Written evidence submitted by the Place-based Economic Recovery Network academic steering group

An Equal Recovery- Treasury Committee Call for Evidence, July 2021

This submission represents a research collaboration between members of the Place-based Economics Recovery Network (PERN) academic steering group, and of the Women in Economics research community initiative. Information on these is given in appendix A. The findings of this submission are based on the authors' and their teams' interdisciplinary expertise at the interface between economic and social analysis and policy application. The research was supported by the Economics Division of Leeds University Business School.

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Introduction/summary

Early in the pandemic, the idea that Covid-19 was a 'great leveller'[1] because it could infect anyone of any background was debunked by data showing that infections, deaths and income impairment disproportionately hit people of deprived backgrounds and of ethnic minority groups[2]. Coronavirus transmission was higher in occupations involving high rates of exposure to interpersonal contact, as well as in densely-populated housing. Lower-income and ethnic minority groups are overrepresented in both of these high-exposure environments. Further, available data show that after controlling for these factors, these groups have suffered higher rates of infection and death from Covid-19 due to other factors correlated with income and minority status, especially health comorbidities and lower access to healthcare.

Covid-19 has also disproportionately affected some groups more than others through economic channels. When the crisis emerged, those working in the hardest hit sectors – health, care, retail and hospitality – bore the brunt of the immediate effects of economic shutdowns aimed at controlling virus transmission. These sectors are generally staffed by low-paid workers, who are more likely to be female, of ethnic minority background (or both) than in the overall workforce. Further, the increased burdens of providing unpaid healthcare as well as education at home has fallen disproportionately on women; and since women already bore more than their share of these responsibilities pre-pandemic, this further increased gender inequity. Government schemes to protect workers and industries have not entirely mitigated these effects. Overall, then, the pandemic has both generated a health crisis that is worse for people from underprivileged backgrounds and, simultaneously, worsened economic inequality along gender and racial lines.

The economic dynamic of the pandemic has also magnified pre-existing financial inequalities. Policies such as the Bank of England's Quantitative Easing (QE) programme since 2009 had increased wealth inequalities, the intergenerational wealth gap and contributed to a crisis of unaffordable housing. Although QE was introduced as a temporary

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[1] Reuters, 2020, UK under fire for suggesting coronavirus 'great leveller'.
[2] Public Health England, 2020, Disparities in the risk and outcomes of COVID-19.

measure in 2009, it was never unwound, and in 2020 the quantity of QE was nearly doubled in response to the Covid-19 crisis. This raises critical unanswered questions regarding the changing respective roles of HM Treasury, Bank of England, monetary policy, fiscal policy, and financial regulation, in addressing inequality.

Yet, the models that have dominated theoretical and policy development in macroeconomics for the past four decades focus on metrics which cannot measure or account for distribution, sustainability or resilience. Consequently, to design policies that will effectively address long-standing and pandemic-worsened inequalities, government economists and policy makers must use models and tools that are holistic, on the one hand, and that permit the identification and targeting of these dimensions of economic functioning, on the other. So doing requires taking into account the many interconnections among the components of the private-sector economy, the public-sector's expenditure, transfer, and taxation flows, and the households, businesses and communities whose well-being depends on the goods and services we provide for one another both inside and outside the boundaries of monetary exchange. Figure F in the last section of this written evidence illustrates the challenge of building a model fit for this purpose.

This evidence examines dimensions of inequality in the UK that have been worsened by these direct and indirect consequences of the Coronavirus pandemic. The sections below review, in order, the impact of Covid-19 on racial inequality, on gender inequalities, and on wealth and intergenerational inequalities and housing. Each of these sections concludes with some ideas on recommendations regarding policies that might reduce these growing divides. Regional inequality also receives some attention. This evidence concludes by examining possible design principles for policies that are fit for purpose – specifically the purpose of stimulating recovery while reducing inequality.

How the economic impact of the crisis increased existing inequalities

Racial inequalities

Covid-19 infection and death rates have been shown to be higher among ethnic minorities, with Black Britons facing higher rates than all other ethnicities.[3] The reasons for this have been widely attributed to factors linked to lower socioeconomic status – from the higher exposure associated with particular categories of occupation, to higher levels of pre-existing health problems, to geographic concentration and living conditions. Harrison and Docherty[4] show that ethnic differentials in Covid-19 mortality cannot be attributed to differences in health-seeking behaviours and genetic factors, and thus appear to be caused at least in part by socio-economic disadvantage. The ONS[5] found that even when controlling for age and other socio-demographic characteristics, as well as measures of self-reported health and disability in census data, the risk of a COVID-19-related death for males and females of Black ethnicity

[3] Ibid. Public Health England 2020.
[4] Harrison and Docherty, 2020, Ethnicity and Outcomes from COVID-19: The ISARIC CCP-UK Prospective Observational Cohort Study of Hospitalised Patients. *The Lancet.*
[5] Office for National Statistics, 2020, Coronavirus (COVID-19) related deaths by ethnic group, England and Wales: 2 March 2020 to 10 April 2020

was still 1.9 times more likely than those of White ethnicity. This means that other factors are also influencing these higher rates of morbidity.

Before the pandemic, ethnic minority Britons had substantial economic disadvantages on average compared to White Britons, which meant they were more vulnerable to the recession triggered by the Covid-19 crisis. Black Britons and Bangladeshi/Pakistani Britons had the highest unemployment rate across all ethnic groups, both at 8%.[6] The pandemic has widened this gap: Black African and Black Caribbean men are 50% more likely than white British men to be found in shut-down sectors, and Bangladeshi men are four times as likely to work in shut down sectors as white British men.[7] In November 2020, during the pandemic recession, 11.6% of Black Britons were unemployed, more than double the unemployment rate of whites; this figure rises to 27% for Black Britons between 16 and 24 years old.[8]

Some 46% of the UK Black British population lives in poverty, compared with 19% of the white British population.[9] Black Britons also have more limited financial buffers than do whites: less than 15% have savings sufficient to cover three months of income if dismissed from work, versus 41% of white British households.[10] Black Britons were also more likely than other ethnic groups to report financial difficulties during the pandemic, with a quarter of all respondents to a survey reporting problems in paying bills, making housing payments, and/or in getting by.[11] Given that Black African and Bangladeshi households have one tenth the wealth of average White households, they have been much less able to cover lost income and higher costs during the pandemic.[12]

Under these conditions, ethnic minority Britons are less able to refuse work that entails hazardous conditions. Disproportionate representation in exposed and 'frontline' sector employment is a key driver of ethnic minorities' greater vulnerability to Covid-19. Black Britons are overrepresented in low-wage healthcare and other essential ('key sector') work. A Black African Briton is 50% more likely than a white Briton to be key-sector worker, and three times as likely to be a health and social care worker.[13] Black and minority ethnic people make up 44% of NHS medical staff.[14] Black African Britons comprise 2.2% of the working-age population, but 7% of all nurses.[15] These imbalances translate to disproportionate deaths.

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[6] Office for National Statistics, 2019, Unemployment.
[7] Platt and Warwick (2020). Are some ethnic groups more vulnerable to COVID-19 than others? The Institute for Fiscal Studies.
[8] Foley, 2020. Unemployment by ethnic background. House of Commons Library Briefing Papers.
[9] Social Metrics Commission, 2020, Measuring Poverty.
[10] Platt and Warwick, 2020, Are some ethnic groups more vulnerable to COVID-19 than others? The Institute for Fiscal Studies.
[11] Barnes and Hamilton, 2020, Coronavirus and the social impacts on different ethnic groups in the UK: 2020. Office for National Statistics.
[12] Khan, 2020, The Colour of Money How racial inequalities obstruct a fair and resilient economy. London: Runnymede Trust.
[13] Platt and Warwick, 2020, Are some ethnic groups more vulnerable to COVID-19 than others? The Institute for Fiscal Studies.
[14] Office for National Statistics, 2020, NHS workforce.
[15] Platt and Warwick, 2020, Are some ethnic groups more vulnerable to COVID-19 than others? The Institute for Fiscal Studies.

Between March and April 2020, 63% of all healthcare workers and 95% of doctors who died of Covid were from Black and minority ethnic backgrounds.[16] The effect of these disproportions has been magnified by shortages of personal protective equipment (PPE) for key-sector workers.[17]

Wealth inequality also extends to housing: Black British families have the lowest rates of homeownership across all ethnic groups, and just under 20% live in deprived areas, the highest figure for any UK racial group.[18] Housing-related risk also emanates from the inability to self-isolate, which stems from overcrowding: while fewer than 2% of white British households in London have more residents than rooms, 16% of Black African households do.[19] Although overcrowding is not as prevalent for Black Caribbeans, they nevertheless face the highest number of hospital deaths per capita.

Systemic racism leading to both greater vulnerability and growing inequality as a result of the pandemic's impact operates directly and indirectly through other social channels too. Behind economic inequality is differential access to education: a study in 2019 showed that, as in the past, Black students in the UK were significantly impacted by the racial bias of their teachers.[20] Black Britons are 10 times more likely than whites to be stopped and searched by the police, the highest figure for any British racial group ethnicity[21]; and whereas only 3% of UK residents are Black Britons, the latter constitute 12% of all those held in prisons.[22] Patterns of discrimination, control and neglect characterize Britain's racial formation.

The Covid-19 pandemic can be compared to the US subprime mortgage crisis from 2007, where Black and Latino communities were clearly worst hit, but the policy response ignored their needs and even worsened outcomes by supporting mega bank mortgage lenders rather than mortgage holders.[23] At its pre-crisis peak in 2004, median net wealth of US Black households was \$27,790 and it nearly halved by 2013 after the subprime crisis.[24] By 2019, it was still well below the pre-crisis levels at \$20,730[25]. The median net wealth of White

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[16] British Medical Association (BMA), 2020, COVID-19: the risk to BAME doctors.
[17] Horton, 2020, Offline: COVID-19 and the NHS-"a national scandal". *The Lancet*.
[18] Haque et al., 2020. Over-Exposed and Under-Protected: The Devastating Impact of COVID-19 on Black and Minority Ethnic Communities in Great Britain. Runnymede Trust.
[19] Ministry of Housing, Communities and Local Government (MHCLG), 2020, Overcrowded households.
[20] Chapman and Bhopal, 2019, The perils of integration: exploring the experiences of African American and black Caribbean students in predominately white secondary schools. *Ethnic and Racial Studies*.
[21] UK Home Office, 2019, Police powers and procedures, England and Wales year ending 31 March 2019.
[22] Lammy Review, 2017, Lammy Review: final report.
[23] Dymski, 2010, From Financial Exploitation to Global Instability: Two Overlooked Roots of the Subprime Crisis. In Konings, M. (Ed.), The Great Credit Crash.
Dymski et al., 2013, Race, Gender, Power, and the Subprime/Foreclosure Crisis: A Meso Analysis. *Feminist Economics*.
[24] Federal Reserve, 2014, Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances.
[25] Federal Reserve/Bhutta et al., 2020, Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances.

households, already vastly larger than for Black households, declined proportionately less relative to its pre-crisis peak, falling from $201,480 in 2007 to $147,410 in 2013, reaching $181,440 in 2019. The disparity of wealth losses was even starker at the intersection of gender and race: the median net worth of Black female-headed households more than halved in response to the crisis, from a peak of $14,780 in 2004 to a post-crisis low of $6,910 in 2016, and by 2019 it was still less than half of what it was in 2004, at $7,220.

On 31 March 2021, the UK Commission on Race and Ethnic Inequalities released a report[26] that was seen by many in ethnic minority communities as making excuses for systemic racism: racial inequalities were attributed to differences in socioeconomic and cultural factors rather than to systemic or institutional factors specific to ethnic minorities.[27] By default this asserts that differences in socioeconomic outcomes are the result of socioeconomic factors and not of the occurrence of institutional racism in the UK. In effect, rather than strongly countering Covid-19's racially-differential risks and impacts, the UK government justified its inaction by issuing a comprehensive report that redefines racism as a residual category decoupled from the very history responsible for those racial differentials.[28] These findings were strongly rejected by the UN[29] and many others as ignoring structural racism that ethnic minorities face in the UK which systematically disadvantage their life outcomes, as outlined previously. Only by addressing these structural factors can racial inequalities be addressed.

Policy recommendations

In the first three months of 2021, the UK government made some concessions to the mounting evidence that minorities faced higher Covid-19 risks: it allocated £23M to localities to support those at special risk from COVID-19, and race/ethnicity as well as deprivation were named as Covid-19 risk factors both by the government's chief medical officer and by the second ministerial report. Curry et al.[30] find that although racial minority groups are well-documented as being more vulnerable to adverse impact from the pandemic, a negligible portion of the UK policy response has been targeted to these groups. These authors find this is a representation of institutionalised racism, in that this response relies on race-blind policies which do not seek to redress racial inequality directly.

- Truly effective policies should tackle systemic racism and redress socioeconomic inequalities that lead to worse economic outcomes for ethnic minorities, including in education, employment, poverty, low pay and social stability.

[26] Commission on Race and Ethnic Disparities, 2021, The Report.
[27] Bruce-Jones provides an excellent critical assessment of the Commission report- 2021, The United Kingdom on Race: A Warning for Europe.
[28] See Curry et al., 2021, Seeing Covid-19 through a subprime crisis lens: How institutional racism has shaped 21st-Century crises in the UK and the US, Leeds University Business School Working Paper. Contact g.dysmki@leeds.ac.uk
[29] United Nations, 2021, UN Experts Condemn UK Commission on Race and Ethnic Disparities Report.
[30] Curry et al., 2021, Seeing Covid-19 through a subprime crisis lens: How institutional racism has shaped 21st-Century crises in the UK and the US, Leeds University Business School Working Paper. Contact g.dymski@leeds.ac.uk

- Policies targeting those worst hit by the economic effects of social distancing enforcement are one tool to help prevent pre-existing racial inequality gaps widening yet further.

- Treasury spending programmes should go beyond the immediate impact of the Covid-19 crisis as an opportunity to correct long-standing racial biases.

- A governmental inquiry that examines the trajectory of institutional racism in the UK in the context of the recent historical context of minority/ethnic settlement in the UK, and specifically that addresses the economic motivations involved. Such an inquiry would provide some balance for the aforementioned government study, which focused largely on behavioural manifestations of racism, ignoring economic structures.

- UK policies, in recognizing the existence of institutional racism, should not propose policies addressing ethnic minorities' disproportionate pandemic losses without taking into account the disproportionate pandemic-specific losses of lower-income, non-minority communities.

- Insofar as ethnic minority and lower-income communities' income and wealth gaps pre-date Covid, policies addressing Covid-19's inequality-widening impacts should necessarily consider how these longer-standing divisions might be closed.

- Representation of voices from ethnic minorities and low-income backgrounds is essential for making sure these communities' needs are addressed in a realistic, sufficient and well-designed way.

- As part of a well-supported 'levelling up' policy approach, it would be appropriate to consider making special funds available for communities with significant numbers of lower-income households, and for communities with significant numbers of ethnic minority households, to be used specifically to address these gaps. Involving local leaders' voices in the determination of how these monies are used will help community cohesion and insure a more egalitarian future.

Gender inequalities

Gender inequalities have similarly been exacerbated by the pandemic, and for similar reasons to those highlighted in the previous section: the systemic and historical disadvantages that continue to be insufficiently taken into account for policy action. Women's lower incomes and wealth status have been further reduced in this period and progress on equality has been reversed.

Women, particularly young women, are disproportionately likely to work in the sectors that have been hit hardest by the Covid-19 economic lock-downs: 36% of young women and 25% of young men worked in sectors that have been closed down including restaurants, shops, leisure facilities and travel and tourism.[31] 58% of retail workers were female in 2019.[32] Women are more likely to work in jobs with high levels of physical contact so less able to work from home and therefore more likely to lose work or lose income due to circumstances like being furloughed.[33]

Women's generally poorer financial stability pre-pandemic made them more vulnerable to loss of income. Women are the majority of people living in poverty and female-headed households are more likely to be poor.[34] An estimated 90% of single parents are women and 45% of single parents live in poverty.[35] Women are over-represented in precarious work and low-paying work: women do 74% of part-time jobs and 54% of zero-hours contract and temporary jobs, while 69% of low-paid earners are women.[36] The gender pay gap stood at 8.9% in 2020, an increase from 8.7% in 2018, showing that progress was being eroded even before the pandemic.[37] An array of factors, including weaker employment positions, means that women are more likely to struggle with debt and bills, being more likely to report running out of money before the end of each month and less able to withstand as much as a month's loss of income.[38] In total, women's higher levels of financial vulnerability as individuals means they have smaller buffers and lower resilience to shocks, falling into poverty and financial insolvency more easily and sooner than males. This means that during the pandemic, losing jobs, working less or even being furloughed was more likely to push women into financial distress than a similar loss of income for men- an outcome magnified by the aforementioned greater likelihood of women to lose employment than men due to social distancing measures.

Women form the overwhelming majority of the health (77%) and social care (83%) work force. They perform 77% of roles at high risk of exposure to Covid-19.[39] Women have therefore been massively relied upon to carry out the acutely important work of physically combatting the health crisis.

Women have borne the brunt of the greater burden of unpaid care work – which may involve caring for children home from school, for the elderly and the sick, or both – during the pandemic. Measures have not been targeted to provide extra support for caring needs, either

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[31] IFS, 2020, Sector shutdowns during the coronavirus crisis: which workers are most exposed?. These figures do not include full-time students, which is a flawed data choice because part-time work is essential to the income of many students, particularly those from low-income backgrounds.
[32] Gable et al. 2020, No Returns: a new direction to tackle insecurity in retail following COVID-19. The Work Foundation.
[33] Mongey et al. 2020. Which workers bear the burden of social distancing? NBER Working Papers.
[34] Reis, 2019, DWP data reveals: women and children continue to be worst affected by poverty. Women's Budget Group.
[35] Women's Budget Group, 2020, Crises Collide: Women and Covid-19.
[36] Women's Budget Group, 2020, Women, Employment and Earnings A pre-budget briefing from the UK Women's Budget Group.
[37] (ibid.)
[38] Women's Budget Group, 2020, Crises Collide: Women and Covid-19.
[39] Women's Budget Group, 2020, Women, Employment and Earnings A pre-budget briefing from the UK Women's Budget Group.

paid or unpaid. Employed women were doing much more housework, more childcare and more home-schooling than men during the pandemic, and women's share of housework and childcare grew (from already high levels) after the pandemic hit.[40] The increased unpaid care burden has resulted in greater loss of women from the workforce than for men and greater scarring on women's careers.[41] Lack of childcare during the pandemic has hit women's careers disproportionately, exacerbating a pre-pandemic trend that insufficient funding for childcare provision undermines the progress of women in the work place, equal pay, equal opportunities and so on.[42] In July 2020, 75% of working mothers surveyed reported reducing their work hours due to lack of childcare and 51% said they did not have sufficient childcare to be able to do their job.[43] Underfunding of childcare impacts women even further in that 96% of the childcare workforce are women, and 13% of the childcare workforce earn less than £5 per hour.[44]

Women who could have accessed support for their extra care burden by being chosen for furlough schemes had no legal or policy support.[45] During the January 2021 school closures, 7 in 10 women were denied a request to be furloughed because there was no policy or legal mechanism for emergency granting of furlough for caring purposes.[46] King's College London researchers[47] conclude that the furlough scheme does not work for women because 'it did not effectively tackle the disproportionate economic risks to women in this crisis'. Women were 52.1% of those on furlough on 28 February, yet are only 47.3% of the overall UK workforce, highlighting that they have been furloughed at higher levels than men.[48] The increased likelihood of being furloughed, which usually entails lower than usual pay, means women's incomes have been eroded to levels even worse than the unequal status pre-pandemic.

Policy recommendations

Women's already disadvantaged economic position prior to the pandemic, combined with their greater vulnerability to loss of income due to their employment sector and status patterns during economic lockdowns, as well as the unpaid caring burden they bear, should have triggered a support level appropriate to needs level by policy makers during the Covid-

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[40] Warren et al., 2021, Carrying the work burden of the Covid-19 pandemic: working class women in the UK. Nottingham University Business School.
[41] Rauh et al., 2021, Economic impact from Covid: larger effect for women and mothers. University of Cambridge, Faculty of Economics blog.
[42] Norman et al., 2021, The impact of COVID-19 on Early Childhood Education and Care in England and Wales. Leeds University Business School.
[43] Pregnant then Screwed, 2020, The true scale of the crisis facing working mums.
[44] Social Mobility Commission, 2020, The stability of the early years workforce in England.
[45] Women's Budget Group, 2021, Women and employment during Covid-19.
[46] TUC, 2021, TUC poll: 7 in 10 requests for furlough turned down for working mums.
[47] Jones and Cook, 2021, Does furlough work for women? Gendered experiences of the Coronavirus Job Retention Scheme in the UK. King College London, Global Institute for Women's Leadership.
[48] Women's Budget Group, 2021, Gender Differences in Access to Coronavirus Government Support.

19 crisis. This cannot be said to have been the case. Even for policies that were enacted, Equality Impact Assessments were not carried out.[49]

Just as with the possible responses to racial inequalities that have been exacerbated by the Covid-19 crisis, policies to build back a better, gender-equal economy - wherein financial stability and opportunity are equally available to all regardless of gender - are policies that correct long-standing inequalities.

- Policies across government must tackle disparities in women's employment status, income, career opportunities and care burden, including safety nets and uplifts to address social needs.

- Treasury spending programmes should go beyond the immediate impact of the Covid-19 crisis as an opportunity to correct long-standing gender biases. Social support measures- both during economic recovery and for the long-term – which are designed with an understanding of gender disparities: not only assessing gender equality impact of policies but also pro-actively designing policies to address inequality. Equality should be part of key requirements, not an add-on or afterthought.

- Targeting support to sectors worst-hit by the pandemic will help to reduce short and longer-term damage to women's already precarious incomes.

- Representation of women by women, for all policies and especially for those designed to target gender equality, is an essential ingredient in making sure that policies are well-designed and sufficient.

- Social infrastructure- health, childcare, social care, education- have been severely damaged by the pandemic, making the business case for their investment even more pressing than that of physical infrastructure for building a sustainable and productive economy.

Wealth and intergenerational inequalities and housing

The Bank of England's Quantitative Easing (QE) monetary policy of asset purchases is a driver of wealth inequality since its introduction in 2009. QE has caused substantial growth in wealth but only for people who hold assets, which tend to be wealthy and older, as shown by Bank of England staff research.[50] This is caused by the effect of QE in driving up asset prices- which was fully intended and predicted by central banks, but assets tend to be held by wealthy and older people.[51] Young[52] also argues that QE increases other kinds of inequalities, including gender, race and disability-related, because it tends to be that white, male, non-

[49] Or at the least were not published. (ibid. WBG 2021)
[50] Bunn et al. 2018, The distributional impact of monetary policy easing in the UK between 2008 and 2014. Bank of England staff working papers.
[51] Bunn et al. 2018; Benford et al., 2009, Quantitative easing: Bank of England Quarterly Bulletin Q2 2009.
[52] Young, 2018, The impact of unconventional monetary policy on gendered wealth inequality. *Papeles de Europa.*

disabled people hold more wealth. Data suggests that Black African and Bangladeshi households in the UK own 10 times less wealth than white British families, and the wealth gap has increased since 2010.[53]

Younger generations have seen significant falls in real income (figure A) and wealth (figure B) than older generations[54] despite the Bank's insistence[55] that QE supported them through income instead of rising wealth. The asset-price-boosting channel of QE impact can be seen as a politically unacceptable outcome across the political spectrum, even if it was necessary in reaction to the financial crisis and Great Recession.[56] The House of Lords Economic Affairs Select Committee findings that 'the evidence shows quantitative easing has had limited impact on growth and aggregate demand over the last decade'[57] makes it yet more acutely urgent to assess the use of this policy tool, given its negative impact on wealth inequality and intergenerational inequality.

Figure A. Change in real income from 2007 by age. Source: Bunn et al. 2018

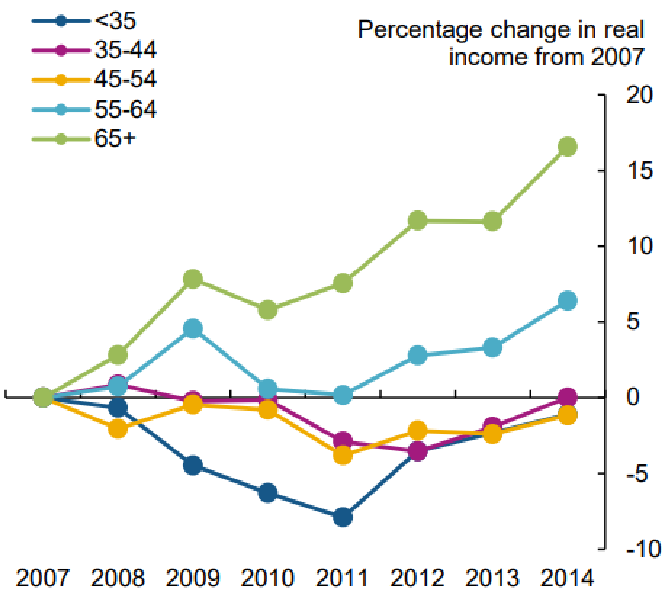
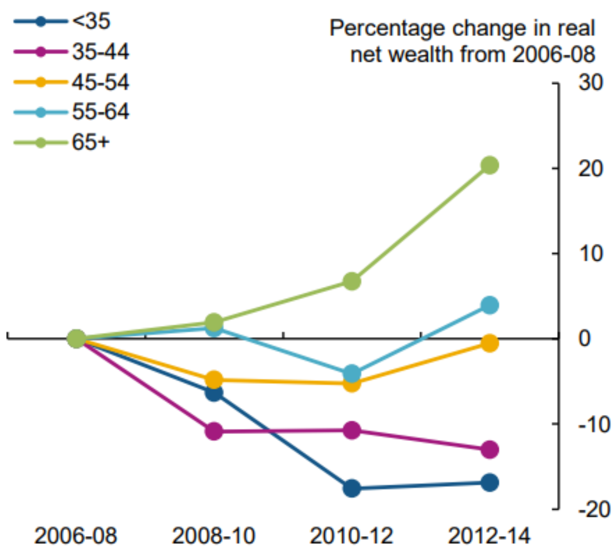


Figure B. Change in real net wealth from 2006-08 by age. Source: Bunn et al. 2018



QE had the effect of increasing property asset prices: looser monetary policy, through policy tools like QE that lower interest rates, increases the availability of mortgage credit, so people can afford to take on bigger mortgages,[58] increasing demand for more and bigger properties.

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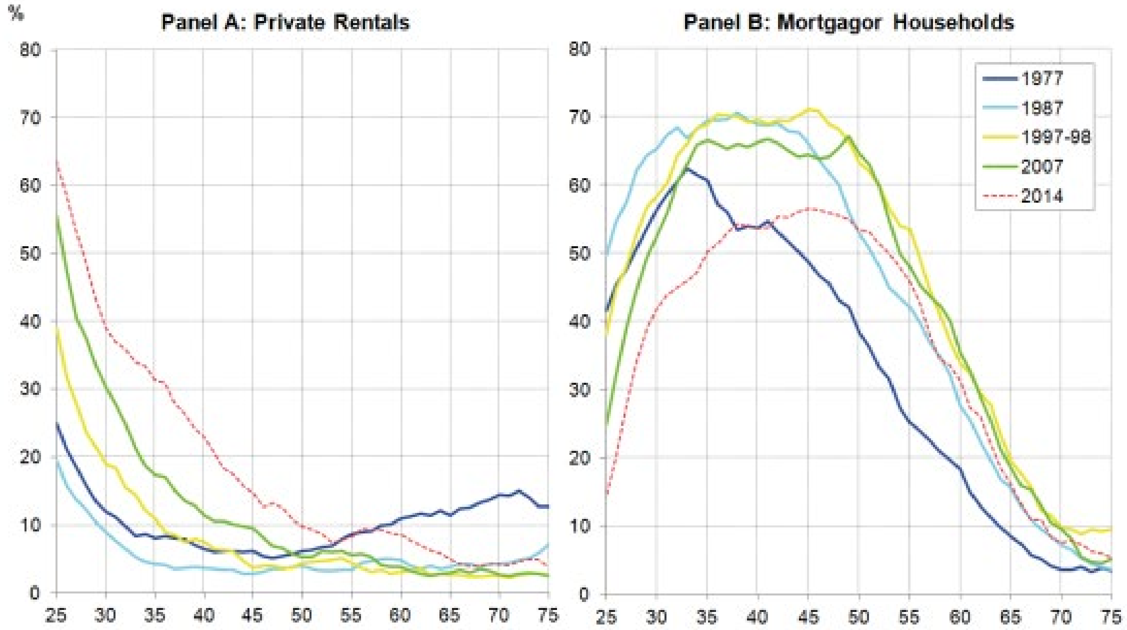
[53] Khan, 2020, The Colour of Money How racial inequalities obstruct a fair and resilient economy. London: Runnymede Trust.
[54] Graphs by Bank of England staff: Bunn et al., 2018, The distributional impact of monetary policy easing in the UK between 2008 and 2014. Bank of England Staff Working Papers.
[55] Bunn et al. 2018 (ibid.)
[56] See Theresa May's comments in 2016.
[57] Economic Affairs Committee, 2021, Quantitative easing: a dangerous addiction?
[58] Miles and Monro, 2019, UK house prices and three decades of decline in the risk-free real interest rate. Bank of England Staff Working Paper.

Research by Bank of England staff[59] asserts that the availability of mortgage credit is largely responsible for house price rises from the 1980s to 2018 and particularly the early 2000s, suggesting that policies like building more houses would make little difference to housing affordability.[60] QE specifically has this effect in comparison to lowered Bank base rates because of the previously mentioned effect of pushing up asset prices, including property assets. Channels of impacts for this include the 'Portfolio Rebalancing' effect, whereby investors receiving low rates of interest on safe investments like government bonds are encouraged to 'search for yield' by investing in more risky assets to get a higher rate of return, including investing in property-to reiterate, this was an intentional effect of QE.[61] This latter effect – which is one dimension of what has been termed 'bubble-driven growth'[62] – has the impact of further increasing demand for property, which further drives up prices. Higher house prices favour older, wealthier generations, who tend to hold property, compared to younger generations not already on the housing ladder.[63]

Data analysed by the ONS[64] illustrates that people age 25 to 45 are increasingly likely to be living in private rented accommodation and decreasingly likely to be owning their own home compared to previous generations at that age- an unequal distributional effect (figure C). In 2019 BBC[65] journalists posed the question 'Was the millennial dream killed by QE?' because property price growth of 43% on average over the decade 'vastly outpaced earnings growth; buying your first property and moving up has got even harder.' High private rents make it difficult for younger people and low-earners to save up a deposit and prove mortgage affordability and so get locked in the renting cycle.[66] Government schemes such as Help-to-Buy target deposit affordability but do not address mortgage affordability checks[67] so major issues remain.

59 (ibid. Miles and Monro 2019)
60 Mulheirn, 2019, Tackling the UK housing crisis: is supply the answer? UK Collaborative Centre for Housing Evidence.
61 Benford et al., 2009, Quantitative Easing- Bank of England Quarterly Bulletin Q2, 2009.
62 Corrado and Schuler, 2020, Bubble-driven Financial Cycles and Macroeconomic Policies. Bank for International Settlements Working Papers.
Brunnermeier and Oehmke, 2013, Bubbles, Financial Crises, and Systemic Risk, in *Handbook of the Economics of Finance*, Amsterdam: Elsevier.'
63 Barker Review, 2004.
64 Office for National Statistics, 2016, Economic Review: April 2016.
65 BBC, 2019, Was the millennial dream killed by QE?
66 Joseph Rowntree Foundation, 2020, UK Poverty 2019/20.
67 Limits on how many multiples of salary can be loaned are prudent but stifling when house price-to-salary ratios are at all-time highs; rent payments do not count as income available to pay a mortgage in the UK but they do count in places such as Australia.

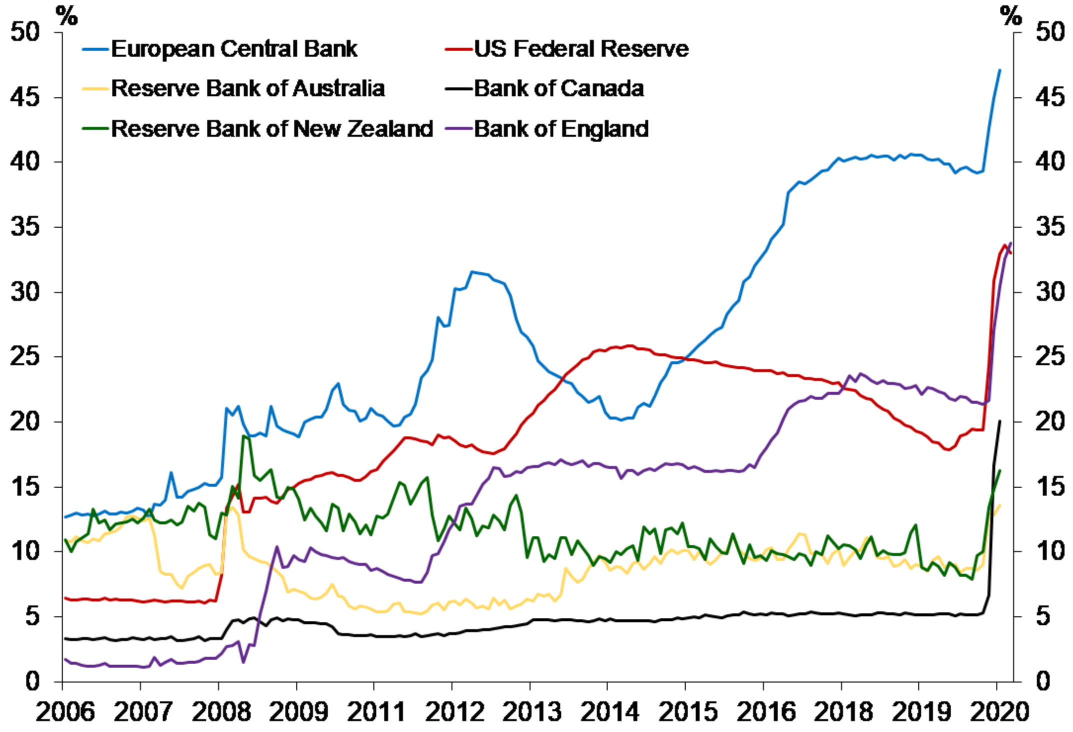
Figure C. Proportion of individuals by age and housing tenure, rolling five-year age groups, UK. Source: [ONS (2016).]()



QE was introduced in the UK and many other leading economies in 2009 and was designed to be a temporary measure, but grew over the following years and by 2019 the Bank of England announced that the balance sheet would never be unwound to pre-crisis levels due to the changing nature of financial markets relying on this source of liquid funds[68]. During the coronavirus crisis, central banks of all the developed economies have used QE, even the ones which did not use it after the global financial crisis (figure D), showing its global acceptance as a useful policy tool. However, questions remain about what the social and economic impacts of this historically unprecedented action by central banks will be, and the potential for unintended side-effects that take time to emerge.

[68] Hauser, 2019, Waiting for the exit: QT and the Bank of England's long-term balance sheet. Bank of England Executive Director for Markets speech.

Figure D. Global central bank balance sheets as a percentage of GDP. Source: Federal Reserve Bank of New Zealand.



Households taking on more debt, even though (and partly explained by) their income not rising, is found by a number of studies to have been a key driver of the US subprime mortgage crisis at the heart of the global financial crisis in 2007-8.[69] UK consumer debt, as a percentage of net disposable income (figure E),[70] fell from a peak of 166.8 in 2007 to 146.2 in 2012 and stayed around this level up to 2019, still high compared to the 1990s of around 100-110%. During the pandemic, higher income households have been able to pay off debts, due to lower total spending during lockdowns, but households with lower incomes are more likely to have increased debts due to being more likely to work in shut-down sectors.[71] Government financial support packages and policies to support debtors, such as debt payment holidays, have paid off as there was no major over-all increase in households unable to service their debts.[72] But as these measures are wound down over the second half of 2021, the risk of unsustainable consumer debt burden increases. Growing consumer debt raises issues of financial sector sustainability.

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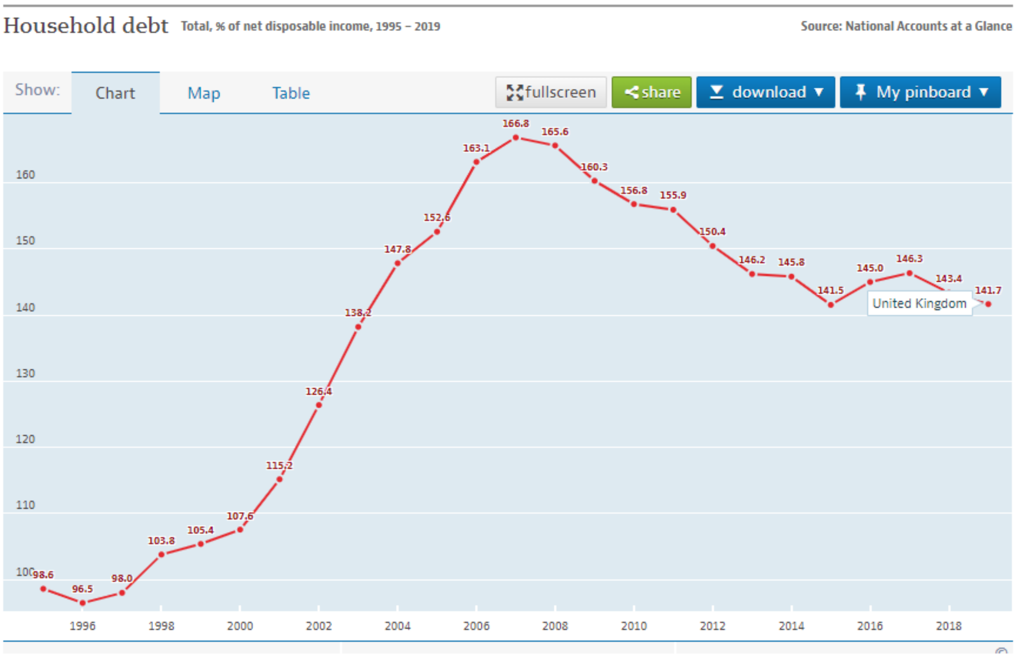
[69] Dymski, 2010, From Financial Exploitation to Global Instability: Two Overlooked Roots of the Subprime Crisis. In Konings (Ed.), *The Great Credit Crash*.
Wisman, 2013, Wage stagnation, rising inequality and the financial crisis of 2008. *Cambridge Journal of Economics.*
[70] OECD, 2021, Household Debt.
[71] Franklin et al., 2021, Household debt and Covid. *Bank of England Quarterly Bulletin, 2021 Q2.*
[72] (ibid. Franklin et al. 2021)

Figure E. Household debt as a % of net disposable income 1995-2019.
Source: OECD 2021.



Credit availability allows consumers to fill an income gap, but at the expense of future consumption. High debt levels make households sensitive to interest rate rises, and the housing market particularly so.[73] Current high levels of inflation may be transitory as the Bank's Monetary Policy Committee claims,[74] or it may be driven by structural, demographic[75] and pandemic-hangover factors, the latter which will require higher interest rates through reducing QE or raising Bank rate.

Policy recommendations

The importance of the connection between monetary policy and social impact leads prominent central banking researcher Dow[76] to complain of the disconnection between the 'economic' and the 'non-economic', such as the disconnection between central bank analysis of inflation rates and the wellbeing outcomes of central bank policy decisions. Dow calls for a new framework for cooperation between the Bank and the government- a formal mechanism for inputting analysis of interdependencies into their respective decision-making. This need not infringe on the independence of the Bank if carefully designed. Institutional or procedural cooperation could be in the form of a joint committee and/or joint research hub, or

[73] Miles and Munro, 2019, UK house prices and three decades of decline in the risk-free real interest rate. Bank of England staff working paper.
[74] Bank of England, 2021, Bank Rate maintained at 0.1% - June 2021: Monetary Policy Summary and minutes of the Monetary Policy Committee meeting.
[75] Goodhart and Pradhan (2020): The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival.
[76] Dow, 2017, Central banking in the twenty-first century. Cambridge Journal of Economics.

some such design, and would allow the non-political Bank to lend its expertise for understanding and action on politically-charged issues such as social inequality, and make analysis of how Bank policies impact social trends into a business-as-usual department rather than ad-hoc or politically implicating.

Changing the Bank's remit to include housing policy introduces another extra target to hit, which potentially runs counter to other targets. The Bank's main tool, its balance sheet, is already overburdened with hitting multiple targets, including inflation/monetary stability, financial stability and smoothing financial system functioning.[77] Attempting to use one tool for more than one target causes issues when the needs of one objective run counter to the needs of another- for example, if CPI inflation is below target but house price rises are above target, as has been the case during periods over the last decade. One proposal to remove this potential for conflicting objectives is if house prices are included in the measure of inflation[78] - in June 2021 the ECB announced a move towards a version of this over the next few years.[79] Reinhart and Rogoff[80] emphasise the role of house prices in financial crisis, shown strongly by the US subprime mortgage crisis underlying the global financial crisis, suggesting that sustainable house prices are not only a good social outcome but a key part of wider economic stability.

Economic policy tools that are fit for purpose

Finally, a set of fundamental weaknesses in the dominant metrics of economic performance are also at play. Employment, economic growth, house price and inflation measures cannot capture the financial and economic resources necessary to sustain household wellbeing.[81] They do not capture distributional features necessary to understand why poverty still exists in the UK. Employment and wage figures fail to capture the resources- or lack of resources- of large portions of the population: children, the retired, ill, disabled, single parents, unemployed, among others. Women and ethnic minorities' higher rate of living in poverty not only reflects their disadvantaged employment opportunities, it reflects how mainstream economic practise systematically fails to adequately capture the provisioning needs, and sources of provision, for human life. Any household's needs may be provided for (or fail to be provided for) through money from employment but also from wealth, non-government public bodies, the social support system,[82] even the natural environment provides resources we need to thrive.[83] Stability of house prices and consumer goods prices does not

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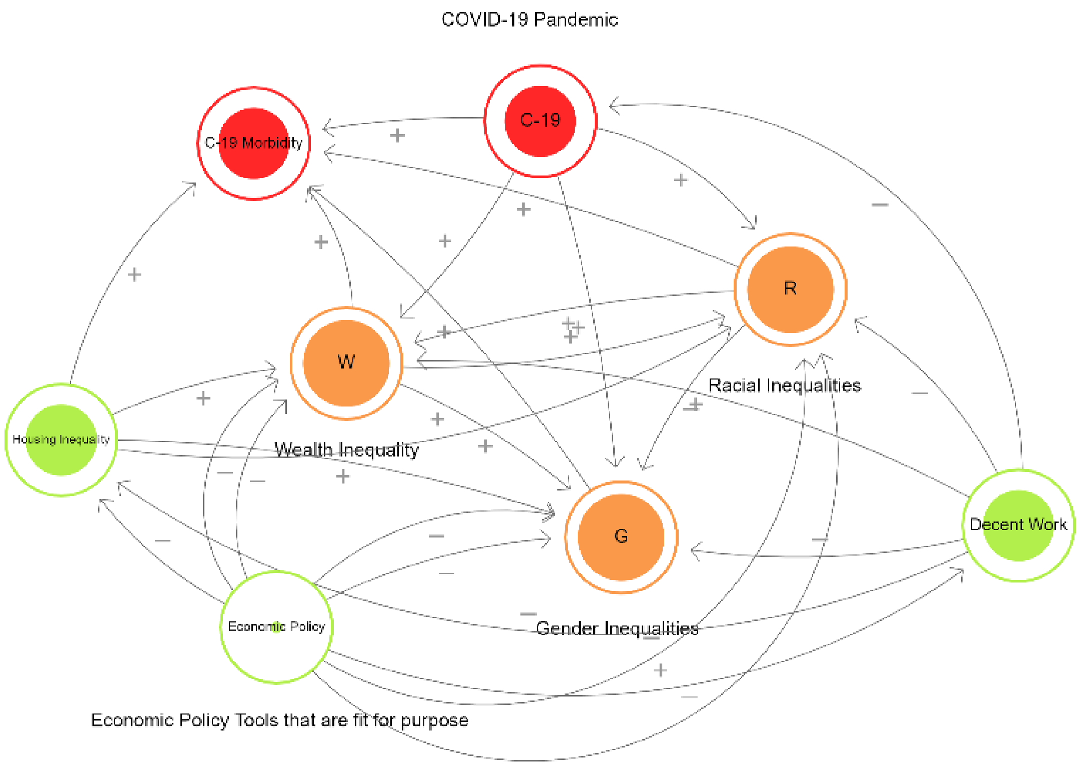
[77] Bank for International Settlements, 2009, Issues in the Governance of central banks: Ch 2 Roles and objectives of modern central banks.
[78] For a useful summary of the issues see Hampl and Havranek, 2017, Should monetary policy pay attention to house prices? The Czech National Bank's approach. Bank for International Settlement Papers.
[79] ECB, 2021, An overview of the ECB's monetary policy strategy.
[80] Reinhart and Rogoff, 2009, This time is different: eight centuries of financial folly.
[81] OECD Better Life Initiative
[82] Elson and Cagatay 2000, The Social Content of Macroeconomic Policies. *World Development.*
[83] Raworth, 2017, Doughnut Economics.

incontrovertibly lead to good outcomes for households- contrary to economic assumptions of the last 3 decades.[84]

Economic models that are fit for purpose need to acknowledge these dynamics.[85] 'Fit for purpose' here means, in part, acknowledging significant socio-economic gaps where these exist, understanding the historical and institutional dynamics that have generated them, and providing resources and mechanisms that can be used to overcome them, as public resources permit. As noted above, fully grasping the implications of ethnic minority and gender inequality, and of the other dimensions of unequal income flows and wealth levels in our society, requires a holistic approach. This observation goes doubly when it comes to tracing out the impact of Covid-19 on the UK. Underlying any comprehensive vision of how the 'economy works' is a 'system of systems' of human provisioning within which the economy is embedded.

Figure F provides an illustration of the challenge of sorting out not just cause-and-effect socioeconomic linkages, but of capturing the self-reinforcing dynamics that embedded inequalities can generate. Covid-19 has had such a complex impact on the UK precisely because its effects are felt directly on health and wellbeing, and indirectly through numerous economic channels. The fact that our economic relations cross national and continental borders only points up the fragility of the monetary and non-monetary flows whose interruption can expose the vulnerable portions of an unequal society to existential risk.

Figure F. 'Systems Thinking' approach to Equal Recovery policy design



[84] Balls and O'Donnell, 2002, Reforming Britain's Economic and Financial Policy.
[85] OECD, 2020, Systemic Thinking for Policy Making.

This evidence has shown that Covid-19 has worsened the extent of ethnic minority inequality, which is rooted in structural discrimination in the UK; and it has also adversely affected gender inequality. We have also pointed out how the pandemic is have differential effects on lower-income and poor communities, which exist both within regions – and indeed within cities and towns – and across regional boundaries. Given that the common factors at the root of these gaps take quite disparate forms in subnational regions and in sub-regional towns and cities, permitting variation in local responses to these gaps in the context of a national commitment to resolving them and achieving a more egalitarian future seems the way forward. This suggests that efforts to build consensus about what the problems are and how to address them should be 'bottom up' as well as 'top down'. Recovery will be achieved when it both reflects national purpose but is equally 'place-based.'

Policy recommendation: The UK should actively support, and make part of its decision-making processes, new models and concepts that rethink how we understand the fundamental nature of what the economy is and what it is for, in order that provisioning for wellbeing is put at the centre of economic policy making. Only by taking this step can the UK achieve meaningful economic goals and recover from Covid-19 to build an economy that works for everyone.

Appendix A

About the collaboration partners:

PERN, the Place-based Economic Recovery Network, brings together experts from West Yorkshire Combined Authority (WYCA), Leeds City region Enterprise Partnership, 'Yorkshire Universities,' and universities within and outside of Yorkshire, with the aim of playing a key role as 'anchor institutions' in regional recovery and development.[86]

The Women in Economics initiative is an interdisciplinary research community based in Leeds University Business School, founded in 2020. WiE welcomes researchers of all genders from across the university, and in June 2021 opened up to other universities and other research bodies, to promote inclusive perspectives in the economics profession and economics/economics-related fields.

[86] This document has been authored by an academic sub-group of PERN. It does not represent an official or unofficial statement of the West Yorkshire Combined Authority. Contact: Professor Andrew Brown, A.Brown@lubs.leeds.ac.uk