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The Long-Term Impact of Covid 19 to Inequality

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Abstract

The Covid 19 pandemic has been the most unique catastrophe in recent times. More than 170 million people have been infected, at least 3.5 million people have lost their lives and the end is still not in sight. Governments all over the world have increased their spending to battle the pandemic. While the world battles this pandemic, one glaring aspect is financial inequality. Covid 19 has had an impact on traditional businesses, personal savings and even governments. When life is at risk in the short-term, we are forced to react to make things better now. We are unable to consider the long-term impact of such decisions. Along with the labour market slump in several countries, we also see the nature of work changing in several industries. With no end in sight and 'new normal' being defined, we look at the effect of Covid 19 in increasing the inequality among people in the long-term. While most governments have concentrated on spending for survival, there needs to be a proper plan to make structural changes that address long-term problems of the lower income groups. This paper aims to point out the impact of the virus on different economic groups and consider measures that would attempt to reduce inequality in the long-term.

Introduction

The Covid 19 pandemic has impacted the entire globe for more than a year now. From pay cuts to job losses, the salaried class has seen a lot of change to their normal lives. Many people have lost their lives in an untimely manner and we are not sure when this will end. The unemployment rate is higher in most countries and this has coincided with a time when people are uncertain all the time. With job losses and rise in necessary expenses, governments are stepping in with various policies to help people face the pandemic. While the impact is global, the impact on people who have no active income is graver. With the pandemic affecting different people differently, economic inequality is an unintended effect. In this paper, we look at the different reactions globally and the possible long-term impact of such policies globally on the working class.

I. What is inequality? Why is it important?

Economic inequality is the unequal distribution of income and opportunity between different groups in society. It is a concern in almost all countries around the world. This is usually showcased by a huge and widening gap between the rich and the poor. It is something that many countries in the world have been battling for years. A high level of inequality constitutes a barrier to future economic growth because it obstructs productive investment, limits consumptive capacity of the economy, and undermines the institutions necessary for fair societies. Extreme inequality can destabilize the society. While the virus affects everyone, the economic impact is different among different sections of the people.

II. The Covid 19 Pandemic

Regarded as one of the deadliest pandemics in history, the Covid 19 was declared as a public health emergency in January 2020. It was declared as a pandemic less than three months later. It has caused significant social and economic disruptions and it has caused the largest economic disruption in recent memory. Fifteen months later, we are still facing this pandemic with no end in sight. While the virus has infected around 170 million people, the impact has been felt in almost all the country by the entire global population. No catastrophe in recent memory has had such an impact on the entire population.

II.A. Policy-makers and Money Supply

One of the most common reactions to the pandemic has been rate-cuts offered by the central banks of most countries. Taking an example of the US Fed Fund rate, it has fallen significantly during this period. Rising from less than 0.5% in 2016 to 2.44% in April 2019, the rate now stands at less than 0.1% which is very close to a 10-year low. The objective of the rate cut is to boost economic spending and put money in the hands of the public and businesses which is right, given the circumstances. With uncertainties and difficulty in managing businesses, one of the most common approaches is to make money freely available for businesses. Most policymakers have followed a similar strategy. This is in addition to stimuli given to boost the economy by most governments.

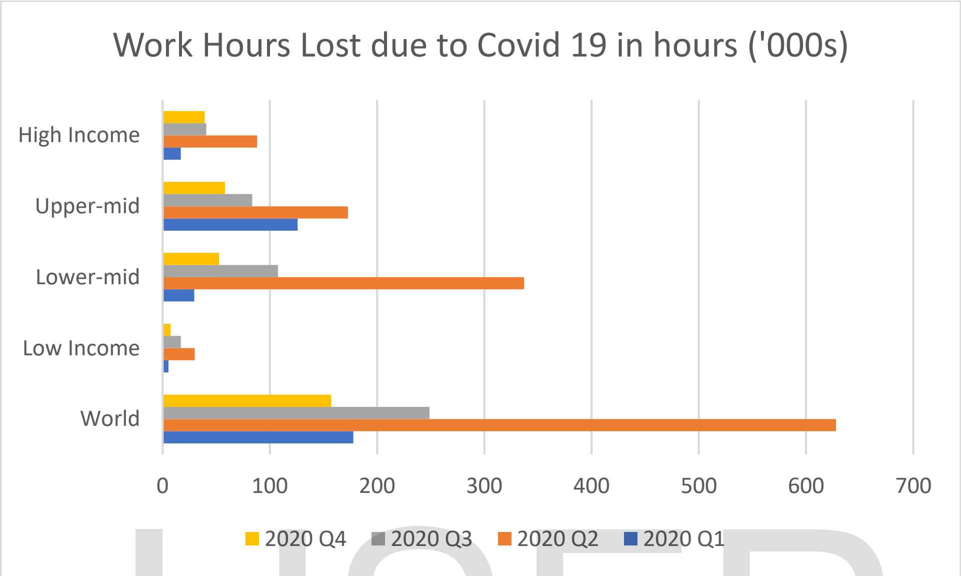
II.B. Inflation and Wage Erosion

This has also seen an increase in inflation rate which is an unintended consequence. This has been played down as a temporary increase to signal the reopening of economies. Rise in cost of production is attributed to several factors like raw-material shortage and supply-chain disruptions but we cannot deny the obvious. This is eroding wages from workers. A lot of people are spending more as they have more money to spend. This has been attributed to pent-up demand. Our attention is still on more pressing concerns in the present. When we look deeper into savings and spending patterns, we see that there is a huge difference between people of different income levels. Inflation is very different to control but the impact is more on people who have very little to spend.

II.C. Lockdowns and Shrinking Economies

The pandemic started off slowly in specific parts of the world but took a very short time to cripple even the strongest economies. Most countries were forced to implement lockdowns to contain the spread. While a few businesses were able to use this as an opportunity to work remotely, a significant number of businesses have struggled. Many businesses have been shutdown due to this. While job loss was one effect, there were also several cases of subsidising wages. Further, the lockdowns have also made it difficult for people to search for jobs. Without being able to move freely to look for work, many people have continued to be unemployed for longer durations. With increased job losses and decreased labour market participation, unemployment rates have reached new highs in several countries. Some of these were temporary but certain economies have struggled to get past this. Unemployment benefits have been raised, companies have been mandated to pay full wages for short periods, job retention schemes have been introduced and contributions to pension schemes and unemployment insurance schemes have been waived. The policy response has been different in different countries but most responses have been aimed to help the people financially in the short-term. Cash transfers and free rations have also been given in certain cases for low-income groups. While this is absolutely necessary, not all companies can take this loss in revenue. There is always a cost involved in such schemes. Only governments and few large corporations can afford to do this even for a short duration. On the other hand, we also see increase in inflation which puts more economic strain on the people.

The effect of the virus on the market can be gauged by looking at the work hours lost due to it. Q2 2020 was the period when the impact was the highest but the impact on the lower and lower-mid income groups dwarfs the rest of the workforce. While there were deviations in the trend even during this period, the long term impacts have been skewed against the low income and low skilled workers.



Source : ILOstat

III. Personal Savings

One of the key aspects of personal savings is the interest earned on deposits. It is easy to understand that households with job-losses will be significantly stressed. With lower interest rates, many people see erosion of capital from their savings. Among those still in the job market, most people claim to be able to add the same amount or slightly lesser to their savings during this period. This is where the impact of Covid 19 diverges.

The high-income groups remain largely indifferent to the economic shock caused by the pandemic. They have been cautious but their savings rate has remained constant and many people have been able to add to their savings after being able to cut down on luxury expenses. With decrease in expenses, the high-income group has seen an increase in savings. The decrease has been majorly in spending on luxuries. On the other end of the spectrum, low-income households have been seen their savings take a hit. Plenty of them have seen their credit scores decline and most of them consider their financial health to be worse than before the pandemic. Several people will need to delay their retirement.

One end of the spectrum struggles to make ends meet and put their long-term financial health at peril. These are expenses that cannot be avoided as we see a trend where this is done mostly for essentials and healthcare. Despite governments spending freely on healthcare and fighting the virus, the cost incurred is not just monetary. This virus has impacted people physically, mentally and financially. Finding work in this scenario, limited capacity during the recovery and even the fear to step out take a toll on the lower-income groups. Many people have seen their debt rise significantly. Several governments brought policies to defer a few loan payments. While this is a timely assistance, it is only delaying the inevitable when they lose employment or see their wages take a hit.

III.A. Change in Purchase Patterns

A lot of things were uncertain when governments started imposing lockdowns. Even the concept of lockdown was mostly unheard of. Most people did not even understand what this would mean to their lives. This started a feeling of widespread panic where people did not know if necessities would be available. People became nervous and impulsive. People began to buy anything they could get their hands on. This was particularly evident with consumer goods. Even large stores were found empty after people flocked to make purchases. Most of the items they bought were not even necessary. Most people began to stock up on anything they perceived would not be available in the near future. There were several reasons for this. Some anticipated a rise in price while others were unsure of availability in the near future. This happened in more than seventy countries in the world.

III.B. Retirement Savings

Covid 19 has hurt our physical health greatly and also our mental health indirectly. With our lives in danger, we have not had the time to worry about financial health. Mankind thrives after catastrophes but this one is not over yet. Not all countries have pension schemes. Most people from the private sector depend on interest income on deposits after retirement. With no active income or opportunity to find jobs, this income is crucial for them. With falling rates, there is a real possibility of capital erosion. This is not a good time to be retired unless you have a comfortable amount of money or minimal expenses or both.

Several countries are now allowing penalty-free withdrawals from their retirement savings. While this could provide relief in the short-term, people should use this judiciously.

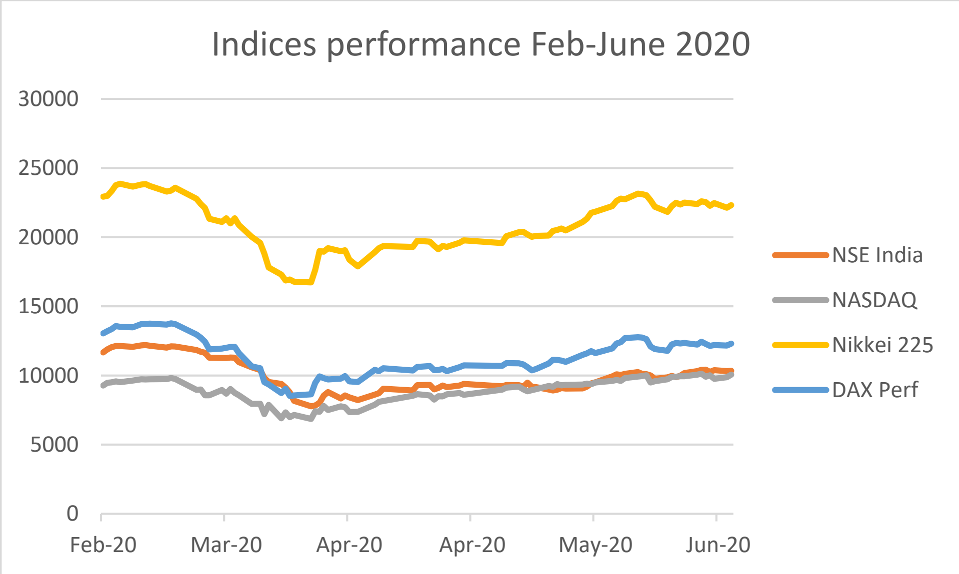
This has the potential to destroy financial health in the long-run. People will not realize it now but they may be forced to prolong their careers due to their actions in this time. People should consider slashing budgets and other options rather than dipping into retirement savings. Taking money out of retirement funds risks of future earning potential.

IV. Changing Business Landscapes

Technology firms have been least affected by the pandemic. Empowered by the facility to work remotely, most tech firms have been able to continue operations as usual. It is the manufacturing sector that has faced more disruption with restrictions placed on travel and working on-site. Several other industries like have been completely disrupted. Smaller businesses have faced the brunt of it. These are businesses which cannot survive the loss of revenue for even a few days.

IV.A. Global Stock Markets

The common man and the people from low-income households are not those who are driving the stock markets. The world is in a pandemic but the stock market has grown. We experienced a temporary drop from February 2020 onwards in most markets but in a matter of six months, the market rebounded. The drop which began February stabilized in most indices within the next six months. Most markets are at new highs and several experts believe that this could be a bubble. With rise in money supply, there is more money in the markets. While this will not explain the complete story, this is a possible explanation for a part of the rise. This is another factor that benefits the high-income groups while the low-income groups remain impervious to this benefit. Several economists have called this a bubble. A lot of people have begun to experiment with trading during this period.



IV.B. Industrial Debt

The policy response to help industries during the pandemic has been manifold. A few common policies have been access to credit, temporary relief on loan repayments and favourable policy changes. However, many businesses suffer from lower revenues and higher costs of operation. This is especially true in labour intensive industries and customer facing industries like hospitality, travel and tourism. Smaller industries suffer despite being offered more credit simply because they do not have a proper environment to do business. Several businesses have closed down due to the impact of the pandemic. Just like individuals, there is a difference in how businesses of different scale have been affected.

IV.C. A New Normal

The few businesses that have managed to thrive during this pandemic are the ones that have been able to adapt to the restrictions imposed due to the coronavirus and use it to their benefit. Tech companies have cut costs by empowering employees to work remotely. Several other businesses have also found innovative ways to survive in the pandemic. The key has been managing the workforce and optimizing it. Even labour intensive companies are identifying roles which do not need physical presence to enable remote working. Several businesses are now accustomed to safe practices like provision of masks and PPEs, social distancing, temperature checks and other new costs of operations. With no end in sight, this may become a part of usual business. That would become an added cost to several businesses.

V. Policies and Demand for Labour

With several policies taken by governments all over the world to improve the present living conditions of the lower-income groups, we can say that governments are looking at the right issues. Many governments are providing free vaccination for all the people. This is another step in the right direction. After having debated the vaccine, we are now at a stage where we cannot deny it anymore. Sooner or later, everyone will need to get vaccinated. Several countries are mandating vaccination for international travellers. Vaccination comes at a cost and not all of the public can afford it.

The same measures that have been used to halt the spread of the deadly virus has had an impact on the demand for skills. There has been an increase in vacancies for jobs with remote-working arrangements. Many people have used internet based applications for the first time in their lives at work. During in initial stages of the pandemic, job vacancies had dropped and several businesses were cautious. This was across different sectors and occupations. Over time, the adverse impact was seen mostly in jobs requiring lower qualifications and skills. The difference in demand for low skilled workers and high skilled workers was significant in a few countries. While the demand for workers in the 'front-line' sectors has continued to rise, the demand for workers in non-essential sectors saw a steep fall. Most governments encouraged companies to empower their workforce to work remotely. While this has been very beneficial for several companies and people, this contributes very less to low-income groups and informal labour sectors.

VI. Skewed Financial Impact

Even among countries that are spending to vaccinate their people, high-income countries have a significantly higher percentage of their population vaccinated. To put things into perspective, 16% of the global population have received nearly half of the world's vaccine doses. On a similar note, the global billionaire wealth increased by $3.9 trillion while the global worker's combined wealth fell by $3.7 billion. This is according to the report from ILO. Wealth of the richest has grown considerably while the wealth of the poorest has fallen significantly during the same period. We are reaching a situation of extreme inequality. This does not imply that we must blame the rich. The poor must be given the chance to build their skills and be able to afford the basic amenities. Everyone cannot become a billionaire but we must bring down the number of people dying without access to basic amenities and healthcare. That is the whole objective behind reducing inequality.

VII. Way Forward

An important aspect that we need to consider going forward is life after the coronavirus. A lot of the labour force has been immobilized. Such a long tenure of being locked-down can also cause erosion of skills. Even schools have reduced syllabus and cancelled exams. All of this was necessary for sustenance. However, governments must think of ways to improve employability of those who have lost their jobs during this period. The need for being tech savvy is greater now than before. An online classroom was a rarity only a few years ago. Today, we see everything including professional studies being done online. Corporate training programs are done online. There was an initial struggle in getting accustomed to seeing people on screens but now most people have been conditioned to it.

The world has changed significantly over the last two years due to the coronavirus. We will look back at a time in the future and see a drastic difference in the labour market before and after the pandemic. In addition to spending on necessities and fighting the virus, governments must plan ahead and make structural changes for enhancing skills. There should be policies which concentrate on training and upskilling low skilled labour. One must also note that the rise in demand for labour in essential services is likely drop after the virus has been dealt with adequately.

A few governments are expanding the public education system via state-owned television channels. Skills development drives can also be conducted in a similar manner. With proper awareness, this can reach those who will need it going forward. While not every skill can be taught this way, skills like communication can definitely be enhanced this way. Complete recovery from this pandemic has a long way to go but governments have to adapt their labour market for the future welfare of the people. This must be considered high-priority. Using the internet, online registrations, comfort with digital platforms and similar skills will be mandatory once the market reopens. While most of these skills are basic, a large part of the workforce struggle with it. Certain professions may have changed permanently with people having grown accustomed to working-remotely. It also opens up new possibilities where people need not migrate in search of jobs.

With more companies investing in automation technologies even during the crisis, the low skilled workers are more vulnerable to becoming obsolete. This may be another unintended risk from the coronavirus. Retraining and upskilling is difficult but it may be critical as we move towards restoring economic activity. Demand-driven skills development on a mass scale will help the people improve their lives.

VIII. How does this Fix Inequality

Across the sectors and industries where we have seen job losses, it has been the low skilled and low-income groups who have suffered. The rich may or may not be getting richer but the poor are losing their jobs. Improving their skills increases their employability which is the only way we can fight inequality. Poverty is inevitable, some people are more skilled than the others and the world is not fair but the governments owe it to their people to make such structural reforms to give them a fighting chance.

Let us look at the numbers. According to the ILO, 1.2 billion people in the G20 countries are part of informal employment. The population of the world was 7.8 billion as of 2020. This is a huge chunk of the population that is currently at a risk of significantly reducing both their earning and their earning potential.

Conclusion

The damage that the coronavirus has caused us has been undeniable. The financial impact due to the virus has been skewed and has the potential to increase inequality among people. With risks of unemployment, delayed retirements, permanent job losses and more, there is a need for structural changes by governments in order to improve the long-term prospects of the working class. The pandemic has put huge pressure on governments to spend on healthcare and reviving the economy. A key aspect to economic revival will be to upskill the working class who are currently in danger of losing their employability. With this effort, countries can come out of the pandemic stronger than before.

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Declarations

To the best of my knowledge, I declare that

- All data used in the paper have been publicly available
- There are no competing interests and I am the sole author for this paper
- There has been no external funding for this paper
- I am the sole author of this paper. All contributions are mine
- There is no acknowledgment to other contributions