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Inclusive and Resilient Societies

Equality, sustainability and efficiency



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Short Summary

A new intellectual approach for our future

Inclusive and Resilient Societies **explores the evolution of inequalities of different types and assesses their interaction with the Covid crisis** across people, firms, and places. It shows how the impact of the pandemic varied widely, depending on whether and where people work, their gender, age, education, income levels, and the place they live in, and highlights how economic inequalities have expanded and left our societies with deep social scars.

It also reflects on the **changes needed in the mindset of economic policies** in member states, to challenge the equality-efficiency trade off.

This book is the first step of an intellectual partnership advocating how to **approach social equity and economic efficiency in a more integrated manner** to build back better.

Policymakers, researchers, and others are invited to draw on the message of this report to reflect on how equity, efficiency and sustainability can complement each other rather than compete.

If we don't get out of this trade-off mindset, it will continue to hamper the world's ability to address longer-term challenges such as inequality and climate change.

The top **1,000 billionaires** took **9 months** to regain their pre-pandemic wealth, while the world's poorest will take **more than 10 years to recover.**



"Since wars begin in the minds of men and women it is in the minds of men and women that the defences of peace must be constructed."

Inclusive and Resilient Societies

Equality, sustainability
and efficiency

Foreword

For many years, we have witnessed how, in many countries, economic and social policy frameworks have resulted in greater inequalities in incomes and opportunities, even in the most advanced economies, as well as in a dramatic depletion of the natural resources on which our subsistence depends. These frameworks were built on the belief that maximizing growth and market efficiencies would deliver benefits for all. Unfortunately, equality and sustainability were not considered to be at the same level of importance.

Thus, policy frameworks have not been inclusive by design; consequently, they have not delivered resilient outcomes. On the contrary, they have increased the vulnerabilities that were magnified when the COVID-19 pandemic swept across the world. As a result, the pandemic substantially increased inequalities in incomes and opportunities, leaving deep social and economic scars in our societies. The human cost, besides the tragic loss of lives, includes rising levels of poverty, upended lives, derailed careers and greater social unrest.

COVID-19 is, however, only the most recent example of a crisis impacting on inequality and sustainability. In the past 15 years, we have endured successive waves of crises affecting our health, environment and economy, revealing the flaws of our accepted economic theories and their inability to help us find sustainable solutions. The conventional wisdom, by which there is an 'invisible hand' steering society towards optimal economic and social outcomes, is outdated. Progress was supposed to be linear, overriding the interactions of complex systems. Distributional and environmental issues were treated as an afterthought. Governments were meant to intervene only when 'market failures' demanded it, and therefore, investment in their capacities were suboptimal in many places. The most recent slump has cost trillions of dollars to the public purse. Indeed, the 'one size fits all' approach, on which this model is based, has proved to be the root cause - with its focus on maximizing growth built on the understanding that benefits would trickle down. Unfortunately, they do not.

During the last decades, the bottom 40 per cent of the population in many countries have seen their incomes fall or remain stable, while those at the top have seen their incomes balloon to unprecedented levels. These inequalities of income, which have translated into inequalities of opportunities, have meant that some people have been able to weather the impacts of the pandemic, and even gain from it, while others have lost their jobs, health and their life perspectives. In addition to the bottom 40 per cent, we should also consider the 30 per cent of people who live under precarious economic conditions, meaning they have no more than three months of savings to buffer any setback before falling into poverty. In developing countries with large informal sectors, these outcomes are even worse.

The facts are clear: women and youth, precarious or informal workers and developing countries have shouldered the higher costs of this crisis; women more so than men, because of their crucial role in the care economy, performing most of the unpaid work, and holding precarious jobs. An estimated 740 million women worldwide are employed in the informal economy, and 93 per cent of them live in emerging and developing countries. Children from disadvantaged families have also been exposed to greater risks from disruptions to public services, such as nutrition schemes and violence-prevention programmes, and they also lack adequate access to distance learning opportunities. Young people are also a group of particular concern. They were already facing a difficult start in the labour market, which the crisis has only exacerbated, with severe repercussions for their employment prospects and mental health.

These observations naturally call for a closer integration of equity and well-being considerations into overall policy objectives. Given that the expected "trickle down" effects of growth have failed to materialize, policy frameworks and models must be redesigned to include the objectives of efficiency - for sure - but at the same level as equity and sustainability. Moreover, there cannot be efficient outcomes without equity and sustainability *ex ante*.

Designing policies that focus on achieving well-being in a holistic way - rather than considering economic efficiency, equity or environmental quality as separate entities - means understanding the links, addressing the trade-offs and reinforcing synergies.

Addressing these issues requires an integrated agenda, investing in people and places left behind, but also supporting business dynamism and inclusive labour markets, and rebuilding trust in efficient and responsive governments. Therefore, this approach requires, first, the identification of policy relationships and complementarities across different dimensions, such as income, health, safety, education and job satisfaction.

These complementarities, therefore, call for a cross-cutting policy package, rather than piecemeal or sectoral policies. *Ex ante* evaluation of policy reforms - which defines their impact pathways, valuing their non-monetary benefits, and factoring in policy synergies over time - is crucial. This new approach requires inclusive policies to be designed to support opportunities for growth, as well as a specific investment in governance.

As the war in Ukraine continues to rage, even greater pressure is being placed on our economic, social and even food systems. We must move forward with deliberate and immediate action to prioritize policies that benefit the most vulnerable, focusing on inclusiveness and resilience. We must do this much better than we have done in the past.

This publication has been developed in cooperation with the Social and Human Sciences Sector of UNESCO and La Fundación La Caixa, in an intellectual partnership that focuses on how we can adopt more accurate and effective analytical models. It also accompanies the establishment of the Palau Macaya “La Caixa” foundation centre, and the longstanding cooperation that will follow. We both believe in the need to foster ‘outside-the-box’ thinking, as well as innovative frameworks and experimentation, reflecting on this complex system. But more than anything, it demands a real commitment to the most vulnerable groups in our societies. UNESCO has a proven track record in this

field, and an ability to engage in translating new ideas and knowledge into meaningful policy exchanges, using research and innovation. For example, our Futures Literacy programme and UNESCO Inclusive Policy Lab support a global digital platform incorporating more than 4,000 knowledge producers and policy practitioners.

The goal is to develop a new intellectual approach for our common future, investing inclusively in people, places and the planet for an inclusive and resilient society that benefits us all equally.



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Gabriela Ramos
Assistant Director-General
for Social and Human Sciences
UNESCO

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The team of authors was led by Joaquim Oliveira Martins at the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) and Université Paris Dauphine-PSL, and composed of Mathilde Rodrigues (UNESCO SHS), Smriti Khemka (UNESCO Youth as Researchers project) and Fabrice Murtin, Head of Research at OECD Centre for well-being, inclusion, sustainability and equal opportunities (WISE).

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Executive Summary

Policy frameworks must be better designed to ensure economic efficiency is accompanied by equity and sustainable outcomes.

This first UNESCO Policy Report, *Inclusive and Resilient Societies*, is published as the world enters its third year of the COVID-19 pandemic. It analyses the causes, nature and evolution of inequalities during this health crisis. A detailed summary of the findings are given below.

Our first finding is that COVID-19 has exacerbated economic and social inequality. From the outset, the sudden spread of the COVID-19 coronavirus affected countries in similar ways in health terms. It aggravated the trend of widening inequalities that has been experienced over several decades. There is now a looming, global social crisis. Despite the extensive policy support seen in many countries to compensate for the devastating impacts of lockdowns and health restrictions on the economy, the COVID-19 pandemic has exacerbated economic and social inequalities in every society, severely affecting people and businesses throughout the world.

Economic inequalities have grown. Millions of jobs have been lost. Small and medium-sized firms across various sectors have been particularly affected by the health crisis owing to the restrictions imposed to contain the virus. Women and young people were affected the most by job losses. Worldwide, women typically spend three times more time on unpaid care-giving and domestic work than men. In 2021, between 88 to 150 million people had been expected to fall into extreme poverty because of the crisis and, indeed, more than 100 million people were additionally pushed into poverty. At the same time, the concentration of wealth has continued at an accelerated pace with the pandemic giving rise to the biggest ever surge in billionaire wealth¹, yet around half the global population still live on less than US\$5.50 a day.

The pandemic is leaving deep social scars within our societies. At least 463 million students worldwide were cut off from education during the pandemic, with around one-third of schoolchildren unable to access remote learning programmes due to the lack of remote learning policies geared to their needs and the necessary equipment needed for home study. Globally, 267 million children missed out on school meals because of lockdowns and school closures. Depression and anxiety among young people has doubled compared to pre-pandemic numbers. Domestic violence has increased all over the world. Almost one-third of women worldwide have experienced physical or sexual violence by their partner. In Europe

1 Inequality Kills: The unparalleled action needed to combat unprecedented inequality in the wake of COVID-19, January 2022, available at: <https://policy-practice.oxfam.org/>

alone, emergency calls reporting domestic violence against women and children increased by 60% following the outbreak of COVID-19 compared to the previous year.

As a result of the pandemic, the world soon realized how good health underpins the viability of global economic systems. Economic outcomes and growth rely on healthy populations and equitable access to healthcare. The pandemic also revealed the global systemic weaknesses with inequitable access to essential equipment and medicines during the COVID-19 health emergency, which resulted in significant inequalities between countries. In February 2021, one year into the pandemic, more than 75% of COVID-19 vaccines available worldwide were administered in just ten countries. More than 130 countries did not receive a single dose. Now into the third year of the pandemic, only around 20% of people in Africa have received a full protocol of vaccines. Unfortunately, global markets failed to address these inequalities. In early 2021, the Social and Human Sciences Sector of UNESCO and its International Bioethics Committee launched a call to ensure that vaccines were treated as a global public good. The ongoing war in Ukraine has added to the difficulties faced by society with even higher associated human and economic costs, including higher inflation rates and disruptions in global energy and food systems. Once again, these disruptions will disproportionately affect the most vulnerable segments of our societies.

Policy frameworks must be better designed to ensure that economic efficiency is accompanied by equity and sustainable outcomes

Navigating future challenges will require equality and sustainability because they underpin resilient systems. This will favour systems that are able to respond to global shocks, such as the pandemic, and can therefore transform, adapt and innovate for the benefit of all.

Current policy frameworks will not be able to deal with larger and deeper inequalities. The asymmetric impact of multiple crises, disproportionately affecting different sectors of the population, and the lack of preparedness, evident even in the most advanced economies, has revealed the inadequacy of traditional economic policy frameworks and models to deal with these kinds of risks and challenges. Without considering the importance of equality and sustainability objectives in policy design, on par with efficiency and market-led growth, it will be impossible to transform these frameworks and address the current challenges. Without inclusive processes and human resilience, communities and economies will remain at risk.

After decades of seeing economic growth as the main measure of success and social progress, it is time to consider societal well-being, including through redistribution policies, integrating equality in overall policy design and objectives. In economic theory and models, efforts to achieve equality have often been presented as creating trade-offs with pro-growth or efficiency policies, which typically dissociate efficiency from equality. Policy design tends to first focus on economic productivity and growth. The redistribution of wealth to correct social imbalances or to focus on longer term issues, such as climate change, are typically a secondary consideration. However, the evidence in this report reveals that inequalities, inefficiencies and unsustainable practices generate systemic weaknesses, which may be further compounded through their interactions and generating even greater inequality and inefficiencies over time.

Contemporary policy frameworks and models must be redesigned with inclusivity in mind so that they can be included in objectives of efficiency, equity and sustainability early on. Growth policies must be designed to achieve inclusive outcomes, or they risk generating systemic weaknesses. Consequently, inclusive policies need to be designed in such a way that they support a fairer distribution of benefits from economic growth. The interrelationship between these dimensions means that equity, efficiency and environmental sustainability complement rather than compete with each other. Policy-makers must ensure that equality in the provision of public goods is not an after-thought but rather an essential part of the economic agenda. Policies must focus on equity and efficiency in order to optimally provide private and decentralized public goods. It is interesting to note that a large share of key societal dimensions, such as education, knowledge-sharing, healthcare, access to culture, interpersonal trust in society, security, and environmental transition are privately produced, i.e. they are produced by societal agents within the private sphere.

This report proposes a people-centred approach to policy design with a focus on well-being. By seeing people as an asset and framing policies to help them realize their potential, policy-makers can redesign policies that promote well-being as an intrinsic goal while at the same time strengthening society and the economy, which will in turn help mitigate against adverse shocks. Traditional social protection has a vital role to play in building resilience and creating a sense of well-being, however, it cannot do this alone. Addressing well-being requires an integrated agenda such as supporting business dynamism and inclusive labour markets and rebuilding trust in efficient and responsive government. Redesigning policies first requires that inclusive relationships, and their complementarities across different dimensions, are identified, with a focus on creating long term resilience.

Introduction

The past often sheds light on the present

In June 1972, UNESCO hosted an international conference *The Economy and the Human Society* (Min. de l'Économie et des finances, 1972) that focused on the social acceptability and sustainability of economic growth. Organized at the initiative of the French Ministry of Economy and Finances, the conference gathered policy-makers and respected academics.² The event took place following the dramatic social movement of May 1968 in France, and *The Limits to Growth* (Meadows *et al.*, 1972) had just been published. This well-known report surmised that the rapid economic growth of the 1950s and 1960s would eventually lead to limited resources. The world needed to slow down and consumption had to be compatible with the Earth's resources. At the time, the world's population was close to four billion.

The relationship between inequality and growth sparked passionate debate, but remained somewhat inconclusive. The Prime Minister

of Sweden at the time, Olaf Palme, believed that social equity could be made fully compatible with economic efficiency, and Sweden was a good illustration of this synergetic model. The participants who defended a more liberal stance argued that the pursuit of economic efficiency should be the first goal as it creates room for redistribution based on domestic social norms and each country's preferences towards equity. Most speakers agreed that social justice should be defined mainly in terms of opportunities rather than outcomes. In his concluding remarks, the French Minister of Finance, Valérie Giscard d'Estaing, argued that any concept of social justice depends on the state of economic development. He boldly asked, "Given that human demands for social justice always seem to outpace economic progress, should social peace require a more moderate growth model?"

After nearly 50 years of continuing lively debates, the issues addressed in the 1972 UNESCO Conference still find resonance in today's current debates about inequality and environmental sustainability. If anything, this suggests that inequality has been, and probably will remain, a lasting issue for human societies.

Over the past decades, the growth rates of the most developed economies have slowed down. At the same time large parts of the world's population have prospered. The inequality gap has narrowed on a global scale, but often at the cost of increased disparities within countries. Although technology has enabled the further exploitation of fossil fuel resources, while increasing energy efficiency, the issue today is less about the physical limits of natural resources and more about the ability of natural systems to cope with the externalities related to their exploitation, such as pollution and climate change. Sweden's model of the 1970s, propounded by Olaf Palme, underwent a severe economic crisis in the early 1990s, prompting the search for a new paradigm. This pushed for coherence between equity and efficiency, which became, the well-known 'Flexicurity'³ model initiated in Denmark in the early 2000s, which inspired subsequent work on inclusive growth.

²To name a few: Raymond Aron, Raymond Barre, Jacques Delors, John Diebold, Edgar Faure, John-Kenneth Galbraith, Roger Garaudy, Valérie Giscard d'Estaing, H. Khan, Olaf Palme, Léopold Sédar Senghor, among others.

³The Flexicurity model provides companies with a high degree of flexibility to hire and lay off workers, with workers well protected from the costs of unemployment by the social security system. For this to work, so-called 'active labour market policies' need to be in place to create incentives for job-seekers.



Today's questions about inequalities remain at the core of economic policy and have prompted contrasting views about causes and solutions, while fuelling public discontent with government. Over recent years, leading academics and economic institutions, such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Bank, have produced robust evidence of the corrosive effects of excessive inequality on human capital (Keeley, 2015), longer-term growth and, more broadly, on the social contract. Reflecting on these types of concerns, the United Nations General Assembly has placed economic equality at the heart of its agenda. In *Our Common Agenda*, the UN Secretary-General, António Guterres, emphasizes inequality as one of the world's major global challenges. However, many of the inequalities that existed in society to a very high level before 2020 have still not been addressed, with the COVID-19 crisis only aggravating many of them even further.

This first edition of *Inclusive and Resilient Societies* will analyse the causes, nature and evolution of inequalities, and assess their interaction as a result of the COVID-19 crisis. It will reflect on the changes necessary at the intellectual level of economic policy so that Member States of the United Nations can deliver a more inclusive environment for people. This report will propose ways to better integrate equality into economic policies, along with objectives to achieve resilience and efficiency. It will make a strong call to re-frame policy objectives to focus on the most vulnerable groups in society. It will reflect on the best way to rebuild the social contract and to ensure that social protection systems are sufficiently robust to protect people from the kind of shocks that can happen as a consequence of global events such as the COVID-19 pandemic.

Chapter 1 of the report describes how the current crisis has exacerbated inequalities in people, firms and places, creating a situation that could potentially lead to high social

tension. Women, children and youth have been particularly affected. The subchapter 1.3 'Special Focus' gives a detailed description of how COVID-19 impacted youth in the Asia-Pacific region. Chapter 2 of the report argues that traditional social policies are not designed to deal with the full scope of the issue. The prioritization of efficiency objectives is not delivering or helping to restore balance in our societies. Accordingly, this report proposes a framework to better integrate economic and social policies through a people-centred approach and the pursuit of well-being. It then focuses on the provision of public goods, especially privately produced public goods, which requires that equality and efficiency are integrated into joint policy design in such dimensions as education, health and culture, which are at the heart of UNESCO's policy agenda.

1

*The COVID-19
crisis has
exacerbated
existing
inequalities*



The COVID-19 outbreak was first reported in Wuhan, China, in December 2019, before spreading to around 150 countries outside Asia. By early 2021, more than 100 million cases⁴ had been confirmed. The combination of health risk and economic despair brought about by the policies to mitigate the viral spread of the coronavirus produced a shock that is unprecedented in terms of its scale, duration and scope in most countries around the world. It is the first time in history that people have experienced such drastic containment measures on such a geographically large scale.

Latin America, for example, is one of the regions most affected by the COVID-19 crisis, with 11 out of 15 countries experiencing the highest death rate worldwide with nearly 9 million infections, amounting to 28% of the world's cases. COVID-19 has become the leading cause of death in five countries in the region⁵. The fact that COVID-19 affected Latin America to a greater extent than other regions is not a coincidence. It is one of the most unequal regions in the world. Several factors come into play, notably, the level of poverty associated with overcrowded living conditions and underfunded health systems, which was exacerbated by the pandemic.

The pandemic revealed the significant challenges posed by inequitable healthcare systems around the world. Overall, lower-income countries, faced with limited financial resources and an often inadequate public health provision and other public services, were particularly unprepared for such a crisis. For example, the United States has around 33 intensive care unit beds (ICUs) per 100,000 people, whereas in countries like Pakistan or

Bangladesh the ratio is around 2 per 100,000. The total number of ICU beds is less than 5,000 (or about 5 beds per million) in 43 out of 55 African countries compared with about 4,000 per million in Europe (Chowdhury and Jomo, 2020). Some developing countries, like Viet Nam, or regions like India's Kerala State, have managed to tackle the pandemic effectively at a low cost. This came about thanks to a 'whole-of-government approach', which combined a number of tailor-made policies across ministries and public agencies, which included community consultations and engagement⁶ or social mobilization.

Interestingly, the African continent also appeared to be the least affected region from a health point of view, with some exceptions such as South Africa or Egypt. While scientific consensus on its causes has not yet been reached, Africa's lower COVID-19 cases and associated deaths are being attributed to several factors, such as early mitigation responses (in some countries like Lesotho, public health measures were implemented even before a single case was reported) as well as a young population⁷ (with a median age of 19 years old), the existing infection control systems in place due to past epidemics, and the low risk of virus importation from COVID-19 hotspots (Chitunga *et al.*, 2020).

In 2021, while the third wave of the pandemic was unfolding in many countries, the progress and access to vaccination programmes were extremely uneven, further underscoring global geographic disparities. In February 2021, only ten countries had administered 75% of worldwide COVID-19 vaccines but, at the same time, over 130 countries

had not yet received a single dose⁸. Undeniably, the research into vaccine development was taking up valuable resources and was not free from political interference. For example, the United States was able to fund and fast-track vaccine development, securing a large number of doses for its population⁹. Similar efforts were made in Europe, with the European Commission having negotiated contracts with six pharmaceutical firms, including a deal with Moderna for 80 million doses¹⁰.

African nations struggled to obtain vaccines for the continent's 1.3 billion people, and only a number of countries administered the first dose. Considering the global reach of the pandemic, affecting people on a huge geographic scale, it would make sense to consider a worldwide vaccination programme as a global public good, which would give countries and individuals equal access to the vaccines they need¹¹. In France, a number of notable French scientists advocated for the designation of COVID-19 vaccines as a public good¹². Moreover, it should be recalled that collective immunity can only be achieved through the equitable distribution of vaccines (Alaran *et al.* 2021). This is a clear case for greater

4 Shaina Ahluwalia and Roshan Abraham. Global COVID-19 cases surpass 100 million as nations tackle vaccine shortages, *Reuters*, 27 January 2021.

5 Jason Beaubien. COVID-19 is now the leading killer in 5 American Nations, NPR, 18 December 2020.

6 Responding to COVID-19. Learnings from Kerala. *World Health Organization*, 2 July 2020.

7 Kevin Marsh and Moses Aloba. COVID-19: examining theories for Africa's low death rates, *The Conversation*, October 2020.

8 António Guterres. Remarks to the Security Council Open Meeting on ensuring equitable access to COVID-19 vaccines in contexts affected by conflict and insecurity. *United Nations*, 17 February 2021.

9 U.S. Government engages Pfizer to produce millions of doses of COVID-19 vaccine. *U.S. Department of Health & Human Services*, 22 July 2020.

10 Coronavirus: La Commission approuve un contrat avec Moderna pour garantir l'accès à un vaccin potentiel [Coronavirus: The Commission approves contract with Moderna to ensure access to potential vaccine]. *Commission Européenne communiqué*, 25 November 2020.

11 It is noteworthy that Portugal sent 5% of its COVID-19 vaccine shots to former colonies in Africa. See article: Portugal to share COVID-19 shots with its former colonies in Africa, E. Timor. *Reuters*, February 2021.

12 Sylvestre Huet. Les vaccins anti-Covid bien publics? *Le Monde*, 4 February 2021.

integration between policies of equity and efficiency on a global scale.

At the beginning of the crisis, the pandemic was perhaps seen as a 'great leveller', (Scheidel, 2017) affecting people from all walks of life, with no discrimination between rich and poor, educated or not. It is now clear that this was far from being the case. The pandemic has killed indiscriminately by age, gender and income. Notably, people with the lowest incomes and with poor access to hygiene and health infrastructures were disproportionately affected. They typically have fewer savings to cope with sudden and unexpected disruptions to income, or they work in sectors where jobs cannot be done remotely. This only aggravated the inequalities experienced in terms of livelihoods and well-being, suggesting that the crisis is likely to have long-term implications for social mobility affecting every region in the world.

The current evidence suggests that the pandemic has hit vulnerable groups disproportionately, which has exacerbated existing inequalities. Factors such as gender, education and age have made a difference, with many commonalities seen across countries.

The current evidence suggests that the pandemic has hit vulnerable groups disproportionately, which has exacerbated existing inequalities. Factors such as gender, education and age have made a difference, with many commonalities seen across countries. Women have been more severely impacted by the crisis than men due to their positions in the labour market and their unpaid domestic work. Children are also exposed to higher risks owing to disruptions to public services, particularly schools, but even more so in disadvantaged families as they are

more likely to rely on public schooling and social programmes, for example, on nutrition and violence prevention, as well as a lack adequate access to distance learning opportunities. Young people are also of particular concern as they were already faced with a difficult labour market, which the crisis has only worsened, with severe repercussions for their future prospects.

1.1 Women and COVID-19

Across the globe, women earn less, are disproportionately represented in the informal economy, have lower job security and thus have less access to social protection. The majority of single-parent households globally are headed by women (Woessmann, 2015). Although women have been active actors during the crisis, they also experience the consequences of the crisis in more negative ways.

Although fatality rates for women with COVID-19 are lower than for men (Alkhouli *et al.*, 2020), evidence has revealed the severe impacts of the pandemic on women, which stems from their disproportionate care responsibilities as healthcare workers or unpaid home help. Women also have a higher risk of exposure to the virus as they account for 70% of the healthcare workforce worldwide (Boniol *et al.*, 2019) with a large representation as frontline health workers. Moreover, in an analysis of 104 countries, around 70% of nurses and midwives are women (Boniol *et al.*, 2019). This is even more worrying when considering the age of healthcare workers. In the European Union (EU), for example, 36% of both male and female workers in health occupations were 50 years of age and older¹³. In the nursing profession, 17% of nurses worldwide are 55 years old and above (WHO, 2020).

On top of their working hours, women also carry out a significant amount of

unpaid work on household chores. According to Oxfam, the total value to the economy of women's unpaid care and domestic work¹⁴ could be around USD\$ 11 trillion a year. As a comparison, this amount is three times more than the value of the global tech industry. Prior to the pandemic, globally, women undertook three times more care and domestic work than men, or more than 75% of unpaid work in the world (UN Women, 2020a). In high income countries, women spend twice as much time on average on unpaid domestic care as men. These gender gaps are even more visible in developing economies where traditional gender roles are more pronounced. This gap is greatest in Northern Africa and Western Asia where women spend seven times as much time on average on unpaid work than men¹⁵. Internationally, during the COVID-19 pandemic, time spent on care and domestic work has increased for both men and women, but the increase and intensity of this work has been far greater for women. While both men and women spent twice as much time on unpaid domestic work and care work during the pandemic, women still spent around two hours more a day on these activities than men¹⁶. This unpaid work includes caring for sick or elderly adult relatives, especially parents, which significantly increases the risk of infection. Indeed, recent evidence has shown that women's care responsibilities were a major contributor to the disproportionate rate of infection among women (Menéndez *et al.*, 2015; Nkangu *et al.*, 2017). This risk greatly varies across countries, households and

14 This refers to all non-market unpaid activities carried out in households (direct care of persons such as children or elderly, and indirect care such as cooking, cleaning or fetching water).

15 UNDESA Statistics. Time spent in unpaid work; total work burden and work-life balance. *UN Department of Economic and Social Affairs*, 10 October 2020.

16 Ibid.

13 Majority of health jobs held by women. *Eurostat*, 9 April 2020.

social backgrounds. Nevertheless, vulnerability to COVID-19 among women is likely to be higher in developing countries owing to inadequate healthcare infrastructures. In addition, women and girls are less likely to have access to quality health services for their specific needs, especially in rural or marginalized communities. For example, in the context of the ongoing pandemic in Latin America and the Caribbean, it is estimated that an additional 18 million women are losing regular access to modern contraceptives (Garazza *et al.*, 2020).

With the lockdown measures implemented during the pandemic, women experienced heightened levels of domestic violence. Estimates by WHO indicate that almost one-third of women worldwide have experienced physical or sexual violence by their partner in their lifetime

With the lockdown measures implemented during the pandemic, women experienced heightened levels of domestic violence. Estimates by WHO indicate that almost one-third of women worldwide have experienced physical or sexual violence by their partner in their lifetime¹⁷. The lack of available coping mechanisms, such as the ability to escape the abuse or to attend counselling, have significantly worsened the situation. Similarly, the loss of social interaction, school closures and intense periods of cohabitation have resulted in an increase in incidents of domestic violence. Several UN agencies have reported an increase in the number of calls recorded by hotlines in many

countries, such as in Cyprus, France, Singapore and Tunisia, following the introduction of domestic confinement measures (United Nations, 2020a; UNODC, 2020). The pandemic also places women in a position of financial vulnerability, making it even more difficult for them to cope with situations of abuse.

The impacts of the COVID-19 crisis has been compounded by gender inequalities. Despite recent advancements benefitting women since the turn of the century, their position in the labour market compared to their male counterparts remains unequal. On average, employed women earn less and enjoy less seniority than men (ILO, 2018a). In addition, women's jobs and incomes have greater exposure to the economic fallout as a result of the crisis. Early evidence suggests that the downturn has created more employment losses for women than for men¹⁸. In the United States, for example, employment among women without college degrees fell by 15% by early April, compared to 11 % among men without college degrees (Prados and Zamarro, 2020).

An estimated 740 million women worldwide are employed in the informal economy, of which 93% live in emerging and developing countries. Informal work constitutes more than two-thirds of female employment in those countries. This means that a large proportion of women have no formal social protection, with measures targeted at the pandemic crisis notably lacking. Confinement and social distancing measures have had a high impact on sectors that typically employ a strong female workforce, for example, retail and distribution and the textiles industry. The UN estimates that women represent 54% of the workforce in the global tourism sector, which was particularly hard hit by the

pandemic. Migrant women represent another particularly vulnerable group which was greatly affected by the crisis, the majority of which are domestic workers or informal care workers worldwide (UN Women, 2020b). All these factors increase the risk of job losses and the transition into very precarious situations.

The COVID-19 crisis and the ensuing widespread closure of schools and childcare facilities have amplified the pressures already experienced by women. They have a disproportionately bigger share of childcare responsibilities compared to men, which often leads to less paid working time and even an exit from the labour market. This can have a long-term impact on women's careers, job positions and future earnings. By June 2020, 64% of college-educated mothers of young children in the United States reported that they had reduced their working hours at some point since March 2020, compared to 36% of college-educated fathers and 52% of college-educated women without young children. In the United Kingdom, mothers were 1.5 times more likely than fathers to have either quit or lose their jobs during the lockdown (IFS, 2020).

Another worrying aspect of the pandemic was the expected decline in remittances from partners or relatives abroad due to confinement measures or job losses. Experts had initially predicted a sharp decline in remittance flows (World Bank, 2020a) but the overall dynamics of remittance flows defied expectations and turned out to be extremely resilient. Global remittances flows in 2020 reached about US\$540 billion, only 2% below the 2019 record high. Moreover, remittance inflows into Latin American and the Caribbean even grew by about 6.5% in 2020, while dropping in other regions (East Asia and the Pacific, Europe and Central Asia, and

17 WHO. Violence against women. Key facts, 9 March 2021. <https://www.who.int/news-room/fact-sheets/detail/violence-against-women>

18 Titan Alon *et al.* The shecession (she-recession) of 2020: Causes and consequences, VoxEU, 22 September 2020.

sub-Saharan Africa)¹⁹. Remittances were even expected to continue their growth into 2022.

Another worrying aspect of the pandemic was the expected decline in remittances from partners or relatives abroad due to confinement measures or job losses [...] but the overall dynamics of remittance flows defied expectations and turned out to be extremely resilient.

However, the crisis is far from over and still poses crucial challenges in terms of the outlook for global growth affecting employment, which is strongly linked to remittance flows to low- and middle-income countries. The fiscal stimulus programmes in major migrant destination countries will not continue indefinitely. Moreover, the shift from cash to digital remittance channels, which was observed in 2020, has likely come to an end²⁰. Further growth will also require that migrants have better and equal access to bank accounts, which is essential for using digital channels.

1.2 Children and COVID-19

The pandemic, and its economic consequences, has exacerbated child poverty and inequalities. Although medical evidence shows that children are minimally affected by COVID-19, they have been greatly impacted by psychosocial and economic factors, particularly in low-resource households. While medically justified, school closures and lockdowns have worsened inequalities among children in terms of nutrition, exposure to

domestic violence, and access to e-learning.

It is well-known that access to good nutrition throughout childhood is vital for a child's physical health and cognitive development, with long-term effects on their adult health and economic self-sufficiency later in life as a result (Britto, 2017). School meals are often the most nutritious meal of the day for disadvantaged children. The pandemic has placed already disadvantaged children at greater nutritional risk as school closures have interrupted food and nutrition programmes. In some cases, lockdown and isolation have also limited food distribution options and reduced family income and the ability to purchase food indirectly, for example, school meals (due to school closures), and directly (as there is less money during the crisis to buy food). Although several countries are already implementing alternative feeding and income support during COVID-19, the World Food Programme estimates that 267 million children globally have missed out on school meals²¹. A global study (Save the Children, 2020) showed that three-quarters of respondents²² have lost income due to the COVID-19 pandemic, with the majority of households (96%) reported having trouble paying for essential items or services. Four in five households struggled to pay for food, and two in five households found it difficult to provide their families with a nutritious diet.

21 See global monitoring of school meals during COVID-19 school closures. World Food Programme: <https://cdn.wfp.org/2020/school-feeding-map/index.html>

22 The research was implemented in 46 countries and resulted in the largest and most comprehensive survey of children and families during the COVID-19 crisis to date, with 31,683 parents and caregivers and 13,477 children aged between 11 and 17 participating in the research. The research sampled three distinct population groups: 1. Save the Children programme participants; 2. specific population groups of interest to Save the Children; and 3. the general public.

School closures have disrupted not only education but also the school-based provision of other services that contribute to child well-being. For many children worldwide, home is not a safe place. An estimated 1.8 billion children live in countries where violence prevention and response services have been disrupted due to COVID-19 (UNICEF, 2020a). For children and adolescents living in communities characterized by endemic violence and in households with elevated levels of inter-personal violence, schools are places of safety and security, with teachers playing a key role in reporting child abuse. Case management and home visits for children and women at risk of abuse were among the most disrupted services during the pandemic. In Europe, according to the WHO²³, emergency calls reporting domestic violence against women and children increased by 60% since the outbreak of COVID-19 compared to the same period in 2019. At the global level, a growing body of evidence (Baron *et al.* 2020) has shown that school closures, as well as the interruption of child protection services, resulted in a decline in reported cases of child maltreatment, which may have wide-reaching consequences in the future when the children become young adults.

At its peak, school closures affected 1.6 billion children in 188 countries, of which over one billion children live in low- and middle-income countries (UNESCO, UNICEF and World Bank, 2021). In response to the unprecedented educational challenges created by school closures, governments worldwide responded quickly and designed remote learning policies that had the potential to reach more than one

19 Tom Arnold. Remittances to developing nations resilient in 2020 – World Bank. Reuters, 12 May 2020.

20 Dilip Ratha. Global remittance flows in 2021: a year of recovery and surprises, *World Bank Blogs*, 17 November 2021.

23 WHO warns of surge of domestic violence as COVID-19 decrease in Europe. *United Nations in Western Europe*, 7 May 2020. <https://unric.org/en/who-warns-of-surge-of-domestic-violence-as-covid-19-cases-decrease-in-europe/>

billion students²⁴. Low- and middle-income countries, where the majority of the world's school-age children live, experienced longer school closures than high-income countries and schools were often less prepared to deliver strategies for accessing remote learning. Consequently, at least 463 million students worldwide were cut off from education during the peak of the pandemic (April 2020) (UNICEF, 2020b). Extended confinement measures have exacerbated already existing inequalities in education as well as important disparities in home support in terms of learning environment and access to technology.



Measures introduced by COVID-19 revealed the inequalities experienced by young children in particular. Parents have a critical role to play in the development of children's cognitive skills, their social-emotional development and emergent literacy

Measures introduced by COVID-19 revealed the inequalities experienced by young children in particular. Parents have a critical role to play in the development of children's cognitive skills, their social-emotional development and emergent literacy (OECD, 2020a). This parental support is even more critical when school-aged children are home-schooled. As parents from low socio-economic backgrounds are generally less likely to engage in learning activities with their children, the gap between children from different social-

economic groups may well have widened as a result of the pandemic.

Children from disadvantaged households were therefore less likely to benefit from remote learning than their peers, often due to a host of factors such as a lack of connectivity, access to electronic devices, and teaching support by caregivers at home. The youngest children and students with disabilities were largely left out of national policy responses, with remote learning rarely designed to meet their specific development needs (UNESCO, UNICEF and World Bank, 2021). These disparities are likely to widen even further unless disadvantaged children and their families are given the additional and targeted support they need post-pandemic.

According to a recent study conducted for the United States (Fuchs-Schündeln *et al.*, 2020), the future losses of COVID-19-related school closures are significant and are much more important than the negative effects caused by the temporary income drop of their parents: school closures account for 90% of their overall welfare loss. As education is a cumulative and self-enhancing process, younger children are affected to a greater extent by school closures than older children. Fuchs-Schündeln *et al.* (2020) found that parental care cannot completely offset these negative effects, which is particularly severe among children raised in low-income and less literate households.



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Additionally, unequal access to technology (to engage in distance learning) and digital learning support have widened the learning gaps between advantaged and disadvantaged children, not least because access to a computer and the internet is crucial for distance learning. The number of children with access to the internet and digital devices at home has steadily increased in OECD countries (OECD, 2017). By 2015, approximately 95% of 15-year-olds had access to the internet at home. Worldwide, however, 31% of schoolchildren do not have access to remote learning programmes either because they do not have access to the necessary equipment at home or there are no policies in place geared to their needs (UNICEF, 2020c). Only 24% of lower secondary age students had access to online learning solutions during school closures, which were mainly in high or upper-middle-income countries or the wealthiest households of lower income countries. Internet connectivity for households in 2018 in Africa, and Latin America and the Caribbean stood at a mere 17% and 45%, respectively, affecting children's remote learning across all age groups (UNESCO, 2020).

However, access to technology alone does not guarantee learning, especially for children who need support to acquire digital skills. Parents who possess these skills are more likely to be able to guide their children's digital activities and thus better support remote learning. A study in Nigeria (Azubuike *et al.*, 2020) showed that remote learning during the pandemic increased by 14% when the parents have above-secondary education. A study from the Netherlands (Bol, 2020) showed that less literate parents provided their children with less support during the lockdown compared to more literate parents, which further deepened the divide between advantaged and disadvantaged children.

24 See the key findings of how countries deployed distance learning education strategies around the world in *What's Next? Lessons on Education Recovery: Findings from a Survey of Ministries of Education amid the COVID-19 Pandemic*: http://uis.unesco.org/sites/default/files/documents/lessons_on_education_recovery.pdf

1.3 Youth and COVID-19

Young people were also greatly affected by the COVID-19 pandemic. Higher unemployment, delayed independence or rising debts were often reported as negative effects on young people's well-being and their future prospects.

One of the main impacts of the pandemic on young people, now called the 'lockdown generation', relates to their difficult transition from education to decent²⁵ employment. Evidence from past crises suggests that students graduating during a crisis have more difficulties to find decent jobs and income. For example, between 2007 and 2009, in the aftermath of the financial crisis, youth unemployment grew by 7.8 million²⁶, leading to more than 79 million unemployed people aged 15–24 years in 2009, one of the highest ever figures of youth unemployment (United Nations, 2011).

Another concerning aspect seen in the youth population during economic crises is the increase in the number of young people not in employment, education or training (so-called NEETs). In 2015, the global NEET rate was estimated at 21.7%; by 2020 the global NEET rate was estimated to have increased to 22.4% (ILO, 2020a). Prior to the COVID-19 pandemic, 66% of NEETs were young women (ILO, 2021).

Since the pandemic began, more than one in six young people globally have been made redundant and have ceased working. According to UNESCO, around 61% of total enrolled learners – more than 1.5

billion worldwide – have been affected by school and university closures during the pandemic²⁷. As the pandemic spread across the world, the prevalence of NEET status among young people, as well as labour market inactivity and informal work, increased even more than for youth unemployment, which was also rising globally (ILO, 2021). The rate of informal employment of young people was reflected in its broad range by region: from 33% in Europe and Central Asia, to 93% in Africa (ILO Monitor, 2020a). Furthermore, given the strong link between unemployment and mental health, unemployment statistics alone do not capture the full impact and diverse pandemic experiences of young people. Indicators of mental health and well-being as well as other realities, such as informal work conditions and in-work poverty among youth worldwide, are crucial to properly measure the impact of the pandemic, and must be taken into account in the design of appropriate inclusive solutions to the diverse work situations faced by young people.

The collapse of businesses and the downturn in some sectors during the COVID-19 crisis is expected to create even more obstacles to independence for young people, leading to longer school-to-work transitions and lost jobs for young workers

The collapse of businesses and the downturn in some sectors during the COVID-19 crisis is expected to create even more obstacles to independence for young people, leading to longer school-to-work transitions and lost jobs for young workers. Young people are particularly exposed to temporary

work conditions and low-paid jobs in sectors that were extremely affected by the crisis, for example, hospitality, food services, tourism and real estate.

According to the 2020 ILO Survey Report (ILO, 2020b), 178 million youth globally were employed in the sectors hit hardest by the crisis. One in six young people (aged 18–29) had stopped working at the onset of the crisis. Moreover, young people with a history of unemployment face fewer career development opportunities, lower wage levels, poorer prospects for better jobs, and smaller pensions in the future (OECD, 2016a). As for young women, the COVID-19 economic shock on the labour market is likely to compound existing inequalities, placing those already living in economically vulnerable households at a greater risk of falling below the poverty line.

According to the Youth as Researchers (YAR) initiative of UNESCO, in which more than 30 teams of young people researched the impact of the COVID-19 pandemic, it was shown that the pandemic had affected a number of youth-related issues to a greater extent, such as educational disruptions, mental health, employment, and concerns on increased exposure to online content, much of which is unreliable and manipulative. The work of the youth-led research teams is among the first original research confirming observations of the trends arising from COVID-19. Bringing in the youth perspectives enriches scientific knowledge, which is not well captured in other Sources.

The youth research teams also found that more than half of the student respondents reported that the quality of learning declined considerably since the start of the pandemic, and only 6.1% of the teachers in the survey reported that all learning outcomes were met (Khemka and Reza, n.d.). Learning experiences and outcomes were perceived as 'poor' and disruptions in education were identified as the main Source of stress

25 The International Labour Organization (ILO) defines decent work as "productive work for women and men in conditions of freedom, equity, security and human dignity". In general, work is decent when it pays a fair income and guarantees a secure form of employment with safe working conditions.

26 Press release. World economic crisis has spurred a record increase in youth unemployment says ILO. ILO News, 11 August 2020.

27 See data from UNESCO Global Education Coalition: <https://en.unesco.org/covid19/educationresponse/globalcoalition>

for 65% of students. At work, young people reported facing the dual risk of exposure to COVID-19 and the loss of their jobs during the pandemic. In addition, young female respondents reported on the challenges faced due to increased childcare obligations and other household responsibilities. Young entrepreneurs cited the lack of both financial support and digital literacy for online operations as obstacles to youth engagement (UNESCO, 2022a).

The young researchers also found that even though mental health issues were identified as a major challenge, close to 60% of respondents to the survey in South Asia were unaware of the mental health programmes available in their country. Further empirical evidence (OECD, 2020b; Etheridge and Spantig, 2020; McGinty *et al.*, 2020) has shown that since the beginning of the pandemic young adults experienced a higher level of distress compared to other age groups. According to the WHO²⁸, half of all mental health problems start by the age of 14. Young people are therefore a group at particular risk during a global pandemic.

According to the ILO analysis (ILO, 2020b), young people who lost their jobs were almost twice as likely to be affected by anxiety or depression than those still in employment. Around 38% of young people globally found themselves in a precarious situation, and 16% feared for their future career prospects. The postponement and/or cancellation of exams in around 70 countries, including high-stakes final exams, also exposed young people to high levels of uncertainty, anxiety and stress. Among the respondents, globally, 22% of students who thought their education would be deferred or who thought they might fail suffered anxiety or depression compared to 12% of students whose education remained on track.



With most countries having suffered second and third waves of infections, the disruption of secondary school-leaving exams (which determine entry to university) lasted more than two years, with many countries without fair alternatives for dealing with university admissions. This has affected young people's successful future transition to the labour market.

On the central role of technology use by young people during the pandemic, the UNESCO youth-led research initiative (UNESCO, 2022a) found only a small change in online behaviour. Close to 80% of respondents felt safe online, and 73% reported receiving misinformation, with only 4.2% unable to identify it as such. However, limited digital literacy, language issues, and access to internet and its associated costs prevented youth from using technology beyond simply accessing health-related information. This is noteworthy when compared with the elevated levels of civic activity (e.g. 74% of respondents in South Asia and 65% of respondents in Brazil reported having participated in volunteering initiatives and relief

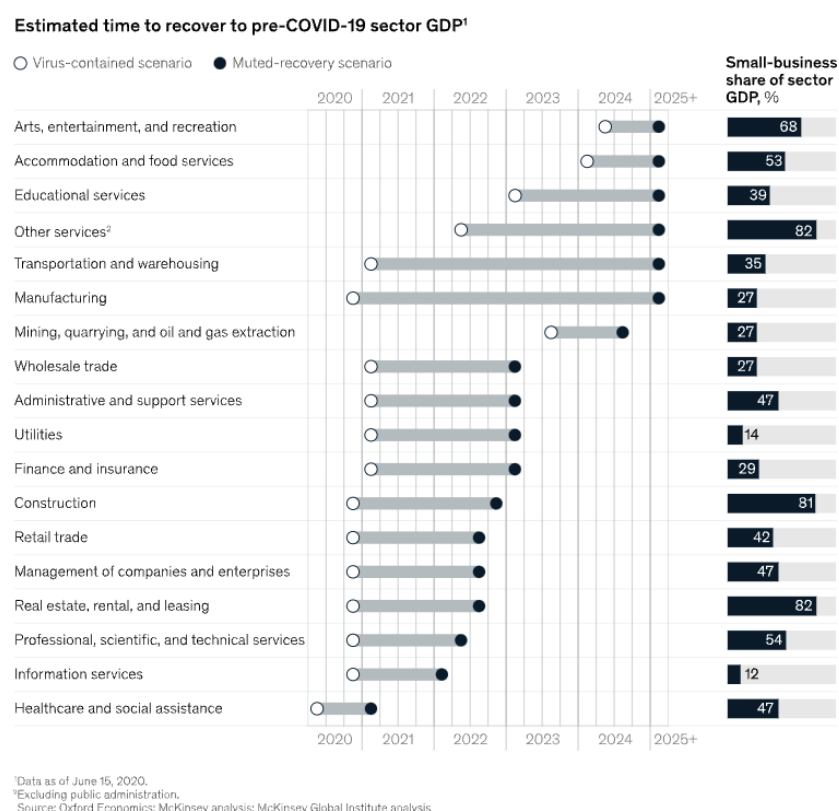
projects). These levels of civic activity – despite reported barriers – reveal the ingenuity and solidarity of young people in the face of adversity.

The prevailing conditions of job insecurity and anxiety created by the on-going crisis will undoubtedly have consequences on the future mental health of the 'lockdown' generation. Through its network of young researchers, the UNESCO Social and Human Sciences (SHS) Sector recognizes the pressing need for science-led responses to the pandemic that involves young people and invests in better understanding youth issues, channelling youth insights into post-pandemic recovery packages.

1.4 The impact of the pandemic on small and medium-sized firms

In 2020, the global economy contracted by 4.3% as a result of the pandemic with millions of jobs lost and between 88 and 150 million people expected to live in extreme

28 WHO. Adolescent mental health. Key facts, 17 December 2021. <https://www.who.int/news-room/fact-sheets/detail/adolescent-mental-health>

Figure 1.1 Estimated time to recover from COVID-19 by sector and share of SMEs

Note: Exhibit from “US small-business recovery after the COVID-19 crisis”, July 2020, McKinsey & Company, www.mckinsey.com. Copyright (c) 2022 McKinsey & Company. All rights reserved. Reprinted by permission. Source: Oxford Economics, McKinsey Global Institute analysis.

poverty in 2021²⁹. In this context, it quickly became obvious that small and medium-sized enterprises (SMEs)³⁰ were going to suffer to a greater extent than larger firms (Radic, 2020). In general, SMEs tend to have lower asset values and cash, lower production outputs, more precarious working conditions, a narrower range of available skills, and the adoption of less technology than larger companies. These disparities make them less robust and more vulnerable to shocks. At the same time, SMEs are at the core of our economies, accounting for 70% of employment worldwide and contributing 50% of GDP in OECD countries, typically more in developing countries (ILO, 2019).

There is an above-average representation of SMEs in such sectors³¹ as tourism, transport, manufacturing, construction, wholesale and retail trade, air transport, hospitality services, real estate, and other personal services, which have been particularly affected by the health crisis and the restrictions imposed to contain the spread of the coronavirus. For OECD countries, the share of SMEs in terms of employment in these sectors³² accounts for 75% compared to 50% of the economy of all sectors combined. In countries like Greece and Italy, the share of SMEs in the sectors most exposed to the effects of the pandemic is close to 90% and around 60% for micro-enterprises.

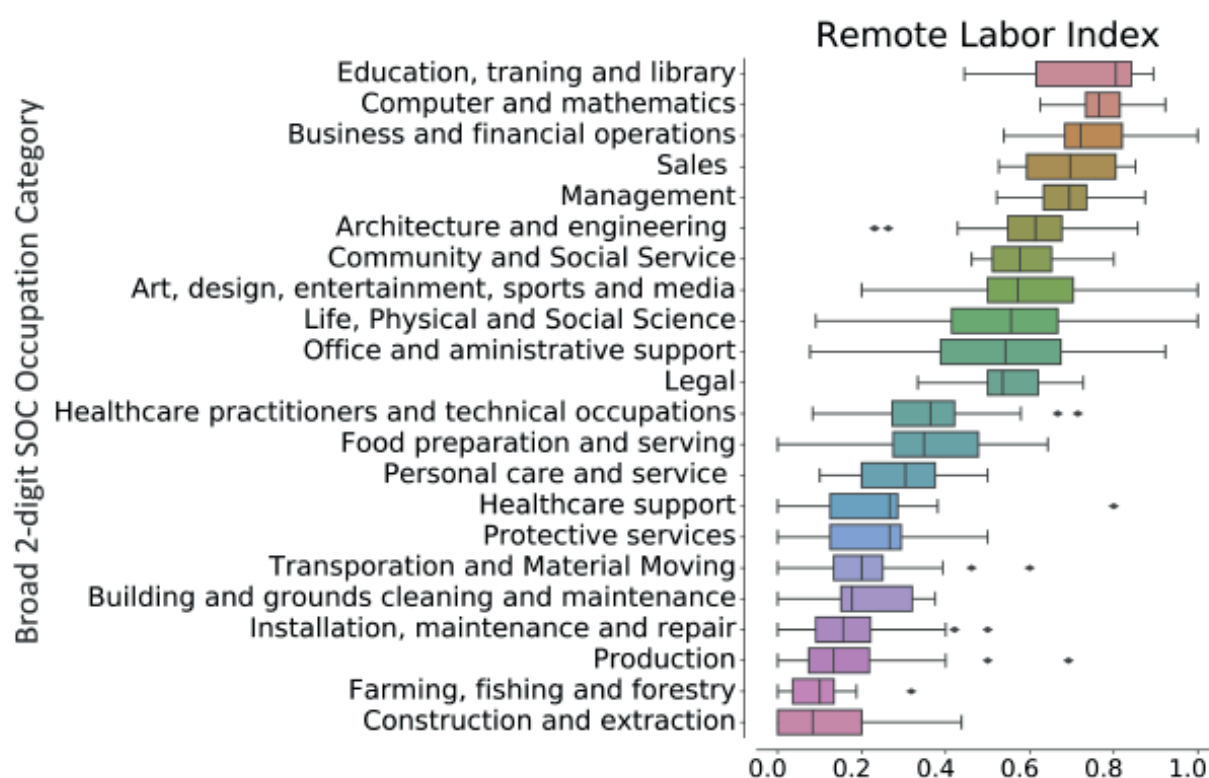
In sectors such as wholesale and retail trade, and maintenance and repair services with less than 10 employees, the share of SMEs is 70% (ILO Monitor, 2020b). This contrasts with sectors that have a lower risk exposure to the effects of COVID-19, such as education and public administration, where the share of SMEs is less than 20%. Moreover, the sectors with a longer recovery time from the pandemic are also the ones most likely to have a large share of SMEs. Figure 1.1 shows the estimated time required to recover from the shock of COVID-19. Even in the most favourable scenario, where the virus is contained, some sectors with a large share of SMEs in terms of GDP (such as arts and entertainment, and accommodation and food services) have a longer recovery time. This indicates that not only was the shock of COVID-19 greater for SMEs, but also that the recovery process can take much longer than expected.

²⁹ COVID-19 to add as many as 150 million extreme poor by 2021. *The World Bank*, 7 October 2020.

³⁰ Firms with less than firms 250 employees and an annual turnover of less than €50 million, as defined by the European Commission.

³¹ cf. OECD. 2020b. *Coronavirus (COVID-19): SME Policy Responses*. Paris, OECD Publishing.

³² Data is based on OECD, 2020c.

Figure 1.2 Remote labour index by occupation

Source: Oxford Review of Economic Policy (2020). Vol. 36, No. 1, pp. 94–137.

A survey conducted by McKinsey in 2020³³ concluded that “at least two of three jobs at risk are in a SME, and more than 30% of all jobs at risk are found within microenterprises consisting of 9 employees or fewer”, thereby confirming the higher vulnerability of SMEs, even in developed countries, such as Australia, where small firms account for 68% of all jobs at risk.

The factors influencing the vulnerability of SMEs to COVID-19

The tremendous drop in labour supply suffered by SMEs was initially due to the impact of social distancing and restrictions to movement as employees and workers were either infected with the coronavirus or prevented from going to their workplace as they tried to manage

both their personal and professional lives. Many small businesses had no choice but to close temporarily. Supply chains – the main drivers of international trade – faced unprecedented disruptions, which led to severe shortages of goods and services across the globe. Moreover, small firms are particularly vulnerable to a drop in supply of intermediate goods and components.

Household consumption also fell substantially, further adding to the decline in revenues for SMEs. This meant that SMEs were unable to pay the salaries of their employees, indirectly creating a vicious cycle making SMEs even more vulnerable. According to the ILO, more than 300 million jobs worldwide were lost in the second quarter of 2020. A OECD survey on SMEs in Africa, Asia and Latin America reported that 70% of SMEs had to close and 90% experienced a cash flow crisis during the pandemic (OECD, 2020d).

Small firms are particularly vulnerable to economic shocks owing to their limited liquidity (OECD, 2020e). For example, in the United States at least half (OECD, 2020c) of SMEs operate with less than 15 days in cash reserves, and even well-functioning small firms have less than two months’ worth of cash. Many international organizations, such as OECD and the IMF, warned the world’s economies of the significant risk that solvent companies, especially SMEs, could become bankrupt as a result of the pandemic. A French risk-management institution, COFACE³⁴ publishes a quarterly country and sector risk barometer (COFACE, 2020) estimating the risk of insolvency. It predicted that insolvencies would rise by one-third around the globe in 2021, with figures around 21% in France, 43% in the United States, 44% in Brazil and 50% in

33 David Chinn *et al.* Safeguarding Europe’s livelihoods: Mitigating the employment impact of COVID-19. McKinsey & Company, 19 April 2020.

34 Compagnie Française d’Assurance pour le Commerce Extérieur: <https://www.coface.com/>

Türkiye. This prediction was tempered by government measures to support the economy, but their gradually phasing out will at some point restore these negative effects.

The adoption of teleworking to enable people to continue working was the main adaptation measure to lockdowns and the risk of becoming infected.

However, many SMEs are concentrated in jobs and occupations (European Commission, 2014) that require either physical interaction or manual labour, which are incompatible with teleworking. The Remote Labour Index (CEPR, 2020) (Figure 1.2) revealed that occupations typically populated by SMEs, such as construction, farming, production, maintenance and repair, cleaning, and so on are also less able to implement teleworking. In contrast, large firms in the service industries, such as education, high-tech, financial operations, sales, management and engineering, were able to rapidly shift their operations to remote work.

1.5 The impact of the pandemic in different places, regions and countries

The COVID-19 pandemic has impacted health in a variety of different ways, not only across countries but also across regions and local districts, with significant implications for crisis management and recovery. Several factors were found to have influenced the regional variability of COVID-19 mortality rates such as demographics, global interconnectedness, housing quality, and access to healthcare and policies implemented to mitigate the crisis.

A region's exposure to international trade as well as the impact of COVID-19 on certain sectors, such as tourism, mostly explains the observed differences from an economic perspective. Highlighting this territorial disparity, according to the OECD, the share of jobs potentially

at risk in the short term due to the pandemic varies from less than 15% to more than 35% across European regions (OECD, 2020f). Crucially, the pandemic has largely widened inequalities within countries. People living in deprived areas with less access to healthcare or poor housing have been disproportionately affected by the health and economic impacts of the pandemic.

In the early months of the pandemic in 2020, the most populated and wealthier regions or cities appeared to be the most affected by the spread of the coronavirus. In Italy, for example, the northern and wealthiest regions of the country were hardest hit. In Bergamo, deaths in March 2020 were 6.7 times higher than in an average March. In France, the region where Paris is located (Ile-de-France) was also greatly affected. In the United States, New York had the largest share of cases, with 3.3 times more deaths than resulted from the 9/11 attacks³⁵. Similarly, the regions of Quebec and Ontario in Canada had the largest number of cases. In Asia, the state of Maharashtra in India and Hubei province in China registered a significantly higher rate of declared cases than in other areas of the country. The same logic applied in many other large capitals such as São Paulo (Brazil), Santiago (Chile) and Moscow (Russian Federation). The initial concentration of the coronavirus in large wealthy cities or regions can be explained by looking at several factors, such as the population's size and concentration, which facilitated the virus' spread, as well as being centres of international business travel and tourism that were often the entry points of the virus.

However, within these large cities the areas most affected by the coronavirus were deprived urban areas with infection highly stratified by socio-economic group and neighbourhood.

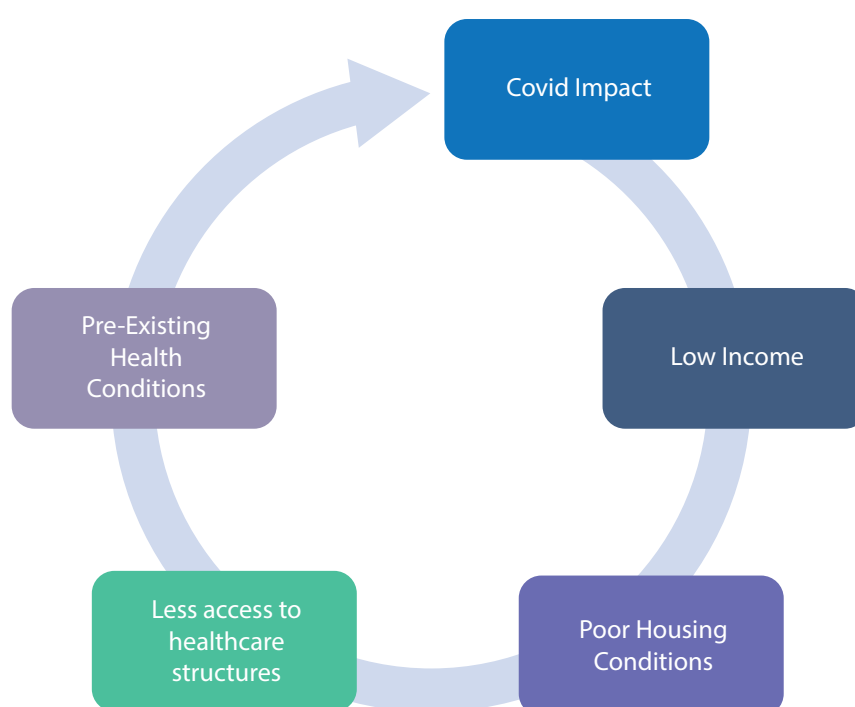
³⁵ Alisson McCann, Jin Wu, and Josh Katz. How the Coronavirus compares with 100 years of deadly events. *The New York Times*, 10 June 2020.

Areas with low-income populations, such as the Seine-Saint-Denis in the Paris region, or the Bronx in New York City, were severely affected by the virus (OECD, 2020f). Evidence suggests that there is a strong link between deprived areas and the death rate due to COVID-19. For example, in the United States, counties with a high percentage of households with poor housing had a greater incidence of COVID-19 and mortality (Ahmad *et al.* 2020). In Wales, between January and April 2020, the most disadvantaged areas had registered approximately 45% deaths due to COVID-19 compared to 23% in less disadvantaged places³⁶. This can be explained by existing inequalities such as limited access to health services or poor housing conditions in urban areas.

Spatial inequalities within urban areas are even more apparent in developing countries. For example, among the 600 million Africans living in urban areas, 56% live in slums. In Kampala, Uganda, 71% of households live in a single room, and 80% of the population in Lagos, Nigeria, do not have access to potable water or they reside in overcrowded neighbourhoods (UN SDG, 2020).

Spatial inequalities within urban areas are even more apparent in developing countries. For example, among the 600 million Africans living in urban areas, 56% live in slums. In Kampala, Uganda, 71% of households live in a single room, and 80% of the population in Lagos, Nigeria, do not have access to potable water or they reside in overcrowded neighbourhoods (UN SDG, 2020).

³⁶ Gareth Iacobucci. COVID-19: Deprived areas have the highest death rates in England and Wales. *The BMJ*, 4 May 2020

Figure 1.3 Cumulative processes of the COVID-19 shock and spatial inequalities

Having first spread in large cities, the virus began to spread more intensely in less populated regions. According to OECD analysis, in the United States, by October 2020, the highest increase in deaths was registered in rural counties (OECD, 2020j). This is because rural areas tend to have less hospital beds and intensive care facilities, leaving them particularly vulnerable. Recent evidence from the United Kingdom shows that the pandemic had a more pronounced and detrimental effect on hospital waiting lists in rural and remote hospital trusts than in urban areas (Palmer and Rolewicz, 2020).

The COVID-19 mortality rate at the regional level is also influenced by pre-existing health and social conditions. For example, at the same level of healthcare needs and insurance coverage, a person with a low income is less likely to see a doctor compared to a more affluent person (OECD, 2019a). In this way, interpersonal inequalities interact with regional disparities creating potentially vicious circles (Figure 1.3).

Indeed, the health crisis has been particularly harsh for people living in disadvantaged urban or rural areas, either because of their difficult sanitary conditions or their isolated geographical position. In other words, a severe case of COVID-19 could potentially be fatal for people with limited resources in remote areas, which might not be the case if they lived in wealthier areas. Similarly, universal access to healthcare meant that individuals with symptoms were encouraged to go to hospital in many European cities, which contrasts with the uncertainty that loomed over many uninsured workers in New York City. The former scenario would most likely have played a role in better protecting those at the lower income scale.

How different places were impacted and then adapted to the economic shock

Capitals and big cities were the first to suffer high economic disruption as they rely heavily on retail activities and personal services, which were the first to close during the lockdowns. These local services also account for

the high rate of local employment, thus making cities vulnerable to job losses. However, large cities usually enjoy a largely diversified economy that can adapt and recover more quickly from economic shocks over the medium term.

Regions and towns relying on the food industry have suffered less. The agriculture sector has been one of the least affected, despite the fact that it has suffered from disruptions in supply and demand. In some regions that rely mostly on agriculture, like sub-Saharan Africa, the agriculture sector served as a buffer for low-income households in the region, similar to the role it played during the 2008 global financial crisis³⁷.

However, it was predicted that regions in sub-Saharan Africa would be negatively affected by the decline in workers' remittances, an essential source of income for households and which account for more than 10%

³⁷ Akuffo Amankwah, Sydney Gourlay and Alberto Zezza. Agriculture as a buffer in COVID-19 crisis: Evidence from five Sub-Saharan African Countries. *World Bank Blogs*, 2 February 2021.

of GDP in many countries, such as the Comoros, The Gambia, Lesotho or Liberia. In Somalia, such inflows amount to US\$ 1.4 billion a year, the single largest category of external financial support (UN SDG, 2020). Surprisingly, although remittance flows fell by 12.5% for sub-Saharan Africa, the decline was almost entirely due to a 28% decline in remittances to Nigeria. Excluding flows to Nigeria, remittances to sub-Saharan Africa actually increased by 2.3%, defying economic predictions and demonstrating economic resilience³⁸.

The differentiated regional economic impact of the shock was influenced by sectoral specialization. For example, port cities were particularly hit by the slowdown in port activities, including cruise activities for tourists and commercial activities such as maritime transport or shipyards. For example, in China, in March 2020 at the Shenzhen port (the fourth largest in the world by container volume) business fell by an estimated 50–75% from the beginning of the COVID-19 outbreak³⁹. With the collapse of international trade, cities with a higher level of open trade, like Hamburg in Germany, were also more exposed to massive economic disruption.

Tourism was one of the sectors most affected by the pandemic. The regions that were most dependent on income from tourism suffered an unprecedented economic shock once travel restrictions were implemented. Tourism is a significant sector of economic activity with 330 million jobs worldwide, accounting for 10% of global GDP annually (roughly US\$ 9 trillion). Tourist-centric regions, such as the Ionian islands in Greece, the Canary Islands in Spain and the Algarve region in Portugal, were the hardest hit by these international travel bans. Similarly, the Jeju-do

region in Korea and Nevada in the United States stand out as the most heavily impacted by the pandemic with the highest share of jobs at risk (OECD, 2020g). Although restrictions have gradually lifted in most countries, the OECD projects that it will take two or more years for tourism to fully recover to pre-crisis levels. Evidence from previous crises suggests that local economies in smaller towns and remote areas have difficulties in bouncing back from large shocks compared to big cities. This further aggravates regional disparities in terms of unemployment, economic activity and job quality.

The COVID-19 pandemic has disproportionately affected cities of the Global South, particularly in contexts where informal work tends to predominate. In Bangladesh, for example, a total of 20 million informal workers lost their jobs due to COVID-19, of which 68% of jobs were lost in Dhaka and Chattogram (World Bank, 2020b). In cities of OECD countries, economic impact has also been significant. In Paris (France) economic activity had decreased by 37% by July 2020, equivalent to € 400 million of lost revenue. In Madrid (Spain) 60,500 direct jobs, (or a total of 108,000 jobs if counting indirect employment) were estimated to have been lost just two months into lockdown. In this same timeframe, the GDP of Bogotá (Colombia), was estimated to have fallen by around 4%, with unemployment reaching 18% (OECD, 2020h).

As a result of this crisis, established structural inequalities have worsened for the world's most vulnerable populations, including for ethnic minorities and other marginalized groups who are most likely to have low-paying jobs or informal employment. To address these realities, members of UNESCO's International Coalition of Inclusive and Sustainable Cities (ICCAR) responded to COVID-19 through short-term and medium-term actions, and long-term recovery plans. Member cities

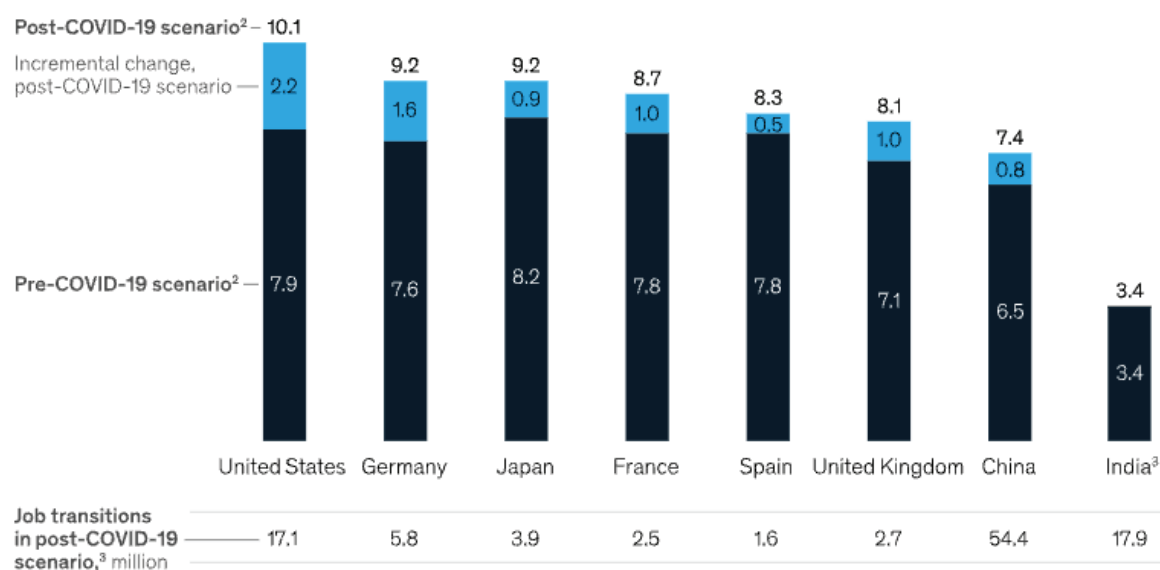
thus implemented targeted actions to support vulnerable populations, including Afro-descendent communities, persons with disabilities, migrants and refugees, women and girls, and indigenous peoples.

The cities of Bologna (Italy) and Barcelona (Spain) have adopted a two-phased strategy to combat the pandemic. Firstly, the cities seek to provide economic support, ensure access to information, tackle domestic violence and maintain security. Secondly, the post-COVID-19 phase envisages the reconstruction of the urban space to guarantee sustainable social inclusion by considering all the stakeholders in society. Lastly, the economic impact at the local level as a result of COVID-19 could reverberate at the national level, exposing the country to strong structural transformations overall. Indeed, the pandemic has accelerated digitalization and automation, placing many local jobs at a high-risk of redundancy. In previous recessions, in order to increase labour productivity, many companies replaced less-skilled workers with technology, complemented by higher-skilled workers.

Early data suggests that the surge in automation as a consequence of the pandemic may outlast the virus in line with previous economic crises. For example, research on 100 million job postings before and after the Great Recession (of the late 2000s) determined that firms in hard-hit metropolitan areas steadily replaced routine workers with a combination of technology and higher-skilled employees (Herschbein and Kahn, 2018). McKinsey conducted research in eight countries (China, France, Germany, India, Japan, Spain, United Kingdom and United States) with diverse economic and labour market models and found that prior to the pandemic only 6% of workers would need to find jobs in higher wage occupations.

38 Press release. Defying predictions, remittance flows remain strong during COVID-19 crisis. *The World Bank*, 12 May 2021.

39 Ports feel coronavirus impact on global trade. *Financial Times*, 18 March 2020.

Figure 1.4: The share of workforce that may need transition to jobs in new occupations by 2030 in eight selected countries

Note: Exhibit from "The future of work after COVID-19", February 2021, McKinsey Global Institute, www.mckinsey.com. Copyright (c) 2022 McKinsey & Company. All rights reserved. Reprinted by permission. Source: McKinsey Global Institute (2019).

However, in the post-pandemic research, evidence was found that not only a larger share of workers will likely need to transition out of the bottom two wage brackets but also that roughly half of them will need new, more advanced skills to move to occupations one or even two wage brackets higher. Across the eight countries studied, more than 100 million workers (or 1 in 16 workers) will need to find a different occupation by 2030 in the post-COVID-19 scenario⁴⁰. This is 12% more than was estimated prior to the pandemic, and the adjustment will not be shared evenly as the number rises up to 25% more in advanced economies (Figure 1.4). In this context, countries across the world are exposed differently to the dual risk from COVID-19 and automation.

Finally, within these different regions and countries, the most disadvantaged workers (i.e. those in

the lowest wage bracket, non-native workers and women) may experience the biggest job transitions in the future, in part because of their work in the sectors most affected by the pandemic and because their jobs are more likely to be affected by automation. In addition, occupational changes will hit individuals not born in the European Union more than European-born workers, as well as younger workers more than older, more experienced workers. Moreover, in France, Germany and Spain, the job transitions required, as a result of trends influenced by the pandemic, is 3.9 times higher for women than for men. Similarly, in the United States those without a college degree are 1.3 times more likely to need to transition between occupations compared to those with a college degree, while Black and Hispanic workers are 1.1 times more likely to do so than their White co-workers⁴¹.

1.6 How the pandemic has exacerbated existing inequalities

The previous section has shown that the lives of those who already found themselves in precarious situations pre-pandemic only worsened during the pandemic. Many countries have seen a deterioration in terms of social cohesion, with pre-existing inequalities making everyone more vulnerable to the impact of the current crisis. Indeed, the COVID-19 crisis has made it even more urgent to address the major challenges facing society, which requires strong, concerted action by governments and the engagement of citizens.

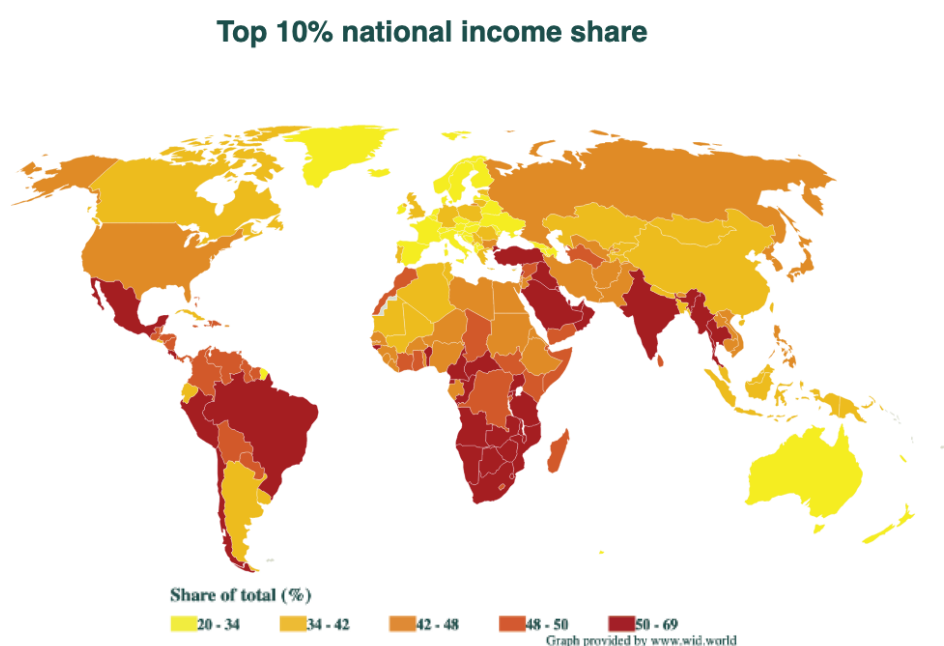
The rise of inequalities in income, opportunities and wealth

Globally, inequalities between countries have declined⁴² due to rapid economic growth in

40 Susan Lund *et al.* The future of work after COVID-19. McKinsey & Company, 18 February 2021. <https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19>

41 Susan Lund *et al.* The future of work after COVID-19. McKinsey & Company, 18 February 2021.

42 According to McKinsey Global Institute 2019 in *Inequality: A Persisting Challenge and its Implications* [p.18], the world Gini coefficient that measures countries' income dispersion fell from 0.44 to 0.36 between 2000 and 2014.

Figure 1.5 Income inequalities on a global scale

Source: World Inequality Database: <https://wid.world/>

emerging markets and developing economies, which has narrowed the gap between developing and developed economies. However, these aggregated figures mask important disparities across and within countries. Globalization and the Fourth Industrial Revolution have generated significant benefits but they have not been evenly distributed. The UNESCO World Social Science Report 2016 had already warned that to ensure that global inequality continues to narrow, national inequalities must be prevented from widening and reduced in countries where it remains high (UNESCO, ISSC and IDS, 2016). Failure to achieve this in major economies could endanger the positive aspects of globalization by increasing resistance to further progress by those who are left behind.

Recent evidence suggests that income inequality has increased in three-quarters of OECD countries over the past three decades. The top 1% of countries, members of the OECD, almost doubled their share of total pre-tax income, from 6% to 11% between 1980 and 2014. Moreover, even though there is a general trend towards rising inequalities in advanced economies, they have

increased at different speeds. The difference in inequality levels is particularly notable between Western Europe and the United States. While the level of inequality in 1980 was similar, with the top 1% income share close to 10% in both regions, by 2016 the income share had risen to 12% in Western Europe compared to 20% in the United States (Alvaredo *et al.*, 2018), revealing the widening inequality gap during this period. Indeed, the United States has the highest level of inequality among high-income economies. This reflects a surge in incomes for the richest segments of the population, along with stagnant or even falling incomes for the poorest, especially during economic slumps (PIIE, 2020).

By 2016, the share of the top 10% of income earners globally represented well beyond 50% of the national income in many developing countries (Figure 1.5). At the same time, job opportunities are increasingly polarized and the middle-class is shrinking. The technological progress of the last decades has widened the earnings gap between high-skilled and lower skilled workers, polarizing job opportunities and contributing to even greater inequalities. Evidence

from the OECD (2016b) shows that 40% of workers with lower secondary schooling have jobs that are at a significant risk of automation, whereas less than 5% of workers with a tertiary degree face a similar risk.

These inequalities – between the top and bottom societal tiers – have been accompanied by a decline of the middle class and, manifestly, the shrinking of middle-income jobs. This shift in employment towards high-skilled, non-routine jobs and low-skilled, non-routine jobs has dispensed with middle-skilled jobs. Even though a strong and prosperous middle class is crucial for a cohesive society and a successful economy, evidence shows that many middle-class households are increasingly at risk of falling to a lower income bracket. In the United States, the share of adults living in middle-income households declined from 61% in 1971 to just 50% in 2015 (McKinsey Global Institute, 2019). Over the past 30 years, overall, median incomes have increased by one-third less than the average income of the top 10% (OECD, 2019b). In many countries, the massive gains brought about by new technologies are captured by a small number of dominant companies,

Box 1. Is economic inequality inevitable?

The inequality of income and wealth has existed for a long time and has also been a longstanding topic of research in economic and social sciences. Rousseau's discourse on the origins of inequality, Marx's critique of capitalism, Weber's analysis of class, status and party, Pareto's theory of elites, Keynes's general theory of employment, among others, are classic examples of the stirring interest in this subject. Most research covers the period from the late Middle Ages to the present time and converges on the idea that economic inequality has increased over the centuries on a global scale and is greater today than it was 200 years ago.

In a recent study, Branko Milanović (2021) analysed long-term global inequality in the nineteenth century and concluded that the current, very high level of global inequality means that life opportunities are heavily biased in favour of persons born in high-income countries. There are in fact few periods in history that demonstrate an apparent decline in inequality and they are therefore rare when they do occur. Walter Scheidel (2017) observed that any reduction in inequality is generally associated with a catastrophic event (World wars, Black Death, etc.), which led him to develop the idea of the "great leveller" according to which only major events such as revolutions, wars, the collapse of states or natural disasters would allow the system to reset and thus for inequality to decrease.⁴⁵

Although economists (such as Simon Kuznets [1955]) and international financial institutions have long assumed that economic growth per se could be enough to tackle inequality, recent social research on inequality has opened up different perspectives. Thomas Piketty (2017) argues that economic inequality is an inevitable collateral effect of capitalistic accumulation. In particular, he defends the idea of inequality being a permanent feature of human societies; the main question is the collective narrative used to justify it (Piketty, 2020).

Still, the various trends observed in advanced nations shows that income inequality dynamics are shaped by many different national, institutional and political contexts. According to Piketty, this means that although governments cannot entirely prevent inequality, they can act decisively to bring it under control, otherwise, it can threaten democracy and economic stability.

Progressive taxation and shared management practices are possible policy options to address the current state of inequality. Sargentis and other authors have defended the idea that technological improvement is the main driver of inequalities worldwide, which occurs by clustering people and creating a widening gap between wealth and poverty (Sargentis *et al.* 2021). Although analyses may diverge with regard to origins and drivers, the evidence is that trickle-down policies have not delivered on equality, notably within countries. The 2008 global financial crisis and the COVID-19 pandemic have clearly laid bare the need to re-examine the relationships between growth, equity and development.⁴⁶

leading to even greater polarization of the labour force and ever-increasing income inequality.

At the same time, social mobility is waning, which has been particularly apparent since the early 1980s. This phenomenon means that children born into the bottom tier of income distribution have less chance to move up to higher income levels than previous generations. Conversely, at the other end of the scale, people at the top tier of income distribution may remain there for a longer time. In OECD countries, it would take up to 150 years (or between four and five generations) for a child born into a low-income family to reach the average income level (OECD, 2018a). Similarly, children born to parents who did not complete their

secondary school education have only a 15% chance of attending university compared to 63% for children whose parents attended university.

Another recent research finding, using data from the National Child Development Study⁴³, demonstrates that the main driver of persistent intergenerational earnings can be attributed to differences in

investments received during childhood, which in turn leads to improved cognition and more years spent in the education system⁴⁴. In this respect, it is clear that socio-economic status still strongly influences income, employment prospects, education as well as health outcomes, commonly referred to as 'inequalities of opportunity'. In fact, at a deeper level, widening inequality is about more

43 This comprehensive study followed the lives of 17,415 children born in the same week in 1958 in the United Kingdom through to the present day. It contains a wealth of information on how socio-economic factors influence child development, educational outcomes and income earnings throughout every stage of life into adulthood. <https://cls.ucl.ac.uk/cls-studies/1958-national-child-development-study/>

44 Sreevidya Ayyar *et al.* Why rich parents have rich children. *VoxEU*, 5 May 2021.

45 Eshe Nelson. Throughout history, the best ways to reduce inequality have been disease and destruction. *Quartz*, 6 March 2017, updated 20 July 2022.

46 For a very comprehensive and well-thought out discussion of these issues in standard economic theory, see Saez (2021).

than just money. In 2015, the United States National Academies of Sciences, Engineering, and Medicine reported a widening gap in adult life expectancy associated with education and income levels (National Academies of Sciences, Engineering and Medicine, 2015). This body of evidence furthers the perception that the current socio-economic system is unfair. The widening gap is particularly striking in emerging and developing countries where there is an extremely high level of inequality.

1.7 Extreme levels of inequality in the developing and emerging world

Despite significant poverty reduction, owing to integration within the global economy and the result of rapid growth in many emerging and developing countries, economic inequalities have either increased rapidly (as seen in Asia) or stabilized at extremely high levels (e.g. in the Middle East, sub-Saharan Africa). Although they demonstrate different inequality profiles, the general observation is that there is an increase in inequality in emerging economies over the last thirty years (Chusseau and Hellier, 2012). By the end of the 1980s, inequality in emerging economies was less when compared to advanced economies (the Gini indexes⁴⁷ were 0.39 and 0.42, respectively), but since then inequality has increased more rapidly in emerging economies. The inequality in gross income in emerging and advanced economies is roughly the same at present, with a Gini coefficient of around 0.50 (Peters and Volwahn, 2017).

In some developing regions income inequality has remained relatively stable (in the Middle East, sub-Saharan Africa) albeit at extremely high levels. The top 10% of earners receive about 55% of total income (in sub-Saharan Africa and Brazil), whereas in the Middle East, the top 10% income

share is generally over 60% of total income (Chusseau and Hellier, 2012). In Latin America, the trend towards the reduction of inequality in the first decade of this century, thanks to factors such as new macroeconomic policies and changes in the labour market, has unfortunately been reversed in recent years due to the recent economic crisis and political instability in some countries. However, the levels of inequality in developing regions is a *Source* of ongoing debate in the literature, notably due to the lack of data collected compared to advanced economies, and the use of different samples and measurements by researchers.

Extreme inequality is largely driven by horizontal inequality or the so-called 'inequality of opportunity' measured in access to education, healthcare or financial services. An essential feature of horizontal inequality is its multi-dimensionality with strong causal connections across the various dimensions. For example, educational inequalities may be responsible for economic inequalities with reverse causality, meaning that children from low-income households tend to receive less of an education thereby affecting their potential to achieve other aspirations (UNESCO, ISSC and IDS, 2016). While the specific features of these inequalities are far less studied, understanding them and their drivers are a necessary step towards the implementation of policies that may foster more inclusive growth. The policies are often related to the quality and level of provision of public goods (Box 2).

Regarding education, in countries where people have good access to education, such as North America or Europe, children can expect to receive 15 to 20 years of education (Figure 1.6). By contrast, a child starting school at the same age in countries with the poorest access to education can only expect to receive five years of education⁴⁸. Economic inequality also

heavily impacts access to basic health. For instance, a child born in a country ranked with one of the worst health systems is 60 times more likely to die than a child born in a country with the best health facilities. Similarly, in several African countries, more than one in ten children born today will die before they reach the age of five, whereas in the healthiest countries, only 1 in 250 children will die.⁴⁹

Finally, although financial inclusion⁵⁰ is on the rise globally – thanks in part to the internet and mobile phone technology – gains remain extremely uneven across countries. Indeed, according to the World Bank,⁵¹ 1.7 billion adults have no access to banking or are 'unbanked', with the large majority living in emerging or developing economies. Additionally, specific circumstances, such as gender or ethnicity, contribute to the overall inequality of opportunity, which also varies greatly across countries and plays a significant role in creating the division seen in those countries. In Mexico, for example, the maternal mortality rate for indigenous women is six times higher than the national average, as high as in many countries in Africa (Oxfam, 2014). In Australia, Aboriginal peoples are disproportionately affected by poverty, unemployment and chronic illness.

47 The Gini index (or coefficient) is a synthetic indicator that captures the level of inequality for a given variable and population.

48 Max Roser. Global inequality of opportunity. *Our World in Data*, 28 August 2019. <https://ourworldindata.org/global-inequality-of-opportunity>

49 Ibid.

50 Financial inclusion refers to the ability of individuals and businesses to access responsible and sustainable financing in terms of savings, monetary transactions, insurance and so on.

51 Press release. Financial inclusion is on the rise, but gaps remain, Global Findex Database shows. *The World Bank*, 19 April 2018.

52 Max Roser. Global inequality of opportunity. *Our World in Data*, 28 August 2019.

53 Kelsey Piper. What Kenya can teach its neighbors – and the US – about improving the lives of the 'unbanked'. *Vox*, 11 September 2020.

54 Sanchita Sharma. 'JAM trinity' helped outreach, finds global goals awards report. *Hindustan Times*, updated 19 September 2019.

Box 2. Why does the provision of public goods matter to alleviate inequality?

Inequality is multi-dimensional by nature. In most countries, the vicious circle of poor educational opportunities, low skills and few prospects can trap people in situations in which they face more unemployment. They are also more likely to experience environmental hazards and denied social mobility. This is a problem for both the individuals and the general economy as human capital is a vehicle of economic growth. Education, quality healthcare, access to technology and, more generally, human capital development strategies have been considered as central factors favouring mobility and thus equity (Kearney and Levine, 2016).

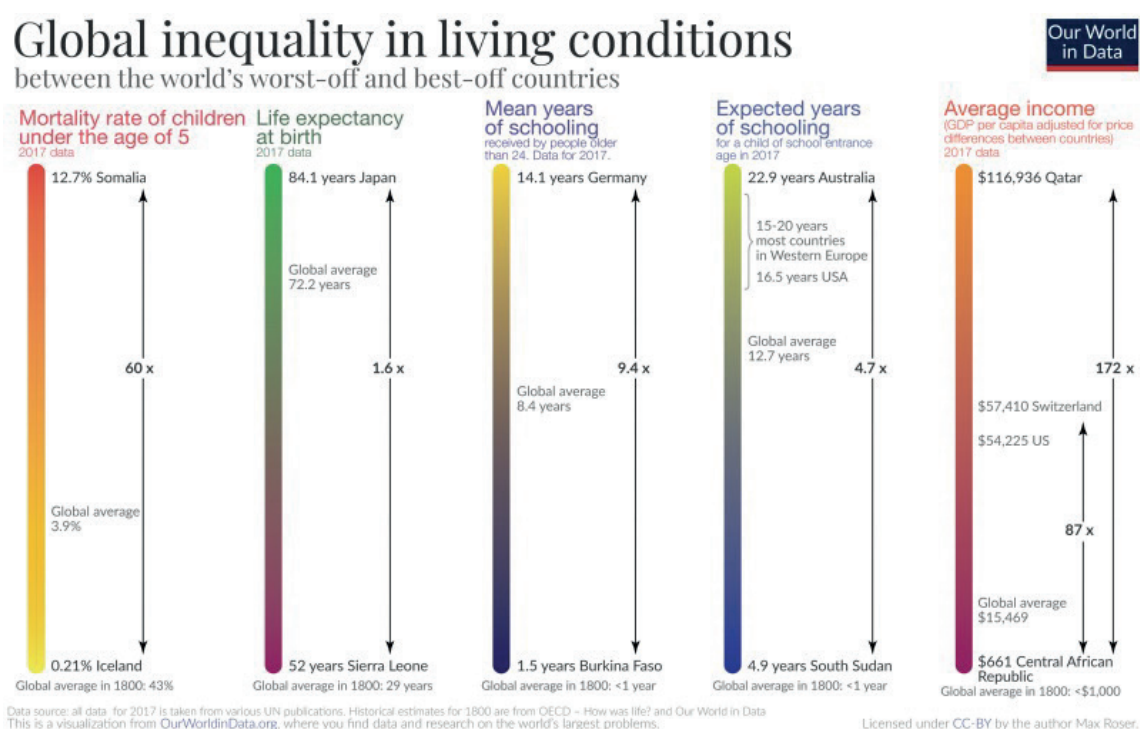
While most nations are failing to provide the right conditions for their citizens to thrive, a recent report from the World Economic Forum (2020) shows the Nordic countries to be the best performers in this regard. Denmark leads the ranking with its high social mobility score, closely followed by Finland, Norway, Sweden and Iceland. These countries combine access to education, and quality and equity in education alongside quality social protection and inclusive institutions. The provision of public goods in these countries plays an important role in improving social mobility and in promoting equally shared opportunities in their economies. Given their high incomes and stability, the Nordic countries may have been in a better position to meet the challenges of the recent pandemic (Greve et al., 2020).

As income inequality has always been with us, “governments must act as an equalizer, levelling the playing field for all citizens, regardless of their socio-economic background”⁵². The sustained provision of public goods is an important tool to develop a more people-centred growth model where equity considerations are as important as efficiency in defining social and economic policies.

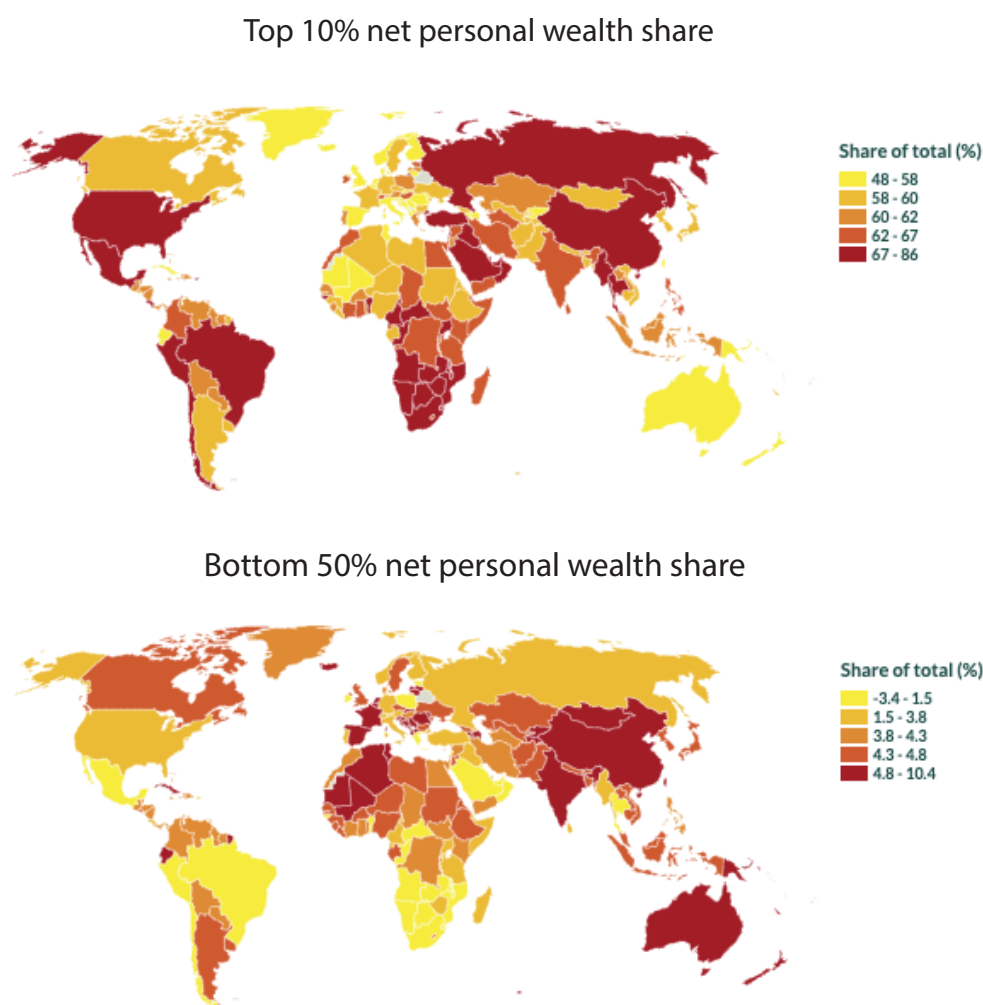
In the twenty-first century, a number of governments in the developing world have also brought in policies to mitigate inequality and generate opportunities. For example, Kenya’s ‘M-pesa’ has proven to be revolutionary in mitigating extreme poverty by providing a financial inclusion platform to its unbanked population⁵³. Similarly in India, the Jan Dhan-Aadhar-Mobile (JAM) trinity is a policy solution formed at the intersection of technology and the mass database, providing a safety net and government services (in education, health, food, bank service etc.) to millions by plugging loopholes.⁵⁴

Public goods therefore also support social inclusion and serve as representations of a shared sense of citizenship (Kallhoff, 2014), which is crucial for our democracies.

Figure 1.6 Inequalities of opportunity on a global scale



Source: OurWorldinData.org

Figure 1.7 Wealth inequalities on a global scale

Source: World Inequality Database: <https://wid.world/>

1.8 Wealth inequality is rising worldwide

Wealth is substantially more concentrated than income. In China, South Africa, Europe and the United States the top 10% of earners own more than 70% of the total wealth of these countries, while the bottom 50% owns less than 2% (Alvaredo *et al.*, 2018). According to research, if these established trends were to continue, the top 0.1% alone will own more wealth than the global middle class by 2050 (Alvaredo *et al.*, 2018). Since capital is increasingly concentrated in the hands of a few people, this process has contributed to the worsening of economic inequality globally. According to the IMF, the world's ten

richest billionaires own US\$ 801 billion in wealth, a sum greater than the total goods and services most nations produce annually.

The wealth divide has grown significantly over recent years with the richest few accumulating considerable wealth and many of the poorest working for small wages or living in vulnerable conditions (Figure 1.7). According to Oxfam, between 2009 and 2018, the number of billionaires it took to equal the wealth of 50% of the world's poorest people fell from 380 persons to only 26! The gap between the rich and the poor has reached extreme levels, with seven out of ten people living in countries where this gap is greater than it was 30 years ago.

This gap has widened so substantially that it has resulted in a world where nearly half of humanity is living with less than US\$ 5.50 a day, whereas the richest 1% have more than twice as much as 6.9 billion people⁵⁵. These striking facts feed a growing sense of social injustice around the world.⁵⁶

The COVID-19 economic crisis has fuelled and amplified existing inequalities. According to Oxfam data, it took just nine months for the fortunes of the top 1,000 billionaires to return to their pre-pandemic highs,

⁵⁵ Data from Oxfam international, available at <https://www.oxfam.org/>

⁵⁶ Michael Massing. Most political unrest has one big root cause: soaring inequality, *The Guardian*, 24 January 2020.

whereas for the world's poorest, recovery could take more than a decade (Berkhout *et al.*, 2021). What is even more striking is that some fortunes have ballooned during the global economic crisis. From the beginning of the pandemic to the end of 2020, global billionaire wealth has increased by US\$ 3.9 trillion. The increase in wealth since the crisis began of the world's ten richest billionaires would be enough to buy COVID-19 vaccines for everyone on Earth (Berkhout *et al.*, 2021). In contrast, workers' combined earnings fell by US\$ 3.7 trillion globally, as millions of people lost their jobs as a result of the crisis (ILO Monitor, 2021).

1.9 Climate change and environmental pressures also exacerbate inequalities

The climate change crisis makes a return to 'normality'⁵⁷ after the difficulties of the COVID-19 crisis, which may represent an opportunity to create stronger awareness of climate-related issues, thereby reinforcing the idea that the environment is a global public good. Climate change is also a *Source* of profound inequalities between people, firms and countries. Despite it being a global problem, climate change is not a great leveller of inequalities.

Currently, 800 million people, or 11% of the world's population, are vulnerable to the impacts of climate change which are manifested through droughts, floods, heatwaves, extreme weather events and sea-level rises. According to the Ecological Threat Register, the proportion of natural disasters between 1960 and 2019 has increased from 39 incidents to



396⁵⁸. Vulnerable people are more severely affected by natural disasters, either because they rely on natural resources for their livelihoods or they do not have sufficient assets to offset the loss of their homes, or simply because they have lower access to health systems. A 2020 report from the International Federation of Red Cross on world disasters revealed that climate and weather-related disasters, such as storms, floods and heatwaves, have impacted 1.7 billion people over the past ten years (IFRC, 2020). At the same time, as temperatures have risen, the growing season for crops is becoming highly unpredictable.

Developing countries are especially affected by the changing climate as many people rely heavily on agriculture in places that are already too hot or dry, forcing many farmers to find new livelihoods. In Bangladesh, for example, poor farmers are being forced to leave their land because

rising sea levels are damaging to the soil. In fact, climate change is also responsible for soil salinization, a process which is already affecting parts of Australia, California and sub-Saharan Africa (Chen and Mueller, 2018). In Africa's Sahel, a region tormented by violence, climate change is partly to blame. Agriculture is the backbone of the region's economy and accounts for the majority of livelihoods, but extreme drought is leaving nomadic herding communities and poor farmers without the water they need as they desperately search for more fertile land⁵⁹. According to the United Nations, roughly 80% of the region's farmland is degraded, with 50 million people depending on raising livestock⁶⁰. The region is now home to the largest number of people disproportionately affected by global

57 Patrick Donahue and Arne Delfs. Merkel moves ahead with gradual return to normality in Germany. *Bloomberg Europe Edition*, 15 April 2020.

58 Increase in natural disasters on a global scale by ten times. Vision of Humanity article at: <https://www.visionofhumanity.org/global-number-of-natural-disasters-increases-ten-times/>

59 Robert Muggah and José Luengo Cabrera. The Sahel is engulfed by violence. Climate change, food insecurity and extremists are largely to blame. *World Economic Forum*, 23 January 2019.

60 To understand the magnitude of the problem: <https://www.fao.org/3/X5318E/x5318e02.htm>

warming and it currently has more than 17 million people in urgent need of food assistance⁶¹, which inextricably increases tensions.

The degree of exposure and the ability to cope with the impacts of climate change differs greatly among population groups. People who are economically vulnerable are particularly affected by these shocks. In developing countries, the most vulnerable people often live in makeshift homes in low-lying areas or lands that are more affordable but which are also more prone to flooding or landslides, increasing their vulnerability when disaster strikes. In Bangladesh, during Cyclone Aila in 2009, one in four poor households was affected by the storm, compared to one in seven better-off households (United Nations, 2020b), suggesting a link between income and exposure to climate hazards.

Different socio-economic groups in advanced economies also react and adapt differently to climate emergencies. For example, in the United States, during Hurricane Katrina, wealthier individuals were almost twice as likely to evacuate before the hurricane hit than low-income individuals. Lower-income segments of the population often lack insurance or cannot rely on savings when disaster strikes. Evidence shows that low-income households often hold the majority of their wealth in their primary home and thus face greater risk of losing all their assets when a disaster happens. This compares to richer households with more diversified or better-insured schemes, enabling them to access a safety net in times of crisis (OECD, 2021a).

Climate change is also harming human health. Health risks associated with environmental changes are expected to intensify, with additional global warming increasing the

number of related diseases and deaths (Ebi and Hess, 2020). According to the WHO, climate change is expected to cause approximately 250,000 additional deaths per year between 2030 and 2050. Illnesses include infectious diseases (e.g. from vector-borne pathogens) and respiratory diseases (e.g. from exposure to air pollution), but also malnutrition (due to food insecurity) and even deaths resulting from environmental events (e.g. heatwaves, floods). Although the consequences of climate change may affect everyone's health, lower economic households are more vulnerable owing to limited access to quality healthcare generally. Regarding air pollution, evidence shows that poorer households are also less able to invest in defensive measures, such as air filtration, increasing their vulnerability due to the exposure of pollutants⁶².

1.10 How climate change affects women and girls

Environmental disasters do not discriminate against women and girls per se, but the impact on them and their coping mechanisms differ significantly from other groups. This differentiation is largely due to gender-differentiated positions of power, roles and responsibilities at household and community levels (Habtezion, 2016). Globally, women comprise between 50% to 70% of those living below the poverty line⁶³.

Rural women in the South is the most vulnerable group to climate change as they often do most of the agricultural work and are responsible

for securing water, food and fuel for cooking. As desertification worsens, fuelling tensions around scarce fertile soils, climate change is expected to negatively affect women's lives to an even greater extent. The UN Secretary-General, António Guterres, has warned that the world is losing 24 billion tons of fertile land every year⁶⁴, and scientific projections predict a potential fall of 49% and 36% in wheat production in South Asia and sub-Saharan Africa, respectively, by 2050.

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The consequences of climate emergencies, such as those caused by desertification, are particularly worrying as they amplify discrimination already experienced by young women and girls in developing nations. In Uganda⁶⁵ and Malawi, for example, research has shown that climate change leads to an increase in child marriages among farming families⁶⁶. To better cope with food scarcity caused by climate change, parents marry off their daughters earlier as they are unable to provide food for the entire family.

61 Data from <https://www.oecd.org/swac/topics/food-security/>

62 Ibid..

63 The figure differs according to the Sources: 50% based on the estimates by C. Sánchez-Páramo and A. Muñoz-Boudet: <https://blogs.worldbank.org/developmenttalk/no-70-world-s-poor-aren-t-women-doesn-t-mean-poverty-isn-t-sexist-or-70%> according to the ILO: https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_008066/lang-en/index.htm

64 24 billion tons of fertile land lost every year, warns UN chief on World Day to Combat Desertification. *UN News*, 16 June 2019.

65 Anik Gevers, Tina Musuya and Oaul Bukuluki. Why climate change fuels violence against women. *Apolitical*, 9 December 2019.

66 Gethin Chamberlain. Why climate change is creating a new generation of child brides. *The Guardian*, 26 November 2017.

Research undertaken in developed countries has shown that climate change and air pollution also have a different impact on women's health and well-being due to several specific vulnerabilities related to their physiological and reproductive systems (Van Daalen *et al.*, 2020). This is particularly worrying for expectant mothers who have experienced foetal exposure to extreme temperatures, which can contribute to adverse birth outcomes. Evidence based on selected OECD countries has shown that such exposure can lead to low birth weight, increased neo-natal stress or reduced gestational age (OECD, 2021a). As air pollution is also a contributing factor to infant mortality, different studies among the literature have also shown that reductions in air pollution are linked to a decline in the infant mortality rate in several advanced economies such as Czech Republic, Germany, Türkiye and the United States.

Gender issues also make climate adaptation more difficult for some women due to a lack of formal education, information, and exclusion from decision-making institutions. Cultural and socially constructed gender roles sometimes place women at a disadvantage when preparing for or facing climate change by limiting their abilities to make quick decisions in disaster situations. Examples include their frequent inability to swim, climb trees or simply to be allowed, by their husbands, to leave the house unattended during an emergency. For instance, during the Asian tsunami of 2004, 70% of the victims were women, many of whom were trapped with children inside their homes.⁶⁷

⁶⁷ John Aglionby. Four times as many women died in tsunami. *The Guardian*, 26 March 2005.

Furthermore, evidence from around the world shows that sexual and gender-based violence increases during and after disasters, meaning that climate change may increase the risk of violence against women. UN Women (2014) reported a 300% increase in new domestic violence cases after two tropical cyclones hit Tafe Province in Vanuatu in 2011.

Furthermore, evidence from around the world shows that sexual and gender-based violence increases during and after disasters, meaning that climate change may increase the risk of violence against women. UN Women (2014) reported a 300% increase in new domestic violence cases after two tropical cyclones hit Tafe Province in Vanuatu in 2011. Recent research also found that in Uganda, during periods of prolonged drought, women and girls make more frequent and longer trips to obtain food or water, making them more vulnerable to sexual assault.⁶⁸

However, given their front-line status, women uniquely represent important agents of change in mitigating climate emergencies. Their traditional knowledge and unique role at the household and community level can help them find ways to mitigate the causes of climate change and thus contribute to livelihood strategies, while adapting to the impacts of climate change on the ground. For example, their experience in handling natural resources can offer valuable insights into better managing scarce resources. Similarly, there is evidence that women play a vital role in dealing with disasters by mobilizing communities during the different

⁶⁸ Anik Gevers, Tina Musuya and Paul Bukuluki. Why climate change fuels violence against women. *Apolitical*, 9 December 2019.

phases of the risk-management cycle. Their greater participation contributes to better risk management and hence risk reduction (Habtezion, 2016). These ideas were reflected in the Paris Agreement on climate change⁶⁹, which calls for climate action that respects and promotes gender equality and women's empowerment.

Finally, the growing frequency of natural disasters and environmental degradation brought on by climate change will likely increase the number of displaced persons in developing countries in the coming years, creating a new category of migrants currently unprotected under international law if forced to cross borders (Gagnon and Rodrigues, 2020). Women account for 80% of those displaced by climate change and they are particularly vulnerable to human trafficking, which significantly increases during forced displacement as a result of natural disasters (Coelho, 2016). Moreover, drought brought about by climate emergencies in certain regions, and the food insecurity and unemployment that ensues, leaves people with little choice but to flee their homelands. In 2020 alone, the Internal Displacement Monitoring Centre (IDMC) estimated that 24 million people were displaced from their homes because of climate disasters, which is the highest figure recorded since 2012 and three times the number of displacements caused by conflict and violence⁷⁰. Additionally, as much as the social strife experienced in certain countries is related to access to increasingly scarce resources, finding sustainable solutions to mitigate the impacts of climate change for those directly affected is also of paramount importance.

⁶⁹ See <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

⁷⁰ Data from the internal displacement monitoring centre, available at: <https://www.internal-displacement.org/global-report/grid2020/>



1.11 Inequalities in environmental adaptation across firms and the labour market

The previous section addressed the significant disparities across firms related to the COVID-19 crisis. It is also evident that climate change affects small and large firms differently. As countries with emerging economies are more exposed to climate change and natural disasters, and because they have the highest number of individuals facing poverty, small businesses and micro-enterprises not only fall far behind medium-sized and larger companies, they also have to deal with harsher environmental conditions with significantly fewer financial means and support.

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There is evidence to suggest that rising temperatures is the main reason for the decline in economic output in poor countries⁷¹. In contrast, developed countries demonstrate a stronger resilience to climate change and, in some cases, may even benefit from it. By 2010, the GDP per capita of Bangladesh was 12% lower compared to a counterfactual scenario where global warming would not have occurred from the 1990s onwards

⁷¹ See for example, N. Dissenbaugh and M. Burke. 2019. Global warming has increased global economic inequality. *Proceedings of the National Academy of Science of the United States of America*, Vol. 116, No. 20, pp. 9808–9813.

(Burke *et al.*, 2015). This example could be extended to sub-Saharan African countries such as Sudan, a country where climate change has lowered the GDP by approximately 20%.

Around 40% of total employment globally is concentrated in industries that depend directly or heavily on ecosystem services⁷². These sectors include agriculture, forestry, fishing, food and drink, tobacco, wood and paper, biofuels and renewables, the pharmaceutical and chemical industries, and environment-related tourism.

Businesses facing environmental crises need to adapt by improving technology. However, this is likely to require additional costs that impact on small businesses owing to their lack of financial assets and access to credit. SMEs are over-represented both in geographic regions and in economic sectors that have been hardest hit by climate change (ILO, 2018b). Climate change is thus widening the gap between small and large firms.

The European Department of Deloitte and the ILO underlined several different steps to help firms understand and cope with climate change (Deloitte, 2019). They involve assessing climate change related threats to a company, assessing the level of emission reductions needed, and reorganizing the structure of the company to incorporate the risks and opportunities of climate change. However, SMEs that are both struggling from the harsh conditions and disruptions of the labour market as a result of COVID-19 and trying to avoid bankruptcy may have difficulties establishing an adaptation plan to climate change.

1.12 Climate-related inequalities in different places

Even though every country will have to manage more extreme weather

⁷² The percentage of jobs that rely on ecosystem services in China is 50%, in Brazil it is 23% and in India it is 52%.

and displacements in the future, climate change will have different impacts across territories. Some regions will warm up much more than others, some places will receive more rainfall, while others will be exposed to more frequent droughts and extreme weather events. As these effects are not uniform globally, just like inequalities, there are likely to be some winners and losers.

Currently, the impacts of climate change is particularly pronounced in developing countries as adverse conditions are concentrated in regions with relatively hot climates where there are many low-income economies. According to the World Bank, these concern highly vulnerable regions in the emerging world, including Africa (particularly sub-Saharan Africa) and Asia (particularly South and Southeast Asia).

Changes in regional precipitation caused by climate change are expected to particularly affect regions near the equator and at mid-latitudes, which will experience major decreases in precipitation⁷³. For example, it was projected that between 75 and 250 million people in Africa would be vulnerable to drought and scarce drinking water by 2020⁷⁴. A report coordinated by the World Meteorological Organization shows that climate change poses a serious threat to health, food and water security as well as socio-economic development in Africa (WMO, 2020).

Similarly, in some areas of Asia, clean freshwater is projected to become scarce, with illness caused by low-quality water projected to increase. Experts forecast that the loss of snowmelt from the Himalayas will reduce water flow into the Indus, Ganges and Brahmaputra river basins.

The Indian continent has more people living in coastal cities than all the other cities in the world combined, meaning that severe weather events will affect more people in India than elsewhere in the world. Cities like Mumbai and Kolkata are expected to experience more cyclones and flooding events in the coming years. A report from McKinsey found that countries in Asia with low per capita GDP are most at risk from the impacts of climate change (McKinsey Global Institute, 2020).

The rise in ocean levels is also expected to have adverse effects on islands worldwide. For example, the island nations of the Pacific are particularly vulnerable to the early effects of climate change as most are only a few metres above sea level⁷⁵. Several of these island nations, such as Kiribati, the Marshall Islands or Tuvalu, are already experiencing the negative effects of rising sea levels, such as salt-water intrusion contaminating drinking water *Sources* and agricultural lands, which severely undermines the livelihoods of local communities.

The environmental impacts on both the ocean and the land is also a major concern in economic terms. The region is an ocean-based economy that relies primarily on maritime transportation, tourism and fishing⁷⁶. In Fiji, climate change has forced people to move, with the government having already earmarked more than 80 communities for future relocation. While relocating communities to safer, less exposed areas can be an effective mechanism to help people manage climate hazards, experts argue that it is not a practical solution in the long term for those affected and because of the many more climate

events likely to happen in the future⁷⁷. This global situation is extremely worrying for developing economies that are disproportionately at risk due to their location and low climate resilience, but also because of their lack of quality infrastructure and their economic reliance on climate-sensitive industry sectors.

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In contrast, high-income economies are generally less vulnerable to the risks posed by climate change and are better prepared to manage its consequences. Globally, 20 countries account for more than 80% of all current greenhouse gas emissions, with around 40% of world emissions originating in China (at 13.9%) and the United States (at 24.5%)

In contrast, high-income economies are generally less vulnerable to the risks posed by climate change and are better prepared to manage its consequences. Globally, 20 countries account for more than 80% of all current greenhouse gas emissions, with around 40% of world emissions originating in China (at 13.9%) and the United States (at 24.5%)⁷⁸. Wealthy nations consume approximately 10 times more resources per person than developing countries and produce far more waste. Not only do rich countries pollute more than other countries, they also experience fewer impacts, with the least developed countries already suffering from climate change and its disruptive effects on the level

73 See Regional Impacts: Centre for Science Education (UCAR) at <https://scied.ucar.edu/learning-zone/climate-change-impacts/regional>

74 Data from Intergovernmental Panel on Climate Change (IPCC) at https://archive.ipcc.ch/publications_and_data/ar4/wg2/en/spmssp-c-7-africa.html

75 Saber Salem. Climate change and the sinking island states in the Pacific. *E-International Relations*, 9 January 2020.

76 Sabira Coelho. How climate change affects the Pacific. *Migration Data Portal*, 20 December 2019.

77 Annah Piggott-McKellar, Karen E. McNamara and Patrick .D. Nunn. Climate change forced these Fijian communities to move - and with 80 more at risk, here's what they learned. *The Conversation*, 30 April 2019.

78 Union of Concerned Scientists. Each country's share of CO2 emissions. Updated Jan 2022. <https://www.ucsusa.org/resources/each-country-share-co2-emissions>

of poverty. Northern countries and regions, such as Canada, Russian Federation and Scandinavia, may even enjoy a net benefit from modest levels of warming, although these benefits may diminish as warming continues⁷⁹. This raises significant ethical questions and concerns as the people in countries who are the least responsible for the climate emergency will ultimately suffer the most.

In an effort to determine the relationship between global warming, energy consumption and economic growth, Diffenbaugh and Burke (2019) found that from 1961 to 2010, 18 countries with historical cumulative emissions less than 10 tons of CO₂ per capita had suffered negative economic impacts, with a median impact of -27%. In contrast, of the 19 countries whose historical emissions exceeded 300 tons CO₂ per capita, 14 had benefitted from global warming, with a median benefit across those 14 countries of +13%. In other words, global warming appears to have benefitted cooler (and richer) countries, with poorer countries having paid the price of global warming arising from the world consumption of fossil fuels. Estimates suggest that even under a 'low-impact scenario', in which powerful mitigation and adaptation strategies are successful, between 3 million and 16 million people will fall into poverty by 2030 because of climate change (Hallegatte *et al.*, 2016). Consequently, climate change affects the prevalence of poverty and thus greatly contributes to exacerbating geographic inequalities worldwide.

This increasing gap is also partly due to the lack of economic structures of poorer countries to implement mitigation strategies to reduce the impacts of climate change, such as protection measures from extreme weather events. For example, in Miami, in the United States, a project costing approximately US\$ 500 million

is being implemented to raise the street level to mitigate the effects of expected flooding from rising sea levels over the next five years⁸⁰. By comparison, although rising sea levels in Port-au-Prince (Haiti) also pose a serious threat to the livelihoods of its citizens, the government is limited in its ability to enforce environmental projects, laws and regulations.⁸¹

According to the OECD, a 2°C warming scenario is estimated to cost 2% of GDP in the European Union and 4% of GDP in Southern Europe. This would increase regional inequality within the EU (OECD, 2021a). The multiple interactions between social and environmental challenges mean that action towards sustainable growth could have positive impacts in reducing future inequalities.

Scientists have recently found that a contributing factor behind the emergence of COVID-19 was deforestation and that the disease could be zoonotic in origin (WHO, 2021). As human industry and activities, such as current farming practices or the trade in wild animals, begin to encroach on natural ecosystems and aggravate environmental degradation, the risk of cross-contamination, i.e. viruses transmitted from animals to humans, is rising. In this context, addressing global climate change has become even more important as countries seek to rebuild their economies and enhance resilience against future health crises.

The contradiction is that the slowing down of activities during lockdowns resulted in lower greenhouse gas emissions, improved air quality in many cities and even the recovery of ecosystems, demonstrating that in urgent circumstances, human

behaviour and choices can create change.

Findings from the largest global survey of public opinion on climate change (People's Climate Vote) carried out by UNDP found that nearly two-thirds of people around the globe recognized climate change as a global emergency⁸². Indeed, the effects of forced confinement and lockdowns may have created a change in social preferences towards better air quality in cities thanks to greater public awareness about the importance of our fragile ecosystems for human health and well-being.

However, the focus on urgent economic recovery may also eclipse the need to sustain and support the environmental transition. Yet integrating environmental and inclusiveness aspects into recovery strategies can in fact enable governments to progress towards meeting environmental objectives, boosting economic activity in the short term and reducing inequalities at the same time (OECD, 2020i).

79 Keith Wade and Marcus Jennings. Climate change and the global economy: regional effects. *Schroders*, 26 July 2015.

80 Emily Michot., Raising flood-prone roads has angered Miami Beach residents. *The Miami Herald*, 22 January 2020. <https://www.miamiherald.com/news/local/environment/article239486308.html>

81 USAID. Haiti: Environment and climate change fact sheet 2016. *Reliefweb*, 8 January 2016.

82 UN. Climate change is a 'global emergency', people say in biggest ever climate poll. *UN News*, 27 January 2021.

Special Focus: How COVID-19 has impacted youth in the Asia-Pacific region

The Asia-Pacific region is home to more than 700 million young people. The COVID-19 pandemic has left its mark on this generation. The world they once knew has been transformed and perhaps will never again be the same, with young people at risk of facing the repercussions of the pandemic for many years to come. Indeed, young people today and future generations will shoulder much of the long-term economic and social ramifications of the crisis, with considerable risk to their well-being.

Early findings of the pandemic have exposed alarming impacts on access to education, concerns about mental health and employment opportunities, among other things.

Early findings of the pandemic have exposed alarming impacts on access to education, concerns about mental health and employment opportunities, among other things. According to *The Sustainable Development Goals Report 2021* (United Nations, 2021), the pandemic has wiped out 20 years of educational gains⁸³ with disruptions to health services in more than 90% of countries, forcing an additional 119–124 million people into poverty⁸⁴.

The Asia-Pacific region not only has the largest youth population in the world, it also has diverse economic and social dynamics. For example, while South Asia has vast demographic resources, countries like Japan are increasingly concerned about their ageing population. Bangladesh witnessed high urban-

rural disparity in accessing key COVID-19 information, while Pacific countries like Tonga did not report even a single case of COVID-19. Countries like Nepal, Bangladesh and India have struggled with basic digital infrastructure and access to vaccines, but countries like Australia had immigrants and students who were the worst hit. In this regard, the Asia-Pacific region provides a crucial base in generating key policy insights for the future.

This Special Focus section is designed to unpack the impacts of the COVID-19 pandemic on the well-being of youth through the use of focus group discussions and a rigorous literature review. This section explores the impact of the pandemic on education, employment and health, which will be followed by policy recommendations on how to minimize the damage caused by the pandemic and prevent future losses.

An exploratory research methodology was designed and adopted to get a detailed understanding of the impact of COVID-19 on the well-being of youth in terms of education, employment and health. A comprehensive desk review of existing literature from Asia and the Pacific was conducted, which was supplemented by focus group discussions with youth representatives of more than 10 countries from the region. A qualitative meta-analysis, commonly known as meta-synthesis, allows for a systematic review of the qualitative studies, rendering them more interpretative than aggregative. The qualitative methods thus helped synthesize existing studies to construct greater meaning through an interpretative process of identifying and transforming primary findings into themes.

Impact of COVID-19 on education

The COVID-19 pandemic has caused the largest disruption of education in history, affecting nearly every

learner and teacher throughout the world. The crisis further worsened pre-existing educational disparities by reducing educational opportunities for disadvantaged and marginalized students. The upheaval and confusion brought about by the abrupt closure of universities and schools, and the sudden shift to online education massively disrupted the lives of students. The shift to online education was conducted on an “untested and unprecedented scale”, bringing about its own challenges and dilemmas as “moving school systems to a remote learning environment is not just a technical issue but a pedagogical and instructional challenge” (Ali and Kaur, 2020).

Reduced access to education

The unequal access to internet but also electronic devices has immensely amplified youth inequalities. While huge discrepancies can be seen between the developed and developing countries in Asia, inequalities have also been observed within countries along the rural-urban divide owing to their different cultural norms and socio-economic contexts, among other things. A young student from rural India commented, “most people in villages don’t have access to smartphones and there is no network, how are we supposed to attend classes?” Similar findings were also observed from countries across Asia and the Pacific. A study conducted by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in the Maldives found that, “the socioeconomic disadvantages of the furthest behind groups may hamper their ability to follow e-learning” (ESCAP, 2021). A study by Saito (2021) in Indonesia echoed this finding in that while affluent urban groups could smoothly transition to e-learning, students in remote areas faced difficulties in obtaining access. An Australian youth commented, “internet was not that of an issue in Australia for many

83 100 million more children fail basic reading skills because of COVID-19. *UN News*, 26 March 2021.

84 COVID-19: impact could cause equivalent of 195 million job losses, says ILO chief. *UN News*, 8 April 2020.

international students, or students residing in inferior areas might have faced some issues". A young woman from Tonga studying in Japan commented, "Tonga had zero cases of COVID-19, so while things were normal in my country, due to travel restrictions, I had to do my classes online, and internet in my country is a major problem".

The penetration of internet connectivity and access to smartphones has varied across the region. While 94% of the population in South Korea have access to smartphones – the highest percentage in the world – the percentage is only 65% in Kazakhstan⁸⁵. Further, in terms of mobile internet penetration, only 38% of the population of the Pacific Islands have internet access, the lowest in the world (GSMA, 2019). A gender bias has also been observed in accessing the internet, especially in South Asia. A Young Lives study⁸⁶ found that girls and women are 70% less likely to access online content compared to boys and men⁸⁷. A young female NGO worker from India had this to say, "a gender bias in ownership of devices is prevalent... smartphones were brought by the parents for the male child and not the girl child and so they couldn't attend online classes at all".

Decrease in the quality of learning and assessment

The quality of learning and assessment during the COVID-19

pandemic has been a major concern among educators. While non-conducive study environments at home as well as the additional pressure placed on girls to assume household responsibilities impacted the quality of education, the shocks and trauma experienced by those whose close relatives were infected by the virus diminished the quality of learning for many (Reimers, 2021). Countries like China initiated the 'Suspending classes without stopping learning' policy so that learning was not compromised during the pandemic (Zhang *et al.*, 2020). However, not many countries or individuals could afford to continue with their education online. A young student engineer from rural India remarked, "my brother used to pay for my tuition, but due to the pandemic he lost his job... I was forced to take up a job to even sit for my exams". The nuances in assessment have affected young people's future prospects in terms of both educational opportunities and employment options. A young male engineering student from India reported, "I was accused of cheating and my exam was almost cancelled by my university because of network issues. My camera switched off and the university was not ready to believe me". Further, the pandemic has also influenced the future learning opportunities of young people. A British Council study conducted in April 2020 found that 39% of Chinese students were considering cancelling their plans to study abroad⁸⁸. A young woman from Bangladesh studying in Japan remarked, "I had to wait till the entry bans were lifted to relocate from Bangladesh to Japan to start my post-graduation degree as the condition of my scholarship was that I had to be present in-person". A young professor teaching in Nepal commented, "I was supposed to apply for scholarships to go abroad to study further, but I couldn't."

88 Matt Durnin. COVID-19 update: China survey results. *British Council Insights Blog*, 8 April 2020.

Gendered experience

Women's experience of the pandemic was far more unequal than for their male counterparts. While they struggled to continue with their education, they had the added pressure of marriage. A young social worker from India reported, "in my village post COVID-19 lockdown, when the schools re-opened, the boys were able to go back to school, girls were not, and some who did have to, now go to government schools as the parents could not afford their fees". A similar situation was also observed in Bangladesh where there were nine girls in one class before the pandemic, but following one year of school closures, only one girl returned to class, the other eight girls were married off before they could even start high school⁸⁹. Further, school and health clinic closures also restricted access to sexual and reproductive health education for young girls in the Maldives (ESCAP, 2021). In India, it was found that because of school closures, "young girls were unable to access sanitary napkins". Almost one-quarter of women and girls surveyed in Fiji, Papua New Guinea, Solomon Islands and Vanuatu reported that menstrual hygiene products had become more expensive since the start of the pandemic owing to a decrease in income and disruptions to the supply chain (Plan International, 2020).

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85 Ilana Dautova. COVID-19 and Education: How does Kazakhstan face the pandemic? *Eurasian Research Institute*, 2021. <https://www.eurasian-research.org/publication/COVID-19-and-education-how-does-kazakhstan-face-the-pandemic/>

86 An innovative long-term study of children in four chosen countries (Ethiopia, India, Peru and Viet Nam) conducted by Oxford University: <https://www.younglives.org.uk/>

87 Ian Attfield, Chris Henderson and Mumtaza Abdurazzakova. COVID-19 and girls' learning continuity in South Asia: Misplaced anxiety or justified fear. *UKFIET*, 9 June 2021.

89 S. Dilip Roy. The last girl standing. *The Daily Star*, 19 September 2021.

Impact of COVID-19 on employment

A large share of the population enters the job market at the age of 15–24 years as either part-time or full-time workers. In times of crisis, any business expecting an interruption or loss of sales in its products or services will first defer hiring from this age group, resulting in more job-seekers competing for less jobs. In such scenarios, young people are ‘cheaper’ to lay off because of their lower job status, with companies making less of an effort to retain them. Consequently, the loss in working hours for young people is more likely to result in outright job losses than temporary suspensions. An ILO study argued that job losses among youth may amount to 6.1 million lost jobs in India, 2.1 million in Pakistan and 1.9 million in Indonesia, among others (ILO and ADB, 2020).

The difference in reduced working hours of young people was observed in the early months of 2020. In countries like the Republic of Korea, adults saw a 2% decrease in working hours, whereas for youth it was 10%. In Thailand, 8% of young people saw a scaling down of working hours compared to 5% for adults (ILO and ADB, 2020). A young Indian person's experience exposes the labour exploitation by private companies with more working hours for less pay, reporting, “pre-COVID-19 pandemic, for 8 hours of work a day, I was paid US\$ 160 per month, however, since the onset of the COVID-19 pandemic, for 12 hours of work a day I was offered only US\$ 130 per month.”

Inability to gain practical skills

A vital area of concern among youth is the lack of practical knowledge that could directly improve their job opportunities. An anxious student from India remarked, “In my engineering degree in electronics, three semesters have passed but I haven't had a single practical class to learn how to fix gadgets; who will hire me in the future?” A linguistics student from India commented, “the

skill of reading and translating old texts, which would guide my future job prospects, was completely absent from my degree”, which has now forced him to consider a different career. Highlighting the bias against an online degree, a Chinese student studying in Japan confirms, “in China, the value of an online degree is questionable as the employers say that you haven't been to a single class so what have you learnt” (as most universities in China started in-person classes by autumn 2020). Similar concerns were also raised by students in Nepal, “as the quality of education and assessment has degraded in online learning, the degree achieved in the pandemic has lesser credentials”. A study conducted in Indonesia by Mailizar *et al.* (2020) shows the barriers of e-learning and its impact on gaining skills that would affect future opportunities for youth.

Further, the viral spread of news headlines such as “promotees of 10th and 12th standard of 2020-21 will not be eligible for some government jobs in India” had caused immense stress to younger students (which later turned out to be fake)⁹⁰.

A key issue that has not been raised in studies by the ILO (ILO and ADB, 2020) and the UNDP (2020) is the effect of the pandemic on ‘eligible age’ for many job opportunities. A Bangladeshi respondent currently studying in Japan expressed concern, “I had to wait for one and a half years to come to Japan and continue my higher studies because of the entry ban and pandemic. I applied when I was 28 and started when I am 30. So, there are 2 years already gone and in many educational and job opportunities, you have the age bar.” Similar concerns were also raised by a 28-year-old student from Nepal, “my degree has offline exams hence a two-year programme has already

extended to four years... the timeline of my studies has impacted my job opportunities because, for many government jobs, 35 years is the age limit, leaving me less time to prepare.”

The gender inequalities in employment are further amplified by the COVID-19 pandemic. In a study conducted by Seck *et al.* (2021) in Bangladesh, it was found that women in formal employment are six times more likely to work fewer hours than their male counterparts as a result of the pandemic.

The gender inequalities in employment are further amplified by the COVID-19 pandemic. In a study conducted by Seck *et al.* (2021) in Bangladesh, it was found that women in formal employment are six times more likely to work fewer hours than their male counterparts as a result of the pandemic. In view of declining jobs, a young mother working in an NGO in India commented, “post-COVID-19, when I started to look for work, it was not only very difficult but the salary gap from pre-COVID-19 times to now is humongous.”

Impact of COVID-19 on health

Information about COVID-19 was disseminated by governments in local languages using various methods, i.e. social media, print and electronic media. In countries like Tonga, however, it was difficult to convince people that the world was facing a pandemic. A youth from Tonga said, “it was very difficult to convince people, especially in the rural areas, about the new information on COVID-19 and its new variants as we had zero cases of COVID-19”.

⁹⁰ Would students who cracked 10th, 12th without boards not be eligible for government jobs? PIB clarify. *News 18*, 17 August 2021.

Vaccination hesitancy

A wide range of behavioural, social and cultural factors influence decision-making in the uptake of vaccines (Brewer *et al.* 2017). In a survey conducted in Bangladesh, it was found that around 33% of participants had hesitated to take the vaccine, which was highest among males (Ali and Hossain, 2021). In a survey conducted by Dodd *et al.* (2020) with 4,362 Australians aged 18 years and older, 85% were willing to be vaccinated. In countries like Tonga, where there were zero cases of COVID-19, it was difficult to convince people to get vaccinated. As stated by a young woman from Tonga, “people, especially in rural areas, were hesitant to take the vaccine”. Fear that the government was spreading the virus through vaccines was observed in India and Nepal. As mentioned by a young male from rural India, “due to very little information available on the vaccine (side-effects), people were scared of taking the vaccine, they feared that the government was spreading the virus”. The anti-vaccine sentiment was also influenced by misinformation and the spread of conspiracy theories, along with viral ‘fake’ news. Women and young girls, especially, were disproportionately affected. For example, in India, ‘fake’ news spread that the vaccine was not safe for pregnant or lactating mothers, or that women should not take it while menstruating. As remarked by a young woman from rural India working with an NGO, “parents of young girls are sceptical of their daughters taking the vaccine”.

A study by Khan *et al.* (2021) echoed comparable results that young women were more hesitant to get vaccinated. On the contrary, a study by Tao *et al.* (2021) found that in China, 77.4% of pregnant women had accepted the vaccine. Further, as high as 90.3% of women of reproductive age were willing to be vaccinated.

Negative psychological impacts

The COVID-19 pandemic gave rise to emotional disconnect and distress, especially among the younger population. Stigmatization and discrimination against people infected with COVID-19 was observed in India, adding to the social media panic (Kadam and Atre, 2020). Further, racial discrimination against ‘Asians’ in Western society saw a huge rise (Roberto *et al.* 2020).

This growing emotional disconnect was also observed in South Asia. A young woman from India remarked, “my uncle passed away due to COVID-19, but as a family, we couldn’t even meet and provide moral support to our aunt and her children because of lockdowns and restrictions”.

Conditions like anxiety, stress and depression caused by the uncertainties of the pandemic are on the rise among the youth. Wong *et al.* (2021) examined the depression levels among Malaysian adults and found the level of prevalence of depression to be at 59.2% between May 2020 to September 2020.

Conditions like anxiety, stress and depression caused by the uncertainties of the pandemic are on the rise among the youth. Wong *et al.* (2021) examined the depression levels among Malaysian adults and found the level of prevalence of depression to be at 59.2% between May 2020 to September 2020. Similar findings were also observed in China where adolescents reported an increase in levels of depression and anxiety (Xie *et al.*, 2020). A young person from rural India commented, “staying at home constantly was very stressful because we couldn’t meet anyone or talk to anyone”.

Youth from Australia, Bangladesh, China and Tonga also agreed that the pandemic had caused them additional stress, especially because of uncertainty about their future and job prospects. An article by Wadud⁹¹ concluded, “students who cannot attend classes will feel deprived and this will have an impact on them psychologically”. On a positive note, a young woman from urban India acknowledged, “the pandemic did one good thing, it helped destigmatize mental health... dialogues on mental health have started to happen”.

Summing-up and implications for policy

Listening to voices from young people on the ground helped to understand the impact of the COVID-19 pandemic on their well-being, but also to identify the key areas in which they require support from the government, universities, non-government bodies, the business community, and society at large, among other stakeholders. The results have implications for policy design, which could improve resilience among young people in the Asia Pacific region who find themselves in such worrying situations.

In terms of education, the abrupt university closures and overnight shifts to e-learning brought about changes regarding accessibility but also pedagogical concerns. Poverty also had adverse impacts on access to education in terms of affordability, infrastructure and resources. This was followed by concerns on the quality of learning and assessment, as raised by educators across the world.

In order to respond to these concerns and counter inherent inequalities, national governments could provide financial assistance schemes, especially for girls and marginalized communities, to improve access to internet devices. Subsidies and

⁹¹ Mushfique Wadud. Delayed online teaching in pandemic widens education gap. *University World News*, 22 July 2020.

scholarships could also improve the unequal access to internet devices. To respond to the various situations faced by students, universities could adopt a more flexible approach to learning and assessment so that the process is more inclusive for students. Moreover, gender disparities and inequalities in education cannot be neglected and requires immediate attention.

In terms of employment, job prospects took a major hit as wages were cut and workers were exploited in the private sector, and it was even worse for women. To fill the gaps created by the COVID-19 pandemic in terms of youth education, the government should support actions for start-ups, small businesses, etc. that employ young people, while supporting upskilling and youth

training. Governments could also improve monitoring and introduce checks to ensure that the young workforce is not exploited by the private sector.

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In terms of health, resistance to vaccines was observed. This was caused by stigma and cultural biases, and was particularly pronounced along the urban-rural divide

In terms of health, resistance to vaccines was observed. This was caused by stigma and cultural biases, and was particularly pronounced along the urban-rural divide. The pandemic also took its toll on young people's mental health. Spreading

awareness about vaccinations could be facilitated with the help of youth-led campaigns. Information on the after-effects of the vaccine would also help allay fears, which could be translated into local and vernacular languages. Youth-led campaigns could promote support for mental health and its de-stigmatization, especially in developing countries. In this regard, governments could appoint trained mental health therapists at universities.



2

*Inclusion and
resilience:
Reframing
policies*



Chapter 1 provided daunting evidence of the social urgency created by the world's growing inequalities among people, firms and places, which was amplified by the pandemic. The COVID-19 shock dramatically reduced the number of face-to-face interactions between people, affecting youth and children in particular. The magnitude of the crisis, with its implied structural change, may have profound and lasting implications with regard to the social contract and harmony in our societies. This shift calls for much bolder action in terms of social policies.

The massive social support provided by governments helped soften the blow. Social support schemes were particularly significant in countries with less developed social protection systems, which may have reinforced their social contract⁹². However, some categories of the population and workers were more difficult to reach, such as young people, informal workers or the self-employed. This required vast informal support through social economy institutions and the participation of sub-national governments (OECD, 2020j).

The question is whether the stronger policy focus on social dimensions will quickly subside after the COVID-19 crisis. The build-up of social tension and the perceived injustice in the distribution of wealth from economic growth will be even worse when the economy recovers from the pandemic. The accumulated fear and social tension may spill over into anger and protest just when the health crisis is on the verge of being resolved. Historical episodes of strong social movements suggest that they do not necessarily appear during an economic crisis but immediately following it.

92 Anu Madgavkar, Tilman Tacke, Sven Smit and James Manyika. COVID-19 has revived the social contract in advanced economies – for now. What will stick once the crisis abates? *McKinsey Global Institute*, 10 December 2020.

It is therefore crucial that governments around the world take the opportunity to rebuild their economies and restore the social contract. The concept of 'building-back better' has emerged, meaning societies should exploit the gains made in adapting to this major shock and its structural significance to hasten the transformation of society on several fronts. A major challenge, encapsulated in the concept of 'inclusive growth', is the search for a development model that could generate wealth while ensuring equity or, at least, reduce inequalities to acceptable levels. This calls for strong integration, coherence and even policy complementarity⁹³ between economic and social objectives.

The question now is how to progress from facts and the design of policies to implementation and action. A number of proposals for integrated policy agendas have been proposed and should be further developed. The UN Sustainable Development Goals or the well-being approach are just two examples of this search for a joint agenda on social equity, economic efficiency and environmental sustainability. They provide an opportunity to enhance social policy-making in a way that better connects these social, economic and environmental goals.

Chapter 2 of this report discusses how to integrate economic efficiency and social equity more strongly. In particular, it will analyse the case of privately produced public goods (PPPGs). Public goods produced in a decentralized manner through the interactions of all citizens include large sectors of education and knowledge-sharing, including science and scientific production, health practices, access to culture, encompassing trust in society, security, and environmental transition. These public goods, which are needed to rebuild our societies, are closely related to UNESCO's policy

93 For a discussion on the concept of structural policy complementarities, see J. Oliveira-Martins and B.T. Rocha (2021).

mandate on education, science, culture and communication.

2.1 A mixed impact of policy responses to the COVID-19 crisis

To address the potential social tensions of lockdowns and the collapse of economic activities, governments across the world have deployed massive packages of aid to labour markets and the business sector. The shock that occurred as a result of COVID-19 was unexpected, brutal and complex. Governments had no choice but to act quickly and they often took action without considering the long-term implications. Initial policy responses that were designed to curb the spread of the virus tried to contain panic in the financial markets and to limit the economic fallout. They were characterized by the deployment of unprecedented levels of fiscal support, up to 10-20% of GDP⁹⁴ in advanced economies. Several countries made substantial transfers to small businesses and financed partial unemployment, such as in Germany, Japan or the United States.

In many countries the short-term measures included the postponement of debt repayments, tax, rental obligations or the implementation of massive public debt guarantee schemes. Growing evidence⁹⁵ suggests that these unprecedented fiscal packages helped keep businesses and markets afloat in 2020–21. However, all these measures will gradually be phased out or have already ceased, creating a debt overhang and making it even more difficult for the SME sector to recover. In a sense, implementing policies at these levels may have created a ticking 'time-bomb' (Gourinchas *et al.*,

94 See the cost of total COVID-19 fiscal relief packages as reported in the IMF Policy Tracker: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

95 G30 Report on the corporate sector and 'America's two-track economy: the small business credit crunch'. *The Financial Times*, 13 December 2020.

2021), that is, they only temporarily delayed inevitable bankruptcies.

Concerning SMEs, the social urgency created by the massive shockwaves experienced across the globe is even more grim when considering the exceptionally large share of the informal sector in micro, small and medium-sized companies. In global terms, the informal economy concentrates 62% of the global labour force. Self-employed and micro firms provide a livelihood for over 800 million workers (over half of the world's total jobs). Over 260 million informal, self-employed workers in Asia, 80 million in Africa and 44 million in Latin America are at significant risk of losing their jobs as a result of lockdown restrictions and the ensuing economic recession.

Considering these developments, the ILO underlined the need to stimulate the economy and to increase the rate of employment through a resilient and efficient policy mix of both fiscal and monetary measures to foster economic activity and provide tools in order to support the financial burden of the rising debts of small firms. Additionally, it is also necessary to strengthen health and employment protection for workers in case of health issues or layoffs. The ILO also recommended enhancing the social dialogue between economic and political actors, not least because small firms are often left out of discussions on improving economic activity.

This policy-mix certainly had a positive social impact, but recent tensions in production markets, owing to the disruption of production chains and the shift of demand towards goods (rather than services), have fuelled price increases. This has been made worse by energy and food price hikes as a consequence of the war in Ukraine. In this inflationary context, monetary policies in 2022 are changing course and becoming less accommodating. Given the level of accumulated public debt, the latitude for introducing a compensatory

fiscal policy is certainly limited. This means that the macroeconomic policy package used so far in dealing with social pressures may be on the verge of being reversed, thus requiring a stronger role for social policy.

Among the countries with the most developed social insurance systems, those with higher levels of public social spending tended to see fewer households reporting financial difficulties since the start of the pandemic (OECD, 2021b).

Social protection has been effective in shielding people from the economic impact of the COVID-19 crisis. Among the countries with the most developed social insurance systems, those with higher levels of public social spending tended to see fewer households reporting financial difficulties since the start of the pandemic (OECD, 2021b).

Social policy responses to the crisis will also have significant implications in terms of recovery. The COVID-19 pandemic has highlighted gaps in existing safety nets and spurred governments into action. In doing so, it opened up opportunities to modernize social protection systems, better adapting them to a rapidly changing labour market as the situation evolves. In addition to extending social protection coverage for non-standard workers (i.e. workers on temporary contracts, internships etc.), the difficulties encountered by working parents, especially mothers, during the lockdowns have led the United States to announce plans for greater investment in affordable childcare (Alon *et al.*, 2021). In Latin America, countries that have good tracking systems of conditional cash transfer programmes could use them to channel resources, particularly as people with non-standard contracts are difficult to reach through standard social policies. It is time to reflect how

to retain these innovative policies once the pandemic is over.

Similarly, sickness and disability schemes may need to be adapted to accompany the adverse long-term effects of COVID-19 on physical and mental health. These are the kinds of challenges that governments will need to bear in mind. As recovery gathers pace and support measures are scaled back, the question of how to finance these social measures will loom large and decisions will need to be taken to prioritize specific areas. Furthermore, governments will also have to take into account people's changing expectations and their greater demands for social protection.

However, the vast resources deployed to deal with the shocks of the COVID-19 pandemic suggest that a better (ex-ante) integration of health coverage and social protection systems in development policies prior to COVID-19 could have saved costs and contributed to the resilience of economic and social systems.

2.2 Creating a more integrated model for social and economic policies

The traditional framework of social policies

Social protection is typically designed to protect against the after effects of sporadic personal events or temporary, often unexpected, shocks, such as job redundancies, divorce or childbirth. Social protection schemes can, in this way, foster resilience in society, notably, for middle-income families who face a higher risk of downward mobility. In particular, public transfers (i.e. from government to those in need) can significantly cushion the adverse impacts of income volatility. Notably, insurance against unemployment or in-work or family benefits can reduce the volatility of incomes and therefore its impact on social mobility. Unemployment insurance is likely to reduce earnings volatility, mainly at the lower end of earnings

distribution and thus prevent social exclusion. The combination of last-resort income-support schemes with well-designed in-work benefits encourages a faster return to employment and prevents long-term dependency on income support or benefits. The re-distributional impact of unemployment insurance is particularly important when measured in terms of life-time earnings.

However, unemployment benefit coverage has been decreasing since the global financial crisis of 2008 (OECD, 2018b). This is a matter of concern, as unemployment benefit coverage is especially important for non-standard workers and the long-term unemployed. This would be particularly concerning for countries with a large informal employment sector.

Well-designed in-work benefits or earned income tax credits can be effective in making work profitable and creating financial incentives for low-income workers to climb up the earnings ladder, while supporting living standards for low-income families. However, these schemes can also exert downward pressure on wages. Linking wage ceilings can increase the effectiveness of these schemes by fixing a minimum level below which wages cannot fall. In the United States, the Earned Income Tax Credit (EITC) has contributed to reducing in work poverty and improving the health of children in recipient families in three ways, through family income, maternal employment, and health insurance coverage (Cooper and Stewart, 2013). In the Netherlands, taxpayers with earned incomes and children below 12 are entitled to an income-dependent rebate. In France, an employment bonus (*La prime d'activité*) has had a positive impact on poverty reduction (OECD, 2018b).

Developing a people-centred approach

Combining equity and growth-promoting policies requires a much

broader package than the traditional design of social policies. A broader social policy agenda would aim to expand the opportunities available to people to improve their lives in ways that matter to them and to ensure that these opportunities translate into well-being outcomes for all sectors of society, including those at the lower income scale.

For policy-makers, providing people with opportunities and helping them realize those opportunities would not only promote well-being as an intrinsic goal it would also strengthen society and the economy, providing a buffer against adverse shocks and the risks posed by rising inequalities and poverty. This people-centred approach to the social and economic agenda generates a virtuous circle between individual well-being and long-term growth, reinforcing human capital that benefits growth and vice-versa (OECD, 2019c).

In a system characterized by strong inter-dependencies, systemic shocks are typically self-reinforcing via hysteresis⁹⁶ effects. A negative shock in one dimension can propagate in the system in a non-linear, even chaotic, way, making it extremely difficult to predict and manage a crisis. Examined through this systemic lens, fostering resilience therefore becomes a crucial aspect of policy-making. In practice, 'well-being' policies should seek to establish and sustain 'virtuous circles' by which all the dimensions of well-being work together for the benefit of people and society over time.

Understanding well-being linkages

The International Institute for Applied Systems Analysis (IIASA) has conducted a qualitative assessment of the inter-linkages across well-being outcomes (Ilmola-Shepherd *et al.*, 2020; and Feitelson *et al.*, 2020).

⁹⁶ This refers to the idea of irreversibility or permanent change, for example, job losses can lead to a drop in work skills, making it even more difficult to regain employment.

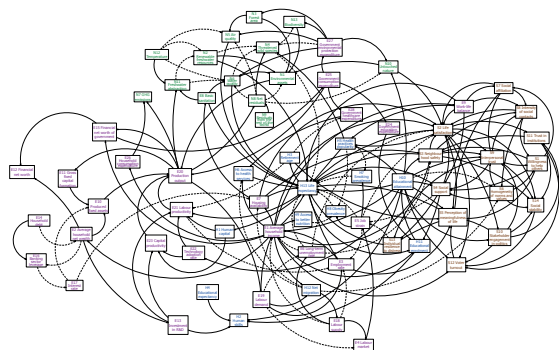
This study identified 70 outcomes connected by 200 relationships, yielding a very complex system (depicted in Panel A in figure 2.1). The colours in Panel A correspond to different elements of well-being: natural capital (green); human capital (blue); social capital (yellow); and economic capital (purple).

This analysis suggests that a change in one well-being outcome can have many direct and indirect impacts on other well-being outcomes. Some of these impact pathways can create feedback loops, with self-reinforcing dynamics or virtuous circles. Some outcomes have many connections. Life expectancy has the largest number of interlinkages (25), followed by life satisfaction and average household income (18), educational attainment (14), inter-personal trust (11), and neighbourhood safety (11). These outcomes act like hubs in a very complex network of interrelationships.

To overcome this rather complex picture, a simplified system can be constructed by using the nodes displaying the largest number of links (or well-being hubs). In these streamlined well-being linkages, human capital, social capital and subjective well-being play a central role (Panel B in figure 2.2). In this figure the positive (continuous line) and negative (dotted line) impacts are identified. There are two elements of human capital (longevity and education), one economic element (income) and five social elements (safety, trust, social support, life satisfaction as well as job strain, which is mainly driven by inter-personal relationships at the workplace [Murtin *et al.*, 2022]). Education has the largest number of impacts (5 linkages), whereas longevity is the most impacted outcome (5 linkages), followed by life satisfaction (4 linkages). Education, longevity and life satisfaction are the most connected outcomes with 6 linkages each, flowing in or out.

Figure 2.1. Well-being outcomes and their interactions

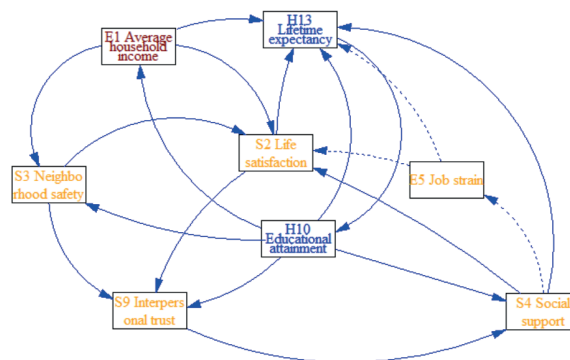
Panel A. The full system of well-being interactions



Continuous line = positive impacts; dotted line = negative impacts

Source: Adapted from Bartmann *et al.* (2020).**Figure 2.2. corresponds to a mapping of 70 well-being outcomes connected by 200 relationships**

Panel B. A streamlined system of the main well-being outcomes



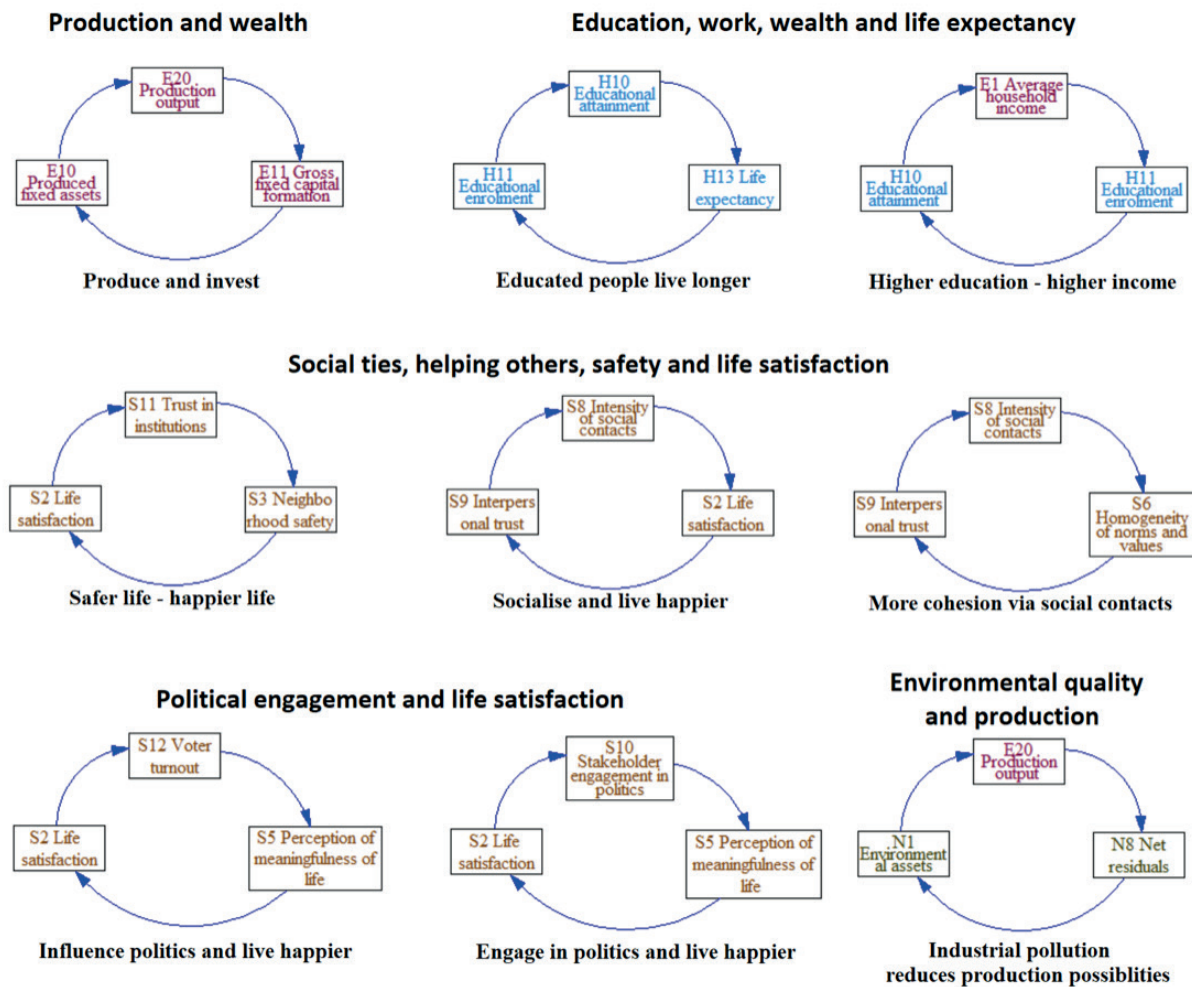
This framework highlights the feedback loops among the elements of the system. For example, the two-way positive relationship between education and longevity is a powerful engine of economic and social progress over the long term (Murtin, 2016), which is then reflected in the loop, transiting from higher education to higher income, then to better health and higher education. In the social dimensions, an important feedback loop transforms higher life satisfaction into higher trust, stronger social support and greater life satisfaction.

Most well-being outcomes can have an impact on all other outcomes via these complex relationships. For instance, 'neighbourhood safety' can increase 'household income' indirectly via its chain of impacts on trust, social support, longevity and education

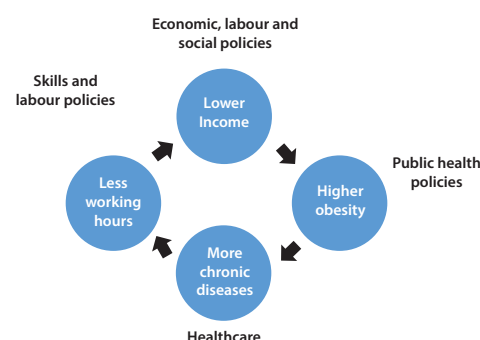
Most well-being outcomes can have an impact on all other outcomes via these complex relationships. For instance, 'neighbourhood safety' can increase 'household income' indirectly via its chain of impacts on trust, social support, longevity and education. Figure 2.3 outlines a number of these feedback loops each with three elements, involving economic, human, social and natural capital. These feedbacks help identify packages of individual policies that generate a positive dynamic in the system, as discussed below. Production and investment is one obvious virtuous circle. Feedback loops involving human capital, social ties, safety and subjective well-being have already been emphasized, but other important triangular interactions involve political participation or engagement. It is important to note that not all feedback loops are positive. There are also negative limiting impacts, notably in the environmental domain. For example, dirty production activities leads to industrial pollution, which in turn limits future production, in addition to other negative impacts on health and society.

Due to the interconnectedness of well-being outcomes, remediation policies implemented in an isolated and gradual manner are likely to be inefficient. Benefits and transfers may alleviate poverty but they are probably less effective in addressing one of its potential drivers, namely poor health, as people with poor health are less likely to find work, diminishing their potential in the labour market. To that end, health and skill policies are both necessary. To address the systemic nature of well-being outcomes, sectoral policies need to be implemented as a complementary package, where each policy enhances the effect of others.⁹⁷

⁹⁷ For a discussion on theory and applications of policy complementarities, see Oliveira-Martins and Rocha (2021).

Figure 2.3. Selected feedback loops

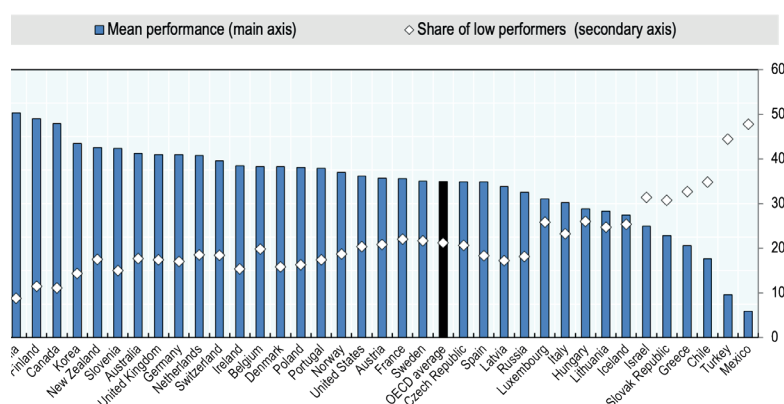
Source: Bartmann et al. (2020).

Figure 2.4. Well-being interactions and policy complementary: an illustration

Well-being dimensions and policy complementarities

For these positive feedback loops to materialize across well-being dimensions requires that individual policies are tied by some sort of complementary relationships. Concretely, let us consider a vicious circle running from low income to higher obesity to more chronic diseases to lower participation in the labour market and, finally, to lower income (Figure 2.4). There are a number of sectoral remediation policies to overcome this overall negative outcome. For example, lower income can be addressed by a set of labour and social policies; obesity and chronic diseases can be addressed by public health and healthcare policies; and labour market participation can be driven by skill and labour market policies.

In this context, any system displaying strong inter-connectedness can be rendered weak by its weakest component(s). As poor performance in one well-being dimension may have multiple negative impacts on other well-being dimensions, it is crucial to identify the most critical policy

Figure 2.5. Performance in science test – PISA 2015

Note: Countries are ranked in descending order of mean performance.

Source: OECD PISA 2015 database

interventions in terms of immediate remediation of any situation in deficit, but also in the face of the multi-dimensional benefits that these policy interventions may have in the future.

As well-being outcomes are inter-linked in a causal way, the assessment of policy impacts needs to be both multi-dimensional and inter-temporal and to concentrate on the weakest nodes of the well-being system⁹⁸. Indeed, the positive feedback loop across well-being outcomes can break down. For example, the positive feedback between financial security, integration in the labour market and accumulation of human capital may collapse if people become ill, lose their jobs and/or incur financial losses. People losing their jobs may experience depression and face even more difficulties in finding employment after several months spent unemployed (de Serres *et al.*, 2012). These individual risks and hysteresis can become systemic as they diffuse through the network of

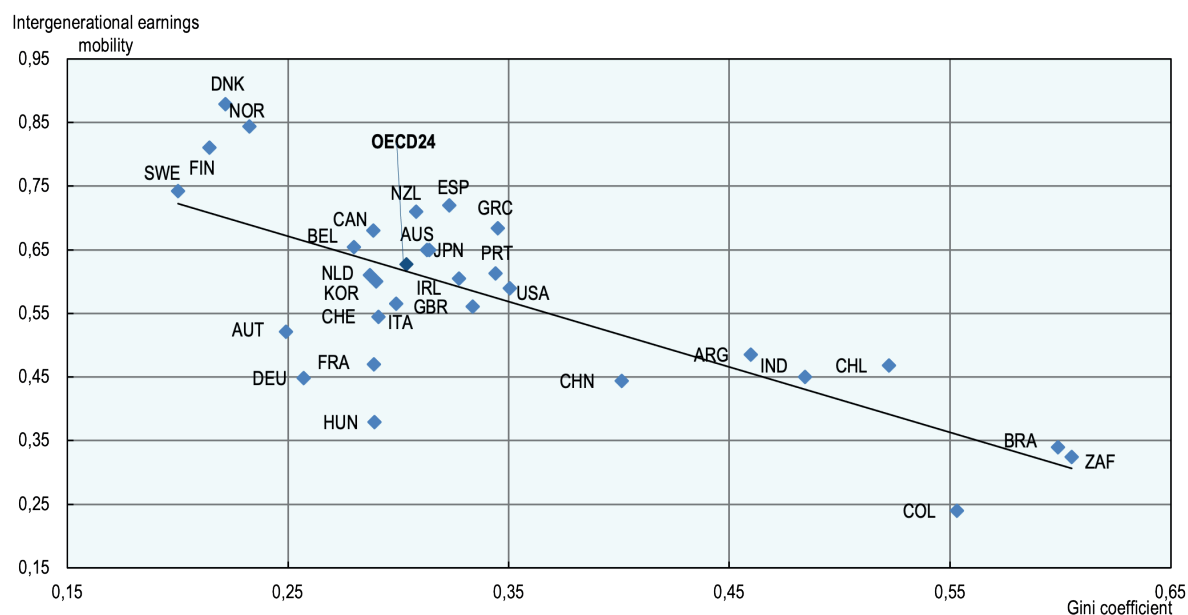
well-being outcomes (Hochrainer-Stigler *et al.*, 2020). Indeed, they may justify public interventions to ease the return to a virtuous cycle.

Inequalities generate systemic weaknesses in well-being

When the distribution of outcomes is very unequal at the lower scale, reducing inequality and poverty in policies related to one well-being outcome can have a disproportionate positive impact on average outcomes. A revealing example can be seen in education, a core dimension of UNESCO's mandate. Countries with high levels of inequality in education and skills also record lower average performance.

As shown in figure 2.5, the PISA science test revealed that a large share of low-performing students have a disproportionate downward effect on countries' mean performance, as their test scores are generally far below average. In this case, the most efficient way to foster efficiency is to focus on the most disadvantaged sectors of the population with the poorest educational performance.

⁹⁸ A similar approach has been advocated for development strategies, i.e. identifying the policy bottlenecks or weak links in a system (Rodrik, 2005).

Figure 2.6 In most countries, earnings mobility across generations is higher when income inequality is lower

Note: Mobility proxied by 1 minus the intergenerational earnings elasticity (see Annex 1.A1). Income inequality measured by the Gini coefficient of the mid-1980s to early 1990s.

Source: OECD calculations for Austria, Belgium, Greece, Hungary, Ireland, Italy, the Netherlands, Portugal, Spain and the United Kingdom based on EU-SILC ad-hoc module and ECHP (MHP for Hungary), for Germany based on the GSOEP, and for the United States based on the PSID. Jiménez, Maribel and Mónica Jiménez (2009) for Argentina, Mendolia & Siminski (2015) for Australia, Guimaes Ferreira and Veloso (2006) for Brazil, Chen et al. (2016) for Canada, Nuñez Miranda (2010) for Chile, Chyi et al. (2014) for China, Ramirez Zuloaga (2016) for Colombia, Bratsberg et al. (2006) for Denmark and Finland, Lefranc (2011) for France, Hnatkovska et al. (2013) for India, Lefranc et al. (2014) for Japan, Kim (2015) for Korea, Gibbons (2010) for New Zealand, Jantti et al. (2006) for Norway and Sweden, and Bauer (2006) for Switzerland. Gini based on the OECD Income Distribution Database for total population, late 80s and 90s and Milanovic (2014) for Argentina.

In theory, when the relationship linking two well-being dimensions is concave, inequality in one dimension lowers efficiency in another dimension⁹⁹. If the network of well-being interlinkages involves concave 'transfer functions' then lower inequality – among some well-being dimensions – will result in higher multi-dimensional efficiency across other dimensions. In some cases, the concavity of transfer functions can be established, for instance, as the relationship between school outcomes and parental income, or life expectancy against education.

In some other cases, the relationship between inequality in one dimension and efficiency in other dimensions is more indirect and intricate but can be proven empirically. For instance, there is a negative relationship between

income inequality in a society and the educational outcomes of pupils with a disadvantaged background. In high-inequality countries, families in low-income groups may be unable to keep their children in education for a long time or afford high-quality education because it is relatively more expensive. Families may also find it difficult to borrow and invest in their children's education as high inequality could reflect or suggest market failures.

Income inequality is strongly related to the 'inequality of opportunities'. This relationship was first examined empirically on a cross-country basis based on data collected by economist Miles Corak (2006)¹⁰⁰. It shows the negative relationship between income inequality and intergenerational earnings mobility across countries. The higher inequality of outcomes (proxied by Gini coefficients of income inequality) is negatively related

to lower equality of opportunities (proxied by earnings mobility between fathers and sons [Figure 2.6]). Norway, Finland, the Netherlands and Denmark are among the countries recording the lowest levels of multi-dimensional poverty, whereas Argentina, Brazil, Chile, Colombia India and South Africa are at the other end of the spectrum.

Market failures and poverty traps are at play in transforming inequality of outcomes into inequality of opportunities.

Market failures and poverty traps are at play in transforming inequality of outcomes into inequality of opportunities. Estimates for emerging economies typically indicate an even stronger relationship by exhibiting both high Gini coefficients and low levels of mobility.

⁹⁹ Consider two well-being outcomes WB_1 and WB_2 linked by $WB_1 = h(WB_2)$ with h concave. Then, any mean-preserving spread on WB_2 (i.e., more inequality) lowers the average level in WB_1 (i.e. efficiency).

¹⁰⁰ The results of this paper were referred as the 'Great Gatsby curve', a term coined by Alan Krueger in 2012.

Figure 2.7. Higher equity (lower inequality) correlates with a higher average level of well-being, 2016 or latest available year



Note: For each of the 9 indicators, countries are “scored” for both their level of equality (1 = bottom third of the OECD, 2 = middle third of the OECD, 3 = top third of the OECD) and their level of average performance (0 = bottom third of the OECD, 5 = middle third of the OECD, 10 = top third of the OECD). In dimensions with more than one indicator, indicators were summed using equal weights, and then overall results were calculated taking the simple average score across dimensions. The blue diagonal line indicates where countries would fall if there were perfect correspondence between their average level of performance and their average level of equality.

Source: Based on OECD (2017). *How's Life? 2017 Measuring Well-being*. Paris, OECD Publishing.

As inequalities and poverty are compounded and are self-reinforcing over time they constitute multiple weak points in the well-being system, creating an intrinsic fragility of the well-being system itself. One logical implication is that countries with a lower level of multi-dimensional inequalities should also perform better in terms of an average level of well-being. Figure 2.7 summarizes the relationship between the average performance levels of countries across nine well-being indicators (vertical) and average equality in those nine outcomes across the population (horizontal)¹⁰¹. It confirms

the existence of a positive relationship between multi-dimensional equity and the level of well-being.

The pattern of results in figure 2.7 confirms the existence of a positive relationship between multi-dimensional equity and efficiency (as measured by the average level of well-being). Countries that combine a high level of average well-being with a low level of inequality across these nine indicators include Norway, Sweden and Finland (top right). Conversely, countries with both low levels of average well-being and elevated levels of inequality include Portugal, Mexico, Hungary, Latvia and Chile (bottom left).

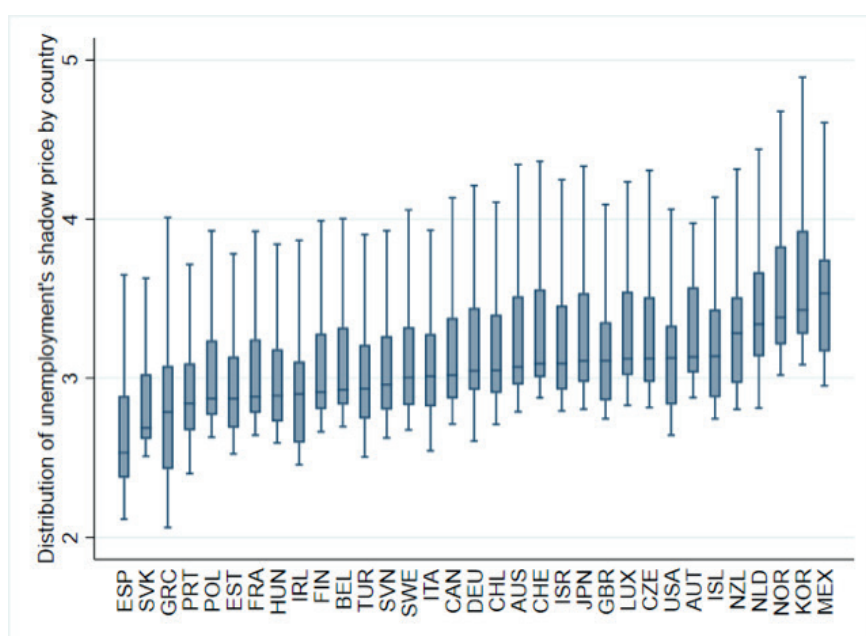
Countries below the diagonal line generally have more strengths in terms of equality than average performance. For example, Japan, Slovenia and Italy sit around the OECD midpoint in terms of overall average performance, but fare slightly better

in terms of inequalities. By contrast, countries above the diagonal do better on average performance than on inequalities. For example, Ireland and the United States combine mid-ranging levels of average performance with relatively elevated levels of inequality¹⁰².

This evidence is consistent with the view that a well-being system with high levels of inequality delivers lower levels of average well-being (or is less efficient). This property results from the complementarities between well-being dimensions where low levels in one dimension can affect the outcomes in many others, thereby decreasing the overall performance of the system.

¹⁰¹ Average performance is based on whether a given country falls within the top, middle or bottom third of the OECD region on each indicator, whereas inequalities are understood as countries in the highest, middle and lowest third of the OECD region. An aggregate index summarizes average performance and average inequalities across those nine domains.

¹⁰² The results of this analysis are, however, sensitive to the share of missing values, which is relatively high in the case of Iceland, Japan, Mexico, Switzerland and Türkiye.

Figure 2.8. The distribution of unemployment shadow price for selected countries

Note: The shadow price of unemployment is calculated as the monetary value of eliminating unemployment divided by the unemployment rate and expressed as a share of household average income.

Source: Boarini *et al.* (2021).

2.3 Implementing a well-being policy agenda

For the effective implementation of a well-being policy agenda, it needs to be supported by an *ex ante* or upstream evaluation of policies and the construction of a strategic governance system.

Improving the *ex ante* evaluation of policy reforms

In practice, policy-making can be improved through a better *ex ante* evaluation of policy reforms. Examples below will help understand the process of an *ex ante* welfare evaluation. Figure 2.8 shows the monetary value in welfare terms or ‘shadow price’ of one percentage point of unemployment¹⁰³. These

shadow prices are heterogeneous both across and within countries as they depend on age, gender, personal income and labour force status. For most OECD countries, the median shadow price of unemployment is about 3%. In welfare terms, this means that people would accept a decrease in income by 3% to have a decrease in unemployment by 1%.

Benefits and losses can be aggregated across several well-being dimensions. The resulting welfare figures are typically at odds with the growth rates of GDP per capita during the Great Recession (2007–2009) (Boarini *et al.*, 2021), suggesting that GDP growth has failed to reflect the social cost and the magnitude of associated welfare losses, especially for poor households in hard hit countries. This confirms that GDP is not a good barometer for monitoring a well-being system.

The New Zealand Treasury has developed a quantitative tool called CBAX¹⁰⁴ which applies a similar approach to calculating multi-dimensional returns from policy reforms. It is a spreadsheet model that contains a database of values to help agencies monetize impacts and undertake cost-benefit analysis in a multi-dimensional way and over time. It is accompanied by guidelines and has been adopted by all New Zealand ministries, reporting potential reforms to the Treasury. External auditors noted that although there is some uncertainty in the use of the tool, it has improved the quality of policy-making because it improves the understanding of potential policy impacts and creates awareness among civil servants of the well-being policy agenda.

103 These results are drawn from Boarini, M. Fleurbaey, F. Murtin and P. Schreyer. 2021. Well-being during the Great Recession: New evidence from a measure of multi-dimensional living standards with heterogeneous preferences. *The Scandinavian Journal of Economics*, Vol. 124, No. 1, pp. 104–138.

104 See the Treasury's CBAX Tool: <https://www.treasury.govt.nz/publications/guide/cbax-tool-user-guidance>

Investing in strategic governance

Coherence and coordination across lines and levels of government are necessary in order to deliver well-being policies. From a governance perspective, involving citizens throughout the policy cycle, notably, those who are under-served or excluded from general consideration and ensuring their voice is heard in the design of policy, regulation and indicators (used to measure well-being) not only contributes towards improving efficiency, transparency and government responsiveness, it also restores trust and strengthens democracy. An analysis by OECD (2018b) provided several lines for implementation (see below), highlighting the role that digital technology and open government initiatives can play in this context.

- i. Embedding inclusiveness into policy-making.** Greater stakeholder engagement may contribute to improving the efficiency of policies, standards and projects in areas of broad public interest, in line with the OECD Recommendation on Open Government¹⁰⁵. Coordinated action may be needed to strengthen institutional frameworks, notably, for the mainstreaming and budgeting of gender and diversity.
- ii. Using smart data technologies to design more people-centred policies.** Providing citizens with the appropriate data, resources and information can enable them to make better decisions about their own lives and personal and professional development. Taking a people-centred approach to policy and a multi-dimensional approach to well-being can, therefore, be key drivers for

public sector innovation. In a context marked by increasingly personalized services and the use of social media, it will also be important to ensure that impacts and transaction costs are properly assessed and that public administrations are held accountable for their interactions with citizens.

- iii. Screening policies for inclusiveness and accountability.** Open, transparent and horizontal decision-making processes can help achieve the objective of designing more people-centred policies. This may require efforts to improve budget transparency, ensure sound public financial management and properly assess regulatory policies, as well as the reliability of government and its capacity to react to adverse shocks. Further action may also be needed to better understand the behaviour, demands and well-being of citizens, integrating them into the design and implementation of public service strategies and taking into account the opportunities provided by digital technology and open government initiatives.
- iv. Decentralization.** Mechanisms supporting decentralized public goods in key areas (education, culture, social connectedness, health, housing, trust) are important to complement central government action. Decentralization enables the tailoring of policies to local needs and the reaching of certain segments of the population, such as youth and migrants, who may be under the radar of national policies.

Integrating equality and inclusion in policy design

Peace, social justice and inclusion cannot be an after-thought once the economy or security issues have been addressed. They should simultaneously comprise an integral

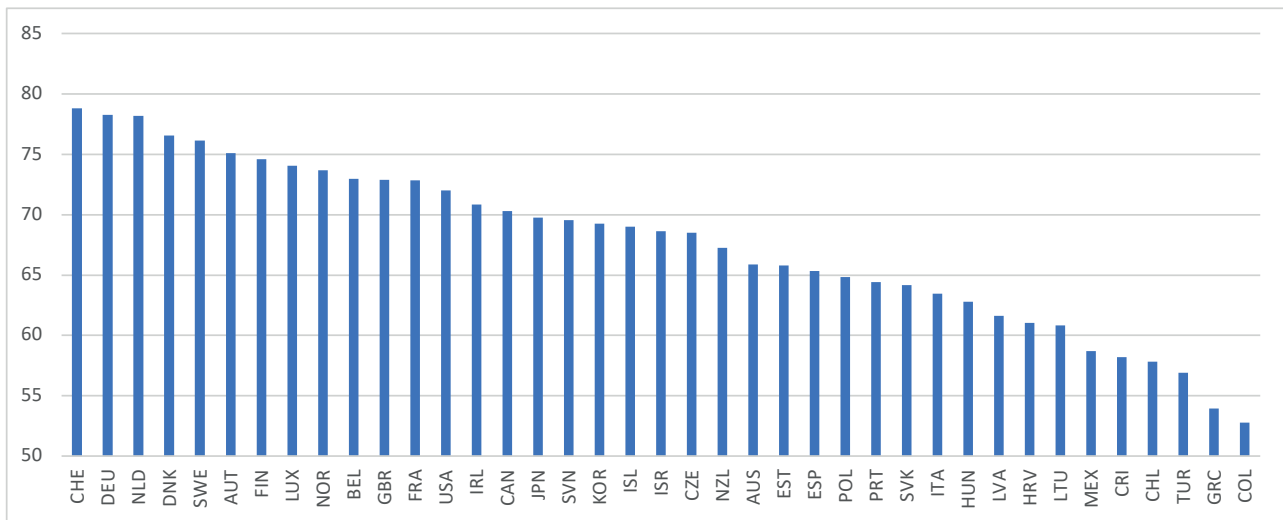
part of the complementary policies across all well-being dimensions. The well-established 'redistribution and recognition' framework (Pathfinders, 2019) can be used. It has the merit of encompassing multiple dimensions of inequality, which are distinct and yet related, and pertain to material opportunities and all they can buy (distribution), as well as status, esteem and perceptions of worth and respect (recognition). Recognition spans both legal rights and subjective experience. Legal rights and citizen equality must be respected, with every individual treated equally in everyday life, whether in a doctor's surgery, in a supermarket, using public transport or in a police station. The framework argues that recognition is an important aspect of the solution, but it must be underpinned by tangible material changes. Similarly, material changes, without associated change in delivering a sense of dignity and belonging, are insufficient.

2.4 Towards a broader resilience package

Focusing on long-term resilience requires an even broader approach. Resilience can be defined as the ability to withstand all forms of disruptions (Whiteshield Partners, 2021). However, the specific capabilities that make a system resilient can vary depending on the type of disruption and the nature of the system or sector. For instance, the capabilities needed to ensure resilience against such a long-term stress as technological disruption will be different from those needed during a short-term crisis such as COVID-19. Likewise, factors influencing labour market resilience will be different from those shaping the resilience of the healthcare sector.

Resilience is a topic that is commonly studied following a crisis. The financial crisis of 2008 typically highlighted a number of factors that shape the resilience of financial markets. The Great Recession led to a number of policies and labour market institutions that jointly influenced labour market resilience (de Serres and Murtin,

105 See the OECD Recommendation at: <https://www.oecd.org/gov/oecd-recommendation-of-the-council-on-open-government-en.pdf> and read more about Open Government at: <https://www.oecd.org/gov/open-government/>

Figure 2.9. The GLRI 2021 Index of Labour Market Resilience – selected countries

Note: The GLRI 2021 index is a composite index of structural factors (demography, country capabilities, economic development and macroeconomic stability, trade vulnerability and inequality) as well as cyclical factors (absorptive, adaptive, transformative and institutional capacities).

Source: Whiteshield Partners (2021).

2014). More recently, the COVID-19 crisis has highlighted a number of weaknesses in healthcare sectors, the functioning of the labour market and the crisis management capacities of governments. The concept ‘building back better’ means preparing for future shocks in response to the mega-trends that the world will face in the coming years that will need to be addressed, for example, climate change, digitalization, ageing, and political and economic challenges to democracies.

The Global Labour Resilience Index (GLRI) 2021 is a concrete example of how resilience can be measured. It is built around two main pillars: structural and cyclical capabilities. The ‘structural capabilities’ pillar measures the inherent risk exposure of a country based on factors prone to increase (or mitigate) an external disruption, such as demographics, level of economic development and macroeconomic stability, country capabilities, trade vulnerability and inequality. The ‘cyclical capabilities’ pillar measures the strength of a labour market’s response to disruption by accounting

for four key capabilities: i) Absorptive capability, defined as the ability to contain the shock and minimize the damage to jobs and workers; ii) Adaptive capability, defined as the power to recover quickly and rapidly to create new jobs and to replace those lost; iii) Transformative capability, or the capacity to align with major future trends and turn long-term stresses into opportunities; and iv) Institutional capability, acting as a cross-cutting enabler to a resilient institutional response throughout all phases of a crisis and all types of disruptions.

Figure 2.9 shows the composite GLRI 2021 index of labour market resilience. Switzerland, Germany, the Netherlands, Denmark, Sweden and Austria are at the top of the ranking and Colombia, Greece, Türkiye, Chile, Costa Rica and Mexico are ranked at the bottom. High-ranked countries generally perform very well across all sub-indicators, except Austria and Switzerland which display higher trade vulnerability. Conversely, low-ranked countries perform relatively well in the demographic score but

more poorly on all capability sub-indicators. These results show that the concept of resilience captures broader dimensions than just efficiency. In the past, efficiency tended to be focused on increasing market flexibility.

More recently, the COVID-19 crisis has highlighted a number of weaknesses in healthcare sectors, the functioning of the labour market and the crisis management capacities of governments. The concept ‘building back better’ means preparing for future shocks in response to the mega-trends that the world will face in the coming years that will need to be addressed, for example, climate change, digitalization, ageing, and political and economic challenges to democracies



2.5 Equity, efficiency and the provision of public goods

In the search for well-being and a better integration between social with economic policies, one should not underestimate the role of public goods. In broad terms, development depends on endowments in natural resources, the quality of political, civic and legal institutions, the level of human and physical capital, and the functioning of markets. Improving and enhancing these conditions is a main objective of public policy and the provision of public goods.

The case for state intervention or the public provision of public goods is a well-established branch of economics. They are often related to the existence of market failures or the absence of private property rights. Nevertheless, there are several critical public goods that depend on the sum of individual behaviours of people and businesses.

In addition to government actions, the important components of health, education or environmental quality are produced by the decentralized

actions of all economic agents. These aspects are closely related to some of the principal areas of UNESCO's mandate.

These privately produced public goods (PPPGs) are often overlooked in the design of public policy. In economic theory, economic efficiency and equity are often treated as separate issues.¹⁰⁶ In the standard (first best) setting defining the so-called 'Pareto efficiency', the optimal state of the economy does not require consideration of how utilities of the different agents are weighted in a collective welfare function. This suggests that the search for efficiency can be separated from considerations of equity. Simply put, economics should focus on growing the economic pie and not necessarily on its distribution.

¹⁰⁶ This results from the Second Theorem of Welfare Economics. See Fleurbaey *et al.*, 2021 for a discussion on how to integrate the concepts of equity and efficiency through the modelling of social interactions.

However, when the utilities of the different economic agents incorporate public goods produced in a decentralized way (for example PPPGs), this separability – between efficiency and equity – no longer holds. This important insight was put forward in a seminal work by Chichilnisky and Heal (1994).¹⁰⁷ The intuition behind the non-separability between equity and efficiency comes from the fact that when each agent has in his/her utility function a good that is produced by the actions of all the other agents, all utility functions are interrelated. It is therefore no longer possible to apply the definition of Pareto efficiency, which is to maximize individual utility under the condition that the utilities of all other agents are given and should not decrease.¹⁰⁸

This implies that economic efficiency will depend on the distribution rules defining a social optimum, i.e. on equity. The following are examples of important public goods that are produced by the decentralized actions of all economic agents.

- **Education and knowledge-sharing:** Education and the production of knowledge by a network of users/producers can typically be a PPPG. An example is the so-called Wikipedia model, but most modern ways of producing knowledge and delivering education services are collaborative by nature. In this context, it is in the interest of each knowledge producer that other agents interacting with him/her have a minimum level of education and/or training. In this case, equity and efficiency are interdependent.

¹⁰⁷ It is worth noting that when public goods are produced by a central agent, the usual result about separability (between efficiency and equity) still holds. For a discussion of this point, see Oliveira-Martins and Sturm, 2000.

¹⁰⁸ See Fleurbaey *et al.* 2021.

- **Average health status of the population:** In very dense environments, like big cities, the health status of everyone depends on the health behaviour and lifestyle of all other agents. This is particularly important in the context of infectious diseases, like COVID-19. It is therefore in the interest of each individual agent that a minimum level of healthcare and prevention is provided to all other agents. In this case, equitable access to healthcare becomes an ingredient of economic efficiency.
- **Culture:** Many cultural goods and shared cultural experiences are produced in a decentralized manner. A range of cultural creations today is done through collaborative platforms.¹⁰⁹ Everybody contributes to the collective creation process. It is therefore in the interest of those concerned by the consumption of certain types of cultural goods that other people also have also access to them.
- **Trust:** There is abundant literature on the role of trust to maximize the impact of economic reforms and facilitate all kinds of market mechanisms. The average level of trust in a society is a typical case of a public good produced in a decentralized manner by the actions of all citizens. Obviously, there are certain trust-enhancing actions produced in a centralized way, notably, by central governments, but the decentralized component of trust is, perhaps, just as important as the centralized one.
- **Security:** This is typically a public service that can be produced in a centralized manner by the military and police forces of a country, or subcontracted to

private entities. But there is also a vital component that is produced in a decentralized way. This can be observed in cities where certain districts may be much safer than others, depending on the average level of income and education of the resident population. To enjoy a satisfactory level of security, economic agents should – to a certain extent – feel concerned by the economic and social status of their fellow citizens in order to enjoy a satisfactory level of security.

- **Carbon emission abatement:** The same logic applies to carbon abatement, as energy production and consumption activities producing carbon emissions are decentralized. If an individual is concerned about the provision of the public good corresponding to a given reduction in carbon emissions globally then she/he should also be concerned by the production and consumption activities of all other economic agents. This means that the unilateral maximization of utility, taking other agents' utility as a given, can no longer hold. This point has never really been recognized in international negotiations or in global climate agreements. Carbon abatement is usually viewed as a constraint, implying a cost rather than a global public good affecting the utility of all economic agents in the world.

The COVID-19 crisis has affected the provision of decentralized public goods

The shock brought about by COVID-19 increased inequalities and reduced social interactions and the effective size of economic spaces, which affected the provision of decentralized public goods. Although the overall effect could have been negative, this crisis may have also in fact generated some opportunities.

As discussed in chapter 1, the impact has been clearly negative for education and knowledge-sharing. But the acceleration of digitalization in adapting to the restrictions and confinement also enhanced certain forms of knowledge creation associated with collaborative platforms.

In terms of health, the impact of COVID-19 was clearly highly negative both on physical and mental health (mental health is induced, in part, by less social interactions). However, this deadly pandemic may also have increased public awareness of risks to health and may therefore contribute towards healthier lifestyles in the future. Greater consideration of the risks associated with infectious diseases in the design of cities may also contribute towards greater investment in public spaces and urban design, which will allow for social distancing when needed. Overall, this may increase the quality of life in urban areas.

With regard to the issue of trust, its impact is perhaps the most ambiguous. The unpreparedness in the face of this type of situation, wavering in the timing of actions and the lack of communication of public policies, may have contributed to a greater level of mistrust in the ability of governments worldwide to cope with such a crisis. This is a cause for concern, not least because of the low level of trust in government in many countries prior to the pandemic. However, on the plus side, the COVID-19 crisis may also have contributed to a stronger sense of citizenship. Social interactions, once taken for granted, could be more valued, which could increase the quality of social relationships post-COVID-19, which is a key component of trust.

The effect on security is also unclear. Some countries have reduced their civil rights and increased the provision of centralized security. The impact of the decentralized provision of security will largely depend on the magnitude

¹⁰⁹ This point was forcefully developed in several presentations by Prof. Pier-Luigi Sacco.

of the economic shock and its consequences for economic and social inequalities. An important nexus is the provision of education services to youth and children, which could affect future levels of security generated in society.

Concerning the environmental transition, COVID-19 has had a number of direct positive effects. The contraction of economic activities has significantly reduced the level of pollution in many cities and this 'demonstration effect' may have induced a change in social preferences towards better air quality in cities. A downside is whether the urgency of economic recovery may outweigh the need to sustain and support the environmental transition.

2.6 The effects of the COVID-19 pandemic on culture and arts

The direct impact on culture and arts overall was rather catastrophic, but the pandemic may also have contributed to a stronger awareness of the importance of culture for the well-being of our societies. Certain types of cultural creation, using collaborative platforms, could also benefit from the acceleration of digitalization.

Culture is a broad word that generally encompasses a variety of performing and visual arts, such as dance, literature, music, crafts, and so on. It plays a key role in modern society, providing a wide range of experiences, from pure aesthetics to fostering reflection. Culture and arts also participate in important discussions regarding ethical values and therefore play a role in the public discourse. They are prerequisites for an educated and enlightened population and thus represent an essential investment for democracy. By creating shared experiences, culture also strengthens communities, which is an essential part of investing in social capital.

The cultural and creative sectors have been among the hardest hit by the pandemic. At the peak of the pandemic, UNESCO launched

'ResiliArt',¹¹⁰ a global movement that aims to shed light through debate on the far-reaching impacts of COVID-19 on artists, performers and other actors in the cultural and creative industries. In April 2020, 128 countries had closed their cultural institutions and partially closed them in 32 countries. The global film industry recorded a revenue loss of US\$ 7 billion, indicating how COVID-19 had cast a dark shadow not only over health but also over culture in general.

Artists and cultural organizations (both public and private) in advanced economies have benefitted from short-term support. However, in low and middle-income countries, the impact of the widespread closures has been massive, revealing the importance of culture for the economy

Artists and cultural organizations (both public and private) in advanced economies have benefitted from short-term support. However, in low and middle-income countries, the impact of the widespread closures has been massive, revealing the importance of culture for the economy (OECD, 2020k). Indeed, many of these economies depend directly on cultural tourism. According to the latest UNESCO Global Report 2022, in countries where data exist, the revenues of the cultural and creative industries decreased by between 20% and 40% in 2020 (UNESCO, 2022b). Moreover, cultural and creative industries tended to perform worse than their national economies in general, thereby sustaining more damage than during any previous crisis.

110 Read more about ResiliArt and the global movement to support artists: <https://en.unesco.org/news/resiliart-artists-and-creativity-beyond-crisis>

Social-distancing measures also disproportionately affected vulnerable segments of society, including artists. At the same time, they revealed how culture as a public good is essential for the well-being of societies. This is supported by a growing body of research showing that culture contributes to mental health and addresses certain types of inequalities. It also plays an essential role in creating social cohesion and well-being¹¹¹ (Daykin *et al.*, 2021).

Despite all the evidence of social and economic outcomes emanating from arts and culture, the current cost-benefit analysis that allocates resources to these activities does not capture their full value. Community-based arts and culture organizations have access to people who often *fall off* the radar of social policy and they can thus contribute to a stronger social fabric, improving resilience through arts. Some examples of this for youth and the older generation are given below.

How culture helps youth manage their mental health and enhances their development

As discussed in chapter 1, the pandemic has affected the mental health of many young people. Recent research from 29 separate studies around the world¹¹² has shown that the level of depression and anxiety in young people has doubled

111 Well-being is a broader concept shaped by subjective feelings as well as social experiences (see chapter 3). Well-being is intrinsically valuable and is associated with many desirable social outcomes, such as health, education or employment. This subjective approach to social wellness is growing in interest at the policy level, and culture and arts could make a vital contribution to the subject.

112 The study from the University of Calgary is a meta-analysis that pooled data from 29 separate studies from around the world, including 80,879 young people globally. It includes 16 studies from East Asia, four from Europe, six from North America, two from Central and South America, and one from the Middle East. See Racine *et al.* (2021).

compared to pre-pandemic numbers. The effects could even continue to grow among young people over the coming years.¹¹³ The devastating and widespread effect on their mental health disproportionately affects vulnerable and disadvantaged young people. It is estimated that more than 1 in 7 adolescents aged 10–19, globally, live with a diagnosed mental disorder, yet only 2% of government health budgets are allocated to mental health spending (UNICEF, 2021). Recent research indicates that economic losses as a result of mental disorders among young people are close to US\$ 390 billion a year.¹¹⁴ Against this background, culture and arts can help youth cope with mental issues, as well as inspiring engagement and discipline, and building community. These are urgently needed for young people facing rising poverty levels aggravated by the crisis. Indeed, research has shown that cultural activities are associated with lower levels of anxiety and stress (Martin *et al.*, 2018; Grossi *et al.*, 2019).



Participation in cultural activities can also help reduce the risk of developing mental illnesses, such as depression in adolescence, by creating self-acceptance and confidence (Fancourt and Finn, 2019)

Participation in cultural activities can also help reduce the risk of developing mental illnesses, such as depression in adolescence, by creating self-acceptance and confidence

113 William A. Haseltine. Depression and anxiety double in youth compared to pre-pandemic. *Forbes*, 25 August 2021.

114 The figure reflects mental disorders that have led to disability or death among young people (cf. new analysis by the London School of Economics: Flourishing mental health linked to lower health and social costs. *LSE News*, 29 October 2021).

(Fancourt and Finn, 2019). In Australia, for example, research has shown that children having taken part in arts programmes have developed mental well-being, resilience and social skills (Stevens *et al.*, 2019). In England, research revealed that young people feel safer communicating traumatic experiences through cultural activities such as art therapies (Cobbett, 2016). Culture has also been used to lessen ignorance and the persistent stigma associated with mental health. Arts programmes in schools have been used to improve mental health literacy (Campos *et al.*, 2018). Art exhibitions and film festivals run by people with experience of mental illness (Koh and Shrimpton, 2014) has raised awareness (Quinn *et al.*, 2011).

In the UK, from 2013 to 2017, the IWM North and the Manchester Museum offered volunteering, training and placement programmes in partnership with ten heritage venues in Greater Manchester. Participant recruitment targeted long-term unemployed people or those facing low-levels of mental well-being (IWM, n.d), challenges or social isolation. Interestingly, there was a specific focus on recruiting young people aged 18–25 or older. The evaluation found significant improvements in participants' mental and emotional health. The programme has also led to increased levels of volunteering and citizenship, changed attitudes to museums and heritage settings, and positive attitudes to participating in volunteering projects. Additionally, over 30% of participants were inspired to secure further education or seek paid employment. Almost 60% reported long-term sustained well-being and an improvement in their mental health over 2–3 years. In terms of economic and social returns, it was estimated to equal around £2 million over three years for a total investment of around £560,000, and therefore a net benefit/cost ratio of 3.6.

Analysis by the Washington Center for Equitable Growth showed that the US economy could increase

by 10% by 2050 if students from low-income backgrounds had the same educational opportunities and achievements as students from more advantaged backgrounds.¹¹⁵ Extensive evidence also demonstrates a link between cultural activities, such as reading, and greater literacy and comprehension among children. Children from poor socio-economic backgrounds often suffer from a 'word gap' owing to fewer words spoken to them on average on a daily basis than their wealthier counterparts, thereby compromising linguistic development.^{116 117}

Engagement in the arts and participatory cultural activities by children can enhance their school readiness by improving their cognitive, linguistic and emotional development. A study in Australia found that arts education, when implemented within a structured, innovative and sustained approach, can provide essential benefits such as improved school attendance, academic achievement, and social and emotional well-being (APPG, 2017). Research conducted in Canada argues that for C\$1 spent on early childhood education programmes, there are around C\$6 worth of economic benefits down the line.¹¹⁸ In the United States, schools that integrate arts across the curriculum have consistently shown higher average reading and mathematics scores compared to similar schools that do not. In the same vein, students who have arts in their curricula benefit

115 President's Committee on the Arts and the Humanities. Turnaround schools demonstrate student improvement through the Arts. *NAMM Press Release*, 22 January 2015.

116 Conor P. Williams. New research ignites debate on the '30 million word gap'. *Edutopia*, 13 October 2020.

117 Roberta Michnik Golino, Erika Hoff, Meredith Rowe, Catherine Tamis-LeMonda and Kathy Hirsh-Pasek. Talking with children matters: Defending the 30 million word gap. *Education Plus Development*. *Brookings*, 21 May 2018.

118 Pete Evans. Every \$1 spent on early childhood education pays back \$6 later, report finds. *CBC News*, 27 Oct 2017.

from higher employability (Cultural Learning Alliance, 2017).

During the COVID-19 pandemic, many cultural organizations have helped communities navigate the stress and trauma of inequitable negative impacts. In the city of Lynn (Massachusetts, United States), which faces significant problems due to industrial restructuring, a public art and placemaking organization 'Beyond Walls' has helped youth (who were deeply distressed by their inability to attend a school or socialize) to express their feelings about the pandemic through writing, imagery or spoken word. Working with professional artists, their artistic expressions were turned into collective public artworks, which were displayed throughout the city (Kozub *et al.*, 2021).

During the COVID-19 pandemic, many cultural organizations have helped communities navigate the stress and trauma of inequitable negative impacts.

How culture can promote the well-being of elderly people and reduce their frailty

Demographic ageing is a phenomenon that is affecting all countries. The pandemic has particularly challenged and affected older citizens as a result of isolation measures and these have had a significant impact on their well-being, notably, due to the lack of contact with family members, the loss of social connection, and an increased fear of illness and death. In this context, exposure to culture and arts may be vital for healthy aging and for reducing frailty. In the UK, elderly people who live in isolation were found to have booked doctor's appointments more frequently to

combat their sense of loneliness.¹¹⁹ Research conducted by Age UK (2018) found that creative and cultural participation was the single most important factor, contributing the most to their well-being among 40 other factors, such as work, physical activity, and so on.

A growing body of research has identified a key role for culture in promoting health, and preventing and managing illness. Museums and galleries, for example, offer a non-clinical, non-stigmatizing environment in which to undertake journeys of self-exploration. In Brussels, experiments have been carried out in which doctors have prescribed museum visits to treat stress related to COVID-19 through a three-month project inspired by a similar programme in Canada.¹²⁰ Similar experiments are in progress in many other countries. For example, doctors have prescribed museum visits to treat COVID-19 stress. Cultural experiences could constitute new complementary interventions and become embedded in active ageing policies (OECD, 2020). As another example, it has been proved that dance and group singing in later life reduces loneliness, anxiety and depression. Shared music listening, such as attending a concert, enhances social connections and improves the mood of older adults and in-hospital patients (Dingle *et al.*, 2021).

Through a range of local projects, UNESCO has also been measuring the impact of participation in arts and cultural activities on the elderly. For example, in Seoul (Republic of Korea) several projects were

implemented in 2018¹²¹ which aim to help people prepare for their senior years, providing new vitality to society through the different social activities and thus reducing social costs. Senior citizens were able to improve their quality of life by relieving their anxiety about old age. In addition, their health improved through the social activities, with their income expected to increase by 5%–15% as a result.

The increase in life expectancy for very senior citizens often brings a decline in cognitive functions (Christie *et al.*, 2017). Currently, there are nearly 10 million new cases of dementia every year affecting mainly the elderly, which is expected to rise to 78 million in 2030 and 139 million in 2050.¹²² The increase in dementia across the world carries significant challenges to publicly funded healthcare systems. According to the WHO, in 2019 alone, the estimated total global societal cost of dementia was US\$ 1.3 trillion, which is expected to surpass US\$ 2.8 trillion by 2030.

Several experiments have shown that people with dementia can benefit greatly from certain activities, such as singing, performed by caregivers, for example. It may be particularly suitable for certain types of dementia, such as Alzheimer's, because the brain areas responsible for musical memory can be relatively well preserved, even in the later stages of the disease (Fancourt and Finn, 2019)

119 Paul Gallagher. Elderly people booking GP appointments to avoid loneliness. *iNews*, 12 October 2017.

120 Catherine Hickley. Brussels doctors prescribe museum visits to treat COVID-19 stress. *The Art Newspaper*, 9 September 2021.

121 Projects such as the 'Beautiful Story-Telling Gramma' project and the 'Seoul 50 Plus Portal' project. More information at <https://en.unesco.org/creativity/policy-monitoring-platform/promoting-participation-arts>

122 World failing to address dementia challenge. *WHO News Release*, 2 September 2021.

Several experiments have shown that people with dementia can benefit greatly from certain activities, such as singing, performed by caregivers, for example. It may be particularly suitable for certain types of dementia, such as Alzheimer's, because the brain areas responsible for musical memory can be relatively well preserved, even in the later stages of the disease (Fancourt and Finn, 2019). Findings suggest that creative arts therapy is also effective in treating the behavioural and emotional challenges of patients with the disease (Cowl and Gaugler, 2014). Besides music, other cultural activities, such as dance, have also been found to positively influence patients with Parkinson's by helping them to regain their identity through disease self-management, decreasing isolation and improving their quality of life (Bognar *et al.*, 2017). Recent research has found that in cases of hospitalized patients with dementia, music has been associated with a reduction in the average length of stay, an increase in patient discharges, less falls, and a decrease in the need for antipsychotic drugs. The growing body of research suggests that the use of culture to improve the health and well-being of elderly patients could become an important contribution to a new approach to ageing. This approach could help reduce hospitalization rates, as well as help find innovative solutions to welfare systems through these reductions.¹²³ From this perspective, culture is no longer simply an important sector of the economy but rather a 'social instrument' that could help manage the complex interactions of contemporary societies.

To sum up, there is growing interest in the new environments where arts and cultural activities could take place, such as in healthcare institutions, schools and community settings.

These activities could improve both equity (through well-being and health) and efficiency (through alleviating the financial burden on health systems and improving the human condition). Building on this intangible value of culture, and its many complementarities with health and well-being, could improve the link between equity and efficiency in the design of recovery policies.

How culture and arts enhance the drivers of social cohesion

As discussed in chapter 1, the pandemic has exposed social, racial and health inequities across societies, greatly undermining social cohesion, which is a core component in helping communities rebound in emergencies (Makridis and Wu, 2021). Interestingly, the pandemic may also have opened windows of opportunity to build on social cohesion in that it has raised awareness of the vital role of social determinants in shaping health outcomes, while enabling new possibilities to improve these social conditions through arts and culture. The importance of these intangible public goods, which had been severely lacking during the pandemic and neglected in the past, have now been brought to the fore.

Cohesive communities possess higher levels of physical and mental well-being and community safety (Engh *et al.*, 2021). Social cohesion has various dimensions: i) it may embody the capacity to construct a collective identity and a sense of belonging; ii) it can relate to a society's commitment and ability to ensure equality of opportunity by including all its citizens and reducing marginalization; iii) it generates a sense of common identity and mutual trust among individuals, as well as institutional trust; and iv) it also includes participation in society or civic cooperation and the ability to generate tolerance and inclusion. Overall, social cohesion refers to the existence of social ties that bind people together. Its multi-dimensional

nature, comprising individuals, groups, institutions and places, may be difficult to define in operational terms and to measure empirically. However, there is evidence that living in a cohesive society positively impacts subjective well-being (Delhey and Dragolov, 2016).

Culture and arts can be a tool to reinforce social cohesion. Evidence suggests that participation in the arts engenders feelings of belonging and shared identity. Arts projects, especially those that involve minority or disadvantaged communities, often draw on existing cultural capital in the form of shared repertoire, language and cultural traditions (Daykin *et al.*, 2021)

Culture and arts can be a tool to reinforce social cohesion. Evidence suggests that participation in the arts engenders feelings of belonging and shared identity. Arts projects, especially those that involve minority or disadvantaged communities, often draw on existing cultural capital in the form of shared repertoire, language and cultural traditions (Daykin *et al.*, 2021). Place-based arts can also help develop or deepen people's place attachment by opening up opportunities for rewarding experiences tied to place and community. Cultural participation can also trigger and incentivize personal or social connections to the past, reinforcing place attachment. For example, in the United States, surveys have found a similar desire to celebrate cultural heritage for and by African-American and Hispanic communities (Ostrower, 2005).

Arts and culture can also contribute to civic engagement and amplify the voices of excluded communities in policy discussions. In their book *Better Together. Restoring the American Community*, Putnam and

¹²³ Idea mentioned by Prof. Pier Luigi Sacco during the conference, Governance of Culture – Promoting Access to Culture. Council of Europe, Moscow, April 2019. He also contributed to several research papers, such as OECD, 2020j.

Feldstein (2003) pointed out that participation and spectatorship in the arts could even be considered a civic fruit per se when contrasted with things like attending meetings and voting.¹²⁴ They consider that cultural endeavours increase social capital¹²⁵ (a prerequisite of social cohesion), both directly and indirectly, immediately and for a long period of time. They also stress the ability of arts to transcend cultural and demographic boundaries. In a study conducted in Norway on refugees, participation in choir singing helped them find their place in society, and meeting with members of the host community developed a sense of belonging (Raanaas *et al.* 2018).

Given that culture and arts enhance participation in society, they may also foster citizenship awareness. High-school students who engage in the arts at school are twice as likely to volunteer and are 20% more likely to vote as young adults. Young offenders who take part in arts activities are 18% less likely to re-offend (Cultural Learning Alliance, 2017). Sexual and gender-based violence decreased from 76% to 16% in the Mole refugee camp in the Central African Republic after four months of dance workshops with the refugees.

This transformative power of the arts, notably in populations living under continuous stress, was recognized in UNESCO's Art Lab.¹²⁶ In the first pilot project in Yaoundé (Cameroon), an artistic workshop was integrated in humanitarian and development programmes for vulnerable populations, i.e. refugees, people with

albinism and street children. Research has shown that when civil conflict starts, its duration and ferocity are determined by social cohesion at the time of the conflict (Foa, 2011).

Trust is an essential aspect of social cohesion. It is the glue that binds society. At the interpersonal level, when members of society believe that most other people are honest and benevolent it provides a solid basis for mutual support and cooperation. The trust and confidence people have in their governments and in democracy was shaken and tested by the pandemic. These threats can be amplified by digital media.

In this context, cultural expression can be a crucial tool to facilitate dialogue around social issues and even as a healthy vehicle of social protest. Arts can help minorities express themselves and be heard in the wider society, thus enhancing trust. When people feel safe, their levels of interpersonal trust are higher. The arts can provide a *reSource* that people can use to connect with others and build interpersonal trust.

A study conducted between 2014 and 2017 in New York City's less prosperous neighbourhoods showed how arts and culture improved safety, among other factors (Stern and Seifert, 2017). Examples of social cohesion, developed through place-based arts and cultural efforts, have demonstrated their ability to reduce community violence and increase perceptions of safety (Ross, 2016). Neighbourhoods with a dynamic cultural life enjoy such spillover effects as stronger community and civic engagement, better health, schooling and personal security, and economic revitalization.

In a society with low levels of social cohesion, economic agents may refuse to engage in economic and financial transactions leading to a welfare loss to both parties and a productive loss to the economy (Foa, 2011). When cooperation among agents is low, transaction costs will be

higher. Moreover, when individuals pursue shared objectives, this social cohesion enhances growth by facilitating collective action and the provision of public goods.

Finally, as highlighted in UNESCO's Global Report 2022 *ReShaping Policies for Creativity*, culture and creativity are also massively under-invested if they are to bring about the change in mindsets and behaviours that are urgently needed to address the climate crisis (UNESCO, 2022b). Yet we know that cultural expressions have the power to shape the narratives of societies and that they could help reshape our relationship with nature. This would foster the paradigm shifts urgently needed to change the way we live, produce and consume, and therefore improve our global well-being. The UNESCO report also notes, however, that climate change publications rarely mention the role of the culture sector, and only 13% of voluntary national reviews acknowledge the transversal role of culture for sustainable development. According to UNESCO, unlocking the transformative power of culture and creativity to raise awareness, take climate action and shift towards more sustainable models is a major challenge for the coming years.

2.7 Recovery and resilience policies should reconstruct public goods and help restore the social contract

This discussion recommends that governments consider several other dimensions of policy in their recovery and resilience packages that go beyond traditional macroeconomic stimulus and short-term economic and social support. Recovery packages should integrate policies that have a key influence on the provision of public goods produced in a decentralized manner. Investing in knowledge-sharing, education and culture can also benefit the economy, while at the same time contributing to a more inclusive model for our societies.

124 Biernbaum, M. 2019. Notes on the Arts and Social Capital, a paper mentioning Putnam and Feldstein's book *Better Together. Restoring the American Community*. New York, Simon & Schuster.

125 'Social capital' refers to a group of individuals, whereas 'social cohesion' refers to the entire society. They are inter-dependent, although social cohesion is a broader concept.

126 See Art Lab for Human Rights and Dialogue: <https://en.unesco.org/themes/learning-live-together/art-lab>

Prioritizing equity in policy design, can also help establish a consensus as well as the use of economic instruments for a more efficient implementation. A typical case has been the introduction of carbon taxes or the creation of tradable permit schemes to de-carbonize our economies. As equity considerations (individual and territorial) have not been brought into the up-front discussion, there has been strong resistance against these economic instruments, even though they can be a very efficient way of reducing carbon emissions worldwide.

For the effective implementation of a new social contract, all these aspects would also require a more decentralized and territorial approach to economic, social and environmental policies, together with a strong investment on multi-level governance. Good governance is the main channel through which to achieve better coordination across the different policy lines, addressing trade-offs and creating synergies and complementarities.



3

*Summing up:
Rebalancing our
economic and
social objectives*

This report documents the notable increase in inequalities generated by the COVID-19 crisis. Despite the extent of policy support to counter the potentially devastating effects of lockdowns and health restrictions on the economy, certain segments of the population, such as women, children and youth, the elderly and the marginalized, have been particularly affected. This trend compounds an already extreme situation of inequality across people, firms and places. There is a risk that the traditional social policy apparatus is not equipped to cope with the size of the shock.

Without giving policies the urgent attention they need to address inequalities using inclusive processes, the resilience of people and economies will remain low and at risk.

Our economic and social policy frameworks need to be better integrated and designed. Current policy frameworks may not be able to deal with larger and deeper inequalities. The asymmetrical impact of these multiple crises and the lack of preparedness, which was evident even in the most advanced economies, revealed the inadequacy of traditional policy frameworks to deal with today's risks and challenges. We are now confronted with the risk that traditional social and economic policy frameworks will be unable to cope with the extent of a looming social crisis. Many political systems around the world have been destabilized by waves of discontent and populist pressures.

This report proposes a reframing of social policies and a different prioritization of policy objectives. It calls for a stronger integration of social and economic policies through the implementation of a people-centred approach. Focusing on people's well-being provides a framework where equity, efficiency and environmental sustainability are naturally integrated and complementary.

3.1 Designing for resilience and inclusion

Following the strong focus on economic growth, wealth redistribution is now the key economic challenge in the future.

This calls for equity considerations to be more closely integrated into overall policy objectives. However, redistribution efforts have often been seen as creating trade-offs with pro-growth or efficiency policies. This assumption is supported by standard economic theory and models, which typically separates efficiency from equity considerations. Policy design first focuses on economic productivity and growth, which would be expected to create resources for redistribution. Only then is social policy designed to correct social imbalances or to focus on longer term issues, such as climate change. Given that the expected 'trickle down' effects of growth have failed to materialize, policy frameworks and models must be redesigned to include the objectives of efficiency, equity and sustainability from the outset.

The lessons learnt from the pandemic are that growth policies must be inclusive in design or they will generate systemic weaknesses. Indeed, inclusive policies need to be designed to support opportunities for growth. The relationship between these dimensions means that equity, efficiency and environmental sustainability are naturally integrated and complement, rather than compete, with one another.

Greater thought is needed about how equity reinforces economic efficiency. For example, the pandemic has revealed the mutual and dynamic relationship between economic and social policies. The evidence shows that countries with lower levels of multi-dimensional inequality perform better in terms of the average level of well-being. Conversely, inequalities, inefficiencies and unsustainable practices generate systemic weaknesses, compounding any flaws

in the system and generating deeper inequalities and inefficiencies over time.

3.2 Designing for well-being

This report supports the adoption of a people-centred approach to policy design, with a focus on well-being. By focusing on people and providing opportunities for well-being, while framing policies to help them realize those opportunities, policy-makers can promote well-being as an intrinsic goal. This will have the effect of strengthening society and the economy against any adverse shocks and risks posed by rising inequalities and poverty, thereby creating resilience.

Designing policies that focus on achieving well-being in an holistic way, rather than considering economic efficiency, equity or environmental quality as separate entities, means understanding the links, addressing the trade-offs and reinforcing synergies. In this context, it has been shown that there are substantial social, economic and environmental gains in tackling the inequalities that weaken the overall system.

Although classic social protection policy plays an important role in fostering well-being, it is not enough. Addressing well-being requires a much more integrated agenda and an investment in the people left behind as well as the places that are often overlooked, while also supporting business dynamism and inclusive labour markets, and rebuilding trust in efficient and responsive government. This approach first requires the identification of policy relationships and complementarities across different dimensions, such as income, health, safety, education or job satisfaction.

These complementarities call for a cross-cutting policy package rather than piecemeal or sectoral policies. The effective implementation of a well-being approach requires the following:

- *Ex ante* evaluation of policy reforms, which defines their impact pathways, values their non-monetary benefits and factors in policy complementarities and synergies over time.
- Specific investment in governance. It is this investment in governance that ultimately ensures a path to sustained development. However, this soft investment is often neglected by governments at all levels, as they often favour physical investments or infrastructure, which are more visible.
- Prioritization of policies that have a higher impact on the lower levels of income distribution, or on those most affected by the crisis; the introduction of equity considerations *ex ante* in the policy formulation; and the development of 'packages' of public services, considering them as high-return investments within the post COVID-19 policy packages.

3.3 Policies must be designed with public goods in mind

Policies focused on equity and efficiency need to be co-designed for an optimal provision of private and decentralized public goods. A large proportion of education, knowledge-sharing, health habits, access to culture, trust, security and progress towards environmental transition are privately produced. Policy-makers need to ensure that equity in the provision of these goods is not an after-thought, an extra degree of action made possible by economic growth, but rather as an essential and integral part of the economic agenda.

The fact that substantial parts of these public goods are privately produced creates a non-separation between equity and efficiency. In other words, it is not possible to focus on economic efficiency in a way that is detached from equity issues. To ensure an adequate provision of privately produced public goods, it is crucial that economic and social policies are integrated. Social policy cannot be designed *ex-post*; it needs to be integrated in all policy dimensions from the outset.

A good example can be seen with cultural activities, a major pillar of UNESCO's mandate. Culture and the arts are an important component of human happiness and well-being, as well as a *Source* of increased human and social capital. For example, culture and the arts reduces the risk of developing mental illness, creates self-acceptance and confidence, enhances children's school readiness, and gives minorities a voice. In this way culture and the arts can be considered as public goods that contribute to greater well-being and thus to economic efficiency.



Acronyms and abbreviations

EU	European Union
GDP	Gross Domestic Product
GLRI	Global Labour Resilience Index
ICU	Intensive care unit
IDS	Institute of Development Studies
ILO	International Labour Organization
IMF	International Monetary Fund
ISSC	International Social Science Council
NEET	Not in employment, education or training
OECD	Organisation for Economic Co-operation and Development
PPPG	Privately Produced Public Goods
SIDS	Small island development states
SME	Small and medium enterprise
WHO	World Health Organization
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization

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Inclusive and Resilient Societies

This publication, developed in cooperation between the Social and Human Sciences sector of UNESCO and Fundación La Caixa, launches an intellectual partnership focused on challenging the equality-efficiency trade off as a conceptual underpinning of analytical models for contemporary public policy making. Finding more effective solutions in our way forward requires “out-of-the-box” thinking, innovative frameworks and experimentation, complex system thinking, and more than anything a real commitment with the more vulnerable in our populations. UNESCO is well established in this area with a proven track record to engage in translating new ideas and knowledge into meaningful policy exchanges, using research and innovation. The objective is to develop a new intellectual approach for our common future, investing inclusively in people, places and the planet for resilience.