

The COVID-19 crisis and the US labour market: Rising inequality and precariousness in perspective

By [Christophe Blot](#)

In the United States as in France, the COVID-19 crisis has led to numerous measures restricting economic activities intended to limit the spread of the virus. The result will be a fall in GDP, which is already showing up in figures for the first quarter of 2020, and which will be much steeper in the second quarter. In a country noted for its weak employment protection, this unprecedented recession is quickly having repercussions on the labour market, as reflected in the rise in the unemployment rate from a low point of 3.5% in February to 14.7% in April, a level not seen since 1948. As [Bruno Ducoudré and Pierre Madec](#) have recently demonstrated in the case of France, the current crisis in the United States should also result in heightened inequalities and insecurity. And the shock will be all the greater in the US since the social safety net is less extensive there.

In the United States, the Covid-19 restrictions were set not at the Federal level but by the various States at differing times. The vast majority of States did decide however to close schools and non-essential businesses and to encourage people to stay home. The lockdown was thus imposed by California on March 19, followed by Illinois on March 21 and New York State on March 22, but South Carolina didn't follow until April 6. North Dakota, South Dakota, Arkansas, Iowa and Nebraska have taken no action, and three other States – Oklahoma, Utah and Wyoming – applied measures only in certain counties, and not State-wide. However, by early April a large part of the country had been locked down, with a varying degree of strictness, affecting between 92% and 97% of the population[\[1\]](#).

Which employees have been hit hardest by the crisis?

According to a [survey](#) by the US Bureau of Labor Statistics, almost 25% of employees worked from home in 2017-2018. However, some employees said they could have stayed at home to work but did not necessarily do so during the reporting period. With the COVID-19 crisis and the incentives to modify the organization of work, we can therefore consider that almost 29% of employees could stay at home during the lockdown [\[2\]](#). Furthermore, as the survey carried out for France highlights, the implementation of teleworking is more

widespread among employees in management jobs and commercial or financial activities. In 2017-2018, 60% of these people could have managed to work from home. In contrast, fewer than 10% of workers in agriculture, construction, manufacturing or transport services would have been able to telework during the crisis. Not surprisingly, the survey also shows that the employees able to telework are also those at the top of the wage distribution. For the top quartile, 61.5% of employees could work at home compared with fewer than 10% for employees in the bottom quartile.

Mirroring these elements, a more recent [study](#) analyzed which jobs would be most affected by the lockdowns and in particular by the closure of non-essential businesses [3]. Six sectors are particularly exposed. Logically enough, these include bars and restaurants, transport and travel, entertainment, personal services, the retail trade and some manufacturing industries. Based on employment data for the year 2019, these sectors represent 20.4% of total employment. With more than 12 million jobs, the bar and restaurant sector is being hit hardest. This survey also shows that the most exposed employees generally receive below-average pay. They are particularly concentrated in the two lowest wage deciles. For example, the wage bill for bar and restaurant workers represents barely 3% of the total wage bill but more than 8% of employment. These people usually work in companies

with fewer than 10 employees. This dimension is all the greater in the United States since access to health insurance is often linked to the employer, whose obligations for insurance provision depend on how many employees they have. Finally, by crossing the distribution by sector and geography, it appears that Nevada, Hawaii and to a lesser extent Florida (23.7%) concentrate a larger share of these sectors, and therefore of the exposed jobs [\[4\]](#). Conversely, Nebraska, Iowa and Arkansas are among the States where these sectors account for a smaller share of employment [\[5\]](#). These three States have also not adopted lockdown measures and should therefore be relatively spared from the rise in unemployment.

Unemployment statistics for the months of March and [April](#) confirm this outlook. In one year, the unemployment rate increased by 4.8 points for those in management jobs or commercial or financial activities, while, over the same period, the rate rose by 23 points for service jobs and almost 15 points for employees in production. The geographic disparities are also significant. In California and Illinois, the first States to implement a lockdown, the unemployment rate rose 11.3 and 12.2 points, respectively, in one year. Conversely, the States that have not enacted lockdown measures are among those where the unemployment rate has risen the least over the

year. The increase reached 5.2 points for Nebraska, 6.7 points for Arkansas and 7.5 points for Iowa, for example.

The structure of employment is, however, a key factor determining the variation in unemployment. Despite fairly close starting dates for the lockdowns in Connecticut and Michigan, the unemployment rate rose only 4.2 points in the former versus over 18 points in industrial Michigan. The statistics also confirm the exposure to the shock of Nevada and Hawaii, which recorded the two largest increases: 24.2 and 19.6 points respectively, while Minnesota, with a very low exposure, saw its unemployment rate rise by only 4.9 points, one of the smallest variations since April 2019. Likewise, the impact has been relatively softer in the District of Columbia, where the unemployment rate rose by 5.5 points.

Health under threat?

The deteriorating state of the labour market will be accompanied by a deterioration in living conditions for millions of Americans, especially if the end of the lockdowns is not synonymous with a rapid rebound in activity, as Jerome Powell, Chairman of the Federal Reserve, now fears. This would result in increased poverty for households that have lost their jobs. Previous analyses indicate that workers at the bottom of the distribution will be the most exposed, especially since,

despite the [measures taken to extend unemployment insurance](#), the duration of benefits remains overall shorter in the United States. To deal with the crisis, the Federal government has spent USD 268 billion (or 1.3 percentage points of GDP) on unemployment insurance to extend the duration and amount of compensation. This is in addition to the tax credit of up to USD 1,200 for households without children [\[6\]](#). The government has thus chosen to support incomes temporarily, but unlike the partial unemployment schemes in force in France and in many other European countries, it has not protected jobs [\[7\]](#). The flexibility of the US labour market could, however, prove more advantageous in so far as the recovery is rapid and differs depending on the sector. Employees actually do not lose much of their skills and can more easily find a job in another business sector. But a protracted crisis associated with persistently higher unemployment would greatly increase poverty.

In addition, access to health insurance is also often linked to employment. Indeed, 66% of insured Americans are covered by their employer, who is obliged to offer health insurance in companies with more than 50 employees. The corollary is that many workers risk losing their health coverage at the same time as their jobs if they cannot pay the portion of the insurance costs previously borne by their employer. As for employees of

small businesses exposed to the risk of closure and unemployment, it is very likely that they will no longer have the means to take out a private insurance policy on their own. Already, in early 2019, just over 9% of the population had no health coverage. While this rate had dropped sharply since 2010 and the “Obamacare” reform, the annual [report](#) of the US Census Bureau published in November 2019 estimated that more than 29 million people had no coverage in 2019, a figure that has risen somewhat since 2017. The coverage rates also show strong regional disparities, which is due to the demographic structure of the States.

Although part of the economic support plan is devoted to food aid [\[8\]](#) and some health expenses, the COVID-19 crisis will once again hit the most vulnerable populations and widen inequalities that are already significant and being deepened by the recent tax reforms of the Trump administration.

[\[1\]](#)

In terms of GDP, the share of States that have imposed lockdowns is in much the same proportions.

[\[2\]](#)

Note that this survey does not show a significant difference between men and women, even if women have a slightly fewer opportunities for teleworking: 28.4%

against 29.2% for men.

[\[3\]](#)

See Matthew Dey and Mark A. Loewenstein, "[How many workers are employed in sectors directly affected by COVID-19 shutdowns, where do they work, and how much do they earn?](#)", *Monthly Labor Review*, U.S. Bureau of Labor Statistics, April 2020.

[\[4\]](#)

In Nevada, the exposed sectors represent 34.3% of jobs. This figure also exceeds 30% in Hawaii and is 23.7 % in Florida.

[\[5\]](#)

This is also the case of the District of Columbia due to the large presence of Federal employees.

[\[6\]](#)

This amount is granted to households receiving less than USD 75,000 (150,000 for a couple) per year. USD 500 is awarded per child. The amount of the tax credit is regressive and falls to zero for households with an income above USD 99,000.

[\[7\]](#)

See [here](#) for our analysis of European and American strategies to deal with the crisis.

[\[8\]](#)

The plan approved on 18 March ([Families First Coronavirus Response Act](#)) actually provides for over 20 billion dollars in assistance for poor people.

What can we learn from the Finnish experiment with a universal income?

By [Guillaume Allègre](#)

Between 2017 and 2018, Finland conducted an experiment with universal income that gave rise to significant media coverage. 2,000 unemployed people receiving the basic unemployment benefit (560 euros per month) received the same amount in the form of unconditional income, which could be combined with income from work for the duration of the experiment (2 years, not renewable). On 6 May 2020, the final report evaluating the experiment was published (here is a [summary of the results](#)). The evaluators concluded that the experimental universal income had moderate positive effects on employment and positive effects on economic security and mental health. According to the final report, on average individuals in the treatment group worked approximately 6 additional working days (they worked 78 days). They experienced significantly less mental stress, depression and loneliness, and their cognitive functioning was perceived as better. Life satisfaction was also significantly higher. The results of the experiment therefore seem to argue in favour of a universal income. But is it really possible to draw lessons from the experiment with a view to generalizing the system? In 2018, I wrote that experimenting with universal income was “[impossible](#)”. Does the Finnish experience contradict this claim? It turns out that it is indeed difficult to draw lessons.

The principle of a universal income, as it is commonly defined, is to pay a sum of money to all members of a political community, on an individual basis, without means-testing or any obligation to work or take a job.

Such experiments generally concern a small number of people (in Finland, 2,000 individuals): the universal aspect of the measure is therefore lost, but a measure's impact can differ depending on whether it affects everyone or only some of the population. How are the individuals chosen? Two options are favoured by practitioners: a totally random draw, which favours the representativeness of the experimental sample, or a saturation site, which consists of including in the experimental sample an entire community (for example a single labour market area), which helps to capture externalities and interactions ("do I stop working more easily when my neighbour stops or when my spouse receives assistance?"). In Kenya, [villages are used as saturation sites](#). In the Finnish experiment, 2,000 long-term unemployed people receiving end-of-entitlement benefits (equivalent in France to ASS assistance) constituted the experimental group, with the control group being made up of recipients of end-of-entitlement benefits who had not been randomly selected. This poses two problems. First, the experimental group is not representative of the Finnish population. The long-term unemployed make up only

a small part of the population. So we cannot really say how people with jobs would have reacted (would they have reduced their working hours?). Second, interaction effects are not taken into account: for example, consider a job taken up by an unemployed person in the experimental group, who thus increases his or her labour supply in the context of the experiment – might this job have been taken up by a member of the control group?

The definition of universal income tells us nothing about its level or what benefits it replaces. All options are on the table. Programmes with a more liberal, free-market orientation offer a relatively low universal income and replace most social benefits and sectoral subsidies (notably in agriculture) or can even substitute for regulations on the labour market (the abolition of the minimum wage is envisaged). In a more social-democratic logic, universal income would replace only the social minimum (France's RSA income support benefit) and income support for the in-work poor (in France, the *Prime d'activité*). The amount envisaged is often equal to or slightly higher than the social minimum. Finally, in a degrowth logic, the universal income could be lifted to at least the poverty line in order to eradicate statistical poverty. The effects expected from the reform depend greatly on the amount envisaged and the benefits it replaces. In the framework of

the Finnish experiment, the universal income was 560 euros, the amount of the basic unemployment benefit received by the members of the experimental group. Simply replacing this basic allowance meant that at first the income of the unemployed in the experimental group remained unchanged. But the universal income could at the same time be cumulated with job income. This means that returning to work could lead to an additional financial gain of as much as 560 euros.

The experimentation thus increased the financial gains from a return to work. This is not a result that one usually thinks of in relation to establishing a universal income. One question often asked is,

[“What happens when you get 1,000 euros a month without working?”](#) It turns

out that, for those on low incomes, the generalized roll-out of a universal income could have ambiguous effects on the incentive to work: it increases income without work but it also provides additional income for the working poor.

On the other hand, for those earning the highest incomes, the monetary gain from increasing their income would be reduced.

The evaluation was complicated by the introduction of activation measures during the second year of the experiment (2018). Based on the “activation model” put in place, people on unemployment benefits had to work a certain number of hours or undergo training, otherwise their

benefit was reduced by 5%. These measures affected the experimental groups asymmetrically: two-thirds of the control group were affected, compared with only half of the experimental group ([Van Parijs, 2020](#)). Theoretically, the incentive to return to work was therefore greater for the control group. Note that activation goes against the principles of the universality and unconditionality of universal income.

Notwithstanding the activation measure, the results of the Finnish experiment tell us that the hours worked are higher for the experimental group than for the control group. The financial incentives to work would therefore have worked! In fact, the evaluators stress the moderate degree of the impact on employment. In the interim report, which covered the first year (2017), the impact was not significant. In 2018, the impact was significant, since the people in the experimental group worked an average of 78 days, or 6 days (8.3%) more than the control group. The impact is, however, not very significant: with a 95% confidence interval, it is between 1.09 and 10.96 days (i.e. between 1.5% and 15%). Kari Hämäläinen [concludes](#): "All in all, the employment effects were small. This indicates that for some persons who receive unemployment benefits from Kela [Finland's agency handling benefits for those at end of entitlement] the problems related to finding employment are not related to bureaucracy or to financial incentives".

On the other hand, the experiment tells us nothing about the effects of possible disincentives for higher earners due to the financing of the measure: by construction, an experimental universal income is not financed. More seriously, gender analysis is virtually absent from the final report. All we know is, from reading a table, that women in the experimental group worked 5.85 additional days compared to 6.19 for men, but there is no discussion of the issue of gender equality. The issue of how choices are negotiated within a household is also not posed. The impact on the lone parent group is not significant “due to its small size”. In an [Op-Ed published by the New York Times](#), Antti Jauhiainen and Joonas-Hermanni Mäkinen criticize the sample size, which is five times smaller than initially planned: the small size makes it difficult to draw any conclusions about subgroups.

The final report highlights the beneficial effects on mental health and economic well-being. The impacts on people's life satisfaction and on stress and depression are very significant. However, two comments can be made. First, we do not know what comes from the higher living standards of the individuals in the treatment group and what comes from the mechanism of a universal income (the certainty that people will have an income whatever happens). Given the way the experimental income was actually designed (it functions like an

employment bonus), one can easily assume that it is the income effect that takes precedence. Likewise, since the individuals in the experimental group are in all cases better off financially, it is not surprising that their economic well-being increases. Second, there may also be a reporting bias due to a [Hawthorne Effect](#): individuals in the experimental group know that they are part of an experiment and that they were chosen so that they have an advantage over the control group. This can lead them to be more optimistic in their statements.

In the end, the Finnish experiment offers few lessons about the effects of the establishment of a global universal income, i.e. one for all citizens. Only a small category of the population was involved, and funding was not tested. Yet funding is half the mechanism; Finnish trade unions are also opposed to a universal income because they fear that the necessary tax increases will reduce earnings from working. In addition, a family and gender approach has been completely ignored, whereas a universal income has been denounced by feminists as being liable to discourage women from taking up jobs (likening it to a mother's wage). As with the [RSA income supplement experiment in France](#) [article in French], the failure of the Finnish experiment is explained in part by the contradictory objectives of the various scientific and political actors. The evaluators hoped for a sample of 10,000 people including individuals

with different employment statuses. They were constrained by a combination of time, money and a ruling political coalition that was no longer enthusiastic about the idea of testing a universal income ([“Why Basic Income Failed in Finland”](#)). The Prime Minister’s Centre Party was in fact interested in the question of financial incentives for the long-term unemployed, which is a long way from the idea of reconsidering the central role of market labour or being able to say no to low-quality jobs, which is often associated with universal income. This was certainly a limitation of these costly experiments: subject to the inevitable supervision of politics, they risk becoming showcases promoting the agenda of the government in power.

It seems like it’s raining billions

[Jérôme Creel](#), [Xavier Ragot](#), and [Francesco Saraceno](#)

The second meeting of the Eurogroup did the trick. The Ministers of Finance, after having once again laid out their divisions on the issue of solidarity between euro area Member States on Tuesday 7 April 2020, reached an agreement two days later on a [fiscal support plan](#)

that can be put in place fairly quickly. The health measures taken by the Member States to limit the spread of the Covid-19 pandemic will enjoy better short-term financing, which is good news. The additions to Europe's tools for dealing with the crisis will be on the order of 500 billion euros – this is certainly not negligible, and note that this comes on top of the efforts already put in place by governments – but this corresponds mainly to a new accumulation of debt by the Member States. The net gain for each of them, as we shall see, is actually quite marginal.

The Eurogroup will propose the creation of a credit line (Pandemic Crisis Support) specifically dedicated to the management of the Covid-19 crisis within the framework of the European Stability Mechanism (ESM), without strict conditionality (meaning that recourse to the credit line will not imply any control on the part of the EMS over the future management of the Member State's public finances). The creation of the credit line was inspired by the proposal by [Bénassy-Quéré et al. \(2020\)](#), the [advantages and disadvantages](#) of which we presented to the Eurogroup meeting on 9 April 2020. The amount allocated to this credit line represents around 2% of the GDP of each euro area Member State, or nearly 240 billion euros (in 2019

GDP).

The lending mechanism proposed by the European Commission to supplement the partial unemployment programmes of the Member States – [it goes under the name of SURE](#) – will clearly see the light of day and will be endowed with 100 billion euros. For the record, the three main beneficiaries of SURE cannot receive a combined total of more than 60 billion euros in loans.

Finally, the European Investment Bank (EIB) will grant an additional 200 billion euros, mainly to small and medium-sized enterprises in the EU Member States. In total, the euro area countries will have 480 billion euros in additional financing capacity.

Table 1 below presents a breakdown by country of the amounts in play. As part of the 240 billion euros of Pandemic Crisis Support, Germany will be able to benefit from a borrowing capacity of nearly 70 billion euros, France nearly 50 billion euros, and Italy and Spain 35 and 25 billion euros respectively. These amounts correspond to 2% of the 2019 GDP of each country. At this point, there is no indication of whether the Member States will draw on this capacity. The advantage in doing so depends crucially on the difference between the interest rate at which they can finance their health and economic expenses without using the EMS and the interest rate on loans made by the EMS. The

financing cost without going through the EMS is the interest rate on the country's public debt. The cost of financing through Pandemic Crisis Support is the interest rate at which this credit line is itself financed, that is to say, at the lowest rate on the market, i.e. the German rate. So it is obvious that Germany has no interest in using this credit line. Of the 240 billion euros allocated to Pandemic Crisis Support, the 70 billion euros for Germany is thus useless. For countries other than Germany, the use of Pandemic Crisis Support depends on the difference between their interest rate and Germany's rate, the infamous spread. If the spread is positive, using the EMS effectively reduces the cost of borrowing. But as shown in Table 1, the gain enabled by Pandemic Crisis Support is rather low. For Greece, whose spread vis-à-vis Germany is the highest in the euro zone, the gain would come to around 0.04% of GDP in 2019, i.e. a 215 basis point spread multiplied by the amount allocated to Greece for Pandemic Crisis Support (3.8 billion euros, which corresponds to 2% of its GDP of 2019), all relative to its 2019 GDP. For Italy, the gain is on the same order: 0.04% of its GDP. Expressed in euros, Italy stands to gain 700 million euros. For France, whose spread vis-à-vis Germany is much lower than that of Italy, the gain could be 200 million euros, or 0.01% of its GDP in 2019.

Assuming that the amounts allocated by the EIB are prorated to the country's size (measured by its GDP in 2019), and that Spain, Italy and France benefit from 20 billion euros each under SURE, the total interest rate savings would reach, respectively, 680 million, 1.5 billion and 430 million euros (0.05%, 0.08% and 0.02% of GDP). At a time when it seems to be raining billions, these are not big savings. Unless you think of it as a metaphor. Like rain before it falls, the billions of euros are not really euros before they fall.

Table 1. Distribution of amounts allocated as part of Pandemic Crisis Support (PCS), and each country's potential gains, including from the use of additional EIB and SURE financing

	Max amount of PCS	10-year spreads	Max. gain from use of PCS and other additional financing				
			PCS	EIB*	SURE**	Total	Total
	Billion euros	Base points	Million euros				% of GDP
Germany	68,5	0	0	0	0	0	0
Austria	8	43	34,3	20,9	5,8	61,0	0,02
Belgium	9,4	52	49,1	30,0	8,3	8,8	0,02
Cyprus	0,4	204	9,0	5,5	1,5	16,0	0,07
Spain	24,8	113	280,7	171,3	226,0	678,0	0,05
Estonia	0,6	nd	nd	nd	nd	nd	nd
Finland	4,8	40	19,3	11,8	3,2	34,3	0,01
France	48,3	44	212,6	129,8	88,0	430,4	0,02
Greece	3,8	215	81,5	49,7	13,7	145,0	0,08
Ireland	6,9	55	38,0	23,2	6,4	67,5	0,02
Italy	35,5	195	693,1	423,1	390,0	1506,2	0,08
Latvia	0,6	nd	nd	nd	nd	nd	nd
Lithuania	1,0	nd	nd	nd	nd	nd	nd
Luxembourg	1,3	nd	nd	nd	nd	nd	nd
Malta	0,3	90	2,4	1,5	0,4	4,2	0,03
Netherlands	16,1	26	41,9	25,6	7,1	74,6	0,01
Portugal	4,2	124	52,3	31,9	8,8	93,0	0,04
Slovakia	1,9	77	14,5	8,9	2,4	25,9	0,03
Slovenia	1,0	107	10,3	6,3	1,7	18,3	0,04

* Assuming that the use of additional EIB financing is fully distributed in proportion to the country's relative GDP compared to that of the EU (in 2019).

** Assuming that Italy, Spain and France obtain 20 billion euros each and that the remaining 40 billion euros are distributed in proportion to the relative GDP of the countries compared to that of the euro zone (in 2019).

Sources: Ameco (PIB 2019), Financial Times (Spreads, 10 April 2020).

Does the fall in the stock market risk amplifying the crisis?

By [Christophe Blot](#) and [Paul Hubert](#)

The Covid-19 crisis will inevitably plunge the global economy into recession in 2020. The first available indicators – an increase in the unemployment rolls and in partial unemployment – already reveal an unprecedented [collapse](#) in activity. In France, the OFCE's [assessment](#) suggests a 32% cut in GDP during the lockdown. This fall is due mainly to stopping non-essential activities and to lower consumption. The shock could, however, be amplified by other factors (including rises in some sovereign rates, falling oil prices, and capital and foreign exchange movements) and in particular by the financial panic that has spread to the world's stock exchanges since the end of February.

Since 24 February 2020, the first precipitous one-day fall, the main stock indexes have begun a decline that accentuated markedly in the weeks of March 9 and

16, despite announcements from the [Federal Reserve](#) and then the [European Central Bank](#) (Figure 1). As of 25 April, France's CAC-40 index had fallen by 28% (with a low of -38% in mid-March), -25% for the German index and nearly -27% for the European Eurostoxx index. This stock market crash could revive fears of a new financial crisis, only a few years after the subprime crisis. The fall in the CAC-40 in the first few weeks was in fact steeper than that observed in the months following the collapse of Lehman Brothers in September 2008 (Figure 2).

Figure 1. Changes in the main stock market indexes

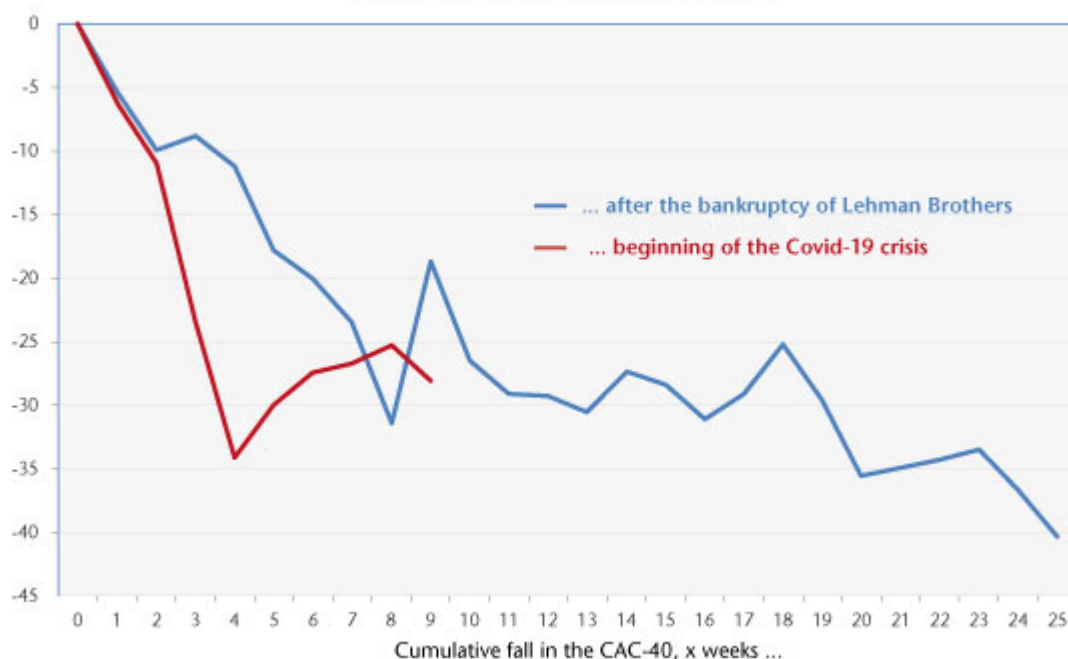


Source: Eikon Datastream. Base 100: average for the year 2019.

While the short-term impact of the Covid-19 crisis could prove to be more severe than that of the 2008 financial crisis, the origin of the crisis is very different – hence the need to reconsider the impact of the stock market panic. In the

financial crisis,
the origin was in fact a banking crisis, fuelled by a specific
segment of the
US real estate market, the subprime market. This financial
crisis then caused a
drop-off in demand and a recession through a variety of
channels: higher risk
premiums, credit rationing, financial and real estate wealth
effects,
uncertainty, and so on. While some of these elements can be
found today, they
are now being interpreted as the consequence of a health
crisis. But if there
is no doubt that this is at the outset a health and economic
crisis, can it
trigger a stock market crash?

Figure 2. Fall in France's CAC-40 index in the Covid-19 crisis compared with the post-Lehman Brothers collapse



Source: Eikon Datastream.

Another way of posing
the question is to ask ourselves whether the current stock
market fall is due entirely
to the economic crisis. Share prices are in fact supposed to
reflect future changes

in a company's profits. Therefore, expectations of a recession, as demand – consumption and investment – and supply are constrained, must result in a reduction in turnover and future profits, and therefore a fall in share prices.

However, the financial shock could be magnified if the fall in stock prices is greater than that caused by the decline in corporate profits. This is a thorny issue, but it is possible to make an assessment of a possible over-adjustment of the stock market, and thus of a possible financial amplification of the crisis. The method we have used is to compare changes in profit expectations (by financial analysts) since the beginning of the Covid-19 crisis with the fall in equities.

Focusing on CAC-40 companies, profit expectations for next year have been cut in the last three months by 13.4% [\[1\]](#). This reduction should therefore be fully reflected in the change in the index. In fact, the fall there was much larger: -28%. This would result in an amplification of the financial shock by just under 15 percentage points.

This over-adjustment by the stock market can be explained by, among other things, the current prevailing uncertainty about the way lockdowns around the world will be eased, and thus about an economic recovery, as well as uncertainty about the oil shock that

is unfolding concomitantly, with determinants that are both economic and geopolitical. This over-adjustment may therefore not be wholly irrational (with regard to the supposed efficiency of financial markets), but the fact remains that it has led to major variations in the financial assets of consumers and business.

Variations like these are not neutral for economic growth. On the consumer side, they contribute to what are called the wealth effects on consumption: additions to a household's assets give it a sense of wealth that drives it to increase its consumption [\[2\]](#). This effect is all the greater in countries where household assets are in the main financialized. If a large portion of household wealth is made up of equities, then changes in share prices strongly influence this wealth effect. The portion of shares (or of investment funds) in financial assets is quite similar in France and the United States, respectively 27% and 29%. However, these assets account for a much larger share of the disposable income of American households: 156%, compared to 99.5% in France. As a result, French households are less exposed to changes in share prices. Empirical studies generally suggest a greater wealth effect in the United States than in France [\[3\]](#).

As for business, these changes in stock market valuations have an effect on

investment decisions through collateral constraints. When a company takes on debt to finance an investment project, the bank demands assets as collateral. These assets can be either physical or financial. In the event of an increase in equity markets, a company's financial assets increase in value and allow it greater access to credit [4]. This mechanism is potentially important today. At a time when companies have very large cash requirements to cope with the brutal shutdown of the economy, the sharp decline in their financial assets is restricting their access to lines of credit. While the financial amplification factors are not reducible to the financial shock, the recent changes in the prices of these assets are nevertheless giving an initial indication of how the financial system is responding to the ongoing health and economic crises.

[1] The data comes from Eikon Datastream, which for each company provides analysts' consensus on the earnings per share (EPS) for the coming year and the following year. We then calculated the weighted average using the weight of each CAC-40 company in the index of the change in these expectations over the past three months. The fact that a 13.4% decline in profit expectations for the next year will give rise to a 13.4% decline in the stock price is made on the assumption that profits beyond the

next year are not taken into account, or, in other words, that their current net value is zero, which is to say that investors' preference for the present is very strong today.

[2] More formally, we can speak of a propensity to consume that increases as wealth increases. Wealth effects can be distinguishable according to whether they are purely financial assets or also include property assets.

[3] See [Antonin, Plane and Sampognaro \(2017\)](#) for a summary of these estimates.

[4] See [Ehrmann and Fratzscher \(2004\)](#) and [Chaney, Sraer and Thesmar \(2012\)](#) for empirical assessments of this transmission channel via share prices or property prices, respectively.

The Covid-19 passport and the risk of voluntary infection

By [Gregory Verdugo](#)

Covid-19 has made it risky to have a job that cannot be done remotely and requires contact with the public. Given the danger of infection facing frontline workers, employers confront the risk of legal consequences in the event of insufficient

protection. This new risk could lead to changes in the characteristics of the workers being hired, as the threat of lawsuits creates an incentive to discriminate by choosing workers who are least at risk for these positions. As long as the Covid-19 virus is in circulation, we could therefore witness the rise of a powerful new source of discrimination in the labour market based on the risk of serious infection. But according to some epidemiologists, the virus could be circulating and creating episodic outbreaks for 18 to 24 months [\[1\]](#), with the result that Covid-19 could leave a lasting imprint on the job market.

Which workers are least at risk? First, there are those with no apparent co-morbidities, which means that individuals who are obese may face even more pronounced discrimination on the labour market [\[2\]](#). However, the main easily identifiable group at lower risk are the young, since the under-30s face a very low risk of developing a serious form of Covid-19 [\[3\]](#). This situation is unprecedented – for the first time, we’re experiencing a recession where young people are less affected than more senior employees!

But while the young are less at risk, there is one group of individuals for whom the risk could be even

lower. Experience with other viruses suggests that individuals who have previously contracted Covid-19 gain at least temporary immunity from future infection [\[4\]](#). Although such immunity remains uncertain and controversial [\[5\]](#), some employers may want to test their employees, especially those in at-risk positions, to rule out the danger of infection attributable to their professional activity.

Information on the state of an employee's immunity could therefore be very valuable for an employer – so much so, in fact, that it could lead to the development of low-quality private tests and a risk that false immunity certificates could proliferate. To avoid these risks, many countries are considering creating immunity passports certifying that a worker has already contracted Covid-19 and is, at least in the short term, safe from the risk of infection [\[6\]](#). Chile has announced that it is implementing such a policy, and it is under discussion in various European countries.

An immunity passport is expected to provide high wages in labour markets wracked by Covid-19, particularly in high-risk jobs, including those requiring close contact with infected people, such as in hospitals. In turn, in an economy in crisis, an immunity passport guaranteeing well-paid employment could generate high demand for

voluntary infection among those in direst need.

This possibility of self-infection when immunity is socially valued or economically profitable is not merely a theoretical question. In an article published in 2019, historian Kathryn Olivarius of Stanford University showed that there are numerous historical precedents [\[7\]](#). Being recognized as having immunity was in particular an essential condition for economic integration during the colonization of tropical zones, where infectious diseases were decimating the colonists. In the early 19th century, immigrants recently arriving in New Orleans were said to be “non-acclimated”, and sought to quickly suffer and survive yellow fever, which at that time had an estimated mortality rate of about 50%, which is well above that of Covid-19, currently estimated at between 0.3% and 1%. To integrate, you had to prove that you survived the infection and thus became “acclimated”. Only after becoming “acclimated”, with the risk of early death being ruled out, did it become possible to have access to the best jobs in the local labor market, to get married and to access credit from local banks.

If a Covid-19 immunity passport is developed, it will in a similar manner foster a dangerous temptation to become infected in order to gain access to jobs where the risk of infection is high but wages are also high. The temptation to

self-infect would be even stronger in the case of Covid-19, the consequences of infection are usually benign. But voluntary infection could lead to risky behaviour: one can imagine individuals trying to get infected, and in doing so spreading the disease around them, especially if they remain asymptomatic.

Alex Tabarok, a professor of economics at George Mason University, argues that the issue of immunity passports by the public authorities would also imply the need to regulate the demand for voluntary infection that this would give rise to. So the public authorities should offer the possibility of infection in moderate doses, in a medical setting and by ensuring medical follow-up during a period of quarantine following voluntary infection.[\[8\]](#)

The supervision of a voluntary infection motivated by the desire to obtain an immunity passport clearly poses ethical problems. First, it would be individuals in the most precarious situations, especially those most affected by the recession, who would volunteer. Furthermore, it is not certain that medical supervision reduces the risk of death or serious sequelae. Above all, voluntary infection contradicts the apparent policy goal today, which is to curb the epidemic as much as possible, as the possibility of achieving collective immunity seems distant. So such an approach

is for the moment dangerous.

To be consistent with the goal of suppressing the epidemic, it therefore appears necessary to discard the policy of immunity passports, which give value to having been infected. As is set out in the French protocol for lifting the lockdown [9], it is also necessary to ensure that the private market does not fuel this demand and that companies don't create their own immunity passports or try to acquire information about immunity through other means. While a rule like this might seem paradoxical, the risk of self-infection can be eliminated only if a non-discrimination rule is imposed that prohibits employers from using or requesting the results of serological tests to employ workers in high-risk positions and that also bars employees from revealing their immunity status.

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