



Transcript of IMF podcast:

Jonathan Ostry on How Pandemics Widen the Gap

Jonathan Ostry:

When there's a cataclysmic event, like COVID, it's like a war and it's a period where we ask people to be warriors, to go to the front lines. And I'm not just talking about doctors and nurses and the whole healthcare sector, but also transit workers, people work in the food sector, cashiers at supermarkets. We are asking these people to put their health and their lives on the line for us, and they are doing so.

Bruce Edwards:

Welcome to this podcast produced by the International Monetary Fund. I'm Bruce Edwards. In this program while rich and poor are equally vulnerable to the debilitating physical effects of COVID-19, the economic and social impact of the pandemic is much less equal with the poor and the working class bearing the brunt of it.

Jonathan Ostry:

I'm Jonathan Ostry, Deputy Director in the Asian Department, and until recently, was Deputy Director in the Research Department and it was there that I started working on inequality issues, and it's a continuing interest of mine. The ability of society to function in these circumstances really depends on a level of trust. Trust amongst the citizens and trust between the government and the citizens. And I think that the sort of contract that makes that trust feasible is that the people, the veterans of this war as it were, are not going to be hung out to dry after the war is over. So we need to know who is hurt more in a pandemic like this. And that really is a question about distribution and inequality. And I think this is actually a very important time to focus on distributional and equity type of issues.

Bruce Edwards:

And so do you think that pandemics do actually increase inequality?

Jonathan Ostry:

We had an inkling that this might be the case, but there was no study that really had formally looked at this. At least none that we were able to find. And so we collected data that allowed us to explore this question. And the answer was yes. When we look at major epidemics and pandemics over the past several decades, events that we all know like SARS and swine flu and H1N1 and so forth, what we do see is that in the aftermath of these episodes, there is a perceptible increase in inequality. And inequality can be measured in different ways. Some

perceptible increase in inequality, and inequality can be measured in different ways. Some people use what's called the Gini coefficient. Others like to look at income accruing to different deciles of the population. And so you can compare lower deciles and higher deciles and see whether income gaps between the haves and the have-nots actually widen, and they do.

Jonathan Ostry:

You can look at things like employment and see whether those with only a basic education tend to lose their job opportunities relatively more. And whether those with higher skills, more advanced qualifications, have more resilience in the face of the downturn. And again, the employment story is very striking. So I think yes, in short, past pandemics have generated an increase in inequality. And there's every reason to believe that this pandemic will very likely generate a larger increase in inequality than in the past. Because this pandemic is just that much more severe and affecting many more people and leading to a bigger contraction of economies than those in the past.

Bruce Edwards:

But it does seem counterintuitive, when we talk about how this virus does not distinguish between the rich and the poor and how everyone is affected regardless of their status, why are some groups suffering more than others?

Jonathan Ostry:

I think there are three reasons. If you look at quite granular data, say data on infections and mortalities and so forth, by neighborhoods, by zip codes- and there is quite a bit of analysis that's started to emerge on this, you find that in poor zip codes, poor neighborhoods, folks are much more likely to test positive for this virus than in richer neighborhoods.

Jonathan Ostry:

The second is that if you do test positive and you happen to be in a poor neighborhood, you're much more likely to die. And it's a really horrible observation, but it happens to be true.

Jonathan Ostry:

And the third reason is that you and I, Bruce, we can work from home, our job allows this. But a lot of folks who are on the front lines here cannot work from home. They have to go to lower paying jobs, often having to use public transportation. And that's probably one way that their infection rate is that much higher. And a lot of these folks are poor, they tend to be from minorities and it is striking for example, in the United States, how much greater the share of infections and deaths are, say for African-Americans relative to their shares in the population. So I think for these three reasons, while it is a virus that is affecting everybody, it affects some much more than others.

Bruce Edwards:

And so you mentioned earlier there, the Gini coefficient, and this is something that you also used in your study to measure inequality. How long does it take for a situation like COVID-19 where things are rapidly changing, how long does it take for that shock to actually show up in the metric?

Jonathan Ostry:

So it's an effect that seems to build over time. It's perceptible say in the year following the shock, but it doesn't dissipate. So it's something that is still there, say five years after the shock has occurred. And I would add that the one thing that really struck us when we looked at this and that admittedly deserves further scrutiny, and that's something we plan to look at more, is that you can look at the Gini, sort of the market Gini, the Gini coefficient for market incomes. And then you can also look at the Gini for disposable income, so after taxes and transfers have worked their way through the system. And what we had expected to find was that the increase in

inequality in post tax and transfer incomes would be less than in pre-tax and transfer income simply because governments are really trying to protect the most vulnerable through the tax and transfers that they give.

Jonathan Ostry:

But what struck us is that actually over several years, it looks like the worsening of inequality, post tax and transfer is actually worse than the increase in inequality, pre-tax and transfers. So it looks as though at least on the face of it, and again, I think this deserves more scrutiny, that the efforts to do good for the more vulnerable folks in society have actually ended up not working as intended. And that's quite a disturbing feature of the data.

Bruce Edwards:

And so the study shows that these low skilled workers will suffer more and for a longer period in the wake of the pandemic, but isn't there a ... Like there should be a big demand for these workers during, and after the pandemic in the form of delivery, shipping, care workers, cleaners, manufacturing, all those things. Is there not a great demand for these workers? And would that not help maintain these people's livelihoods?

Jonathan Ostry:

Yeah. I mean, I think that's a very reasonable question. The issue though, is that this is macro economically a very big shock. So what we've observed is yes, there's a demand for health care workers, for transit workers, for supermarket cashiers and all of these frontline workers, but there's also a lot of unemployed people out there. So why aren't supermarket cashiers who are on the front lines as well, doing well? And the answer is, well, the waitresses and the Uber drivers that are out of work can easily take their place. So their bargaining power, notwithstanding that their frontline workers, is actually not that great in the face of this big rise in unemployment.

Jonathan Ostry:

The other thing is that I think one aspect of this crisis and others that have proceeded it is that management of companies may decide that this is an opportunity to substitute more away from unskilled labor. We've all been to the supermarket and we can choose the self checkout line and that's a very visible substitution of unskilled labor for something else, for a technologically based solution. And you might well see firms opting to a greater extent for that going down the road. And so again, you'll see probably that skilled workers, people with quite a bit of education and skills, they'll be fairly resilient. They can be complimentary to these technologically based capital and automation and so forth, but that the unskilled workers again, have very limited bargaining power and are likely to be much less well-placed.

Bruce Edwards:

And sticking to this low skilled worker theme here for a minute. Do you look at wage inequality or income disparity during a pandemic like this, where you have essential workers, like you mentioned earlier, doctors and nurses alongside cleaners and the delivery people, and many of the essential workers are low skilled, but with very different income levels. Do you think that a pandemic like this might prompt people to reevaluate the real value of these workers?

Jonathan Ostry:

Well, that would be my hope. I would hope that the visibility of what these frontline workers are doing for the greater good would hopefully build support for some kind of a new social contract where the sort of traditional aftermath of an event like this, where these workers in a way are left out in the cold, that that would not transpire again. So I think we need very basic things like broadening and making more generous, the social safety net and to supporting firms, small businesses especially that are the cornerstone for employment of these lower skilled workers. But we may have think more radically in terms of more universal solutions like universal access to healthcare and to basic incomes and much more progressivity in the tax system.

Jonathan Ostry:

So I certainly see a danger that when this is over, some of these issues that are being discussed today may fall off the radar screen. Many people think crises afford unique opportunities. I hope this one really puts these distributional issues center stage because it is an opportunity to make sure that what we have seen from past, in the aftermath of past pandemics does not recur so that history does not repeat itself.

Bruce Edwards:

And so some economists have noted, and I'm thinking here of Walter Scheidel who published a book called *The Great Leveler* about how he thinks that essentially it's only pandemics and catastrophes that can effectively reduce inequality. And how throughout history plagues have repeatedly destroyed the fortunes of the rich and helped reduce inequality. Why did the pandemics in your study seem to have the opposite effect?

Jonathan Ostry:

Yeah, I think there's two components to that answer. Let me start with Scheidel's work, which I have a lot of respect for. I mean, is really looking at plagues and so forth that happened centuries ago. Essentially, if you think of something like the black death, there's just a whole fraction of the labor force, a big proportion of the labor force that actually perishes. And so in that sense, labor becomes more scarce, the capital labor issue rises and labor can command a higher price. And that's what's really going on. The bargaining power of labor is higher because labor is more scarce. What we've seen in sort of modern history, in the kinds of episodes that we look at over the past several decades with the improvement in medicine and in healthcare, pandemics no longer lead to these horrible death rates. And so labor as a whole does not become more scarce. And in particular, relatively unskilled labor does not become more scarce.

Jonathan Ostry:

No one would seriously consider that you want to go back to the middle ages and have big fractions of the labor force perish as a way to increase the bargaining power of labor. So it's a good thing. But this brings me to the second aspect, which is given that the mortality rates are not what they were centuries ago, what can policy do to actually make sure that workers, especially frontline workers, lower income workers, less educated workers are not hung out to dry. The kinds of policies that can be most effective, not only in terms of containing increases in inequality, but more broadly, what kinds of measures save lives? What kinds of measures save livelihoods? And we have some work that's ongoing on that and I think this is something that we'll continue to work on in the weeks ahead.

Bruce Edwards:

Thank you so much.

Jonathan Ostry:

Thank you.

Bruce Edwards:

Jonathan Ostry is a Deputy Director in the Asian Department at the IMF. You can read his blog on how pandemics impact the board at blogs.imf.org.

Bruce Edwards:

Look for other IMF podcasts wherever you get your podcasts, subscribe if you like what you're hearing and follow us on Twitter at [IMF_podcast](https://twitter.com/IMF_podcast). Thanks for listening.

IMF Podcasts home: <http://www.imf.org/en/News/Podcasts>

IMF/Libsyn home: <http://imfpodcast.imfpodcasts.libsynpro.com/>