



## **After Immunity: Understanding the Post-COVID-19 World<sup>1</sup>**

### **Episode One: Inequality After Immunity**

**Interview with Dr. Miles Corak**

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**Ian T. D. Thomson [IT]:** Our first guest today here is Dr. Miles Corak. Dr. Miles Corak is a full professor of economics at the Graduate Center at the City University of New York and a senior scholar at the Stone Center on Socioeconomic Inequality. His research has focused on the topics of economic and social mobility, the effects of labour markets, unemployment, child poverty and social policy. This includes examining how social mobility affects Canada and other countries. Miles, thank you so much for joining us today.

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**Dr. Miles Corak [MC]:** Well, thank you for having me Ian.

**IT:** Absolutely. So I think a good place to start with this; I've always seen inequality less as kind of a traditional policy topic like energy policy or infrastructure policy and more kind of as a barometer test, or a litmus test, of how society is actually doing. But you're the expert in this field. How do you define inequality?

**MC:** I think the way you've just framed it is in large measure appropriate because there are many different dimensions to inequality that we care about. The most obvious, first, is you know, the inequality associated with some ascriptive traits people have. Their gender, their skin color, their visible minority status. That's certainly a very important dimension of inequality. Often though, we also speak of inequality in terms of income and wealth and that's sort of my area of expertise. So I think of inequalities as sort of, if you will, income based or class based, associated with the world of work. But obviously these things interact. You know, growing up as a black child in a challenging neighbourhood in downtown Toronto is going to have consequences for your opportunities, for your education, and ultimately for your income. I guess the question from an analyst's perspective is how you get into that debate. A large part of discussion has been income inequality over the last two or three decades, certainly.

**IT:** Yeah, I think that's a useful kind of just place to start off with this discussion, you know, what are we actually talking about? And to your point, there are just a number of different ways that it kind of manifests, as well as different definitions itself.

So today we are examining how inequality will transform after immunity to COVID-19. However, it's fair to say that issues surrounding these, income inequality, equality of opportunity, were issues before the pandemic. So in your view, how were we doing before all this? How would you characterize kind of the social and income inequities, generally, in Canada before the COVID-19 pandemic?

**MC:** Over the last two decades, I suppose it's fair to say that the Canadian economy sort of settled into an equilibrium of insecurity on one side and opportunity on the other. Overall, income inequality hasn't changed that much in Canada over the last 10 or 15 years before the pandemic. The big shock to our society, to the way we work, to the way families function and how they interact with the society of work sort of happened in the 1980s and 1990s. A whole new policy world, a whole new way of operating in the world, opened up with the challenges of globalization and also the big changes that the computer introduced in our lives. And at that point inequality notched up, but we didn't have a discussion about it. We didn't have a discussion about the opportunities it opened up, we didn't have a discussion about the challenges and insecurities it raised, and somehow the situation was decided without explicit policy debate. The conversation really started to kick in in the 2000s and inequality continued to rise in many countries, I'm thinking particularly the United States, and the reason it didn't so much in Canada was, well, part because we were lucky. We were lucky because of the way the boom in

globalization, the growth in China and in other emerging economies, affected the resource sector. So it was like gangbusters, if you recall, in Saskatchewan, in Alberta, and in Newfoundland and Labrador during the 2000s, the first half the 2010s, as a lot of people from CEOs to the baristas working in Tim Hortons saw their wages increasing. But at the same time, in other parts of the country, in Ontario and in Quebec, it was just stagnation. And the typical family did not see their incomes rising at all. So in part, things sort of looked like they were in a steady equilibrium with inequality not increasing any further than it did in the 1990s, but that was just masked by a lot of good luck with the resource sector. What was happening throughout this period was just a growing insecurity amongst many families in the bottom half of the income distributions. Families had to work harder to basically stay at the same income levels. So, the big transformation in the workplace as women increased their hours of work contributed to rising family incomes, but wages were stagnant for many others. On the other hand, as young people came on to the labour market and reached adulthood over this period, some of them had amazing opportunities as well. So, you know, I think frankly of some young people in, well you know: if you got a job at Shopify, you were doing pretty darn well and able to afford a not bad apartment in downtown Toronto quite easily, and many sectors like that. So there were there are great opportunities, but on the other hand, great risks and insecurities for others as the job market sort of polarized and work became much more service oriented on the one hand, and on the other hand engaged with the global labour market associated with all of this technological change. And in the end, you know, inequality didn't change that much, but there was a lot going on under the surface and that became exposed when oil prices and potash prices fell through the

basement in 2014. And so we were sort of in, as I said, this sort of uneasy equilibrium before the pandemic hit. Some people living lives of good opportunities, and many others [living] lives of insecurity, harder work, and not much more pay.

**IT:** It sounds like there's a bit of two different tales happening here in tandem. And if you kind of mold them together, you get this sort of, as you said, a kind of a stagnant sort of perspective on inequality when in reality there seems to be two different stories. Is that a fair way to characterize it?

**MC:** Nicely put. You know, the top 10 percent, the top one percent saw their share of the economic pie rise throughout, and the bottom 40 percent saw their share of the pie fall throughout this period. And the big chunk in the middle was treading water.

**IT:** So I'd like to just switch and talk about kind of what's currently happening, as well as the future. This is, again, the goal of this podcast is really to look at where we're headed. And I think it's important to kind of talk about what's happening, kind of currently, as we're recording this in late January about the pandemic and what it's kind of revealed because it's revealed a number of different inequities in Canada. For instance, unemployment has disproportionately affected youth and women, as well as the virus itself [having] had a much more devastating impact on marginalized communities. What is going to happen to these populations, in your view, after immunization? How might these imbalances be resolved, improved? Will they bounce back or might they be worse off in the post-COVID-19 world?

**MC:** Well, nicely put. That is the question, isn't it? It's sort of interesting, if you sort of go back to the way we were framing public policy in March and April. The hope was sort of to freeze the economy, weather the pandemic, and then restart where we left off hoping that the economic implications of this terrible health shock would be temporary. And increasingly, I think people feel that that's not the case at all. This pandemic, this health shock, is going to cause important structural changes in the economy for some. Now, [on] one level, this sort of reflects how we engage with work. If over this period you were able to work at home, if you had the kind of job that permitted that kind of flexibility - basically, I think most professional, most people in professional occupations had that opportunity - your income was steady, if not growing, and your expenses fell, and you were saving a lot more. The stock market certainly took a big dip at the outset of the pandemic, but then it came back gangbusters. And so if you were invested in the stock market, and you were liquid, and you were able to put more into it at a crucial time, your rates of return [were] 10, 20, even 30 percent, depending upon how things fell out. So on the one hand, you know, just looking at the surface impacts, there's going to be an increase in inequality just because of increased savings and wealth accumulation on the behalf of some groups. But that's sort of a superficial cut at it. I very much like the term that you used, that this pandemic is *revealing* existing socioeconomic inequalities. And going in to the pandemic, in policy circles, there was a lot of talk about the future of work and a good many labour economists sort of feel that the pandemic has brought forward a lot of changes that were always happening. So I don't know, it's almost passé to speak of the world of work in some sense because many people have gotten used to

working at home and without necessarily big impacts on productivity. It's going to change the structure of the workplace in some important ways, and you might sort of draw some hints about how that might happen from looking at the last big wave of technological change. And that was the wave of globalized supply chains and a lowering in costs of shipping goods across national borders. And that led to major changes in the manufacturing sector. You know, parts of southwestern Ontario and some communities were just decimated by that and whole groups of people in their mid-careers faced permanent job losses and also no possibility of returning to the same sort of job with the same sort of pay after that shock. Well you might think - and this is [me] sort of echoing a book by a Geneva based economist, Robert Baldwin here - that the same thing will start happening to services now. If it's very easy for firms not to have to bring their workers in from the suburbs to downtown to work in the office, well then it's just as easy for that worker to be located anywhere in the country, not just in the surrounding suburbs. But how long will it take before firms realize that that anywhere could be across national borders and many services could also be contracted out (Just [like] in the way that the manufacturing sector faced a lot of contracting out and firm dislocations)? So I suspect the service sector is going to be dislocated. So accountants, professors for that matter, and many other fields, will be competing with a global talent pool and in many senses, perhaps, with people who are paid a lot less than in their domestic markets. So you can imagine, just as what happened to the manufacturing sector, a whole wave of contracting out [of] global supply chains now happening to the service sector. So there could be a wave of, again, another big wave, just as [that] happened in [the] 1990s of opportunities and challenges. So the world of work is going

to change, and it's going to change in a way that's going to engender more inequality in wages. And that shock is going to lead to layoffs of people in mid-career, or moving people into more of sort of a quote - unquote, I'm not sure I totally like this word, but a type of gig work or continued contracting out. So the pandemic is going to bring those kinds of changes that have been ongoing forward, and amplify them.

**IT:** Yeah, that's really interesting and you took that question in a direction I wasn't anticipating in a way that's just opening up a lot of possibilities of where society and where the world is heading in terms of our economy, and you're right, in terms of the service economy itself. I want to kind of switch directions a little bit, and talk about, I guess you could say, a bit of a paradigm shift that's been occurring with essential work. So the pandemic has really opened up, just as it's revealed these inequities, it's also opened up questions of what's deemed essential in a crisis and the lower wages associated with some of these jobs. You know, you think of the front line workers at the local grocery store and the risks they've taken on during the pandemic. In your view, has the pandemic changed our perception of what is essential work and will this change how we as a society ultimately value these roles and their remuneration?

**MC:** Well, ultimately what determines wages is bargaining power; who has it, who loses it, and how it changes. I spoke earlier about the boom times in the commodity sector. This is a situation in which demand outstrips supply for some workers, some people with skills, and go figure what happened, their wage rates rose. So what we saw during the pandemic and this whole framing of essential work was a temporary shift in



bargaining power. It also elicited some basic and ingrained notions we have about fairness, and so you saw some larger companies, retailers in the food sector, offering pandemic premiums to wages. But we've already noticed that those were just temporary. Whether this notion of essential work has staying power or not is going to be determined by how the pandemic changes the bargaining power of workers, vis a vis their employers, and I think the argument could just as easily go the other way. What we're seeing, I think, again, I'm relying a little bit on U.S. evidence, but also on Canadian evidence based upon the pain that a lot of small businesses are feeling. It's probably a move to much more concentration in industries. So there's going to be a lot more bigger players, and when you have bigger players without countervailing union power, they have more power over wage setting. So if anything, over the long run, economists call this monopsony power, you're going to see the shift in bargaining power in some sectors move towards larger employers and that's not going to bode well for wages. So it's all very fine for us to talk about essential workers, but if that stays sort of at the level of preferences and ideals without changing the actual structure of wage determination on the ground, it's not going to have a lasting impact. And you're seeing that already. So ultimately, notions of fairness are embodied in the labour market and if workers don't have [a] voice, they don't have options, and they can't bargain as much for their wages. And public policy has an important role to play in this, and in some fundamental way it really hasn't stepped up yet. Although, you know, we're speaking in late January here, there are some important conversations going on now and [it] remains to be seen how those will play out. But we haven't seen that on the ground yet.

**IT:** So it really sounds like...you can speak to the optics, or the ideas of essential work but unless there's actual structural (maybe even governance) changes to the labour market and to the relation with the worker and the employer, you might not see those again, that change in remuneration that you would think would come those societal changes. So that's very interesting. You know, you talked a little bit about might be down the pipeline but I'd be curious for your thoughts about, and again you kind of hinted about this at the beginning of this pandemic, [that] this was kind of seen as just locking this thing down and then getting back to normal once we're done. What [are] your thoughts on Canada's response to this, and a second part to that, are there any countries that we should be looking towards or who did this well?

**MC:** Canada's response, I think, stands out as being pretty important in some dimensions. Certainly I think early on the pandemic, there were just administrative challenges. The federal government was faced with this huge shock and it revealed the inadequacy in the administration of some of our social programs. The employment insurance system basically looked like a deer with its eyes caught in the headlights from this amazing need that was coming. And so the introduction of the Canada Emergency Response Benefit, in retrospect I think it was really well done. It was timely and it got money into the pockets of people when they needed it. On the other hand, the attempt to subsidize wages so that firms would continue to employ their employees, not lay them off, and pay them wages, that program really sort of didn't do its work. And I think in part because we are making inappropriate international comparisons to countries like Germany and others. Where we go forward is important. I think the pandemic has really

brought to the fore the kinds of insecurities that people are living with; the lack of resilience, a good deal of asset poverty. [If] people get a shock to their incomes it's going to be very hard for them, based upon their own resources, to stay afloat for as much as two to three months. And so what you saw was almost a cry for some basic income or some security in income, and I think the important way that will go is with important reforms to existing programs like the Canada Workers Benefit or the Employment Insurance system. How those reforms actually play out is going to be a good question and maybe something that we will be engaging in a debate over the next couple of months. But we have to do two things. One, in terms of social policy, ensure that people have a floor below them, below which they won't fall in their income levels regardless of how dramatic changes are in the labour market. And two, regardless of the income levels, give them the insurance so that they know that they can live their lives with some security as they face the ups and downs that the future always holds.

**IT:** So I think you really answered this, but just to kind of clarify, just because there has been discussion over the years of things like the universal basic income, they've been discussed in policy circles for quite some time. I've always seen them in those years as, they were talked more as a pipe dream but now this pandemic has really brought them to the forefront. Will we see a universal basic income come to fruition in a post-COVID-19 world or any other big changes to our social safety net?

**MC:** There are going to be big changes to the social safety net, or at least there should be big changes in the social safety net. COVID has revealed important inefficiencies

and deficiencies in the social safety net. Now, the call for universal basic income has different echoes or different resonance, depending upon who's making that call. For some it's just an administrative redesign of existing welfare policies, nuts and bolts issues on how to deliver income support and save on administrative burden. At another end, it's really just a cry for a more just income distribution without any important sense of how design should actually work. My own feeling is that in some measures we have a basic income. We have a basic income for the elderly through the Canada Pension Plan and the old age supplement. At the other end of the spectrum, we have a basic income for families with children through the Canada Child Benefit, which incidentally was beefed up before the pandemic and even during the pandemic. What we're missing is sort of a basic income for a group of people in their working years living on their own. They're falling through the cracks and the federal government has programs that can reshape to give those people the support they need. The Canada Workers Benefit is a prototype of that, where basically your working income is supplemented by an income transfer. Parts of that could be made so that it doesn't depend entirely on working income and could be made much more generous. The other thing that would be very important for the government to do is to reform the Employment Insurance system, our unemployment insurance system. Only 40 percent of the unemployed actually qualify for what is supposed to be unemployment insurance. So a lot of people aren't eligible, quitters aren't eligible, and people in all kinds of work that has a lot of contingency to it aren't eligible. So there needs to be a significant improvement in the fibers of that safety net, and if you did that in the right way, I think you'd come close to what people are calling, some people are calling, a basic income. A basic income unconditional to some

degree on whether you work or not, but really having strong incentives for engagement in the labour market and beefing up the income you earn from the labour market. That has to go hand in hand with labour market reforms in institutions like important changes, continual changes, to minimum wages and other labour market regulations to give workers more voice. My big concern is, the other thing that we're seeing from this pandemic, is the re-energization of the small business community. Canadian Federation for Independent Business, for example, has played an amazing role, and to their credit for their members, in framing public policy discussions. And we are in a different type of environment in which fiscal policy is going to have to take the role in moving macroeconomic policy forward. And an annual deficit is not an anchor for that, and I think most economists agree, quite appropriately so. But if the federal government is going to have a bigger role in spending going forward, different groups are going to start lining up and reframing that debate in a way that is going to be of best concern for them, but not necessarily for the broader, best role of society in general. So it'll be interesting to see how this politics plays out, whether you are engaged in basic income, support for small businesses, or for individuals who are working but feel more insecure in their work.

**IT:** Mm hmm. So it really, I mean, at its macro level, it sounds like Canada's got a long way to go in terms of improving its social safety net.

**MC:** We have a long way to go, but I guess my own view is you can take important steps from existing programs. That long way to go, for me, is not an upturning or a

revolution in the structure of programs. My view is [that] it's a long way to go, keep your eyes steadily on that goal, but you can take big and important steps from where we are now to that. But I think we should look over the next three months or so, or certainly in the next six months, for a big and important discussion on the design of some of these programs. The throne speech last fall certainly promised us that, and I suspect there'll be important reforms coming forward to employment insurance, to other parts of the social safety net, and people from the arts community to the professional community should be informed and engaged in that debate.

**IT:** Miles, this has been a really great conversation. I think you've provided myself, and hopefully the listeners, just a lot of ideas about, you know, where Canada's headed, where the world's headed, in terms of a globalized society with the service sector. Do you have any concluding thoughts on the future of, I guess, just inequality in Canada in that post-COVID-19 world after immunization?

**MC:** Well, thanks for that opportunity, Ian. I guess my big concern in my area of research is in how inequality affects opportunities. And so one thing we didn't really talk about that I think is important is looking at the pandemic and its aftermath through the eyes of the child, through families and children. And how what we've been going through in the last year, and will continue to be going through for at least some more months, how that can affect the long term prospects of children. So you're seeing the child care area of our society really come under a lot of pressure. Women take a disproportionate burden in all of household activities and in child raising. They've been

hit particularly hard by the labour market impacts. The education system has tried to respond in different provinces in different ways to the best it can, but it's going to be quite clear that children raised in families lower in the socioeconomic scale are going to suffer disproportionately than some who come from more privileged families. I sort of worry about the longer term prospects for children, hopefully this is not a lost year in their education. And we do know that children from more challenging family backgrounds suffer more from these kinds of shocks. Not only that, but also how disruptions in the labour market will affect them as their parents lose their jobs. We've seen the fraction of unemployed that are long term unemployed rise tremendously. We know from previous research that that can echo into the next generation if a family's income is not appropriately supported. So there are all these other dimensions that frame opportunities in a way that could leave some with scars that will take a long time to heal. And I sort of wonder and worry about that as well.

**IT:** Well, Miles, thank you so much for your time. This has been a quite insightful conversation, and an important conversation, about where we're headed, you know, in terms of society. So thank you again for your time.

**MC:** Thank you so much for the opportunity, and I hope this engenders a constructive conversation amongst your listeners.