

COVID-19 related unemployment and inequality. Evidence for Ireland.

DATE

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AUTHOR

Karina Doorley



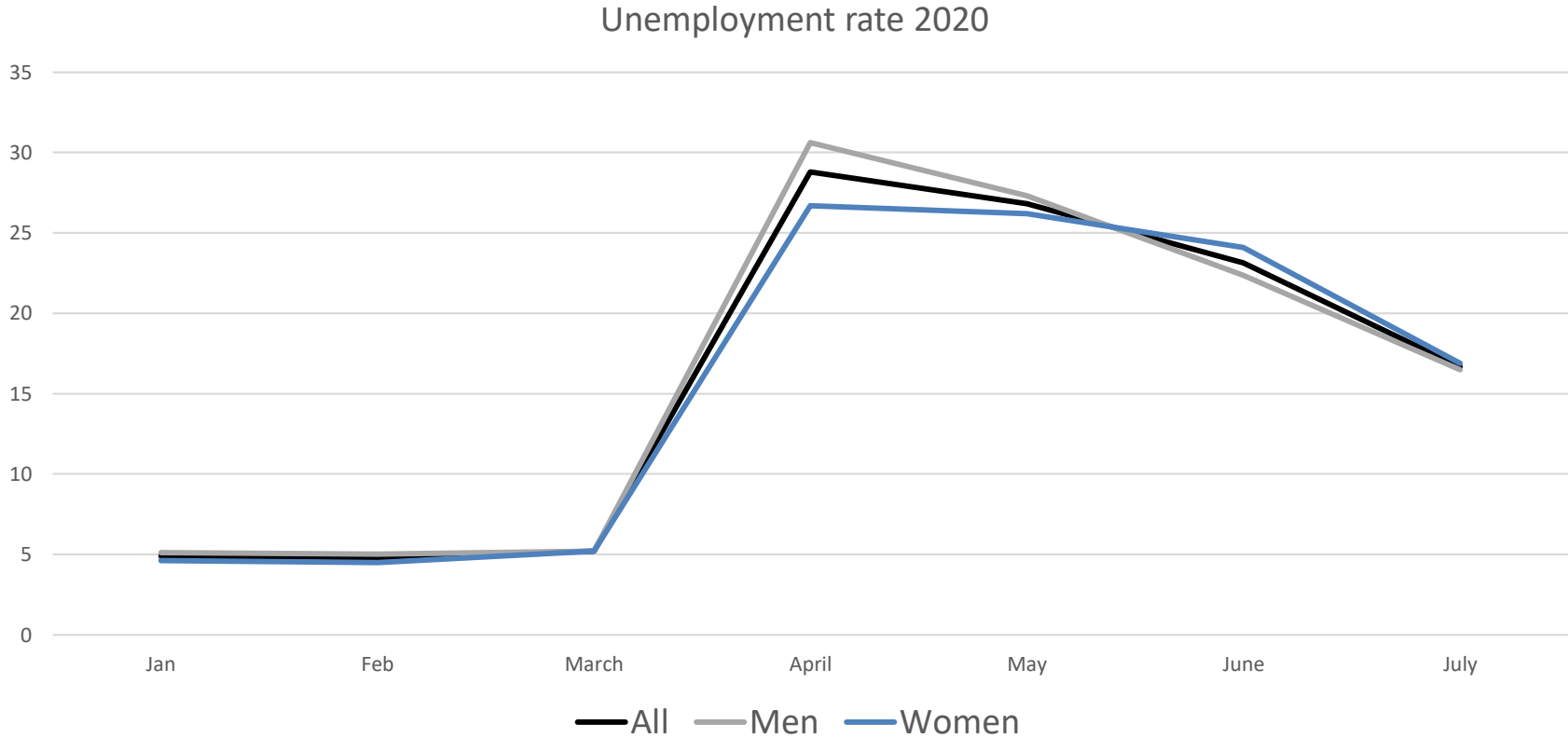
Introduction

- Covid-19 pandemic causing huge economic disruption
- Public health measures necessary to tackle the spread of the virus have led to widespread job losses
 - In IE, close to half of workers claiming government support at peak of crisis
 - retail, accommodation and food service activities particularly affected
- Suggestion that the pandemic will have medium-long term effects on inequality - income, health, human capital, etc. (Blundell et al, 2020)

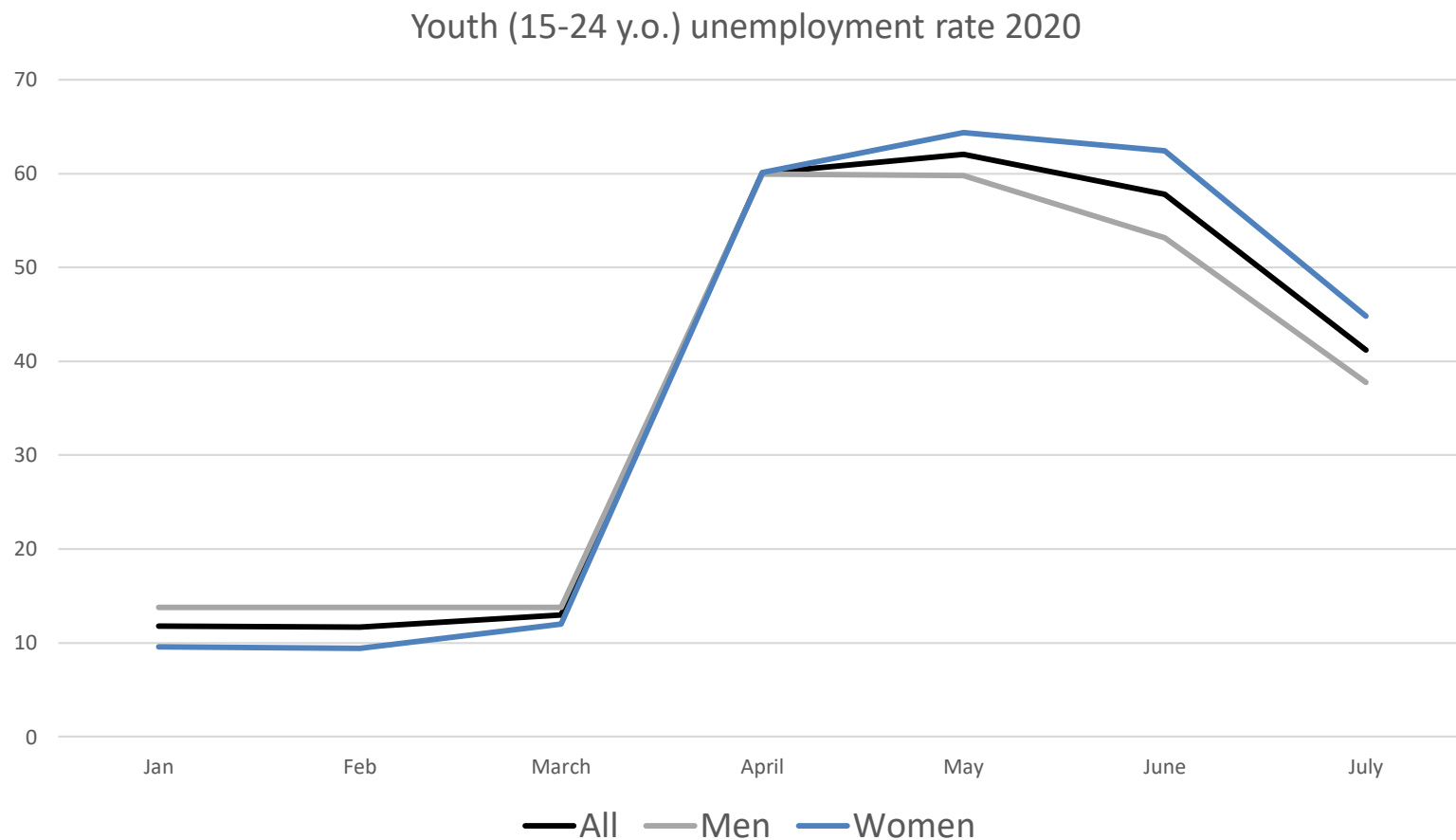
Timeline of cases, lockdown and government supports

- First case: Feb 29th 2020
- Lockdown (school, childcare, hospitality): began March 12th 2020
- Re-opening of childcare: June 29th
- Re-opening of schools: September
- Re-opening of pubs: Sep 21st (Monday!)
- Advice still to work from home if possible

Unemployment in Ireland (CSO)



Youth unemployment in Ireland (CSO)



Government introduced new income supports

- Pandemic Unemployment Payment (PUP): two-tier payment depending on previous earnings (€203 or €350 weekly payment)
- Temporary Wage Subsidy Scheme (TWSS)
 - Eligibility based on decrease in firm turnover
 - up to 70% of net wage → max. of €410 weekly (for those on < €586) or €350 (for those on €586-€960).
 - No subsidy for those on > €960.
 - Employer can top-up wage to a maximum of average net pay

This research

Using SWITCH, the ESRI tax-benefit model, estimate

- the monthly cost of the unemployment shock at end-August 2020 (direct taxes and welfare)
- the effect on family incomes

(update to Beirne et al, April 2020)

- heterogeneity by gender, industry, age (Adams-Prassl et al, 2020; Andrew et al, 2020; Roantree, 2020)

Two policy scenarios

- No policy response
- PUP + TWSS
 - not all jobs “saved” by TWSS would have been lost in the “no policy response” scenario

Employment shock

- Employment shock implemented randomly within industry based on reported numbers of PUP/TWSS recipients (Central Statistics Office)
- Individuals who are “shocked” are assigned to unemployment (PUP) or subsidised by the state (TWSS)
- Employers assumed to fully top-up the salaries of employees on the TWSS

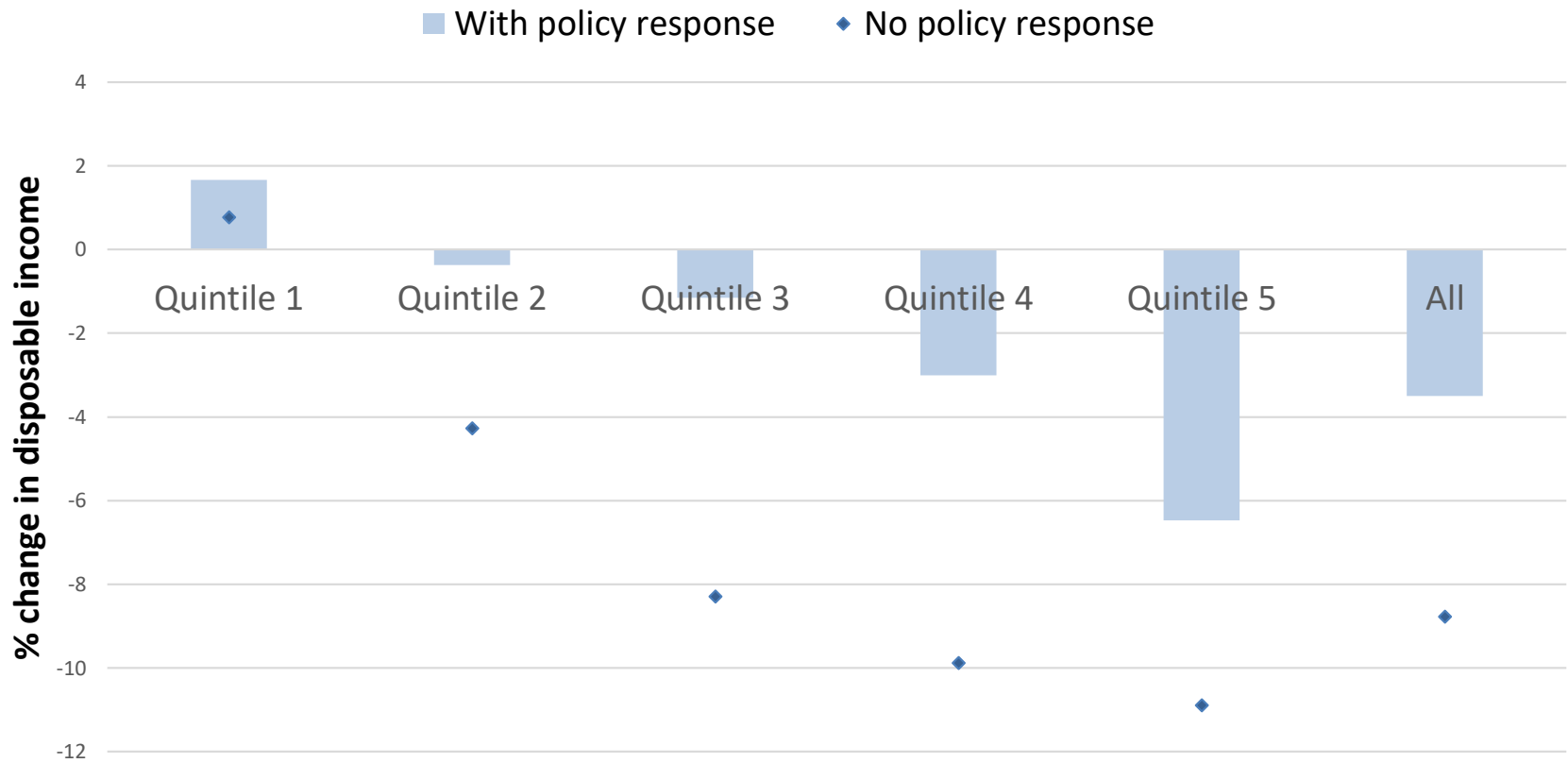
Summary

	All workers	PUP recipients	TWSS recipients
Male	54%	52%	52%
Age	42	41	38
< 25	9%	13%	16%
< 30	17%	22%	28%
Pre-shock weekly earnings	740	614	617
PUP		325	
TWSS			287
Employer top-up			126
N	1,986,488	231,549	256,631

Cost

	Cost (€m per month)		Cost per 100k workers displaced (€m per month)	
	(1) No Policy Response	(2) PUP + TWSS	(3) No Policy Response	(4) PUP + TWSS
Change in market income	-1,356	-1,218	-278	-250
Change in tax/SIC revenue	-454	-434	-93	-89
Change in welfare expenditure	478	707	98	145
Pandemic Unemployment Payment	0	-327	0	-67
Temporary Wage subsidy scheme	0	-320	0	-66
Net exchequer impact	-932	-1,461	-191	-299

Distributional effect



Income inequality in the short/medium term

Gender

Blue/white collar

Intergenerational

Income inequality & poverty

	no covid related unemployment	covid - no policy response	covid - with policy response
Gini Market Income	0.51	0.58	0.56
Gini Disposable Income	0.28	0.29	0.28
Anchored Poverty rate	0.14	0.19	0.15
Anchored Poverty rate - working age	0.15	0.20	0.16
Anchored Poverty rate - child	0.18	0.25	0.19

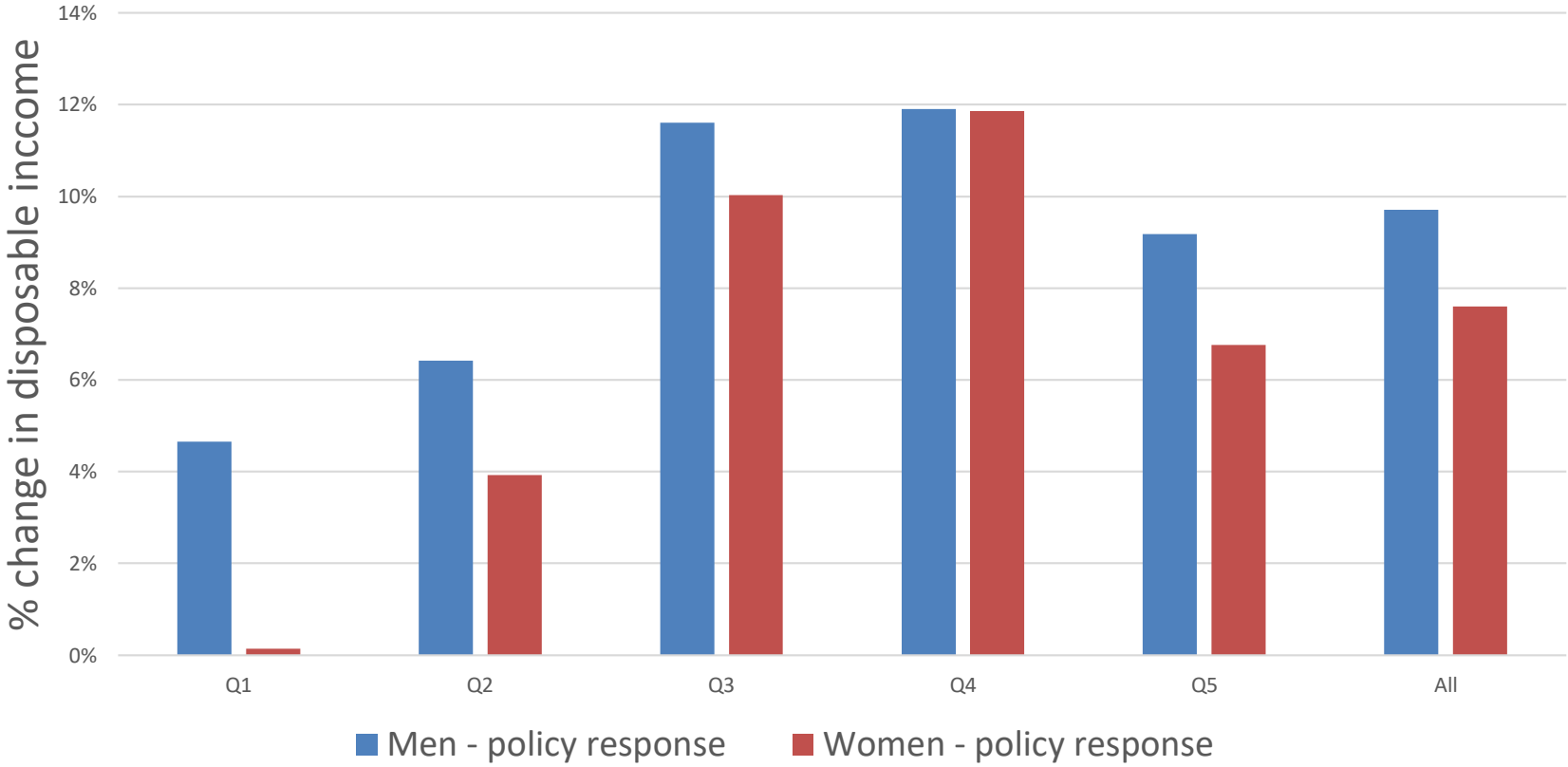
Gender

- Assumption about income sharing
 - No income sharing except family and housing related ben
- Assess the effect of the employment shock and the policy response separately

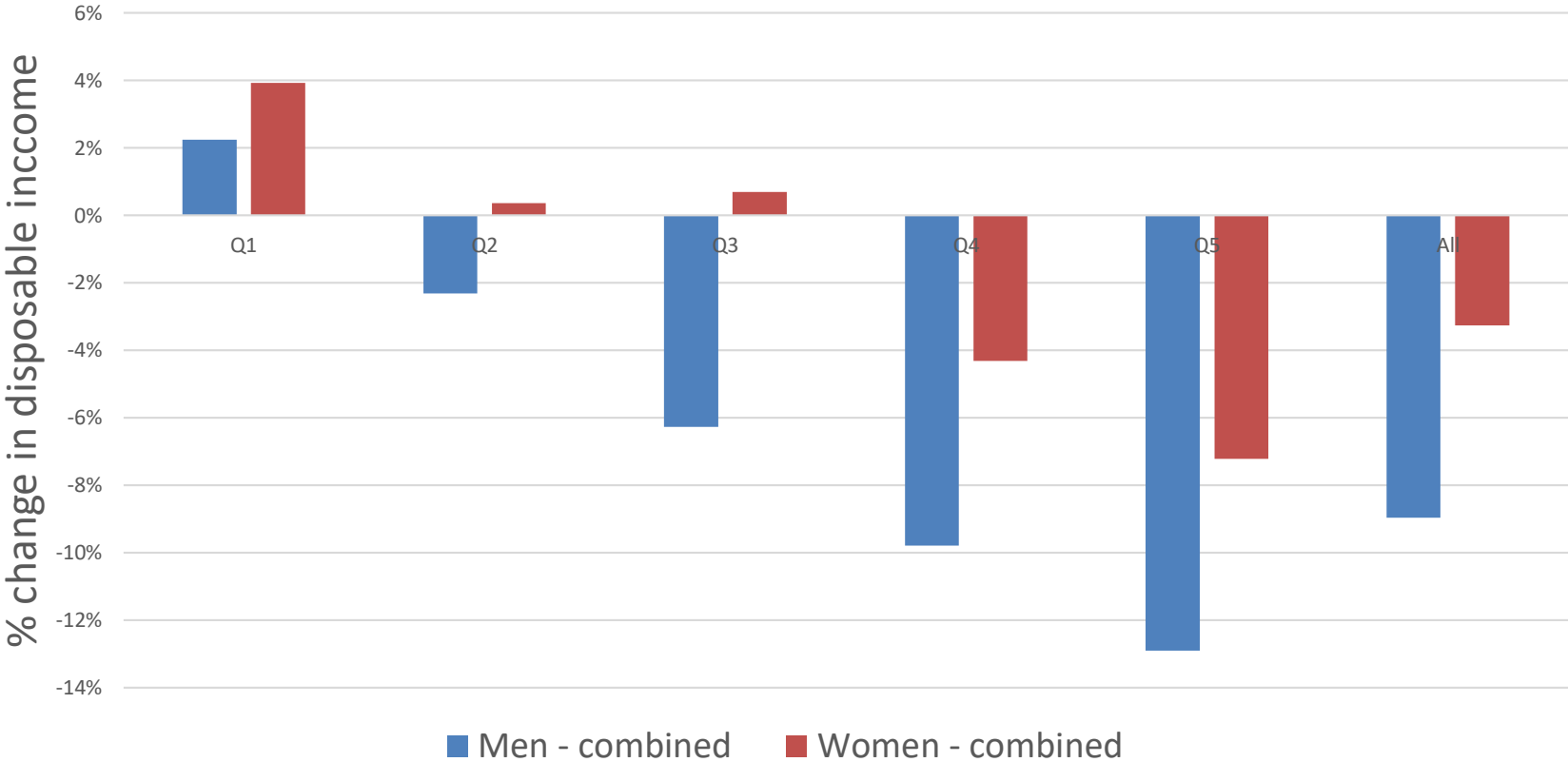
Gender impact of employment shock



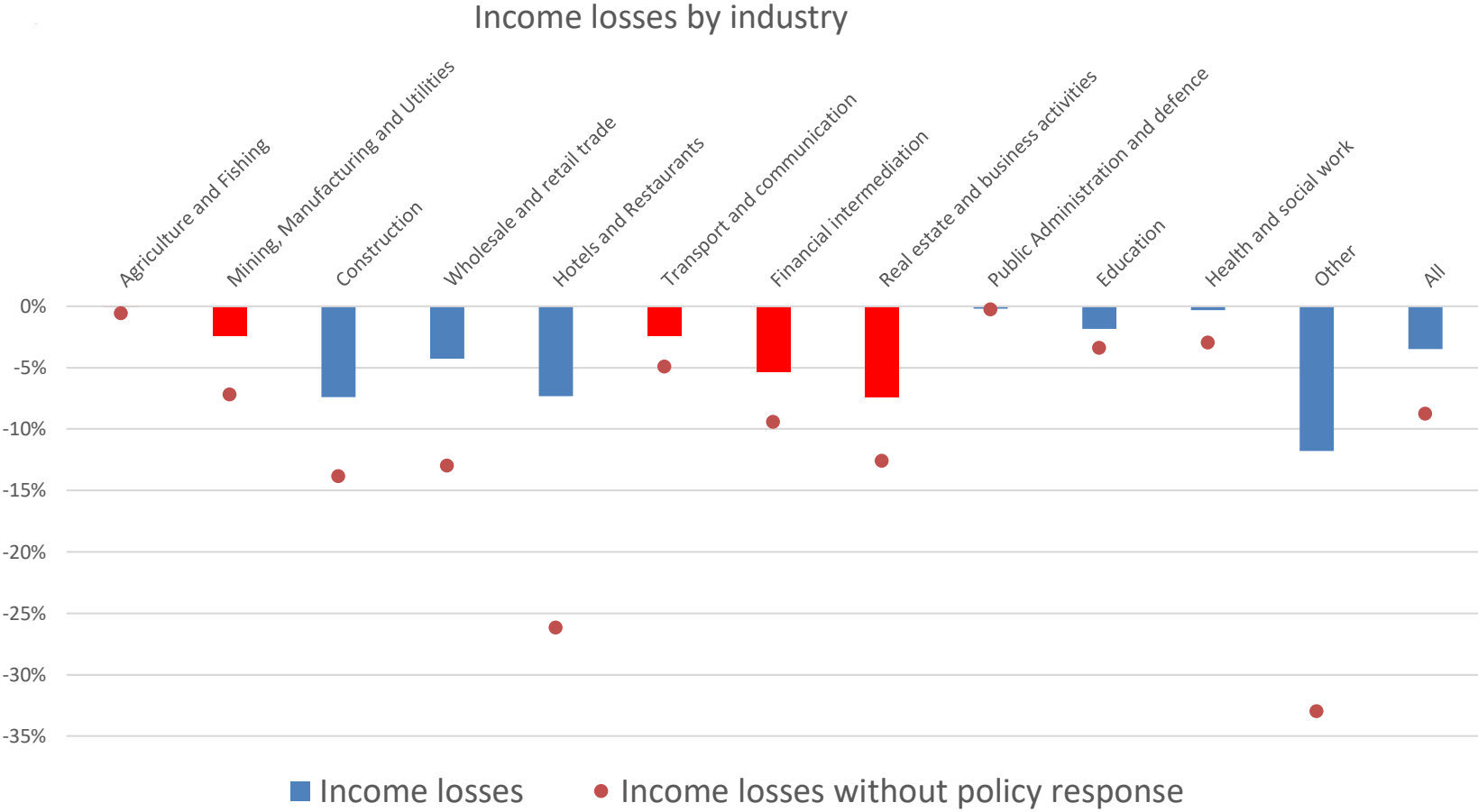
Gender impact of policy response



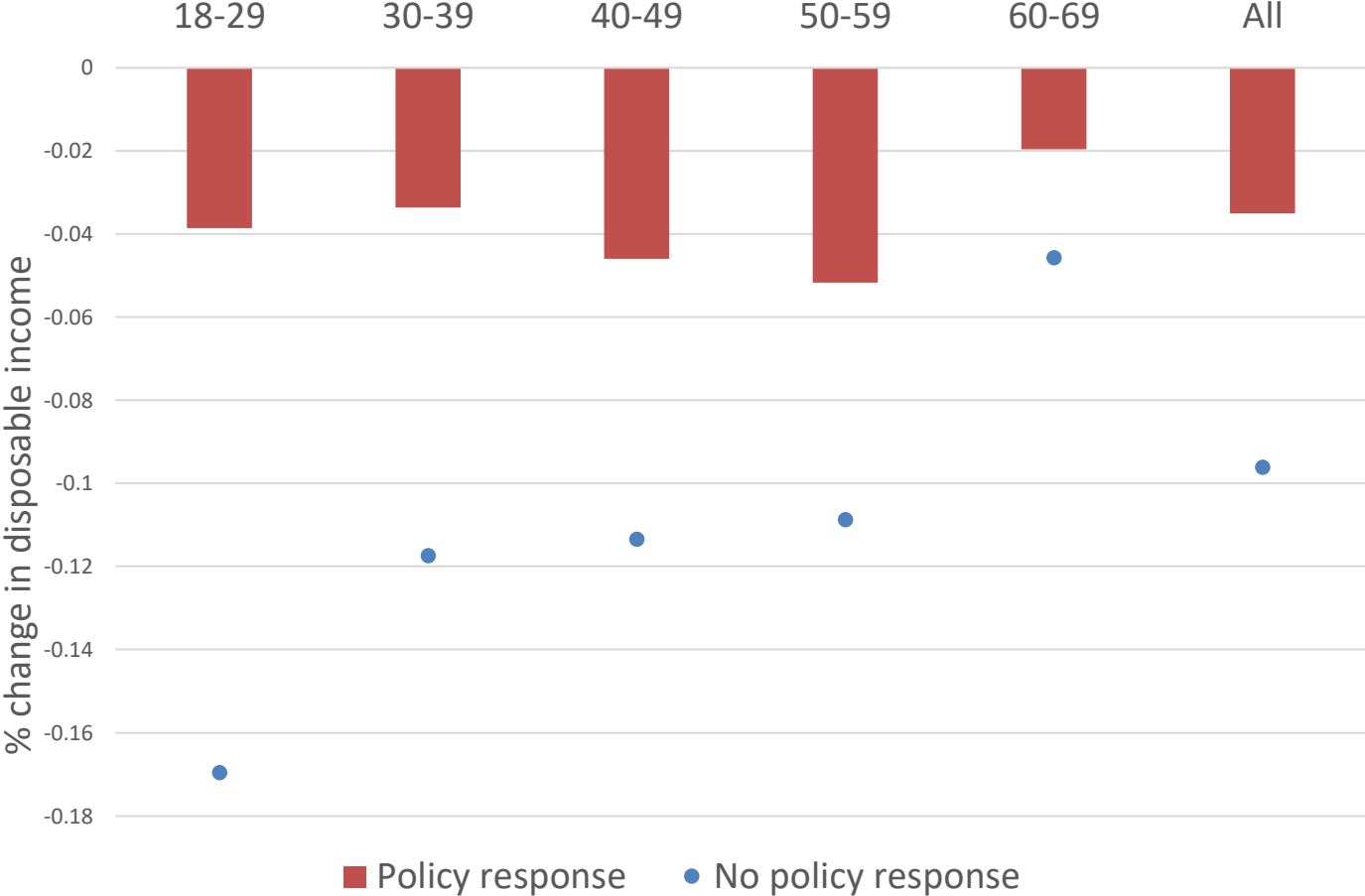
Gender impact of employment shock + policy response



Impact by industry



Impact by age



Summary

- Covid-related unemployment costly to the exchequer but policy response not the most costly aspect
- Policy response has sheltered the lowest income groups

Policy challenges

- PUP to be continued until April 2021 but closed to new applicants at end-2020
 - Improve work incentives
 - Likely to disproportionately hit low-income young workers
- TWSS replaced by EWSS in September, closed end-March 2021
 - Lower, flat-rate payment to employers, no restrictions on top-ups – administratively simpler
 - Efficiency argument to withdrawing completely in Spring 2021

Policy challenges

- Women

- Men appear to have been hardest hit by employment losses in s-t
- But, participation rates/hours of work may have changed due to childcare closures

ongoing work on this topic with C. O'Donoghue & D. Sologon

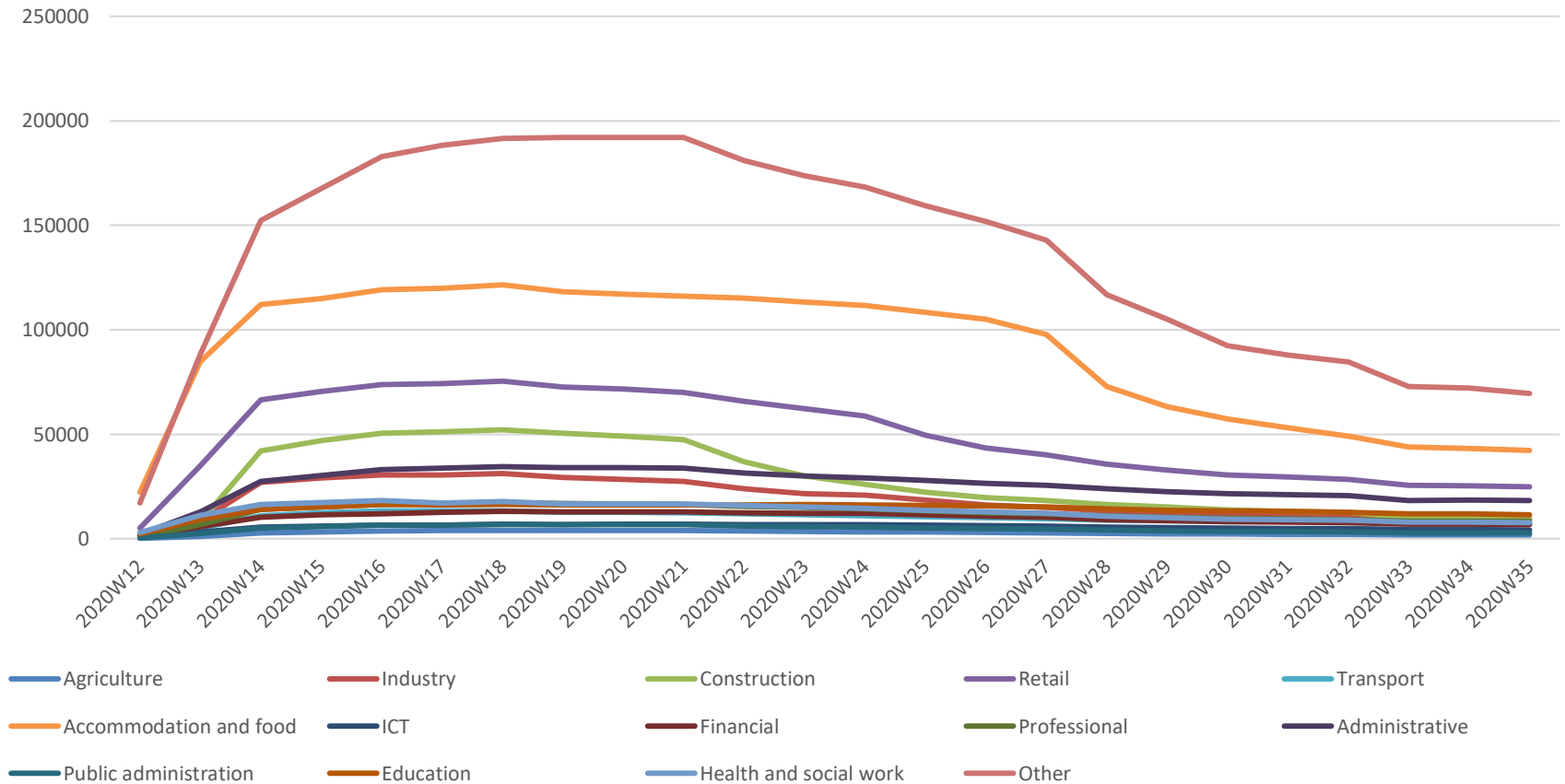
- Young people

- Targeted response may be needed for this group beyond Spring 2021

Questions?
karina.doorley@esri.ie

Unemployment shock – out of work

PUP over time



Unemployment shock – subsidised wages

TWSS over time

