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Too Little, Too Late: On the Relationship Between the Disparate Impact of COVID-19, Government Action, and Income Inequality, in the United States

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Note: This paper was originally written during January Term 2021. Its contents may not reflect all economic and political developments that have occurred since.

I. Introduction

The Coronavirus and Resulting Shocks

An economy only functions when there are people who are able to act as producers and consumers. The first principle of a strong and stable U.S. economy is to ensure the ability of people to secure a good, steady job that provides enough income for people to support their family and buy goods and services. The new coronavirus has uncovered how even as one of the richest economies in the world, the United States remains incredibly fragile. ("The coronavirus")

SARS-CoV-2, often referred to as COVID-19 or the Coronavirus, has infected over 147 million people and killed over 3 million to date ("Coronavirus COVID-19"). An unanticipated threat to households, healthcare systems, and governments across the world, the virus is accompanied by a profound economic impact. Studying the Coronavirus is important not only for medical reasons, but also because of the ways it has halted and reshaped the economic and social structure of the United States (US) — and thus, national economic inequalities — in a matter of months. The virus' spread has triggered a recession which the International Monetary Fund (IMF) warns may surpass that of the Great Depression ("IMF Warns"). Much like the 2008 recession, COVID-19 has been detrimental to the living standards of middle- and lower-class Americans. Unlike the 2008 recession, however, this pandemic resulted in 22 million job losses in spring 2020 alone — compared to 9 million jobs lost during the entirety of the 2008 crisis (Ponciano; Goodman and Mance 4). These sobering trends persist alongside wealth increases for the top income receivers (Boushey 600). Not only are upper class households moving through the pandemic unscathed, but even when the economy *is* growing, they benefit from this growth as the lower class simultaneously declines. This paper will address the government's policy making approach and its relationship with the already ever-present income inequality in the US. While many have described COVID-19 as a potential great equalizer, the following conveys that it is anything but.

II. Economic Theory & Government Response

Concepts of Spending and Saving through A Keynesian Lens

To understand the government's motivations behind the policies being enacted, we must first understand the economic principles that broadly drive common approaches to solving the COVID-19 problem. Although I will later point out a few shortcomings of said policies, I will not discount the sound theory which comprises their foundation. Changes in spending and saving trends since the onset of the pandemic lead many economists to refer to Keynes' work, analyzing aggregate demand in the US and modeling COVID-19 legislation according to Keynesian solutions. Non-income determinants — such as expectations and borrowing — play a significant

role. Many workers are uncertain about their future finances due to furloughs, pay-cuts, and increased borrowing (debt). The future of consumer spending during the COVID-19 recovery period is frankly bleak, with the Brookings Institution estimating that current consumption trends will continue for years to come:

> In 2020, American residents will spend around $12.5 trillion on durable and nondurable goods and services. This is more than half a trillion less than last year. It is likely to take until 2022 before personal consumption expenditure recovers to where it was in 2019, and, given population growth of 2.5 million people per year, only in 2023 will the average American spend the same amount as in 2019. (Mitterling et al.)

Equally (or more) relevant is the negative correlation between propensity to consume and susceptibility to volatility during the stages of the business cycle: "young and low-income workers both have higher marginal propensities to consume and are most exposed to aggregate fluctuations" (Patterson 2). The workers who are most exposed to the blows of this recession (those who are easily replaceable and first to be fired) are the same workers whose spending contributes greatly to national consumption (Patterson 4). We are witnessing a vicious self-perpetuating cycle which "deepens recessions as these workers cut their consumption dramatically, leading to lower demand and more layoffs" (Patterson 2). These economic shifts — and the measures that are traditionally associated with reversing them in Keynesian theory — are the basis of Congress' COVID-19 legislation.

Monetary and Fiscal Response

Throughout March and April 2020, the US government launched four phases of fiscal policy in response to the economic crisis.

- First: The Coronavirus Preparedness and Response Supplemental Appropriations Act totaled $8.3 billion, with $7.8 billion allocated toward federal, state, and local funding for public health agencies and vaccine research. The remaining $500 million was allocated toward a mandatory increase in Medicare spending.

- Second: The Families First Coronavirus Response Act totaled $192 billion and was aimed at enhancing unemployment benefits, increasing government spending (specifically Medicaid and food security), new paid leave requirements for various employers, and free testing for the virus.

- Third: The Coronavirus Aid Relief and Economic Security (CARES) Act addressed financial assistance for distressed sectors of the economy, economic support for small businesses, expansion of unemployment benefits, and federal aid to hospitals/healthcare providers. This $2 trillion relief package is best known for the stimulus checks which it disbursed directly to American taxpayers. It is the biggest fiscal stimulus package in modern American history (Cochrane and Fandos 1).

- Fourth: The Paycheck Protection Program and Healthcare Enhancement Act totaled $483 billion, with $383 billion in additional economic support for small businesses and $100 billion in funding for hospital operations and testing for the virus ("Here's Everything").

In addition, the Federal Reserve (Fed) slashed interest rates to zero percent in mid-March to "[make] it easier and less expensive to borrow, encouraging firms and consumers to accelerate investment and purchasing decisions," marking the first emergency rate cut since the 2008 recession (Shambaugh). It also pledged $700 billion in quantitative easing, which was thereafter expanded to an unlimited amount (DeCambre). In April 2020, it provided another $2.3 trillion in loans by "setting up new facilities to deliver credit to small businesses and municipalities, and expanding measures introduced [in March 2020] to back corporate debt markets" (Politi and Smith 1). The Fed also expanded the Term Asset-Backed Securities Loan Facility (TALF), which was established in March 2020 to "support the flow of credit to consumers and businesses," through "the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets" (Politi and Smith 3; *Term Asset-Backed*). Congress and the Fed have continued to encourage market participation and introduce policies with a two-pronged goal: first, they hope to address the public health crisis and reduce the virus' spread; second, to increase aggregate expenditures and push the economy into recovery.

One of the failures here — which I will expand on later — is that each of the measures addressed in this section, including the direct injection of fiscal stimulus, is entirely reactionary.

III. COVID-19 and Increased Income Inequality

High levels of income inequality in the US — the US had a Gini Coefficient of 0.4822 in 2018 after years of steady increase, according to the latest census data — foster a society in which even widespread policy making cannot be equally beneficial to every household (DePietro). Theoretical economics alone is not enough to address the issues of *all people*. Real growth requires "longer growth spells [which] are robustly associated with more equality in the income distribution" (Berg and Ostry 3). A healthy and expanding economy — and a sustained recovery from shocks like COVID-19 — inherently necessitates increased income equality.

Skewed Exposure

The income inequality exacerbated by COVID-19 can be observed through the correlation between various marginalized identities and differing levels of exposure to the economic effects of recessions. Black people are particularly impacted as a demographic that already faces barriers in the labor market such as entering the job market, wage differentials in the job market, and lack of security once employment is obtained. Women similarly suffer, as they more often occupy the types of jobs that are negatively affected by COVID-19 in addition to often working fewer hours due to family responsibilities. "Women's share of payroll employment in private services is greater than that of men — it has held steady at roughly 53.5%. Because the pandemic necessitated social distancing and mobility restriction, service-providing sectors — and women — were hit harder" (Gunnion and Samaddar). The second most commonly occupied job for women is secretary or administrative assistant (2,060,289 women), surpassed only by nurse (2,092,489 women, barely higher) (*Employment and Earnings*). In fact, "women made up the majority of the 8 million workers that dropped out of the labor force between February and April due to the COVID-19 recession" (Gunnion and Samaddar). Young women in low paying jobs are particularly vulnerable:

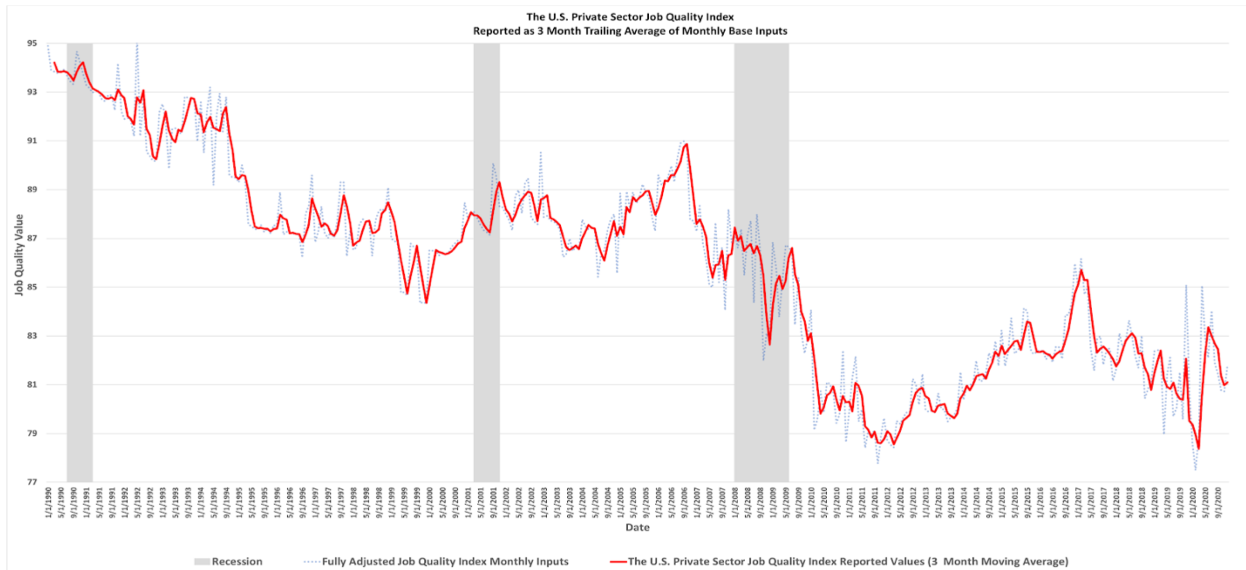
> The lower-income receptionist is laid off before the higher-income scientist. Moreover, it is perhaps the younger receptionist who just started at the firm who is

> laid off before the more senior receptionist at the firm. This young receptionist may have had less time to build savings, and therefore, when she loses her job, she has to alter her consumption more dramatically to get by. (Patterson 4)

Poor workers are another disproportionately affected group, as many blue-collar jobs cannot be worked from home and/or pose a health risk in the new COVID-19 environment (think: a plumber who lives off of payments from customers who no longer allow him into their houses due to fear of virus transmission). These workers also cannot afford to have members of their households take time off; thus, they may opt to stay in the workforce during the pandemic despite dismal wages and increased chances of coming in contact with the virus (potentially causing the additional economic strain of health expenses). Moreover, these workers possess little job security and bargaining power. Often the first to become unemployed due to their jobs' replaceable nature, they will be hit hard once again when they re-enter the labor market and will likely have to work for less. The same certainly does not apply to the upper class.

Unemployment: Job Quantity Vs. Quality

Policymakers have approached this issue devoid of any real thought toward job quality. While the government's expansionary efforts may increase employment, the quality of employment available is poor (wages and hours that are below average). As labor economists have established, any job that unemployed workers find when re-entering the labor market during a recession is likely to be one that pays less than their previous employment — a trend which was apparent after the both the 2008 and early 1980s economic downturns. We see this now as lay-offs force workers to take jobs below their professional level. Statistically, unemployed individuals re-entering the workforce do contribute to an increase in the national employment level, *but* national living standards are on a decline. The US Private Sector Job Quality Index (JQI) measures the presence of high quality versus low quality employment (according to wages' deviation from the national average), with a Job Quality Value (JQV) of 100 indicating an equal number of high quality and low quality jobs and any JQV less than 100 signaling more low quality jobs than high quality jobs ("The U.S."). High quality jobs are those described as "higher-wage/higher-hour" and low quality jobs are those exhibiting "lower-wage/lower-hour" characteristics ("The U.S."). JQV trends convey decreasing job quality over the past three decades; even during periods when the JQV has seen a large spike, it has never reached levels that compare to the peaks of decades prior:



The spike from late 2006 to 2007 pales in comparison to the levels reached throughout the early 1990s; the same is true when comparing early 2017 to both the 1990s and the spike that occurred in early 2006; and so on. Income inequality is not new; decades of increases in low quality employment have led up to the current recession. The decreasing job quality is especially pronounced during this pandemic. Immediately after the first cases of COVID-19 were reported in the US, the JQV fell to just over 78, a drop from late 2019 when the JQV was around 82. As a point of reference, the peak JQV during the Great Recession (represented in the above figure as the third highlighted area from the left) is significantly *higher* than that of the peak JQV during COVID-19 thus far. During what was perhaps the most catastrophic recession in memory for many Americans today, job quality was *better* than it is now. Further, while those in low quality jobs struggle tremendously during this recession, high income receivers are doing exceptionally well. COVID-19 has harmed the workforce from multiple angles, including the loss of manufacturing jobs, weakening unions, increased contingent and part-time work, and expansion in low-paying services (some in healthcare and fast food, for instance). But this unfortunate new reality is not the case for all.

High income households are thriving. CEOs and billionaires have benefited from the pandemic despite its disastrous effects on millions of less fortunate households. Americans for Tax Fairness finds that, from the beginning of the pandemic to market close on December 7th, 2020, the collective wealth of US billionaires increased by over $1 trillion ("NET WORTH"). *Forbes* also finds that in 2018, CEO pay increased to three hundred sixty-one times that of the average worker (up from twenty times the average worker in 1950); this figure was derived from US economy data *before* the current COVID-19 recession and resulting increase in income stratification (Hembree). This data again highlights a stark contrast in living standards between socioeconomic classes (as well as the possible disappearance of the United States' middle class). The US economy is splitting into multiple tiers, attributed to an increase in part time and contingent work, which are precisely the types of jobs created during a recession — those which billionaires and CEOs are not forced to work (Shikaki). These tiers are even more defined now that factors such as living space and home internet access also impact work capacity. "High-salary professionals…live in Internet-ready homes that will accommodate telecommuting — and where children have their own bedrooms and aren't as disruptive to a work-from-home schedule.

In this crisis, most [of the upper class] will earn steady incomes while having necessities delivered to their front doors" ("Coronavirus Will"). In all, COVID-19 prompted a rapid decrease in income for the poorest households and a rapid exponential increase in income for the richest. The significant income inequality throughout the US is palpable now that COVID-19 continues to expose recessions' divergent effects.

IV. Shortcomings of the Government's Response

Corporate-Focused Legislation

Policy making must prioritize people, households, and small businesses, not only large firms. COVID-19 legislation unfortunately does not reflect this train of thought. The CARES Act, for instance, was evidently aimed at protecting large companies more than Americans in need. Loans and other payments totaled $800 billion for big businesses, and only $349 billion for small businesses (Taylor). The amount of aid provided to family support programs and other household-focused endeavors pales in comparison to these figures. One odd loophole is that stimulus for small businesses includes small venture capital firms, which are often quite lucrative (especially when compared to family businesses and mom-and-pop shops). Further, "most of this money [in the CARES Act] will apparently be directed through the financial sector" (Taylor). The package was designed to function by generating business loans through special purpose vehicles (SPVs), a process which is conducted confidentially by the Fed. The Fed can leverage this equity up to $4.54 trillion (to be used by firms worth more than $10 billion), which is appreciably high considering the fact that total corporate debt totals $6.5 trillion (Taylor). Large cap companies and banks will greatly benefit, despite being the firms that rake in some of the highest revenues. Small businesses are in desperate need of a financial lifeline in this recession, and the lifeline is instead being extended to corporations and banks. With each new piece of information, it becomes more and more apparent that the CARES Act functioned largely as a safety net for Wall Street. This type of legislation primarily hopes to address potential situations similar to the securitization issues of the 2008 crisis; while risk management is certainly necessary, Americans' well-being and the prosperity of small struggling businesses should remain at the forefront. Actions such as The Fed's erection of new facilities for delivering credit to small businesses should be replicated, expanded, and reimplemented continually.

Heavy Reliance on a Standardized Stimulus Check Approach

While some of the new policies may aid in an economic rebound, their success is largely due to the upper class' ability to take advantage of resources in a way that lower class households cannot. A standardized form of government assistance can certainly buffer the pandemic's negative impact, but the extent to which it provides economic security is based entirely on income. (I should first establish that "standardized" is used somewhat loosely, as the original plan provides $1,200 checks for workers with incomes below $75,000 versus no check for those with an income above $99,000) (Cochrane and Fandos 2). While the "haves" may sell valuable assets, borrow or take loans, and use savings to offset the financial impact of a recession, the "have-nots" often cannot. Roughly one in two lower-income Americans report household job or wage loss due to COVID-19; "upper-income adults are roughly three times as likely as lower-income adults to say they have emergency funds that would cover their expenses for three months — 75% vs. 23%" and "only 28% of those without rainy day funds say they can

cover basic expenses by borrowing, using savings, or selling assets" (Parker et al.). More than half of adults in the US plan to use a majority of their stimulus checks to cover bills and other essential costs, 21 percent say they will save it, and 14 percent say they will use it to pay off debt (Parker et al.). As Carol Graham of the Brookings Institution states, "[low income] people are more vulnerable from the get-go, even in normal times. You throw a shock like this at the system? It's about as bad as it could get" (Apuzzo and Pronczuk 3). The factors driving the wage gap — discrimination, differentials caused by our segmented dual market, disparities in human capital, etc. — are also driving forces behind COVID-19's inconsistent impact. From both an economic and health perspective, the hardest hit are also the people who are least prepared for a shock like this one. Stimulus checks should undoubtedly continue to be distributed, but there should be additional supplementary support for those at the bottom of the income ladder. Systematically disadvantaged demographics are vulnerable now because they already struggle, even in times of economic growth.

V. Further Proposals

This discussion is incomplete without drawing attention to the importance of alternative methods for government intervention. Boushey pointedly outlines the pressing need for action that bridges the gap between theory and real-life, as it is essential to current discourse (Boushey, 602). Rising inequality is both a cause and an effect of our economic structure's failure to properly serve all — and by extension, a failure of our policy making system. This deficiency is in large part due to the gaping disconnect between economic postulation and the population's lived experiences. To fully understand that income inequality directly reinforces inequality in political and social power is to understand that the government is the only entity with the ability to significantly alter economic factors to the extent needed for inequality to decrease and growth to increase (Boushey, 602). Moreover, this situation not only necessitates government intervention, but a holistic, intelligent, well-informed approach to policy making. The legislation must not only read well on paper but be truly effective and widely beneficial in real-life once executed:

> A recognition that government institutions — including those entrusted with protecting our health, preserving our liberties and overseeing our national security — need to be staffed with experts…that decisions need to be made through a reasoned policy process and predicated on evidence-based science and historical and geopolitical knowledge… ("Coronavirus Will")

When discussing increased and sustained economic growth, the importance of human capital cannot be overstated. The IMF makes clear that expansionary periods and their *duration* are at the core of economic development; it states that human capital accumulation spurs growth and that sustained spells are often caused by "better political institutions…[as well as] increases in education, health, and physical infrastructure" (Berg and Ostry 8). Important to the human capital question as it applies to COVID-19 is the fact that income inequality occurs in tandem with health inequality. Structural changes in medical access within underserved communities could have softened the blow of this pandemic for many Americans. Moreover, promotion of human capital should not be limited to healthcare. Wages and job security as well as a robust and well-funded education system are among other aspects that must be addressed — perhaps by following other nations' successful tactics. South Korea's employee-retention program, which covers 70 percent of wages or more and alters requirements to make more businesses eligible for

benefits, is a great example of the former (Apuzzo and Pronczuk 4). There are countless additional examples. Support like the US government's $192 billion effort to enhance unemployment benefits, spending for Medicaid, and paid leave, should be present *at all points in the business cycle*. Human capital should not become a priority exclusively during recessions.

Resources — in the form of funding *and* serious brain-storming — should be directed to significantly altering the technicalities of state (and national) unemployment infrastructure. Lieutenant governor of Ohio Jon Husted concisely named the problem: "[The unemployment benefits] system was not built for a crisis…it was built to take care of what we could expect on a regular or even robust basis. But what we're experiencing now is frankly unprecedented" (Chaney and Morath). Long hold times, claims websites that work on some devices and not others, and a lack of guidance from state labor departments, are among the obstacles impeding a smooth unemployment benefits process (Chaney and Morath). To address the long hold times (and unemployment), state governments should consider creating jobs for more phone representatives as an effort expand their current customer service capacity. To address the website accessibility issue, the government should employ a system in which states use payroll data to identify unemployed Americans who have yet to apply for benefits. The state government would then send paper applications for benefits to these individuals via the US postal service. The implementation of such a system is pertinent, as:

> Roughly three-in-ten adults with household incomes below $30,000 a year (29%) don't own a smartphone. More than four-in-ten don't have home broadband services (44%) or a traditional computer (46%). And a majority of lower-income Americans are not tablet owners. By comparison, each of these technologies is nearly ubiquitous among adults in households earning $100,000 or more a year. (Anderson and Kumar)

Low-income households would benefit from the above proposed expansion of unemployment infrastructure, given both their lack of electronic access, and the new environment in which it is more difficult to obtain this access elsewhere (think: public libraries which provide free computer usage and are now closed due to COVID-19). Altogether, it is unacceptable that the government has allowed these application barriers to persist when simple solutions can be executed.

The US has not done enough to prioritize government entitlement programs assisting at-risk households. Although direct checks to individuals have attempted to address this shortcoming, bolstering programs like SNAP, WIC, and TANF would allow households to receive assistance with costs that they might otherwise cover using their stimulus checks. SNAP is "the largest federal nutrition assistance program. SNAP provides benefits to eligible low-income individuals and families via an Electronic Benefits Transfer card [which] can be used like a debit card to purchase eligible food in authorized retail food stores" (*Supplemental Nutrition*). The Brookings Institution asserts that "SNAP is one of the most efficient and effective automatic stabilizers in the fiscal policy toolkit" (Shambaugh). SNAP received less than $100 billion in government assistance under the CARES Act (Taylor). WIC "provides federal grants to states for supplemental foods, healthcare referrals, and nutrition education for low-income pregnant, breastfeeding, and non-breastfeeding postpartum women, and to infants and children up to age five who are found to be at nutritional risk" (*Special Supplemental*). TANF "provides grant funds to states and territories to provide families with financial assistance and related support services" (*Temporary Assistance*). Increased funding and slightly looser

qualification requirements for these programs would benefit millions of low-income families and can be easily implemented due to the fact that these federal programs already serve tens of millions of Americans (Shambaugh).

The continuation of rent policies enacted under the CARES Act is also necessary. The Emergency Rental Assistance program prohibited that landlords "collect late fees or other charges solely because [an occupant] didn't pay rent between March 27 and July 24, 2020" or "evict [renters] for not paying those late fees or charges" (*CARES Act Protections*). While the economy cannot survive with millions of renters at a time not paying their rent, the same policy with a more staggered approach may alleviate this economic burden while still supporting struggling households. The government might consider dividing the population into smaller groups and allowing each group to benefit from the policy for a limited period of time before rotating to the next group. For the almost 60 percent of the lowest income families that rent rather than own, this rotating exemption system would offer succor (Schuetz). This is especially applicable to poor households, 53 percent of which report an inability to pay their bills in full during the pandemic (Parker et al.). Other aspects of the CARES Act, such as the Economic Impact Payments (stimulus checks) should also continue for the duration of COVID-19 and be adjusted according to the state of the economy.

VI. Conclusion

As Professor Shikaki often notes, capitalism, when left to its own devices, fundamentally breeds inequality. This idea is especially relevant in the case of an economic shock like COVID-19, a situation in which Adam Smith's Invisible Hand cannot force the market to correct itself. With prudent government intervention centering American households' and small businesses' real-life struggles, inequality can be confronted and reduced to create a more equitable society, thereby promoting economic growth that benefits all. More importantly, the intervention should not come only as the result of a record-setting recession but include preventative measures such as a constant allocation of resources to human capital formation. Extreme health and economic shocks should not be the only motivation for legislation that promotes decent living standards. The US government's response to COVID-19 was too little, too late. "Decades of failed economic policies, based on ideology instead of evidence, and a blind adherence to the idea that markets can solve every problem, have made our economy and our society more vulnerable" ("The coronavirus"). With improved quality of life and reduced income inequality every year, during all stages of the business cycle, society at large — especially the most vulnerable populations — is better equipped to respond to economic downturns.

This presidency is promising. A recent study from the nonpartisan Congressional Budget Office finds that implementing President Biden's plan of raising the federal minimum wage from $7.25 to $15.00 would cut US unemployment by 1.4 million (Morath and Duehren). More importantly, it would reduce the number of American below the poverty line by 900,000 (Morath and Duehren). Political action that aims to improve job quality — not only the ever-popular traditional metrics such as the unemployment rate — has the potential to lift households out of poverty. This approach is key to solving income inequality. In January 2021, Biden announced the American Rescue Plan, an "emergency legislative package to fund vaccinations, provide immediate, direct relief to families bearing the brunt of the COVID-19 crisis, and support struggling communities" ("President Biden"). The draft includes: expanded unemployment benefits with a $400 weekly supplement through the end of September; $1,400 per person payments for working households; funding to address the disproportionate impact on people of

color; expansion of COVID-19 testing and treatment for underserved populations such as those in community health centers, prisons, jails, and tribal lands; extended emergency paid leave for over 100 million Americans; paid leave reimbursements for businesses with fewer than 500 employees; tax credits for families to offset up to $8,000 in annual child-care costs; grants to small businesses; extended eviction and foreclosure moratoriums; $5 billion in secure housing assistance for those experiencing or on the verge of homelessness; increased SNAP benefits; expanded affordable childcare; $1 billion in state funding for TANF; increased access to behavioral health services to address mental health crises caused/exacerbated by COVID-19; and more (Tankersley and Crowle, "President Biden"). The continuation of progressive policy-making strategies like those described above, in tandem with an adjusted approach that prioritizes hard-hit individuals and businesses, may put the United States on the right track to tackling the acute income inequality that has been festering for decades.

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