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Global inequality in a time of pandemic

Jayati Ghosh [Jawaharlal Nehru University, New Delhi, India]

A global pandemic is a particularly bad time to be reminded of existing inequalities. But there is no doubt that the Covid-19 pandemic has highlighted the extent of inequalities between and within countries. Whatever may be the fond sentiments expressed by at least some global leaders, we are clearly *not* "all in this together". It is true that in principle, a virus is no respecter of class or other socio-economic distinctions: it enters human hosts without checking for such attributes. And the rapid global spread of this particular virus has shown that it is no respecter of national borders either, which points to the more fundamental truth that as long as anyone anywhere has a contagious disease, everyone everywhere is under threat. This should have made it obvious that ensuring universal access to health care and prevention is not about compassion, but about the survival of all. Unfortunately, that obvious truth is still not adequately recognised, mainly because existing structures of authority and power imbalances ensure that the rich and powerful continue to be more protected from both health risks and material privation.

Diseases tend to strike people differently depending not just on the strength of public health systems, but on existing fissures in society: of class, race and ethnicity, gender, caste and other divisions. There are poverty traps caused by negative feedback loops between the squalor associated with income poverty and infectious diseases. In unequal societies, poor and socially disadvantaged groups are both more likely to be exposed to Covid-19 and more likely to die from it, because the ability to take preventive measures, susceptibility to disease and access to treatment all vary greatly according to income, assets, occupation, location, and the like. That is why, even in rich countries like the United States, it has been found that death rates from coronavirus for blacks are nearly three times greater than those for white people (APM Research, 2020) and in some states, the ratio is as high as 6 or 7. In developing countries, such divisions are often even sharper. Perhaps even worse, the governments' containment policies for Covid-19 within countries have also shown extreme class bias, with possibly the most egregious example coming from India, where migrant workers have been at the receiving end of a particularly brutal yet ineffective lockdown that failed to control the virus yet devastated livelihoods, especially of informal workers (Stranded Workers Action Network 2020).

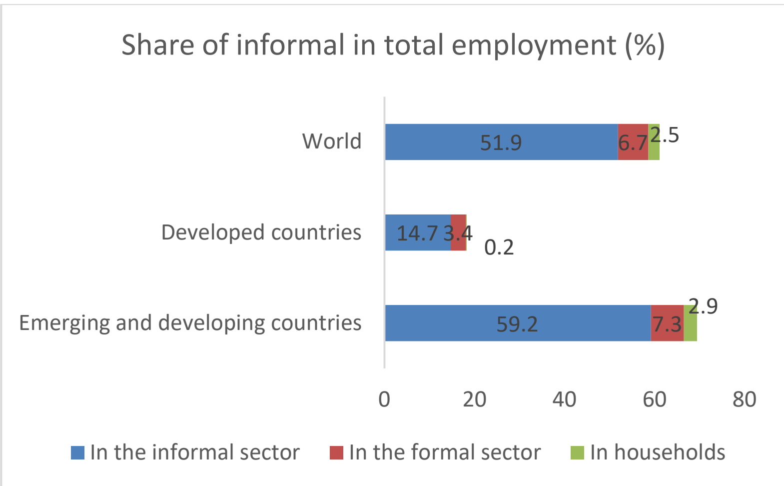
However, the differences across countries that have been revealed by this pandemic are also very stark. Globally, developing countries have been particularly hard hit by the economic forces that have been unleashed by economic lockdowns, the collapse of international trade and the volatility of cross-border capital flows. These adverse effects just over the months of March and April 2020 were significantly worse than the impact after the Global Financial Crisis in 2008 (UNCTAD, 2020a). These forced many developing and emerging market economies into severe crisis even *before* the health crisis really hit them; and have also reduced their capacity to deal with the likely health impact. There are three features of the nature of the global economy that are driving the dramatic increase in spatial inequalities in the period of the pandemic. These are: the differences in degrees of formalisation of labour market and legal/social protections available to workers; the nature of the external constraints, including volatile trade and capital flows; and the varying willingness and/or ability of governments to respond with fiscal stimuli.

The domination of informal work in the developing world

It is obvious that the worst material impacts of the lockdowns and other restrictions are being felt by informal workers, who face a dismal spectrum of probabilities of loss of livelihood, from declining earnings among the self-employed to job losses among paid workers. These are likely to intensify in the coming months. Even so, barring just a handful of countries, very few governments have declared strong measures to cope with these effects – and therefore they are letting loose forces that could be even more devastating for poor people across the world. In the worst-case scenario, this could even mean that more people could die from hunger and the inability to treat other health problems, than from the Covid-19 virus.

Just how seriously should we take the concerns of informal workers alone? The answer partly depends on how extensive the problem is. The ILO considers a worker to be informal if s/he is a worker whose social security is not paid for by the employer, is not entitled to paid annual leave and paid sick leave; or works in a household; or owns and runs an informal enterprise, typically in the form of self-employment, but also including micro-enterprises. Figure 1 shows that, according to the ILO, 61.2 per cent of all employment was informal, and most of this was also in informal sector enterprises that rarely if ever get the benefit of any government subsidies or protection even in periods of crisis. However, the point is that this is less of a problem in developed countries, where employment is still dominantly formal. In the emerging and developing countries as a group, informal workers account for as much as 70 per cent of all employment, so two out of every three workers are informal.

Figure 1 Share of informal in total employment

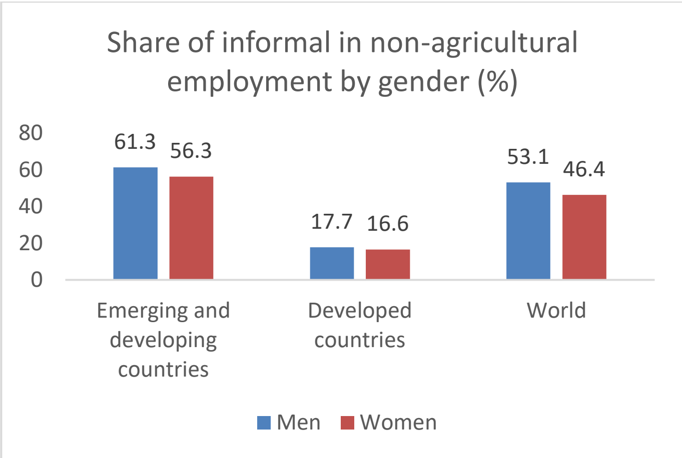


Source: Women and Men in the Informal Economy: A Statistical Picture, Geneva: ILO, 2018.

These are workers who lack most rights at work, decent working conditions and most forms of social protection except whatever minimal amounts may be provided by the state. They and their families are clearly the most vulnerable to any economic downturn. When such a downturn comes in the wake of an unprecedented public health calamity, the concerns are obviously multiplied.

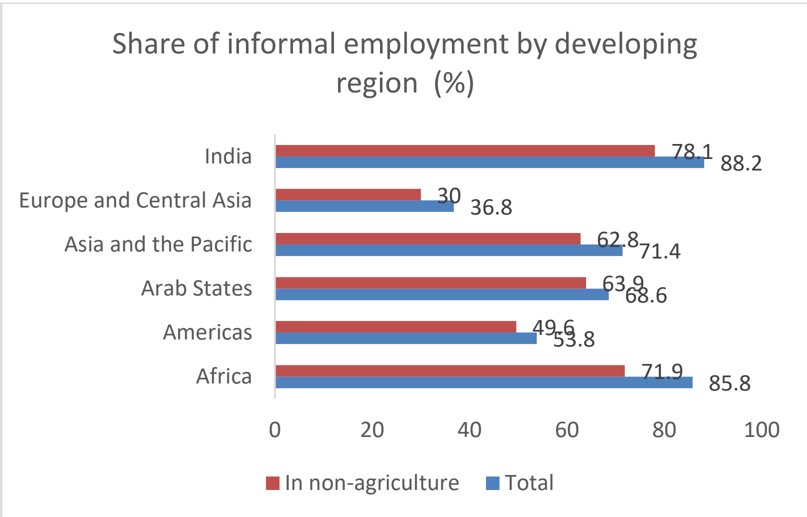
It is sometimes argued that, among informal workers, farmers do not need the same safety nets as other workers and can survive even in critical economic conditions because of the nature of their activity. This is no longer true given the interconnectedness of economies, and agriculturalists very much also need bailout packages specific to that sector. But the notion that informality is higher in developing countries because of the greater significance of agricultural employment is dispelled by Figure 2. Even in non-agricultural activities, informal workers predominate in the Global South, to the extent of making up 60 per cent of all such workers.

Figure 2 Informality in non-agricultural activities



Source: Women and Men in the Informal Economy: A Statistical Picture, Geneva: ILO, 2018.

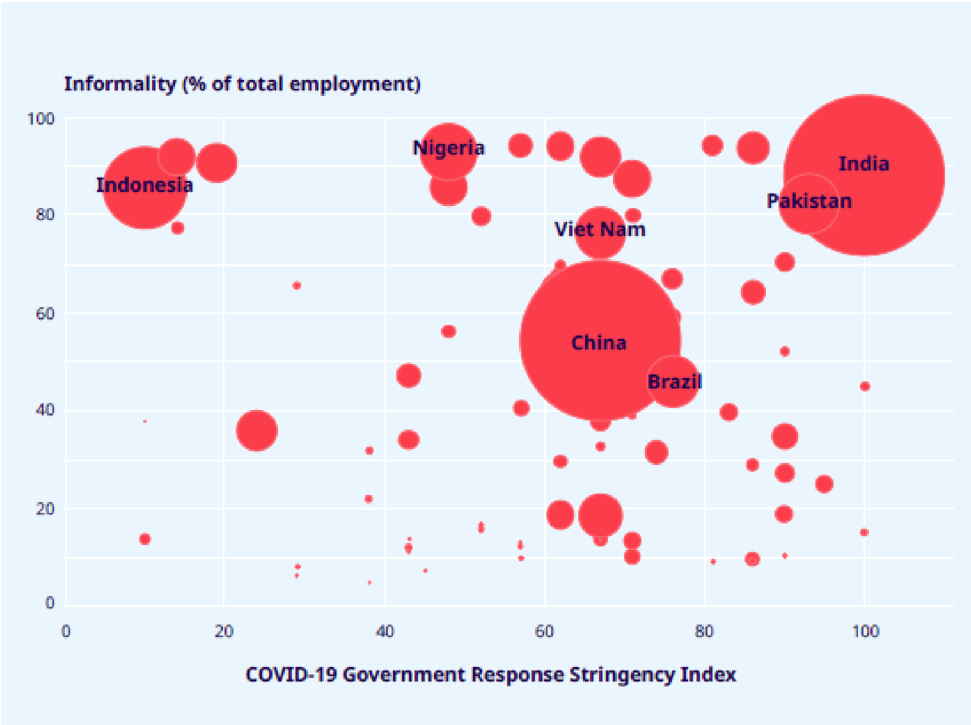
Figure 3 Informality across developing regions



Source: Women and Men in the Informal Economy: A Statistical Picture, Geneva: ILO, 2018.

Within in the developing world, there are significant variations across regions, as Figure 3 indicates. For example India – which is on the verge of a very substantial spike in Covid-19 cases, has a very large population and is poorly equipped to deal with an epidemic of such proportions – has one of the highest rates of employment informality in the developing world, much higher than the average of Asia and the Pacific or African countries. It is also the country that has implemented the most stringent lockdown, with devastating consequences for employment and livelihoods of informal workers. As Figure 4 indicates, many developing countries with extremely severe or moderately severe Covid-19 containment measures have disproportionately shares of informal workers.

Figure 4 Informal workers under lockdown and other containment measures



Source: ILO Monitor Covid-19 and the World of Work, 2nd edition 7 April 2020, Figure 3. Geneva: International Labour Organisation.

Note: The x-axis of this chart displays University of Oxford's COVID-19 Government Response Stringency Index. The vertical, y-axis shows informal employment as a share of total employment in the respective country, based on internal ILO calculations. As a third dimension, the respective size of each bubble shows the relative size of total informal employment in each country, which is calculated by multiplying the percentage of informal employment (i.e. the value shown on the y-axis) by total employment as per ILOSTAT's modelled estimates for 2020.

It is obvious that if the human suffering caused by this pandemic is to be minimised or reduced, both public health measures and safety net policies have to recognise this basic reality. Sudden cessation of economic activity through lockdowns can wreak havoc and cause acute distress among workers who lose incomes without any compensation and who do not benefit from any social protection. Further, it is not enough to recommend or even try to enforce the poorly phrased "social distancing" (more properly physical distancing) as a preventive measure, if people's conditions of work and life simply do not allow it. Containment policies have to provide the infrastructure and facilities that would enable people to follow the required rules: at the minimum, the wherewithal for cleanliness (like adequate clean water and soap) and ensuring physical distance. However, in most developing countries, containment strategies have broadly followed the pattern set by China and some developed countries, of strict lockdowns, exhortations to maintain physical distancing and frequent handwashing, with little regard to the practical feasibility or economic impact of such measures.

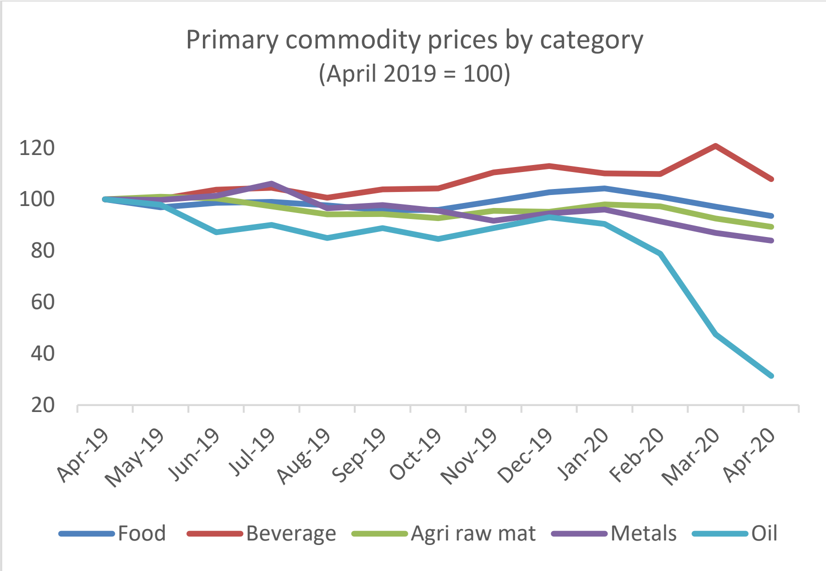
Also, to enable such workers and their families to follow rules that would minimise contagion, and survive both the possible onslaught of the disease and extreme loss of livelihood over this crisis period, income support and food provision are essential. In many developing countries, free public provision of basic food items (some of which are already supplied by the public distribution system) and time-bound cash transfers to all those who are not formally employed would be important measures for this. However, the institution of such measures has been mostly inadequate, uneven and patchy – for reasons that are not unrelated to the fiscal constraints discussed later. This means that greater proportions of the population in the developing world are both less protected from the virus and more adversely impacted by the containment measures, than in the developed countries.

A major macroeconomic consequence of the greater informality of employment prevalent in the developing world is the proportionate absence of automatic stabilisers, such as unemployment insurance or health insurance, that are typically associated with formal employment or more widely to be found in economies with greater proportions of formal workers. This can be especially significant when the pandemic and lockdowns lead to contracting economic activity, because stabilisers mitigate the reduction of demand that would inevitably result from such closures. By contrast, in developing countries where little or no such protection exists for the greater part of the workforce, restrictions on economic activity have even more adverse implications for aggregate demand. In the absence of adequate countercyclical fiscal policies (which are in fact less likely in developing countries, as argued below) this means that such economies are likely to experience deeper and possibly more prolonged declines in activity.

Trade, balance of payments and external debt concerns

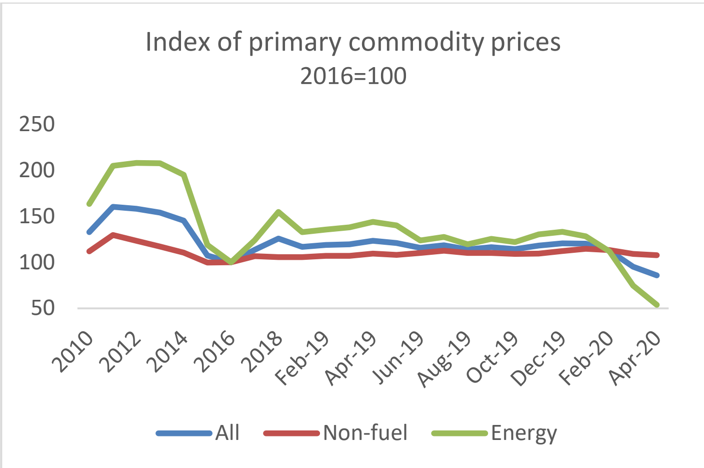
World trade in both goods and services is currently in sharp decline: the WTO expects world trade to fall anywhere between 12 and 32 percent over 2020 (WTO 2020a). Even these dismal projections could well be underestimates, because they implicitly rely on relatively rapid containment of the spread of the virus and lifting of lockdown measures by late summer 2020. During the phase of lockdown, cross-border trade in goods – other than those deemed "essential" – have effectively ceased in many countries; travel has declined to a tiny fraction of what it was and tourism has also stopped for the time being; various other cross-border services that cannot be delivered electronically are contracting sharply. While trade volumes are declining across the board, the sharpest price declines in global trade have been in primary commodities, which are of greater export importance for developing countries. Trade prices had already fallen from the recent peaks of 2013 and then 2018, but the most recent declines have been very sharp (Figure 5). Between December 2019 and April 2020, the index of all primary commodity prices fell by more than 40 per cent, while that of energy declined to less than half.

Figure 5 Primary commodity prices by category over past year



Source: https://www.imf.org/en/Research/commodity-prices, last accessed on 4 June 2020.

Figure 6 Primary commodity prices since 2010



Source: https://www.imf.org/en/Research/commodity-prices, last accessed on 4 June 2020 (IMF 2020a).

However, even within primary commodity prices, there were differences, with oil prices being the weakest, followed by metals and then agricultural raw materials (Figure 6). Unsurprisingly given the worldwide curbs on travel and transport as well as cutbacks in material production, oil exporting countries have been the worst hit. Oil prices in April 2020 were only one-third of their level in December 2019. The prices of metals and agricultural raw materials also showed around 12 per cent declines over these four months. Food prices, while falling, did not initially seem so badly affected, but this seems to have changed by May when they fell by a further 2 percent (Reuters 2020), as the lockdown impact resulted in lower real incomes and falling demand for food in much of the world. These declines in export prices add to the woes created by falling export volumes, in sharply reducing foreign exchange earnings for most developing countries.

Developing countries have also been more impacted by the decline in tourism and travel-related services than developed countries: such travel accounted for nearly one-third of the services exports of developing countries, and half for the least developed countries. (WTO, 2020b) In addition, developing countries are in general much more dependent on remittances from migrant workers in other (typically advanced) countries and such transfers have also been hard hit in the ongoing crisis.

This reduction in foreign exchange earnings on the current account is of greater concern because of the volatility of capital flows as a result of the pandemic, which initially engendered yet another "flight to safety" among global financial investors. Net capital flows to emerging markets as a group effectively stalled in February 2020, amounting to just $0.2 billion, and then turned hugely negative in March, with net outflows of more than $100 billion. There was a slight recovery in April, with net inflows of around $17 billion. However, this did not reflect any real change in the economic prospects of these economies; rather, it was the outcome of the crisis-response policies adopted by central banks in the US and other developed countries, which dramatically increased the flow of liquidity to banks and non-bank institutions, and cut interest rate to near-zero, zero or even negative levels. Such policies create large incentives for the carry trade based on interest rates differentials. And since they enable access to capital at extremely low rates, they encourage investment in various other emerging market assets (such as in equity and bond markets) that are lucrative even when they offer relatively low nominal rates of return.

The outcome for developing countries is hardly to be celebrated, since they are rendered vulnerable and experience large swings in capital flows that do not necessarily reflects changes in their own policies and prospects, but depend much more on policy and other changes in the advanced economies. The selective targeting of particular emerging markets by global investors is problematic, because the country chosen as the favoured destination may change, or new fears generated by the pandemic and the crisis it has induced may trigger another episode of capital flight. As a result, even as developing countries attempt to address the real economy crisis they are engulfed in, they also have to deal with processes generated by the monetary policy response so widely favoured in the advanced economies, of injecting even more cheap money into the system. They therefore need to devise policies that prevent a speculative surge in financial markets riding on that increased liquidity, such as capital controls, without which they are buffeted by these highly speculative movements of capital in a way that most advanced economies are not.

This in turn generates financial fragility that can explode whenever even slight shifts in expectations occur. Today's financial fragility obviously predates the COVID-19 "black swan". Given the massive accumulation of debt (Basu, 2020) in both developed and developing countries since the 2008 financial crisis, it has long been clear that even a minor event – some "known unknown" – could have far-reaching destabilizing effects. Yet, until recently, rising asset prices – owing to a long period of extraordinarily loose monetary policies in advanced economies – disguised mounting debt levels. As the recent scare in global equity markets indicates, asset bubbles cannot last forever. By contrast, in the absence of active public pressure or state intervention to facilitate their resolution, debts do not deflate on their own.

This is what makes the recent debt build up in the developing world of particular concern (UNCTAD, 2020b). In 2018, the total debt (private, public, domestic, and external) across developing countries was equal to almost twice their combined GDP – the highest it has ever been. Particularly concerning is the build-up of private debt by non-financial corporations, which now amounts to nearly three-quarters of total debt in developing countries (a much higher ratio than in advanced economies). According to UNCTAD, inherently volatile “foreign shadow financial institutions” have played a major role in fueling this accumulation, such that around one-third of private non-financial corporate debt in developing countries (with the exception of China) is denominated in foreign currency and held by external creditors. Very large amounts of sovereign-debt repayments on short-maturity international bonds will soon be due. Short-term external debt poses a real problem: as much as $1.62 trillion is due to be repaid by developing countries this year, with another $1.08 trillion due in 2021. This would have been a struggle before; now, the Covid-19 crisis makes it impossible. The tsunami of falling export and tourism revenues and dramatic outflows of capital causes sharp currency depreciation, making it harder to repay foreign currency debts. Without quick and substantial action, many governments will be forced into debt defaults. And in any case this also limits the capacity to undertake the required fiscal responses that appear to have come so easily to the developed world.

Inequalities in fiscal response

Among the many inequalities the pandemic has exposed and accentuated within and between nations, one of the most striking is the dramatic divergence in fiscal responses. Economic activity has collapsed in most parts of the world because of the pandemic and associated lockdowns, and unemployment has gone up sharply. In response, several developed countries have already put in place some of the biggest fiscal stimuli ever. The additional spending of the US government announced since March already amounts to more than 14 per cent of GDP (IMF, 2020b). Japan’s Emergency Economic Package is more than 21 per cent of GDP, Australia’s increased spending is nearly 10 per cent and Canada’s comes to 8.4 per cent. In Europe, the absence of agreement on a strong joint stimulus effort across the eurozone has created more varied responses, from 9 per cent of GDP in Austria to 4.9 per cent in Germany and 5 per cent in France, to only 1.6 per cent in Spain and 1.4 per cent in Italy. Rigid EU rules continue to limit government spending in precisely those countries that need larger fiscal stimuli.

In addition, monetary policy adds to fiscal capacity at sub-national levels of government. From lower interest rates to central bank purchases of provincial and municipal bonds to new facilities for lending to different sectors and enterprises, the US Fed and other major central banks have sought to keep borrowing costs down and sustain liquidity for public agencies.

By contrast, in most developing countries, the fiscal response has been underwhelming. This is not because they face any less of an economic challenge: if anything, the lockdowns and global headwinds have already caused much greater macroeconomic disaster than in the advanced world. In India, it is estimated that 122 million people lost their jobs in April because of the lockdown (CMIE, 2020), even as the number of Covid-19 cases continued to increase rapidly. In other developing countries, even those with less stringent lockdowns, economies have been battered by sharply falling export and tourism revenues and declining remittance inflows, directly and indirectly causing large job losses. Yet in most countries, there has been relatively little response in terms of increased public spending to counter these dramatic declines in income and employment.

These differences are evident even within the G20. By the end of April 2020, emerging markets in the G20 averaged new public spending of 2 per cent of GDP, compared to 11.7 percent for advanced countries (Segal and Gerstel, 2020). As Table 1 indicates, developing countries that are in the G20 have not only gone for relatively modest fiscal expansion, (other than South Africa, for which the estimate has been questioned), but the current fiscal packages are in general significantly smaller than they were in 2009, in the wake of the Global Financial Crisis. This is surprising, because the impact on real economies is already larger and likely to be more severe than in 2009. Meanwhile, other low-income countries are struggling to put together even relatively tiny packages, which are completely inadequate to combat either the spread of the virus or the economic collapse.

Table 1 G20 Variations in fiscal stimulus packages

	2009	2020	Difference
Argentina	2.5	1.2	-1.3
Brazil	0.5	6.5	6
China	8	3.5	-4.5
India	4.1	0.8	-3.3
Indonesia	2.5	2.8	0.3
Mexico	1	0.7	-0.3
Russian Federation	1.7	3	1.3
Saudi Arabia	11	2.8	-8.2
South Africa	4	10	6
Turkey	6	2	-4
Australia	4.1	9.9	5.8
Canada	2.8	8.4	5.6
France	0.7	5	4.3
Germany	4	4.9	0.9
Italy	5	1.4	-3.6
Japan	2.2	20	17.8
Republic of Korea	9	0.8	-8.2
United Kingdom	1.5	5.1	3.6
United States of America	5.9	11	5.1

Source: https://www.atlanticcouncil.org/blogs/econographics/how-does-the-g20-covid-19-fiscal-response-compare-to-the-global-financial-crisis/

Note: The stimulus for South Africa may be overstated, as various estimates have suggested it is significantly lower, a small fraction of the stated amount. (https://iej.org.za/wp-content/uploads/2020/04/IEJ-COVID-19-emergency-rescue-package-summary.pdf)

What explains this reticence, this unwillingness or inability to increase public spending in developing countries at a time of unprecedented need? Much of this difference in fiscal response can be explained by the other, more systemic inequalities in the global economy. Developing countries that do not issue internationally accepted reserve currencies and are forced to borrow in those currencies simply do not have the fiscal freedom available to those that do. As noted above, many developing countries were already struggling with a mountain of external debt that was problematic even before the pandemic struck. African countries as a group are still spending more on external debt servicing than on public health, and will need substantial debt relief to combat the pandemic (Okonjo-Iweala and Coulibaly, 2020). In any case, the imminent implosion of global debt will inevitably force major restructuring of developing country debt, even if bondholders and other creditors are refusing to accept this for now. This burden of external debt dramatically alters the possible contours of fiscal policy for many developing countries. This is why a global issue of new SDRs and immediate action on debt reduction are both so important.

For countries that do not face immediate external economic threats, there are concerns about domestic resource mobilisation. Domestically, all countries are faced with massive declines in public revenues, as the cessation of economic activity leads to falls in tax collection. Even if government spending were not to increase at all, this would imply a significant increase in the fiscal deficit. Since more government spending is required if only to deal with the pandemic, the first option is direct borrowing from the central bank during the crisis. Yet most developing country governments, with a few exceptions, have been remarkably hesitant to do this. Even countries that do not have immediate debt repayment concerns are showing little inclination to raise public spending to anything like the levels necessary just to stop the process of economic decline.

Why is this? The short answer is fear of private capital flight. How severe that can be was already evident in March 2020, and the minor recovery of capital flows into emerging markets in April has done little to assuage fears of renewed outflows. Aside from foreign currency debt, more than a quarter of even local currency debt is held by foreigners, making them very vulnerable. Meanwhile, liberalised exchange rules have made it easier for domestic residents to shift their funds abroad. The fear of financial markets thus acts as a major constraint on even the most obvious and urgently required policies. In India, for example, a Finance Ministry official justified the pathetically low government response by explicitly linking the possibility of fiscal stimulus packages with the country's sovereign ratings – even though it condemns the country to a major economic collapse with hundreds of millions facing poverty and hunger (Noronha and Sikarwar 2020). In South Africa the Deputy Finance Minister was attacked for the perfectly reasonable suggestion that the central bank should buy government bonds directly (Richardson, 2020). In this self-imposed ordo-liberal policy climate, fiscal expansion through increased public expenditure is automatically ruled out because of the possibility that it could result in capital flight. Of course, it would be possible to avoid this by instituting capital controls that would prevent extreme volatility of capital flows, but this is also seen in the same policy-making circles as an unacceptable measure because it is assumed to frighten away foreign investors.

The economic absurdity of such a position is at one level obvious. It is clear that significantly increased public expenditure is absolutely essential for most developing economies to address their public health challenges and even to attempt economic revival. Fiscal austerity at this point would have the inevitable effect of further aggravating the downturn, thereby also causing tax revenues to decline further and ending up with an even higher fiscal-deficit to GDP ratio. In any case, global finance is hardly likely to be attracted to devastated economies, other than for a few forays to buy up existing assets on the cheap. However, despite the counterproductive nature of such a strategy, it is the one that continues to be advocated by global finance, and most developing countries that have succumbed to international financial integration (for the dubious pleasure of being described as "emerging markets") find that straying from this comes with immediate threats and costs imposed by international rating agencies, bond market investors and global creditors.

The expression of this particular global inequality is therefore more complex, but no less lethal for that. It is preventing many, if not most, developing countries from increasing public spending at a time when failure to do so has devastating effects on the health of the people and the level of economic activity and employment. How much more disastrous this will be when the existential threat of climate change becomes even more real, creating yet another tragedy about to unfold.

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Author contact: jayatijnu@gmail.com

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