loss for children from poorer backgrounds in Netherlands and Germany,
- Fuchs-Schündeln (CEPR, 2022) on longer term implications of closures in Germany and US.

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.

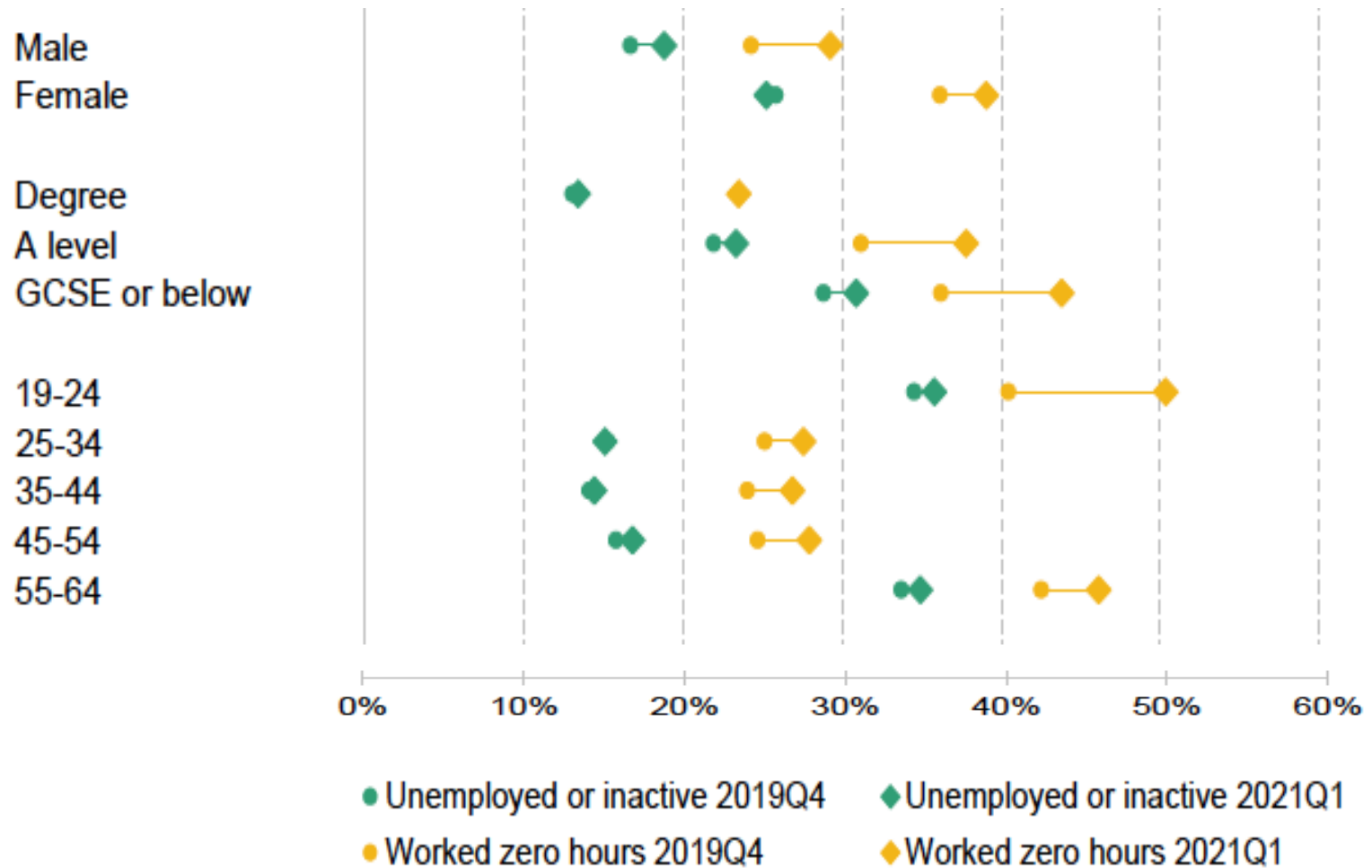
Loss in learning: work-related training and apprenticeships.

Change in number of Apprenticeship starts during pandemic compared to same time a year earlier, by age



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

II. Loss of work: Share not working, by gender, education and age, UK 2019Q4 and 2021Q1

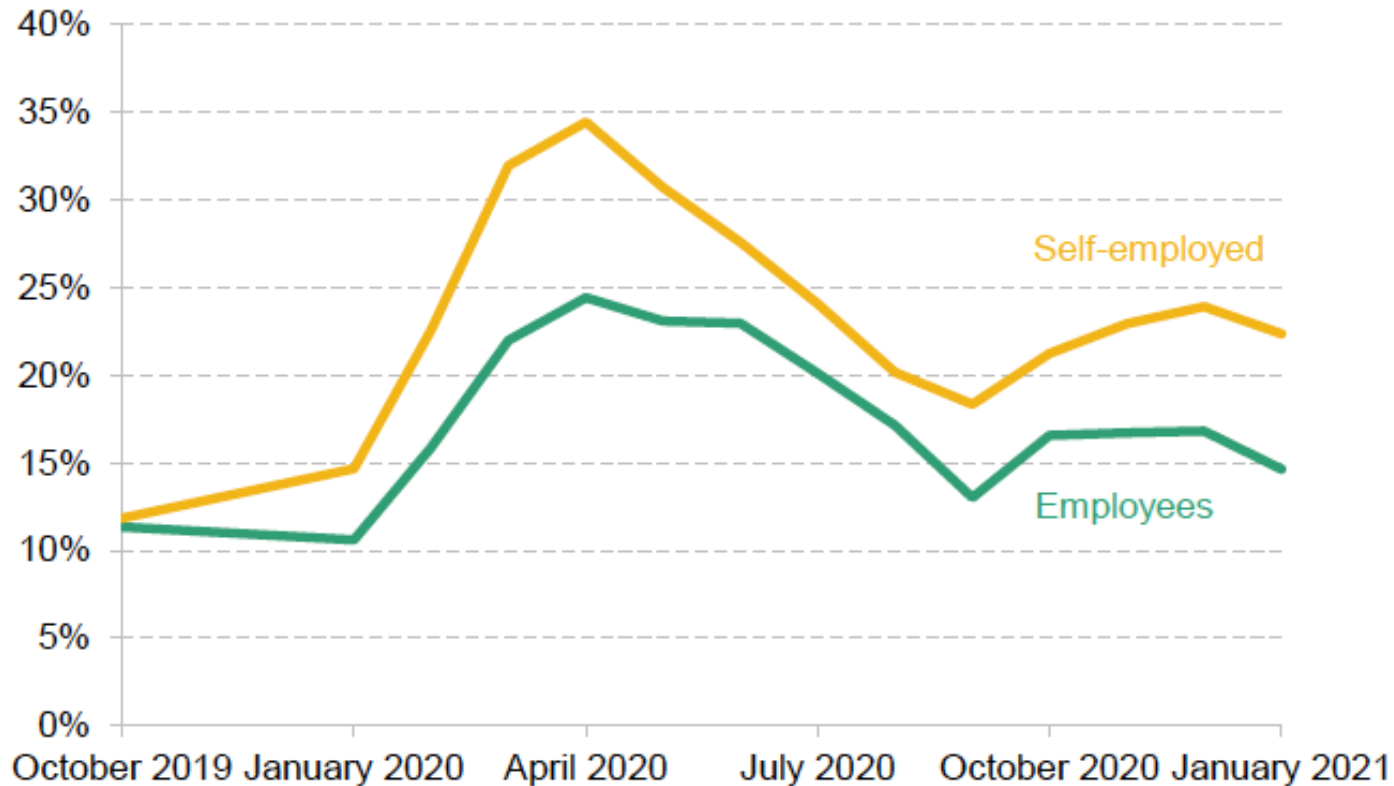


Source: IFS 2021, UK Quarterly Labour Force Survey

Notes: Includes people aged 19–64.

Loss of work: larger impact on self-employed

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

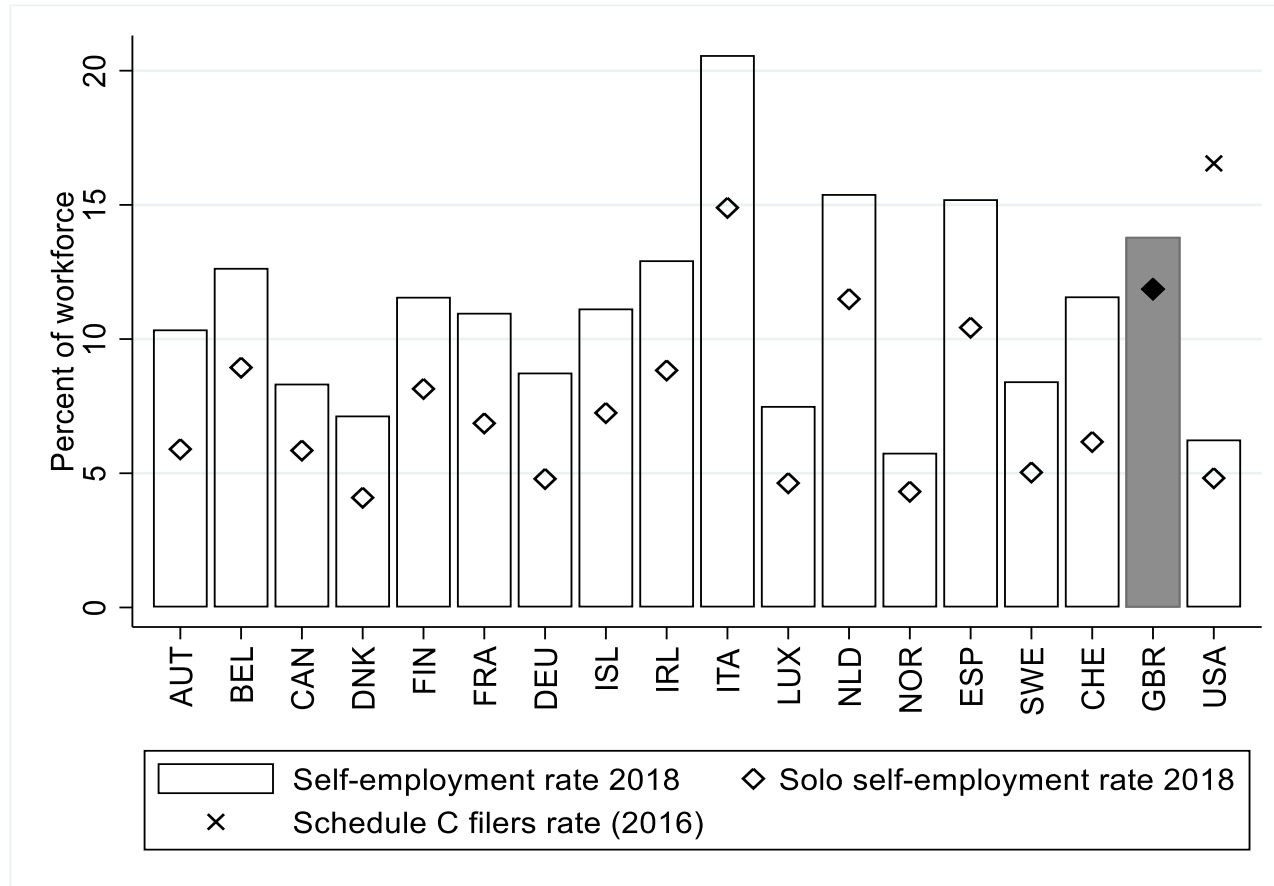


Source: IFS, 2021

Data: UK Quarterly Labour Force Survey. Includes people aged 19–64.

Self-employment across countries

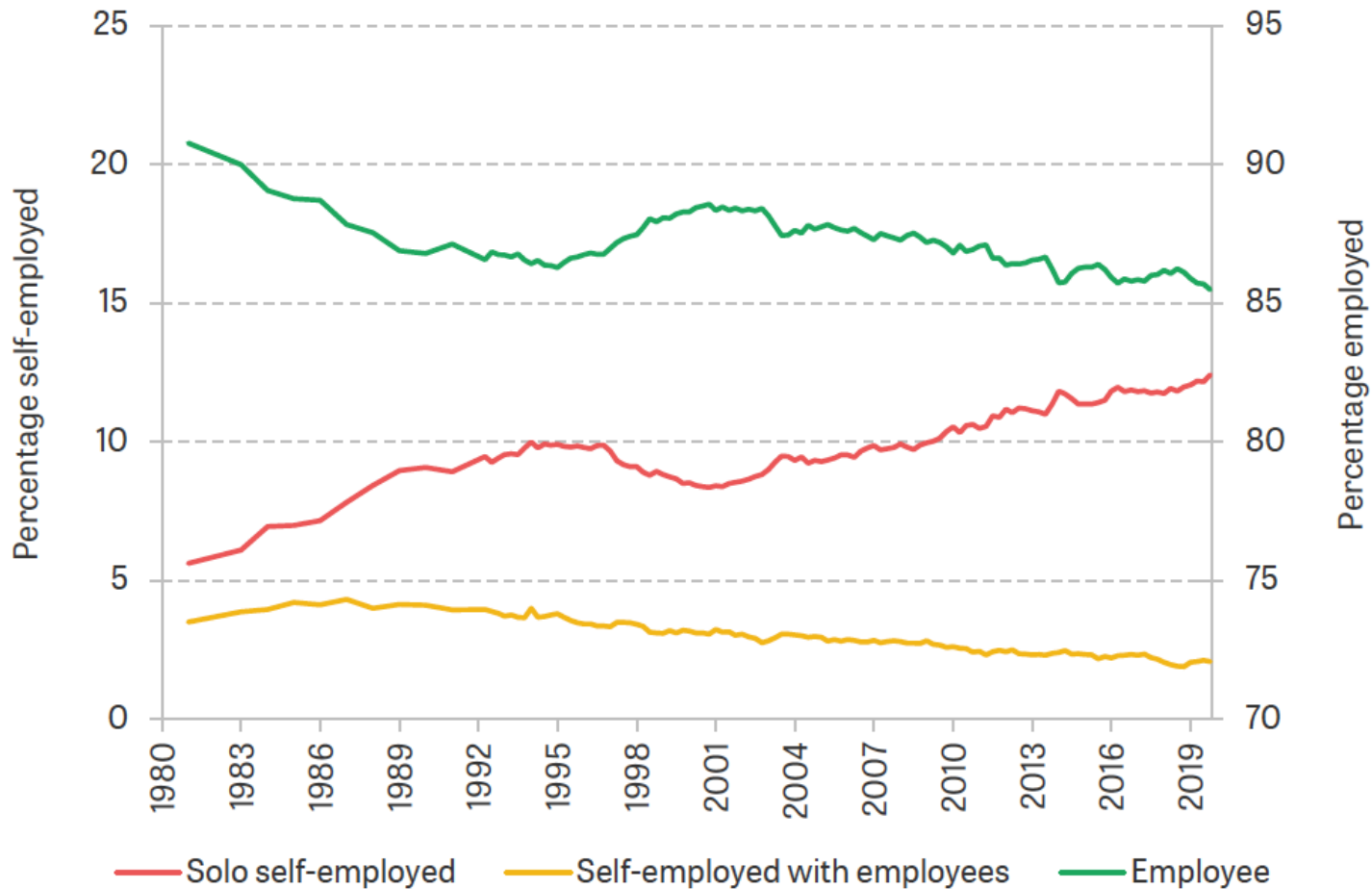
Self-employment as percent of workforce



Source: Giupponi and Machin (Deaton Review, IFS, 2021)

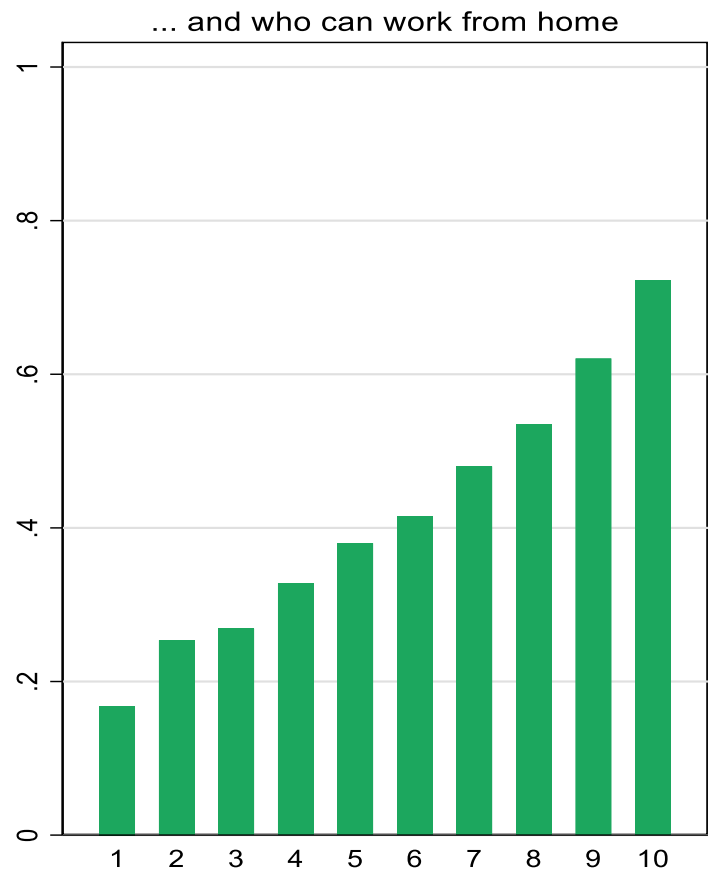
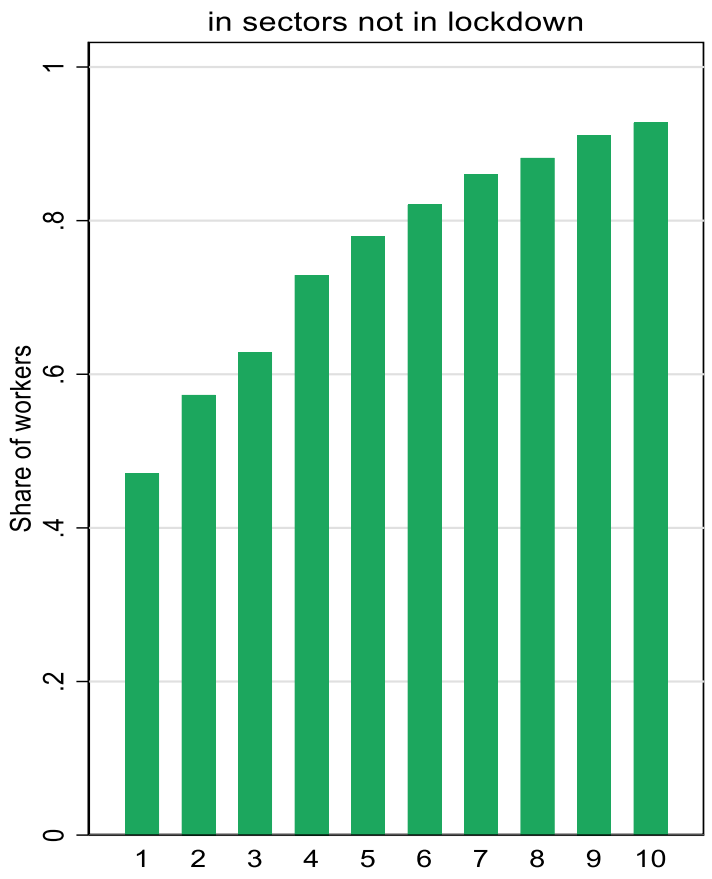
Growth in solo self-employment in the UK

Employment composition 1980 - 2019



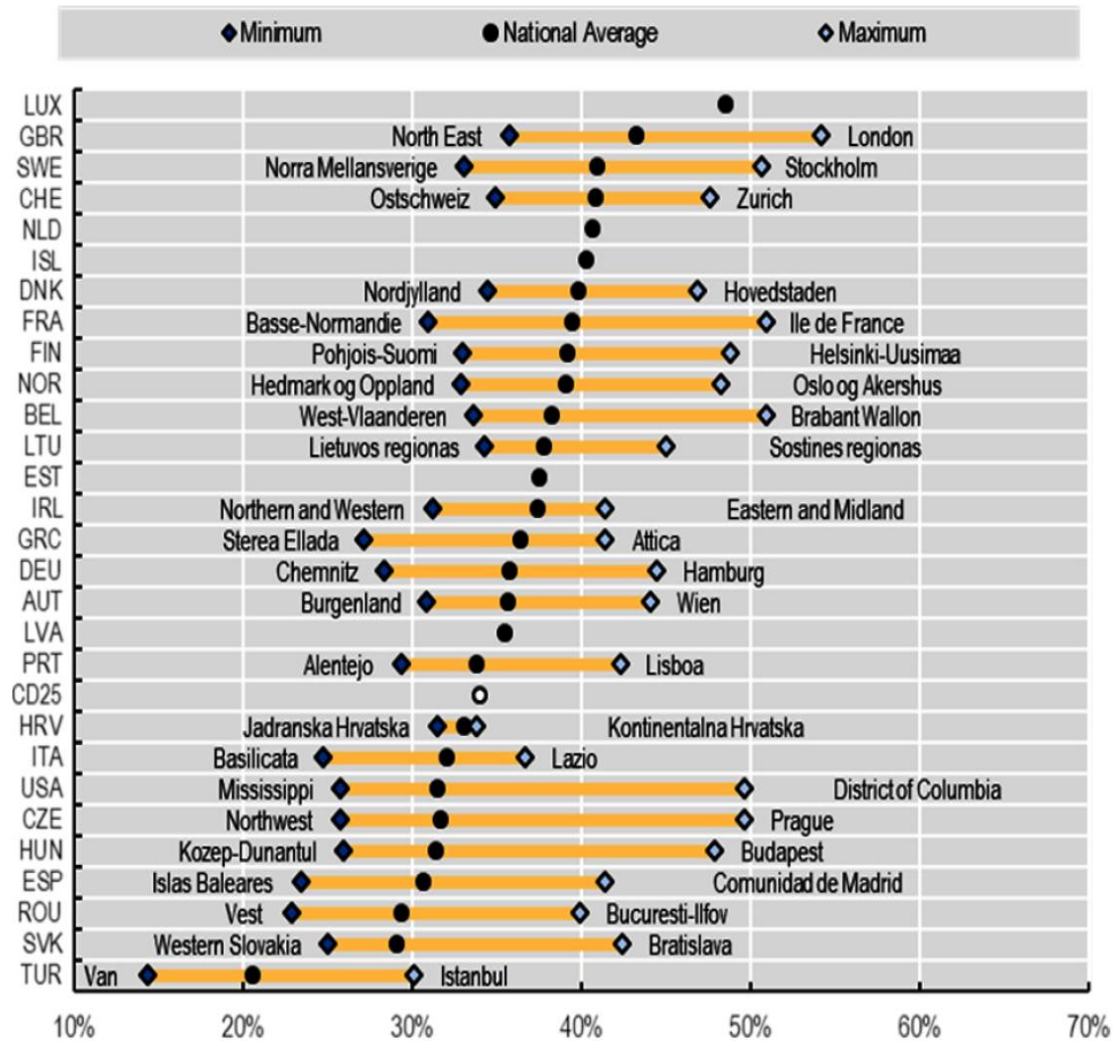
Source: Deaton Review, IFS, 2021

Loss of work: Share of workers in sectors not in lockdown and who can 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.

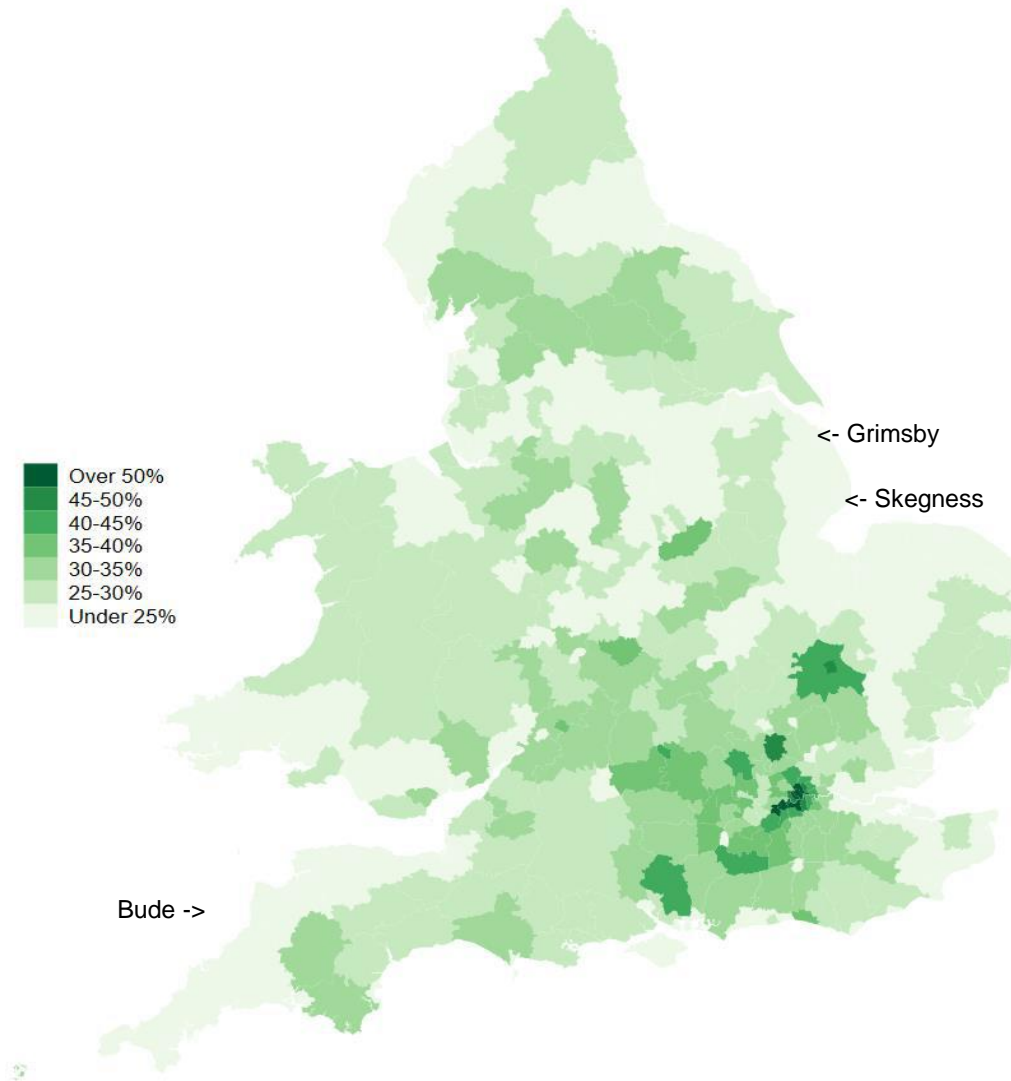
Loss of work: Share of jobs that can potentially be performed remotely, between and within countries in Europe



Source: Ozguzel et al. (2021).

Regional disparities in education

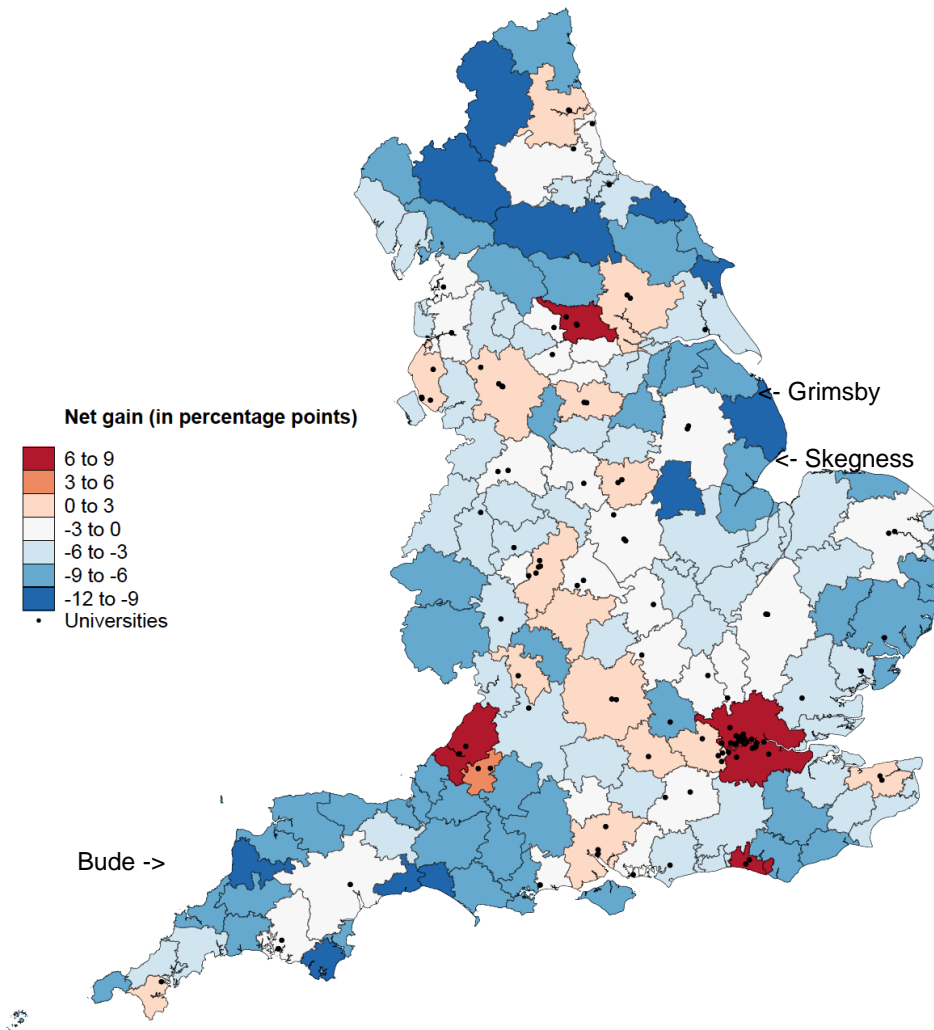
Share of Population (England and Wales) with Post A-level Qualifications



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

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.

Educational flight: regional disparities in education and social mobility

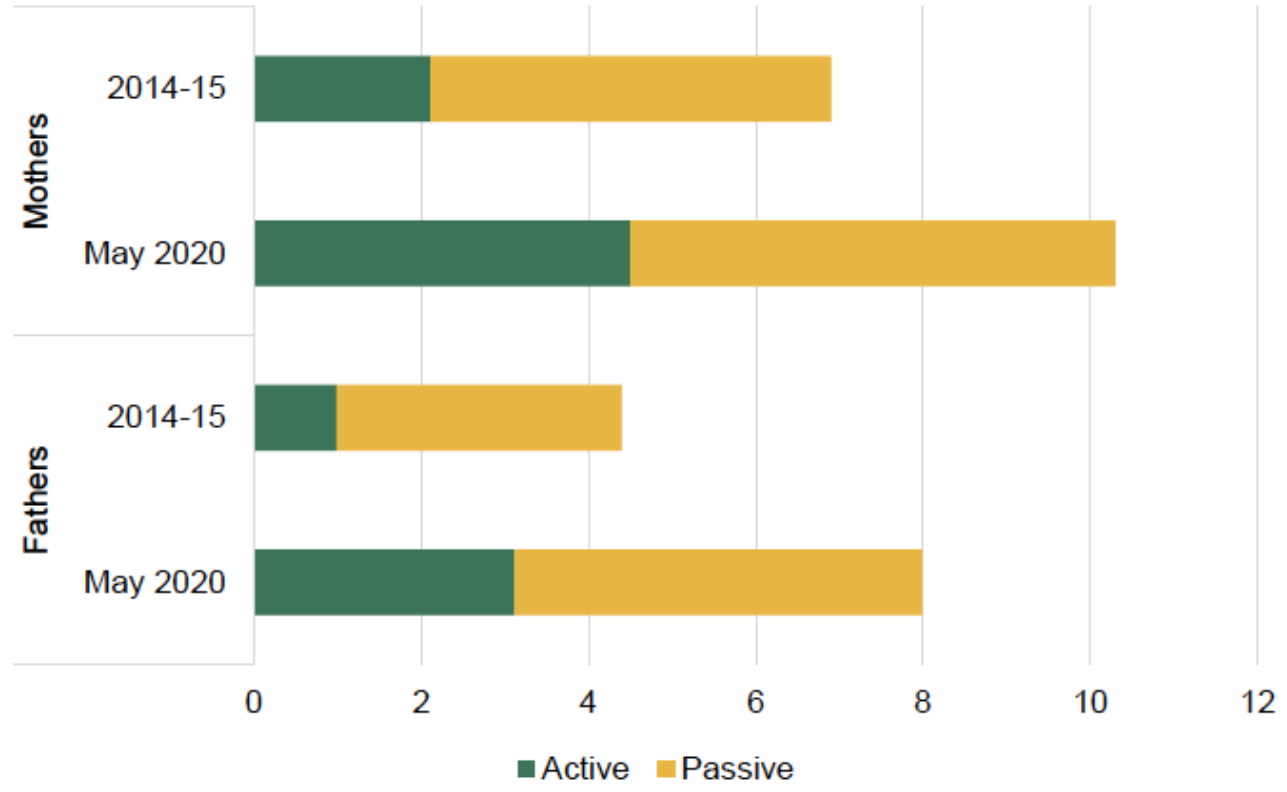
Share from TTWA v. share living in TTWA at age 27

	Share of pupils who get degrees	Share of adults who have degrees (in same cohorts)	Net loss (as share of base)
Bridlington	23%	13%	43%
Skegness and Louth	24%	14%	40%
Bude	27%	16%	40%
Northallerton	32%	20%	36%
Spalding	24%	15%	36%
Grimsby	19%	12%	36%
Bridport	29%	19%	34%
Clacton	19%	12%	34%
Boston	23%	16%	33%
Wisbech	17%	11%	33%

Source: Blundell et al. 2021.

III. Gender and childcare:

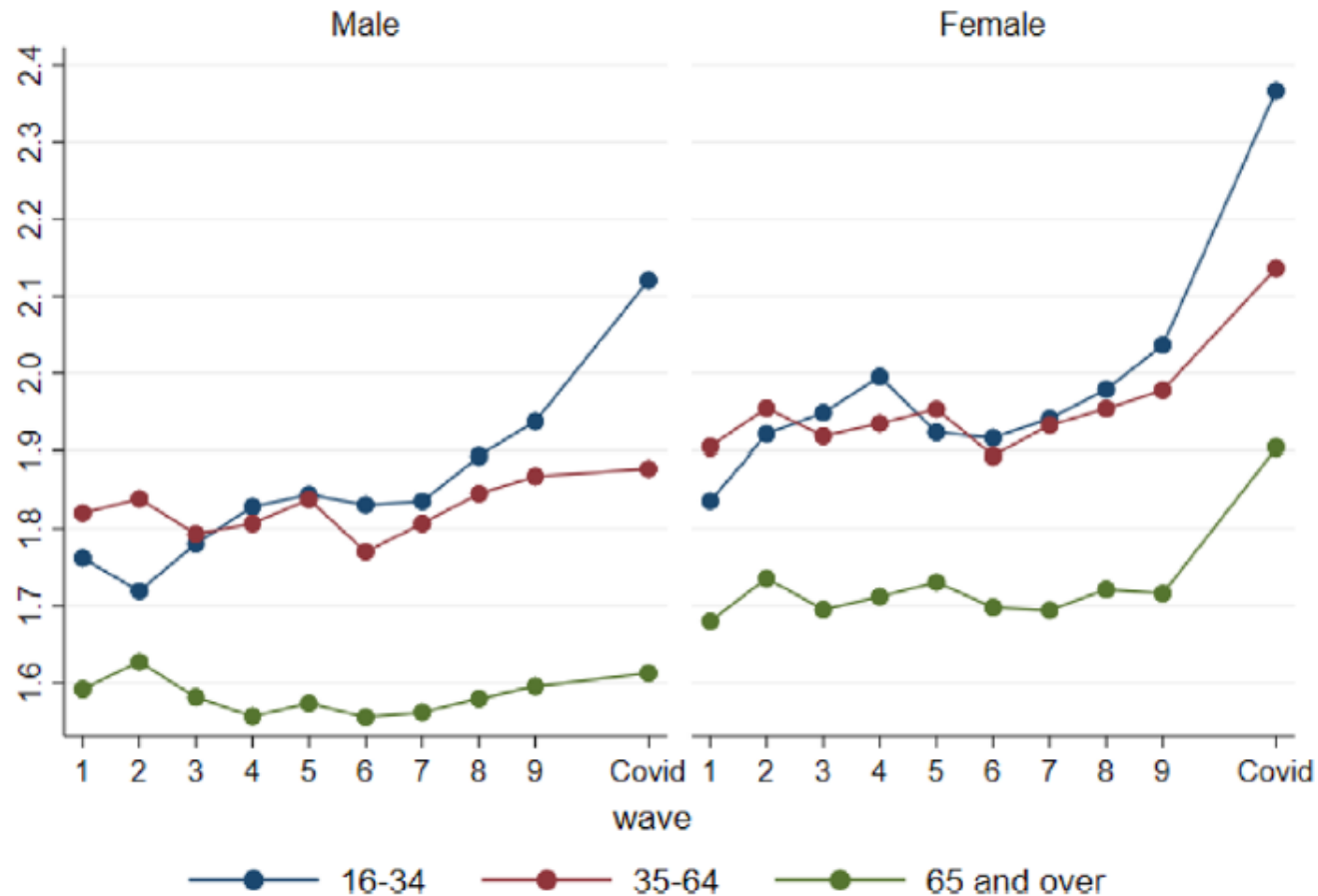
Hours spent on active and passive childcare, before and during the lockdown



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

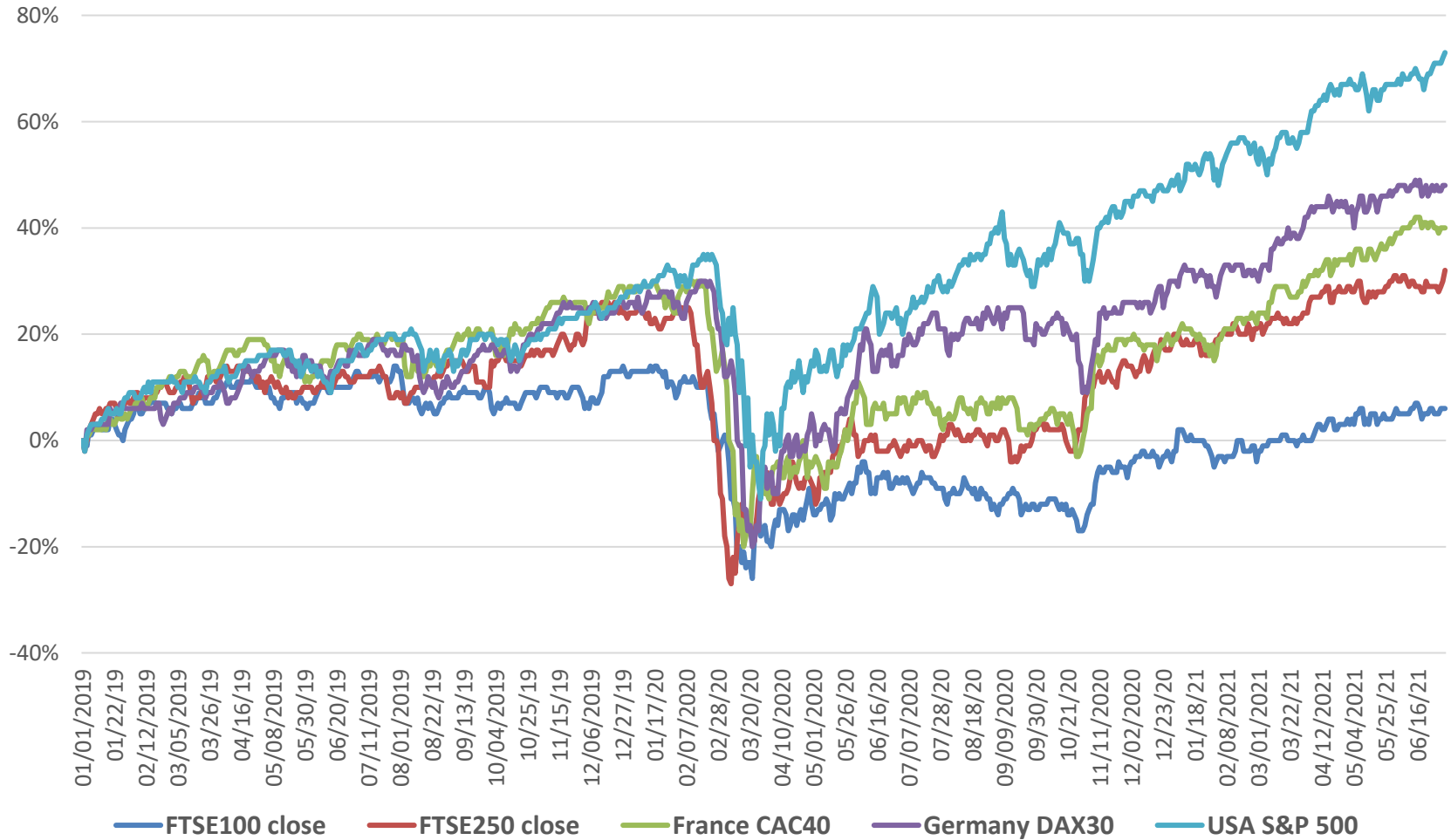


Notes: UKHLS waves 1–9 and April COVID-19 survey.

Source: Banks and Xu (IFS Deaton Review, 2021)

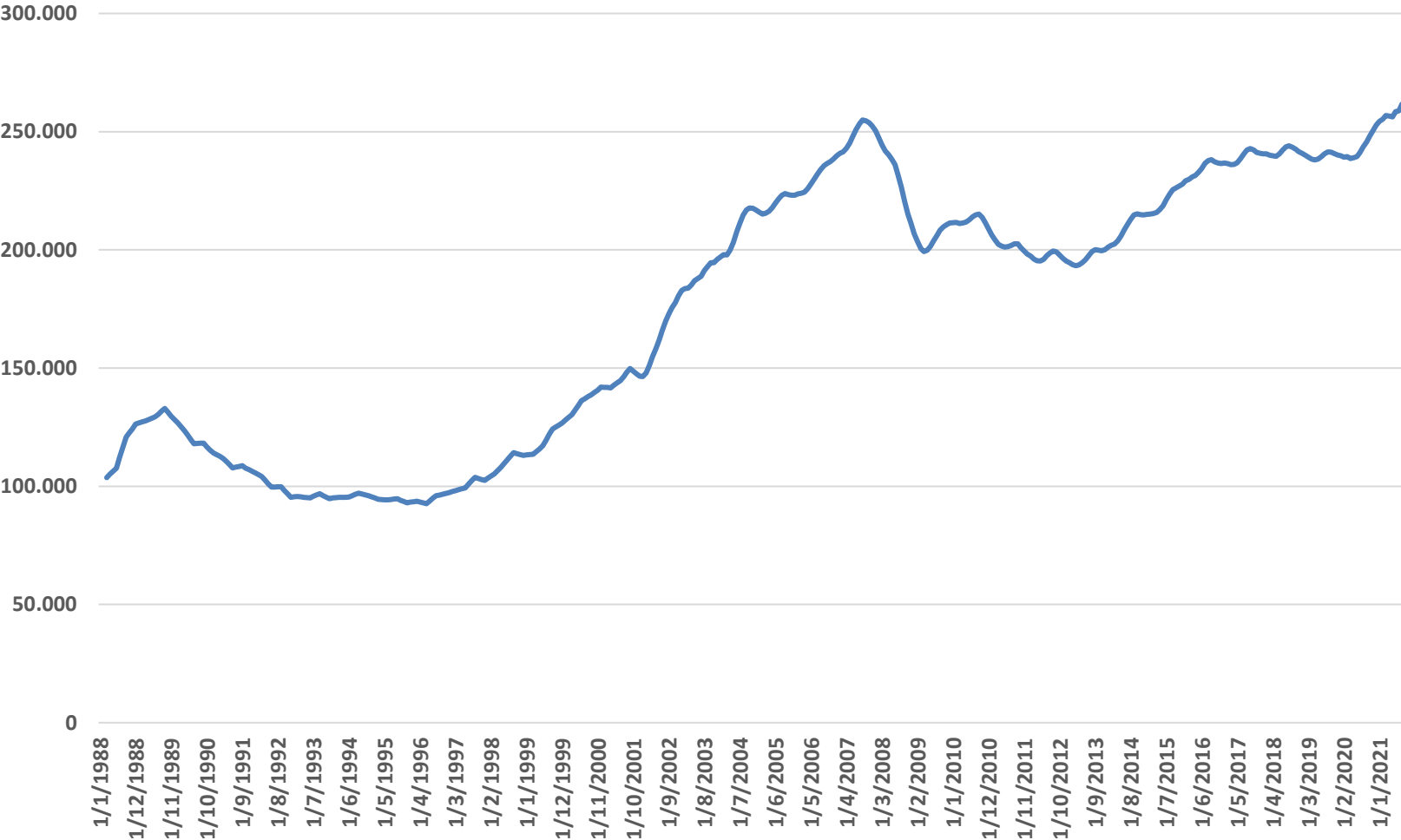
V: Increase in savings, housing and financial wealth inequalities.

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



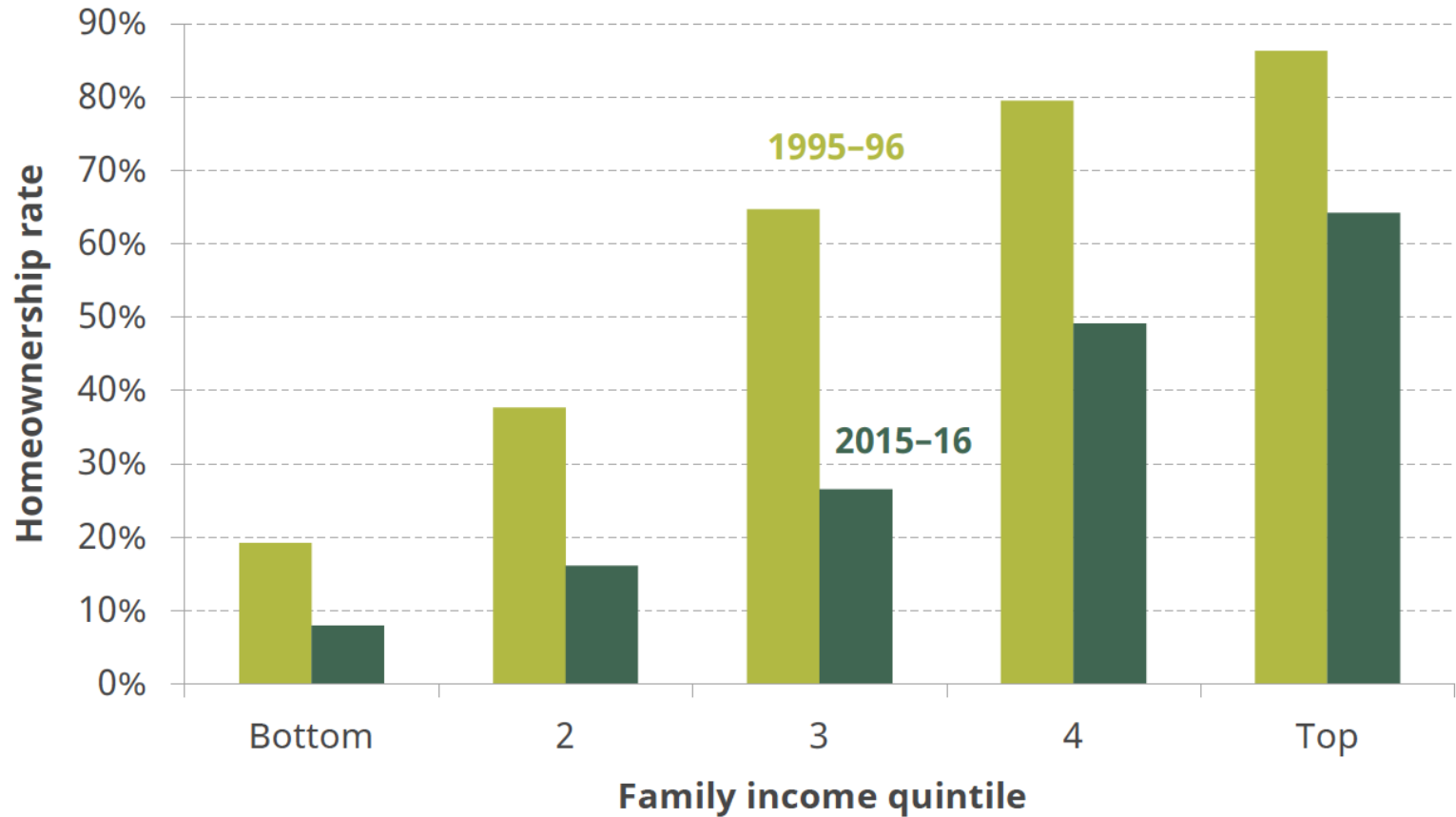
Increase in savings, housing and financial wealth inequalities.

Real average UK house prices 1988-2021



Notes: CPIH deflated, August 2021 prices

Homeownership in the UK for those aged 25–34, by family income quintile



Note: 'Family income' is the net income of the individual, plus the net income of any cohabiting partner.

Source: IFS using the Family Resources Survey.

The longer-term inequality challenges

Educational inequalities

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

Wage and employment inequalities

- Increased reliance on technology and home working favours educated workers - some bounce back for lower paid but they experienced largest loss in learning/work experience.

Generational inequalities

- Under 35s more likely to have lost work and reduced earnings and lost training and work experience - but older have seen less bounce back in work and health.

Gender inequalities

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

Income support, welfare and min wage

- Min wage and tax credits have been successful - but big gaps highlighted during pandemic.

Health inequalities and long covid

- longer term increases in mortality and poor health - higher for deprived and non-whites.

Wealth inequalities

- Older higher educated and richer families have seen financial and housing assets increase - enhancing wealth concentration at the top and long term wealth inequalities.

Designing post-covid policy mix to address key inequality challenges

Educational disadvantage and diverging educational outcomes.

- offset the learning loss in multiple subjects, especially for deprived families - returns are high; digital access to allow all pupils and enable access to training at distance.

Vocational skills and a path to good jobs.

- re-think vocational training to focus on skills that complement career progression, oriented towards new technologies – incentivise complementary technologies.

Stalling gender gap in earnings and care

- policies toward quality childcare provision, with tax credits for training that replaces lost work experience/human capital of mothers.

Differences in prosperity between places

- policies to reverse educational flight to enhance agglomeration and ‘good jobs’ for lower educated – career progression in ‘left-behind’ areas.

Redesigning welfare

- avoid incentives for part-time work in welfare-benefit system; incentivise firm-based training; extend social insurance coverage to self employed/platform workers.

Generational inequalities housing and wealth.

- reform capital gains tax, property taxation and inheritance taxation - Mirrlees Review plus!

But there are opportunities to end on a positive note!

- More people have experienced an expanded welfare state, and existing safety nets have been challenged - could create a new emphasis on social insurance.
- The large numbers of disadvantaged young lower earners could force a rethink of vocational training - focusing on skills to complement new technologies.
- The increase in platform workers and gig economy could force a re-think of the taxation and regulation of self-employment.
- The experiences of people working from home could provide the tipping point for a change in the way we work - which might spread prosperity across regions.
- The experiences of childcare among many more men could provide a change in social norms - generating a balance in childcare that has been so hard to achieve to date.
- Unexpected capital gains in housing wealth and tech stocks - could open up reform of capital gains tax and property taxation.
- Health, economic and educational disadvantage have come together and shine a light on pockets of local deprivation, giving urgency for effective place-based policies.
- Then along came the tragedy of the Russian invasion of Ukraine -> new challenges of migration, and of increasing energy prices and debt.



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forthcoming in *Annual Review of Economics*

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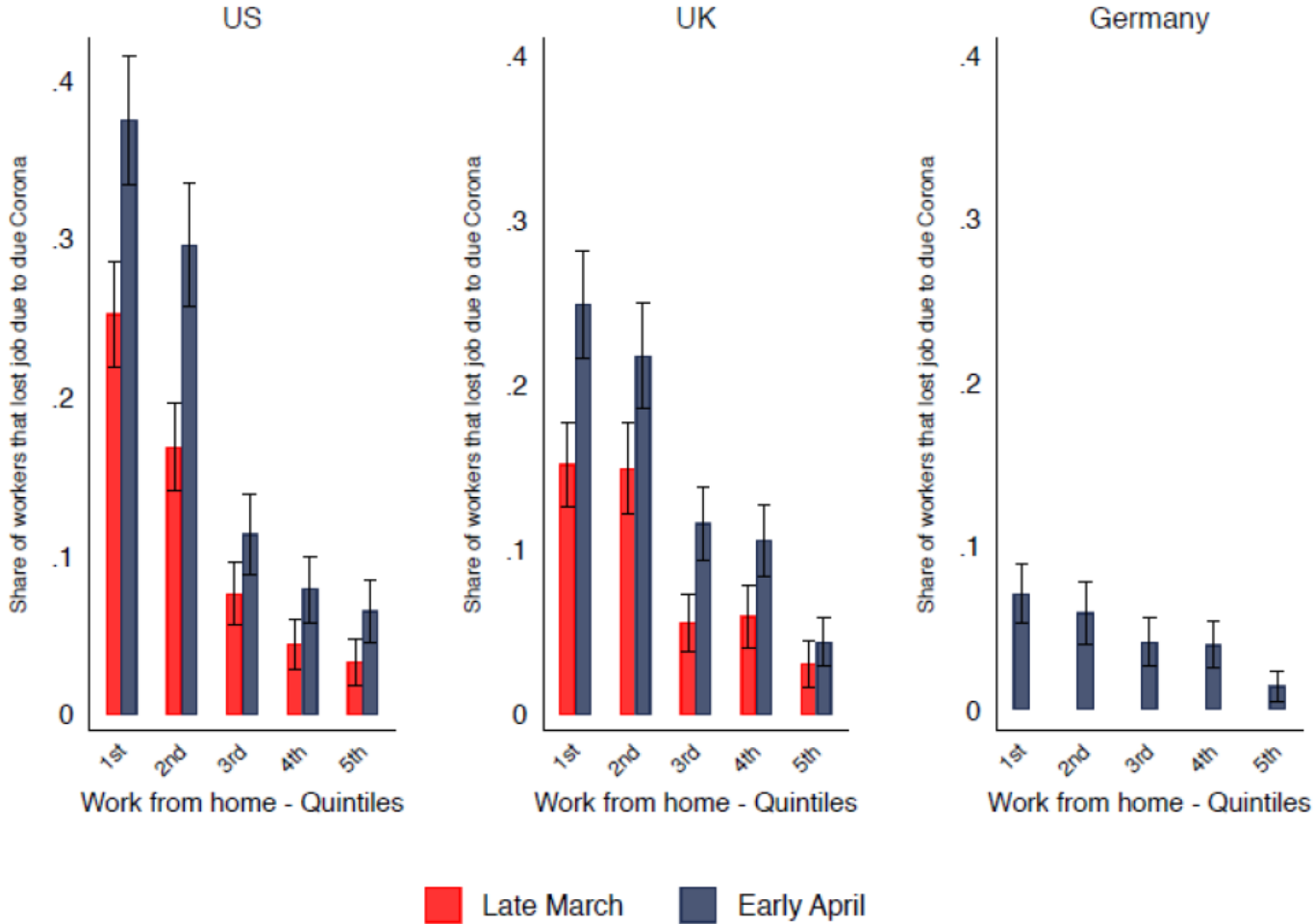
GDP per head and real household incomes



Graphs by icountry

Loss of work: Job Loss by tasks that can be done at home:

- much smaller gradient in Germany



Source: Adams-Prassl et al. (2021)