Inequalities in the Times of a Pandemic

Stefanie Stantcheva

Harvard

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with the assistance of Jelena Todorovic (LMU) and Venance Riblier (ENS)

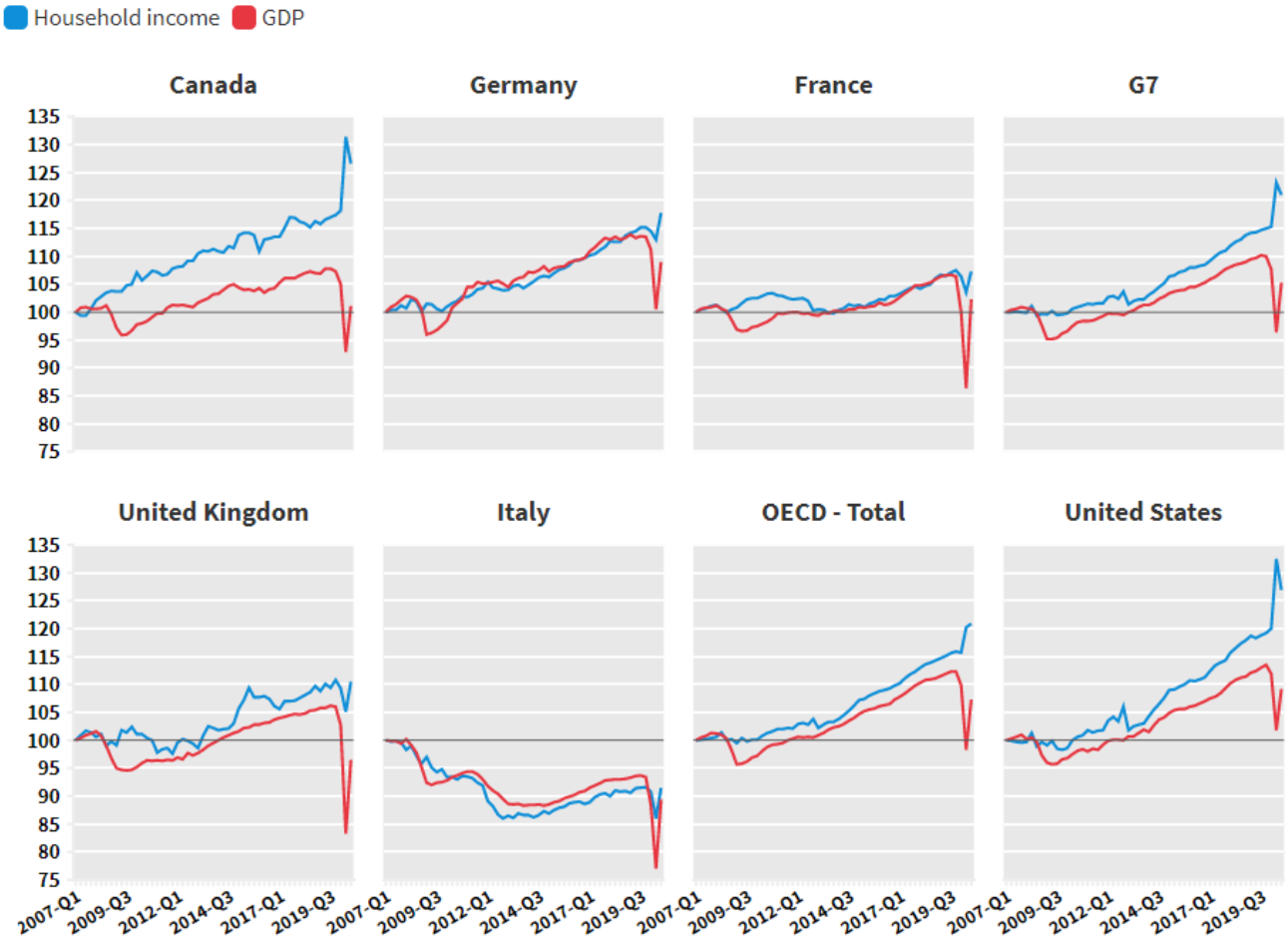
Covid has exacerbated existing inequalities

- ... across income groups, sectors, regions, gender, and children from different backgrounds.
- Policy responses proposed are medium and longer-term actions, not short-run mitigation strategies.

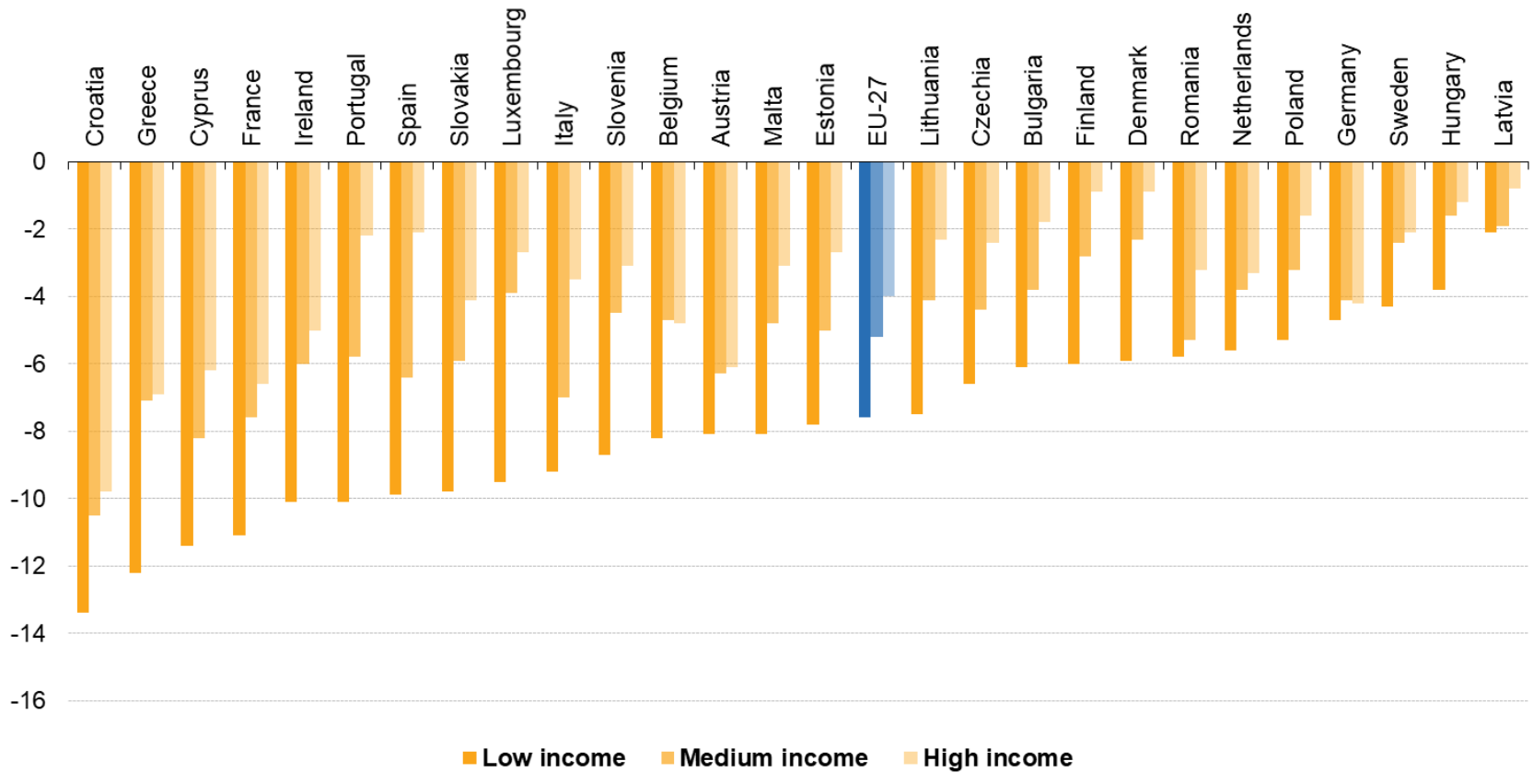
Evolution of income inequalities

- **Stronger negative impact on lower-income households**
  - pre-tax & transfer income Gini increased by 3.6% Spring 2020 in the EU (27);
- **Substantial support from governments** propped incomes up in the short run.
  - disposable income Gini decreased by 0.7%;
- **Yet, regressive direct impact of the pandemic likely to persist** and require longer-term action. Channels:
  - Job loss, longer-term unemployment, scarring.
  - Business destruction
  - Accelerated digitization and automation favoring higher-paid jobs.

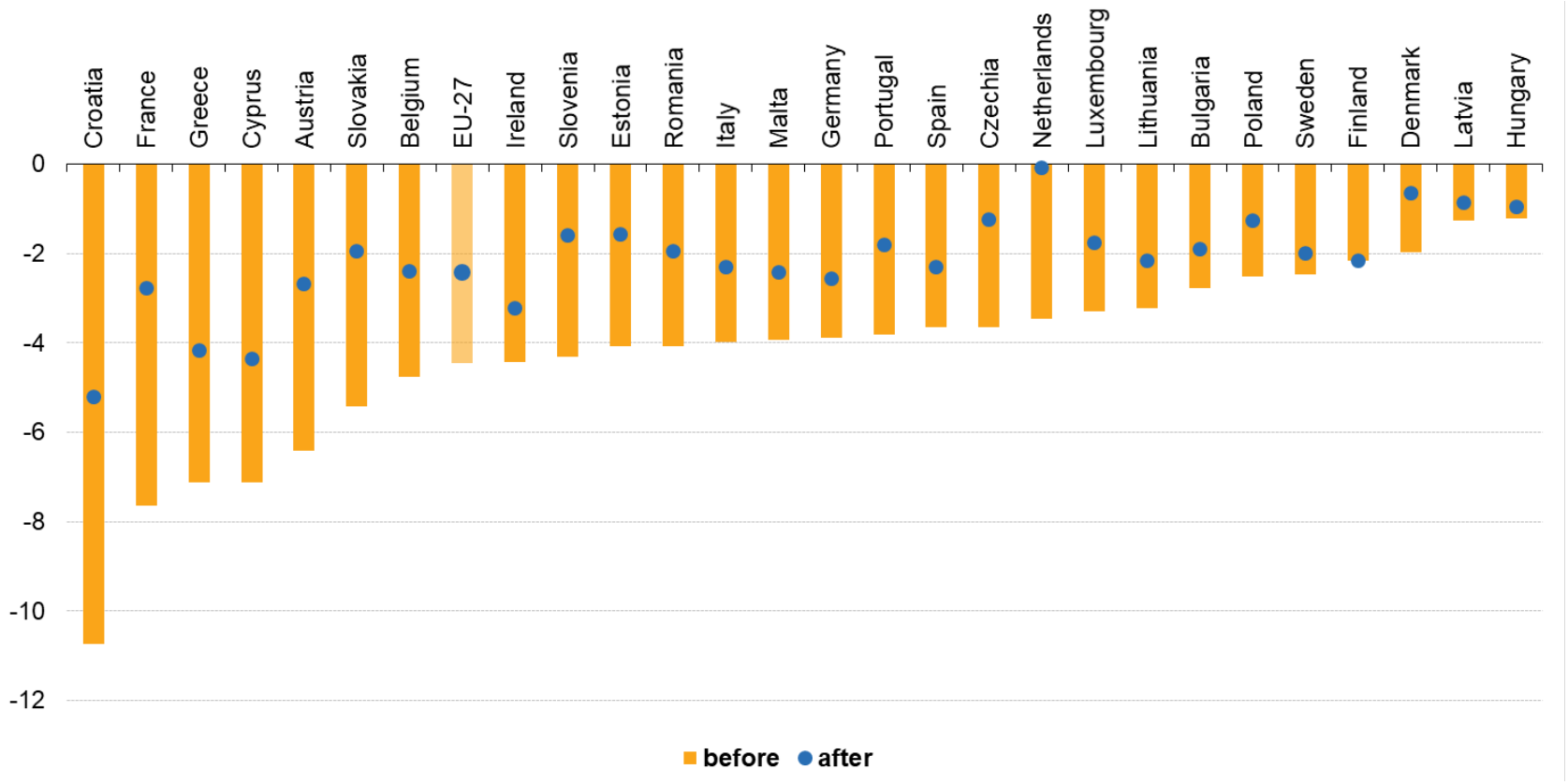
Evolution of household income per capita and real GDP from 2007-Q1 to 2020-Q3 in OECD countries



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



Loss of income from employment between 2019-Q2 and 2020-Q2 before and after government compensation



Remote work opportunities as a vector of inequalities

- Potential for remote work is lower at the bottom of income distribution.
  - (US, 2020) 37% on average; 45.5% of high-income / 18.4% of low-income worked remotely;
  - (EU, 2018) 74% of high-income / 3% of low-income could work remotely;
- Heterogeneous effects on productivity of working from home, driven by sectoral composition and worse home working conditions of lower-income households.
- If shift to remote work more long-lasting, could also widen inequalities; and affect different regions differently.

Unemployment across the income distribution

- Lower-income workers are more likely to be in essential positions (+), yet also less likely to be able to work remotely (-).
- On balance: unemployment shocks have been worse for low-income workers.
  - (UK, 2/20-3/20) 12% decrease in employment for low earners, 5% for high earners;
  - (US, 1/20-4/20) 37% decrease in employment for low earners, 14% for high earners;
- Quicker recovery of employment towards the top of the income distribution but towards the bottom.
- Possible long-lasting effects on labor market inequalities

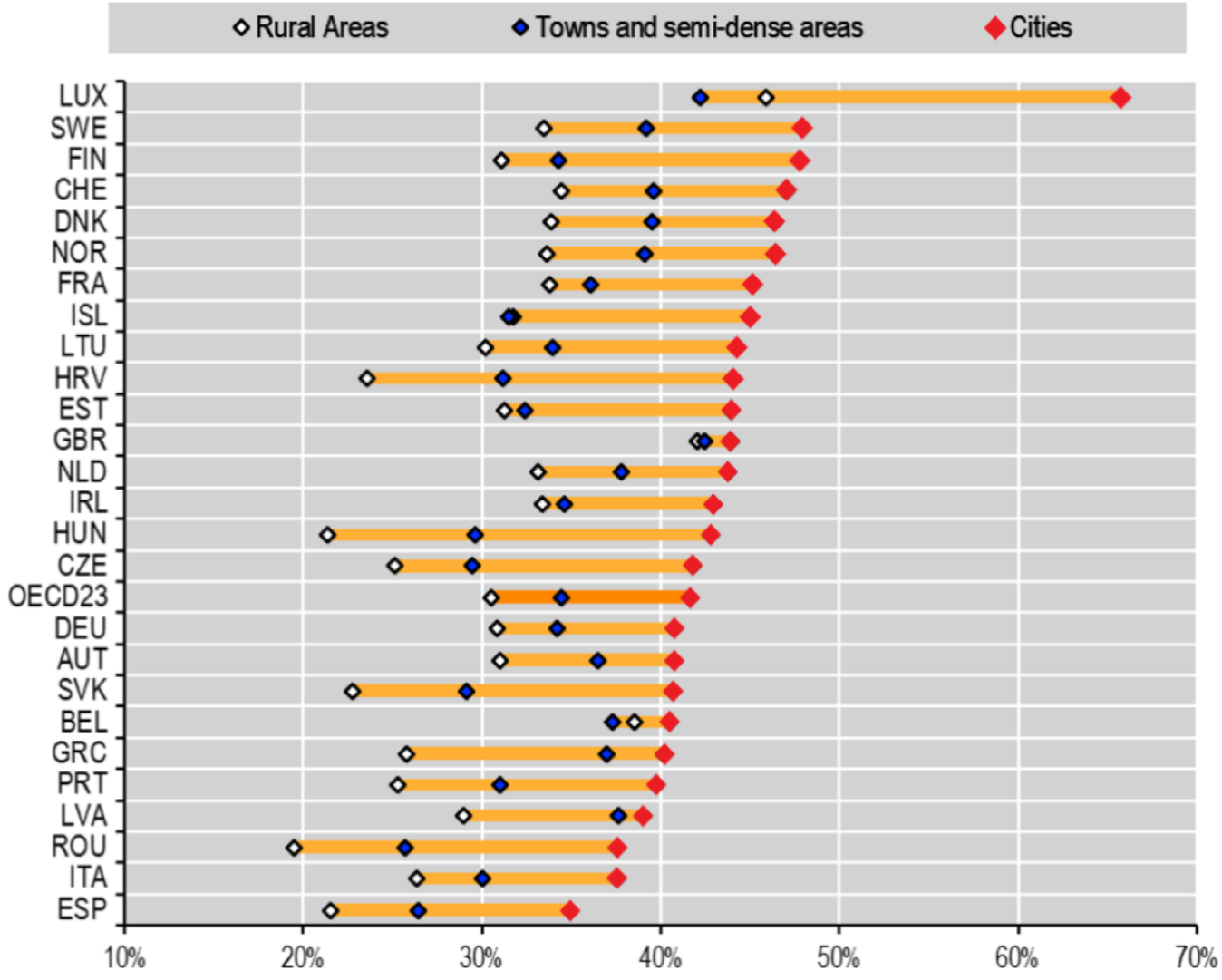
Digital divide

- Unequal potential for using technology to cope with the pandemic across the income distribution and across regions. Disparities in access to
  - High-speed internet connection
  - Sufficient and appropriate computer/hardware/software equipment for all households members
- Resulting inequalities in access to online learning, maintaining social life, online services, etc.

Sectoral and Regional Inequalities

- Sectoral inequalities have been driven by disparities in the ability to
  - **Stay open during lockdowns**
  - **Substitute online for in-person activity**
  - **Provide critical services** during the pandemic.
  - U.S: small business revenues decreased by 57% in leisure and hospitality sectors and by 26% in retail and transportation (of goods and people) sectors from January to March 2020.
  - VC investments increased by 39% in health-related sectors over the world in the first half 2020. IT companies surged as well.
- Poorest regions had higher Covid-19 mortality (due to, among others: infrastructure, quality of air and spaces, ability to socially distance, sectoral composition and unequal potential for remote work).
- A long-lasting shift towards remote work could reshape regions in perhaps unpredictable ways ("zoom towns"?).

Share of jobs that can potentially be performed remotely, in cities, towns and rural areas in Europe, 2018

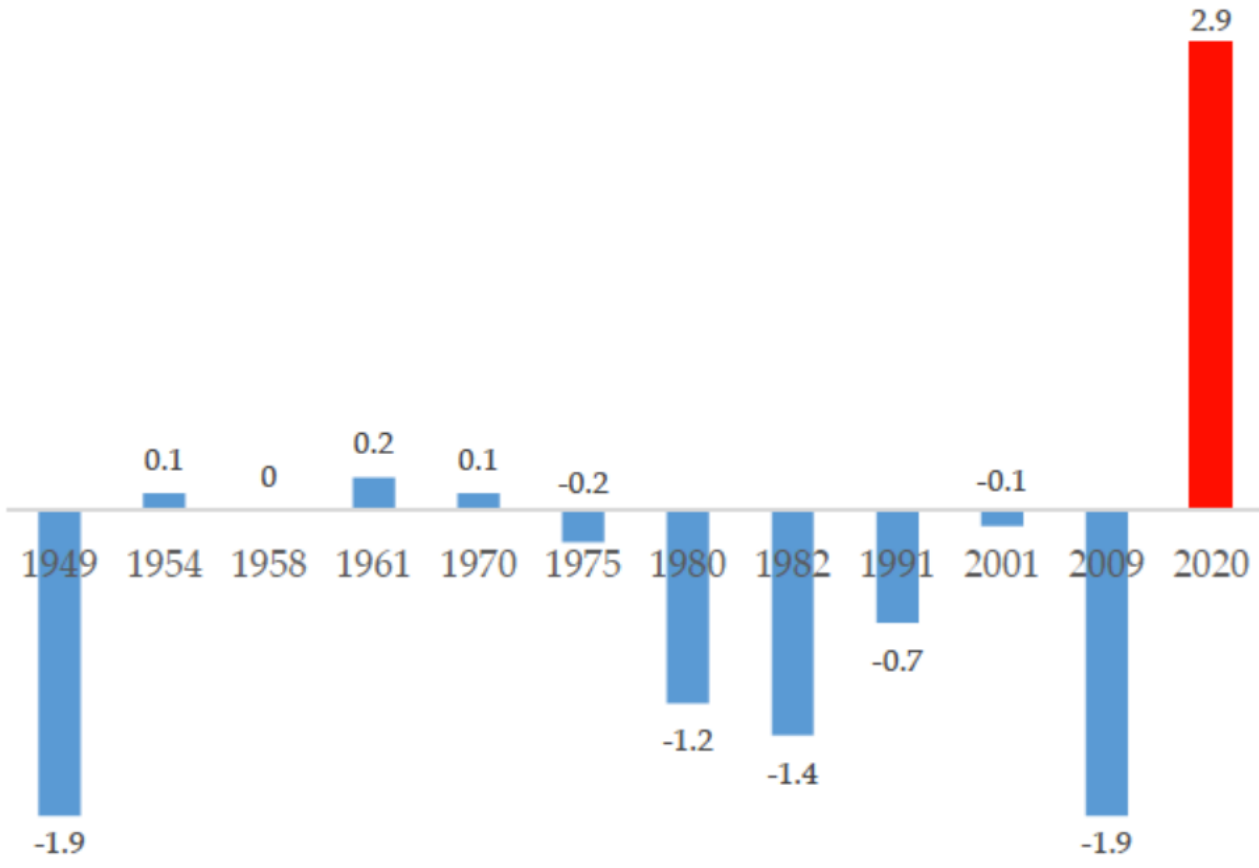


Inequalities across gender

Women experienced..

- **.. more work from home, conditional on remaining employed**
  - Occupations are more amenable to remote work.
  - Increased need for childcare due to school and kindergarten closures.
- **.. stronger reduction in work hours and increase in unemployment**
  - The *shecession* (she-recession) of 2020 – unlike previous crises when men's employment was hit harder.
  - Higher share of women had part-time or alternative work contracts pre-Covid-19, which are less stable
  - Women quit their jobs or significantly reduced their work hours due to the increased need for childcare.
- **... increased childcare responsibilities**
  - Mothers absorbed more of additional childcare (& overall housework).
  - (UK): Women added 30.3 additional hours of childcare per week, men added 19.4. men.

Difference between women's and men's unemployment increases, US recessions from 1948 to 2020

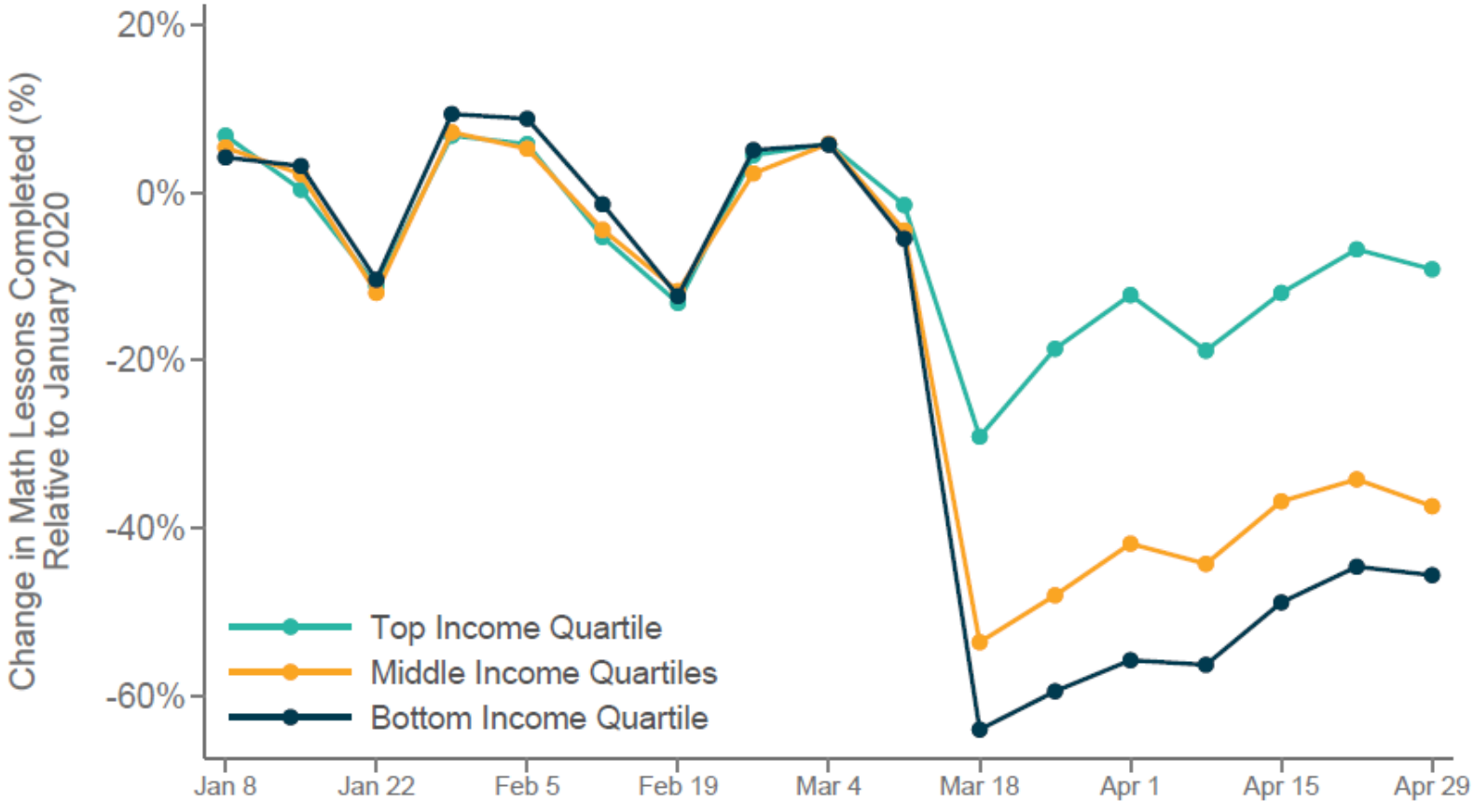


Women's unemployment (at peak) had risen 2.9 pp more than men's.

Inequalities in education

- **Time spent learning and learning delays**
  - Significantly less time on school work during school closures.
  - Considerable heterogeneity by family income. Learning delays more pronounced for children from disadvantaged backgrounds.
- **Unequal technical and resource constraints**
  - Starkly different technical capacities for digital instruction across schools in different countries and across households.
  - In England, 1 in 10 students in primary school and 1 in 7 students in secondary school relied only on a cell phone or had no digital device to access school materials online.

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



A Policy Matrix: Intervening at several stages

		At what stage of the economy does policy intervene?		
		pre-production stage	production stage	post-production stage
Which income segment do we care about?	bottom incomes	primary education and early-childhood programs; vocational training	minimum wage; apprenticeships; reduced social security contributions by firms; in-work benefits	social transfers (housing, family, child benefits); guaranteed minimum income
	middle class	public higher education; adult retraining programs	cluster policies; SME support programs; EU Structural and Investment Funds; occupational licensing; on-the-job training; collective bargaining & work councils; EU trade policies	unemployment insurance; pensions
	top incomes	inheritance & estate taxes	R&D tax credits; EU competition policies	top income tax rates; wealth taxes

Rodrik and Stantcheva (2020). Traditional welfare states rely on 1st and 3rd column; assumes everyone who wants a "good job" can find one. Secular trends (globalization, technological change) + Covid-19 challenged this.

Pillar 1. Inheritance, estate, and gifts taxation

- Can reduce persistence of wealth across generations.
- Unpopular taxes, partly due to misunderstandings of how they work and who actually bears them (Stantcheva, 2020).
- Move to a **beneficiary-based regime that is progressive in the cumulative amount received, regardless of timing and donor**
  - Tony Atkinson's proposal, $\approx$ done in Ireland.
- Could allow for true progressivity, largely exempt the middle class, and address citizens' current concerns.

Pillar 1. Education policy.

- Need better targeting of public investments towards disadvantaged areas, schools, and children.
- Level playing field by substituting for "missing family inputs."
- Equalize access to digital resources and space for study (in school, as well as at home).
- Promising interventions pre- and during the pandemic:
  - Carlana and La Ferrara (2021) free individual tutoring online to disadvantaged students during lockdown; Hardt et al. (2020) remote peer mentoring at German university.
  - Pre-Cvoid example – program "Devoirs faits" ("Doing Homework") in France, helps with homework under supervision of own school staff.
  - South Korea "Cyber Home Learning System," US "Cognitive Tutor," UK "Shireland Learning Gateway."
- Facilitate transition into work: i) vocational and dual-track systems; ii) better guidance (info is lacking, causing mismatches).

Pillar 1. Gender disparities.

- Child penalty already prevalent before Covid (Kleven et al., 2019)
- Mixed evidence on expanded maternal leave for mothers' earnings and labor force participation.
- Potentially promising evidence for "earmarked" parental leave on earnings and LFP.

Pillar 2. Employer-focused active labor market policies.

- Active labor market policies have mixed records: skill training & certification, employment subsidies, public sector work programs, & assistance with job search and matching. Done through Public Employment Services (PES).
- **"Sectoral training programs"** in the U.S. have repeatedly been shown to be quite successful. E.g., Project Quest in San Antonio, TX; Per Scholars in the Bronx, NY; Madison Strategies Group in Tulsa, OK; or Wisconsin Regional training partnerships in Milwaukee, WI.
- Can serve as an inspiration: geared towards local employers' needs, close cooperation with employers, including on curriculum design, specific training incl. soft skills, track people even post employment, run by community organizations or private agencies.

Pillar 2. Business incentives focused on "good jobs."

- Many business incentives today take the form of subsidies for physical investment and new technologies.
- Evidence suggests cost per job created is high, and may not be the most direct way of helping workers.
- Suggestions by Bartik (2020):
  - Incentives should focus only on areas that are distressed.
  - Policies need to center around sectors or firms that have high potential to actually create jobs.
  - Tax incentives should not be the only/main tool.
  - Rather, the focus should be on specific public services needed by firms, such as customized business services, zoning or infrastructure policies, local amenities, and skills training.

Pillar 3. Exchange of information and tax cooperation

- **On capital.**
  - Major improvements in international cooperation through the Automatic Exchange of Information (AEOI).
  - Renewed opportunities to tax capital more efficiently and improve compliance.
- **On people.**
  - People, like capital, can be internationally mobile, especially higher-income professionals with little location-specific human capital.
  - Preferential tax regimes for foreigners – whereby foreigners coming to the country are given tax breaks for a few years – are widespread, but are "beggar-thy-neighbor" policies.

Pillar 3. Reducing fiscal leakages by reducing avoidance and evasion.

- **Expanding third-party reporting.** Banks could act as third parties for private businesses and partnerships.
- **Leveraging Data Analytics to reduce non-compliance.** Predictive algorithms, machine learning, and AI. Make data available to & cooperate with researchers.
- **Giving resources to tax enforcement.** Tax administrations need investment in their technology infrastructure (software & hardware), advanced analytical capacities, and regular staff training.

Pillar 3. Corporate and multinational taxation

- **Revenue potential & fairness concerns** (exacerbated by crises like financial crisis 2008, Covid-19).
- **Base Erosion and Profit Shifting (BEPS)** initiative by the G-20 and the OECD has produced and pushed a set of recommendations to ensure a better taxation of multinationals.
- **Minimum taxes** (e.g., GILTI in the US or BEPS Pillar 2) can lead to a "race to the top", if implemented (even unilaterally) by a large country or block of countries. See Clausing, Saez, and Zucman (2020).

Surveys as a key tool for understanding citizens and designing policies.

- Large-scale surveys could become a continuously used, well-designed, and interactive policy tool.
- Key way for eliciting perceptions, knowledge, understanding, attitudes, and views.
- Deployed on a variety of issues by researchers, as exemplified by the studies of the Social Economics Lab at Harvard (socialeconomicslab.org).
- For policy can be a tool for exploration, impact testing in real time, iterative feedback, evaluation.