

Written Evidence submitted by the Resolution Foundation

I am writing following Torsten Bell's appearance on 15 September. You asked whether we could provide more detail on a couple of issues.

On the way that people with disabilities and different ethnic groups have been impacted by the crisis.

In our original written evidence, we said that:

"2.1 Inequalities between minority groups have also been exacerbated by the crisis. Workers who were employed at the start of the crisis from a Black or Minority Ethnic background [were] 5 per cent more likely to have lost their job or be furloughed compared to White counterparts. When looking specifically at the population of 16-24-year olds, the unemployment rate for Black young people rose by ten percentage points to 35 per cent between Q2-Q4 2020 from 25 per cent during the same period in 2019. The change for the equivalent White population was a rise of three percentage points from 10 per cent to 13 per cent. Also controlling for education level, the size of the increase in unemployment amongst Black graduates was also three times the size as that for White graduates." This was drawing on K Henehen, "Uneven steps: Changes in youth unemployment and study since the onset of Covid-19", <https://www.resolutionfoundation.org/publications/uneven-steps/>

Separately, we have also looked at the outcomes for older workers. This found large negative employment effects among workers with a Black or minority ethnic background: 36 per cent of workers age 50 to 65 from a Black or minority ethnic background had stopped work, were furloughed, or lost pay, compared to 26 per cent of workers of the same age from a White background. These ethnicity-related differences in employment effects are somewhat corroborated by results from ONS the Labour Force Survey: between Q2-Q4 2019 and Q2-Q4 2020, the proportion of Black adults aged 50-64 who were unemployed rose nearly 2 percentage points (from 4.4 to 6.2 per cent), compared with a less than 1 percentage point rise among older White adults (from 1.6 to 1.9 per cent). These effects were particularly stark for older Black women: the proportion of Black women aged 50-64 who were unemployed more than doubled from 3 to 7.6 per cent, compared against a rise of less than one-third a percentage point (from 1.6 to 1.9 per cent) among their White counterparts. This is taken from N Cominetti, "A U-shaped crisis: The impact of the Covid-19 crisis on older workers", <https://www.resolutionfoundation.org/publications/a-u-shaped-crisis/>

I am afraid that neither pieces of analysis looked at whether the economic difficulties they faced be explained by the fact the people from ethnic minorities are more likely to be in certain occupations. We also did not look at the impact of the pandemic on people with disabilities.

On the links between inequality and growth

There has been a large growth in this research area over the past decade, with researchers asking how inequality affects economic growth (and here I am drawing on M Brewer, *What Do We Know And What Should We Do About Inequality?* SAGE Publishing) . This analysis is typically based on

looking across countries (or regions within countries) over long periods of time, and seeing what happens to growth after spells of especially high or low inequality. This is statistically challenging, and it has proven hard to assess how strong – and even in what direction – the link is between inequality and economic performance. Research is continuing, and it would be wrong to say that there is an academic consensus.

However, both the Organisation for Economic Co-operation and Development (the OECD) and the International Monetary Fund (the IMF) now conclude that, on average, high levels of inequality in a country lead to periods of lower, and less stable, economic growth in the future, and raise the risk of economic and political crises.

The most recent studies have investigated how the links between inequality and growth might vary across countries. One study suggested that the negative impact of inequality on growth is especially large in the Western hemisphere countries (dominated by South America), considerably smaller in European countries, and almost zero across all developed countries, on average; another found that higher inequality was bad for economic growth except in the poorest countries, where it stimulated growth. The IMF estimates that a 1 percentage point fall in the Gini coefficient in the UK could permanently increase growth rates by just under 0.1 percentage points. Similarly, OECD research implies that the UK economy could have grown 20% faster over the 1990–2010 period had inequality remained at its 1985 level, which would mean our economy would now be 6% larger than it is now (although the OECD study probably overstates the negative impact of inequality on growth).

There are a variety of mechanisms behind this:

- High levels of inequality make us unwell, less trusting, more selfish, and so on – the Pickett and Wilkinson argument – and so of these will directly weaken the performance of our economy.
- Evidence suggests that more unequal economies are more sensitive to the economic cycle. And note that there is a vicious circle here: economic instability, in general, will worsen inequality, because the rich are much more likely to have resources which they can fall back on in tough times, which leads to greater instability in future.
- There may also be a link from economic inequality to politics and policy: increased inequality might lead to political instability or a lack of social consensus – the feeling that ‘we are all in it together’. This in turn might mean that countries spend less on universal public services, or invest less in physical infrastructure or in their citizens’ education and skills than they otherwise would, or be less likely to take difficult decisions when hit by crises. All of these could lower future economic growth.
- Because the rich tend to save more of the income than the poor, an increased fraction of the economy going to the rich would (all things equal) reduce domestic consumption, one of the drivers of growth.
- Joseph Stiglitz, a very vocal critic of inequality, is especially critical of the harmful influence of the very rich on economic, political and cultural life in the United States. Part of his argument is that those who are receiving very high incomes find it more worthwhile to use the political system to protect their economic position than they do to innovate or generate value for the rest of society.

As the OECD says: “The notion that one can enjoy the benefits from one’s own efforts has always been a powerful incentive to invest in human capital, new ideas and new products, as well as to undertake risky commercial ventures. But beyond a certain point, and not least during an economic crisis, growing income inequalities can undermine the foundations of market economies. They can eventually lead to inequalities of opportunity. This smothers social mobility, and weakens incentives to invest in knowledge. The result is a misallocation of skills, and even waste through more unemployment, ultimately undermining efficiency and growth potential.”

www.oecd.org/economy/growth-and-inequality-close-relationship.htm

Key references include:

Cingano, F. (2014) Trends in Income Inequality and its Impact on Economic Growth. OECD Social, Employment and Migration Working Papers, No. 163. Paris: OECD. doi:10.1787/5jxrjncwv6j-en

Rowlingson, K. (2011) Does Income Inequality Cause Health and Social Problems? York: The Joseph Rowntree Foundation.

Stiglitz, J. E. (2012) The Price of Inequality. Harmondsworth: Penguin.

Ostry, J., Loungani, P. and Berg, A. (2019) Confronting Inequality: How Societies Can Choose Inclusive Growth. New York: Columbia University Press.

I hope this is useful

Yours sincerely

Dr Mike Brewer
Deputy Chief Economist

October 2021