The pandemic has enriched some and weakened others. That makes new policies even more urgent

Many workers have lost out with the shift to remote working and online shopping, but others will gain. ***Aveek Bhattacharya (LSE and Social Market Foundation)*** *says this means the case for overdue shifts in policy – such as a progressive wealth tax, a jobs guarantee and support for adult education – is even stronger than before.*

When the current health emergency begins to pass, COVID-19 will continue to shape the economy in two ways. The first will be the enduring legacy of the temporary shocks the economy has received, which take time to absorb. That means higher unemployment, which is forecast to peak at 7.5% (or around 2.6 million people). It means higher levels of debt, not just for the government but more concerningly for businesses, with 900,000 firms at risk of closure by April. It means higher savings for most households as a result of reduced spending on things like commuting and eating out – the overall savings rate has risen from 10% to 29% of disposable income. But for a significant minority, hit by furlough, pay cuts or unemployment, it means more precarious finances – two million more people are now categorised as having low financial resilience. The educational impact of school, college and university closures could also weigh on the economy in years to come: on average, pupils are estimated to have lost two months worth of learning over the last year.

> One possible silver lining might lie in the housing market

Second, COVID-19 has brought structural changes to the economy, often accelerating changes that were already in train. Remote working is likely to become far more common: around half of workers have done some work from home over the course of the pandemic, and the majority would like to continue to do so. More spending will be online. Internet sales have risen from less than a fifth to over a third of all retail. Several markets are likely to consolidate, with smaller firms going bust, and larger 'superstar' firms like Amazon profiting from or being able to ride out the crisis. 15% of firms with fewer than 10 employees are currently facing failure, compared to 4% of firms with over 100 workers.

The picture for automation is less clear. Some companies have invested in technology to adapt to social distancing – for example, using drone deliveries or robots for meatpacking. However, high unemployment pushing down labour costs could discourage further uptake or indeed lead to backsliding – just as the Great Recession led to the resurgence of hand car washes.

What does it mean for inequality?

Almost all of these developments seem like bad news for economic equality. The shift to online shopping will continue to hit the retail sector, which employs a large number of low-skilled workers. Those in professional, higher-paying 'white collar' work are more able to take advantage of home working and the cost savings it brings. That will continue to exacerbate the gap in savings between the richest and poorest. Industry consolidation is also liable to increase inequality: large superstar firms tend to pay out a smaller share of their income in wages to workers, with a higher share going to wealthier shareholders. Over the longer term, this will be compounded by higher educational inequality: children and young people from disadvantaged backgrounds have been worst affected by the disruption to their studies.

Comfortable for some … working from home. Photo: Mr Thinktank via a CC BY 2.0 licence

One possible silver lining might lie in the housing market, which plays a central role in Britain's inequalities. Remote working is likely to shift economic activity away from more expensive cities. In the first instance, this will benefit the more affluent workers who are able to work from home. However, as they shift their spending to local shops and restaurants, it is likely to create opportunities for lower-skilled workers to move out to cheaper areas as well.

> COVID-19 could encourage spending on health, social care and education – all of which are major employers of women

It is possible to imagine a future in which COVID-19 spurs a reduction in inequality between regions. But this would require people to move much further than they currently do. Analysis of the likely economic impact of remote working based on existing commuting patterns suggests that the areas likely to benefit most are towns and suburbs close to major cities, especially in the South East, rather than poorer and more distant parts of the country.

COVID-19 could also have a negative effect on gender equality. Women were marginally more likely to be put on furlough. They are more likely to work in retail, and so are more exposed to job losses in that sector. Moreover, those that lose their jobs may be more likely to drop out of the workforce if they are unable to find similarly flexible work to fit around caring responsibilities.

On the other hand, COVID-19 could encourage spending on health, social care and education – all of which are major employers of women. Women may who bear the larger share of family care duties may benefit from increased opportunities to work from home – although this risks reinforcing the pressure for them to choose part-time and remote work that results in them falling behind male peers.

The impact of COVID-19 on global inequality has been less bad than might have been feared. The global distribution of income has become slightly more unequal, but this is a consequence of China (now a middle income country) growing faster than poorer countries. In general, poor countries have fared better than richer ones so far – which was far from certain when the crisis broke. The key question is whether that will remain the case, with vaccination moving painfully slowly in Africa and a number of countries facing debt crises.

What should policymakers do?

If the social impact of the pandemic can be described as the same trends as existed before, just arriving sooner, the policy response largely consists of things governments should have been doing anyway – just more urgently. The case for progressive taxes, perhaps on wealth, has only grown stronger. The government should actively seek to support employment, maybe through a jobs guarantee. More support for skills and learning – particularly adult education – will be essential to ensuring people can adapt to the changing needs of the economy. Investment in transport and telecommunications infrastructure can help promote regional rebalancing.

While the UK faces plenty of challenges itself, it should do what it can to support poorer countries through their public health and economic recoveries. Left unchecked, coronavirus could lead to even greater inequalities than the ones we experienced before the pandemic. The task of policymakers in the years to come will be to make sure that does not happen.

This post represents the views of the author and not those of the COVID-19 blog, nor LSE. It is based on Aveek Bhattacharya's contribution to COVID-19, Inequalities and the Future of Work, an event hosted by LSE in February 2020.

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