WE CAN'T LET CORONAVIRUS WORSEN INEQUALITY

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Over the three-month American summer break, school students regularly diverge. In high-income families, students keep learning, thanks to museum trips, instructional camps and home tutoring. In low-income families, students slip backwards, losing one to two months' worth of learning by the time they return to school. According to one study, the 'summer slide' accounts for two-thirds of the difference between poor and rich students (Alexander *et al.* 2007).

The gap between high-performing and low-performing children in Australia is already larger than in most advanced nations. With a large share of families homeschooling, this problem is likely to worsen. As Armitage and Nellums (2020) note, 'School closures impede learning and compound inequities, disproportionately affecting disadvantaged children'.

Before the coronavirus crisis struck, social scientists had identified a class gap in Australians' parenting approaches. University-educated parents spend around 40 percent more time doing educational activities with their young children than parents without a high school qualification (Kalil *et al.* 2012). The reverse is true when it comes to screen time: children from more advantaged backgrounds tend to spend less time watching television and playing video games.

As Australian schools shut down during March and April 2020, many advantaged children were intensively tutored by their parents. Other children were literally left to their own devices.

Before COVID-19 hit, the majority of Australians already thought that there was too much inequality. In the 2019 Australian Election Study,

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people were twice as likely to agree than disagree with the statement that 'income and wealth should be redistributed towards ordinary working people' (Cameron and McAllister 2019: 112).

Yet there's a risk that the crisis will exacerbate inequality. When unemployment is high, employers tend to shun workers with disabilities, those with less education and people who don't fit their stereotypes.

The best defence against discrimination is a low jobless rate. This means that, if the unemployment rate spikes upwards and then takes some time to recover, it will be marginalised workers who pay the price. In its April 2020 *World Economic Outlook*, the International Monetary Fund forecast that unemployment would average 8 percent in 2020 and 9 percent in 2021 (IMF 2020). Not since the mid-1990s has the Australian unemployment rate been that high. The IMF's forecasts have Australian unemployment in 2020 and 2021 being higher than the average for advanced economies.

Distinctive dimensions of inequality

When it comes to inequality, this particular economic slump has some special features we should be concerned about. The effects of the early-1990s recession and the global financial crisis were felt hardest by the manufacturing and construction sectors, which tend to be male-dominated. Indeed, so many men lost their jobs in the 2008 crisis that some countries called it the 'man-cession'.

This time it's different. Service industries such as hospitality are dominated by women, who do much of the in-person work that is most affected by the shutdown. This means that the employment impact will be largest for women. The 'fem-cession' may have the effect of worsening the gender pay gap.

Another feature of the current economic malaise is that it has been worst for those with few assets. Even before the crisis, a sizeable share of Australians were living close to the edge. Analysing data from the 2018 *Household, Income and Labour Dynamics in Australia* survey (HILDA), the Melbourne Institute's Roger Wilkins reports that 12 percent of Australian adults said they couldn't raise $3,000 in a week to cover an emergency, 11 percent had been unable to pay an electricity, gas or phone bill on time, and 4 percent had skipped meals because of a shortage of money.

Asset inequality could make things worse. In past downturns, the share market and housing market have typically bounced back to their pre-crisis levels within a few years. So if you held on to your assets, then they recovered their value. But that didn't help for those who sold their investments at rock-bottom prices. For them, the pain of the downturn was worse than it needed to be.

That's the risk with the federal government's policy of allowing Australians to cash out $20,000 of their superannuation accounts. People with plenty of other assets and high levels of financial literacy will leave their superannuation to ride the rollercoaster. But those with fewer savings and less familiarity with investing are more likely to make the withdrawal. Already, the top fifth of Australians have 63 percent of household wealth, while the bottom fifth have less than 1 percent (ABS 2019). Don't expect the problem to get better as a result of these superannuation changes.

Is an increase in inequality inevitable? Not at all. To prevent the poor bearing the burden of this downturn, it is vital to ensure that low-income families are a priority throughout the crisis. Until a vaccine is developed, this means paying particular attention to the risks that COVID-19 poses to Indigenous and migrant communities, where houses are more crowded. Coronavirus is especially dangerous to people with compromised immune systems and pre-existing health conditions, as well as to homeless Australians and those in prison. Family violence and child abuse are exacerbated by overcrowded homes.

The inequalities can already be seen in the United States. While billionaire David Geffen posted a picture on Instagram of his US$590 million superyacht in the Caribbean ('Sunset last night… isolated in the Grenadines avoiding the virus. I'm hoping everybody is staying safe'), many less fortunate Americans were forced into doubled-up housing or homeless shelters.

As communities shut down across the US, mobile phone location data revealed that the rich reduced their movements more than the poor (Valentino-DeVries *et al.* 2020). African Americans are more likely to die of COVID-19 than whites (Yancy 2020). This year, coronavirus will kill more US prisoners than the death penalty (Gurman, Elinson and Paul 2020).

It is also vital to be thinking about the extra help that will be required to improve mental health. The stress and trauma of the crisis will be significant, and should be a priority for public health.

Across industries, many sectors are already heavily concentrated, which means consumers end up paying excessive prices. Analysing 481 industries, Leigh and Triggs (2016) estimate that, on average, the largest four firms control 36 percent of the market. Market concentration could exacerbate inequality, by transferring resources from consumers to shareholders. If policymakers aren't careful, this problem of market concentration could get even worse during the present downturn, as cash-rich behemoths use the opportunity to buy up their rivals. It's critical that the Australian Competition and Consumer Commission carefully scrutinises merger applications this year.

Challenges for policy

Australia has accumulated debt at an unprecedented rate in order to respond to this crisis. In 2013, Australia's net debt amounted to around 10 percent of GDP. In the 2019 budget, it was projected to peak at around 20 percent of GDP in 2019-20, before declining. As a result of the coronavirus response, net debt may end up at around 30 percent of GDP, or three times the level it was when the Coalition won office in 2013. How we pay back that debt will be a critical question.

Right now, the priority is to save jobs. However, as the health crisis passes, the conversation will turn in earnest to how we bring the budget into sustained surplus.

On both sides of politics, there are those peddling false hopes. Advocates of Laffernomics allege that cutting the company tax rate will boost economic growth so much that the budget will end up better off. Adherents to Modern Monetary Theory claim that the gap between revenue and expenditure can be bridged by printing money, a strategy they claim will have no adverse consequences. Neither promise is backed up by sound theory. Past corporate tax cuts have not paid for themselves. Governments that have tried to print money to cover their liabilities have learned the hard way that inflationary finance has limits (Summers 2019).

Other approaches are economically viable, but extremely unfair. Reducing expenditure on social programs – as the Coalition's 2014 budget proposed to do – would indeed shrink the deficit. But cutting the pension, Medicare and family benefits would mean that the burden of recovery would fall disproportionately on the most disadvantaged.

It would be a double burden to ask the most vulnerable Australians – who are suffering most in the slump – to bear more than their fair share of the recovery costs. It will be a painful road back to surplus if the Morrison government continues to defend tax loopholes for landlords and multinationals, and demands that Australia be one of the few advanced countries to spend 2 percent of GDP on defence.

It's not too early to be thinking about the shape of the recovery. If we get it right, Australia could emerge from this crisis a more connected community and a more egalitarian nation. But if we get it wrong, then the legacy of the crisis could be a sharply divided nation. The choice is ours.

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