THE PANDEMIC RESET AND ITS IMPLICATIONS FOR HOUSEHOLD FINANCES

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My thread

- The pandemic has left
  - *people* with higher average *savings* and differential *employment* prospects
  - *countries* with differential prospects for *fiscal support* and need for *sectoral shifts*

- The "*pandemic reset*" will require shifts and open-up investment and employment opportunities

- This generates a *potential for further social polarization*
  - *due to the documented tendency of the wealthy* and of *the more educated* to access high asset returns and low borrowing costs
Immediate effects of covid on financial behavior
Source: Coibion, Gorodnichenko, Weber (2020)

- Household spending in US in April 2020:
  - Reduction by $1000 per month
  - 31% reduction between January and April 2020
  - Reductions in:
    - transportation, travel, entertainment, clothing, consumer durables

- Reduced demand for household loans (increase for firm loans)

- Risky assets: savings diverted to deposits, away from stocks

- Loan repayments: reduction by April in the US
Now: Households have accumulated extra savings

Source: Valentina Romei, FT 18.04.21

- Net saving rates have been higher
- The stock of household savings as a share of GDP has risen internationally.
- Relevant questions:
  - What have people done with the extra savings?
  - How do they feel about the future?
Now:
Households have accumulated extra savings
*Source: Valentina Romei, FT 18.04.21*

- There has been a global increase in savers and a decrease in those who have no spare cash
- There has also been an increase in those participating in stock mutual funds and in retirement saving
- There is evidence that consumer confidence indices are now high
Own financial health
Before covid, now, next year

Source: *Think Forward Initiative Quarterly Consumer Research* (in collaboration with IPSOS)

### FOR ME, FINANCIAL HEALTH MEANS TO ....

**Top 5**

- Feel in control of my income and expenses: 52%
- Manage my money without worries or stress: 47%
- Make ends meet easily: 44%
- Feel financially free: enjoy life because my money matters are in order: 43%
- Be able to face and recover from an unexpected personal financial shock: 41%

<table>
<thead>
<tr>
<th>Country</th>
<th>TOTAL</th>
<th>Germany</th>
<th>Romania</th>
<th>Poland</th>
<th>Turkey</th>
<th>Spain</th>
<th>Netherlands</th>
<th>Belgium</th>
<th>Austria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before COVID-19</strong></td>
<td>6.4</td>
<td>6.6</td>
<td>6.5</td>
<td>6.2</td>
<td>5.4</td>
<td>5.9</td>
<td>6.4</td>
<td>6.3</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>Currently</strong></td>
<td>6.1</td>
<td>6.4</td>
<td>5.9</td>
<td>5.4</td>
<td>4.9</td>
<td>5.7</td>
<td>6.9</td>
<td>6.6</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>In a year</strong></td>
<td>6.6</td>
<td>6.5</td>
<td>6.2</td>
<td>5.9</td>
<td>4.9</td>
<td>5.7</td>
<td>7.0</td>
<td>7.0</td>
<td>6.6</td>
</tr>
</tbody>
</table>

- The survey was conducted between February 19 – March 5, 2021.

- Austria, Belgium, Germany, Poland, Romania, Spain, The Netherlands, Turkey.

- 8043 adults with an even distribution across countries.
What measures do Europeans take to improve their financial health?

Source: *Think Forward Initiative Quarterly Consumer Research (in collaboration with IPSOS)*

- The survey was conducted between February 19 – March 5, 2021.
- Austria, Belgium, Germany, Poland, Romania, Spain, The Netherlands, Turkey.
- 8043 adults with an even distribution across countries.

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### ACTIONS TO IMPROVE FINANCIAL HEALTH

To improve their financial health, most Europeans try to pay more attention and control shopping/spending and keep track of income and expenses.

A majority rarely or never talk to their social networks or a financial expert about their finances.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Never/Rarely</th>
<th>Sometimes</th>
<th>Often/Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talk to financial experts, consultants, or advisors about my finances</td>
<td>64%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>Learn about finance or look for financial information on the internet</td>
<td>45%</td>
<td>33%</td>
<td>22%</td>
</tr>
<tr>
<td>Learn about finance or look for financial information in my bank website/app</td>
<td>41%</td>
<td>34%</td>
<td>25%</td>
</tr>
<tr>
<td>Talk to my family, relatives or friends about my finances</td>
<td>42%</td>
<td>34%</td>
<td>23%</td>
</tr>
<tr>
<td>Try to increase or diversify my income or make it more steady</td>
<td>41%</td>
<td>32%</td>
<td>27%</td>
</tr>
<tr>
<td>Learn and look for smart investment options</td>
<td>42%</td>
<td>32%</td>
<td>26%</td>
</tr>
<tr>
<td>Set goals and/or plan my finances for the long term</td>
<td>22%</td>
<td>36%</td>
<td>43%</td>
</tr>
<tr>
<td>Control and/or reduce my spending</td>
<td>20%</td>
<td>31%</td>
<td>60%</td>
</tr>
<tr>
<td>Control and/or reduce my levels of debt</td>
<td>20%</td>
<td>25%</td>
<td>55%</td>
</tr>
<tr>
<td>Save regularly</td>
<td>20%</td>
<td>25%</td>
<td>55%</td>
</tr>
<tr>
<td>Keep track of my income and expenses on a regular basis</td>
<td>17%</td>
<td>22%</td>
<td>61%</td>
</tr>
<tr>
<td>Spend and shop consciously, paying attention to options available</td>
<td>10%</td>
<td>25%</td>
<td>65%</td>
</tr>
</tbody>
</table>

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### INSIGHTS

- Controlling/reducing debt and saving regularly continue gaining importance in the midst of the pandemic for European consumers. Concrete actions to control debt and build on savings are shown to be crucial for at least half of Europeans today; already 8% more than 6–8 months ago.

- These actions suggest that the COVID-19 new situation has sparked people to become more aware and proactive not only in their day-to-day finances but also to think and get more hands-on towards their (near) financial future. Learning about finance from different sources is still lagging behind in priority for many.
Distributional implications of the pandemic

- Differential vulnerability to lockdowns
  - Across countries
  - Across demographic groups

- Different levels and prospects for fiscal support

- Different approaches to unemployment:
  - Kurzarbeit and furlough versus unemployment benefits
  - Even similar current successes in unemployment have different future implications

- Different need for intersectoral shifts
Teleworking possibilities

Sources: Brussevich, Dabla-Norris, Khalid IMF Blog, 7 July 2020; The Economist, April 10, 2021.

- Immediately became apparent:
  - They are greater in richer countries
  - More prevalent among the more educated
  - Controlling for education, less of a relationship to age

- The long-term future of work has changed for the better:
  - more digitised.
  - Remote working is easing the bottleneck of expensive housing.
  - Home-workers report higher levels of happiness and productivity.
### Vulnerability to lockdowns: International comparisons

#### Sick and sicker
OECD countries, vulnerability to lockdowns, April 2020

<table>
<thead>
<tr>
<th>Vulnerability score*</th>
<th>Jobs that cannot be done from home, %</th>
<th>Retail, transport and hospitality, % of GDP</th>
<th>Fiscal stimulus† % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank out of 33, 1 = most vulnerable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Greece</td>
<td>68</td>
<td>23</td>
<td>1.0†</td>
</tr>
<tr>
<td>(3) Spain</td>
<td>68</td>
<td>24</td>
<td>1.2</td>
</tr>
<tr>
<td>(5) Italy</td>
<td>65</td>
<td>21</td>
<td>1.2</td>
</tr>
<tr>
<td>(15) France</td>
<td>62</td>
<td>18</td>
<td>0.7</td>
</tr>
<tr>
<td>(23) Japan</td>
<td>67†</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>(28) Sweden</td>
<td>56</td>
<td>18</td>
<td>2.2</td>
</tr>
<tr>
<td>(29) Germany</td>
<td>63</td>
<td>16</td>
<td>4.4</td>
</tr>
<tr>
<td>(31) Britain</td>
<td>56</td>
<td>17</td>
<td>3.1</td>
</tr>
<tr>
<td>(33) United States</td>
<td>58</td>
<td>16</td>
<td>6.9</td>
</tr>
</tbody>
</table>

*Average score of five indicators: employment in small firms; ability to work from home; size of retail and leisure sector; fiscal stimulus; focus on job protection  †Spending/revenue measures  ‡The Economist estimate

Sources: “How many jobs can be done at home?” by J. Dingel and B. Neiman; OECD; IMF; World Bank; UBS; Goldman Sachs; The Economist
Fiscal support in response to Covid-19
Source: IMF, April 2021

- Unequal
- ...and progressively smaller

Sources: IMF Fiscal Monitor database of Country Fiscal Responses to COVID-19 and IMF staff estimates. Note: AEs= Advanced Economies; EMs= Emerging Markets; LIDCs= Low Income Developing Countries.
Unemployment: US versus Europe

- **US Unemployment:**
  - Spring of 2020: nearly 15%
  - Spring 2021: 6% after a year containing five of the ten best months for hiring in history

- **Public perceptions of how easy it is to find a job already recovered to levels that it took nearly a decade to reach after the global financial crisis.**

- **Europe:** the labor market is beating forecasts, but country differences.

Sources: Markus Brunnermeier and Robert Hall, Princeton Markus Academy Seminar, 30.10.20; The ECB Data Warehouse.
Recent unemployment rates, by country, percent
Source: OECD

<table>
<thead>
<tr>
<th>Country</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>9.0</td>
<td>8.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Germany</td>
<td>3.4</td>
<td>3.2</td>
<td>(E) 4.2</td>
</tr>
<tr>
<td>Greece</td>
<td>19.3</td>
<td>17.3</td>
<td>16.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>5.8</td>
<td>5.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Italy</td>
<td>(P) 10.7</td>
<td>(P) 10.0</td>
<td>(P) 9.3</td>
</tr>
<tr>
<td>Portugal</td>
<td>(P) 7.2</td>
<td>(P) 6.7</td>
<td>(P) 7.1</td>
</tr>
<tr>
<td>Spain</td>
<td>15.3</td>
<td>14.1</td>
<td>15.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4.1</td>
<td>3.8</td>
<td>4.5</td>
</tr>
<tr>
<td>United States</td>
<td>3.9</td>
<td>3.7</td>
<td>8.1</td>
</tr>
<tr>
<td>Euro area (19 countries)</td>
<td>8.2</td>
<td>7.6</td>
<td>7.9</td>
</tr>
<tr>
<td>European Union – 27 countries (from 01/02/2020)</td>
<td>7.3</td>
<td>6.7</td>
<td>7.2</td>
</tr>
<tr>
<td>OECD - Total</td>
<td>(E) 5.5</td>
<td>(E) 5.4</td>
<td>(E) 7.1</td>
</tr>
</tbody>
</table>

Data extracted on 11 Apr 2021 10:50 UTC (GMT) from OECD.Stat

Legend:
- **E**: Estimated value
- **P**: Provisional value
The changing importance of sectors


- In eight countries (China, France, Germany, India, Japan, Spain, the United Kingdom, US), more than 100 million workers will have to find new, more qualified jobs by 2030.
- 25% more than previously projected!

[Diagram showing estimated change in share of total employment, post-COVID-19 scenario, 2018 to 2030, percentage points.]

1The pre-COVID-19 scenario includes the effects of eight trends: automation, rising incomes, aging populations, increased technology use, climate change, infrastructure investment, rising education levels, and marketization of unpaid work. The post-COVID-19 scenario includes all pre-COVID-19 trends as well as accelerated automation, accelerated e-commerce, increased remote work, and reduced business travel.

A potential for further social polarization following the “pandemic reset”

Typically, discussions on labor market behavior and income inequality:
- Who becomes unemployed and for how long?
- Who can move to a new job/retrain more easily?

Yet, a further layer: household financial behavior and wealth inequality
- Who is more likely to invest in the new or growing sectors?
  - Private business holdings
  - Stock holdings
  - Access to low-cost borrowing opportunities
- Who will manage to handle the financial requirements of employment transitions better?
- Who will manage the retirement wealth consequences better?
- Who is likely to manage the accumulated savings more efficiently and profitably?

In essence: who will access higher returns and lower debt costs?
Participation and asset composition in the EZ Data:
Financial and Real Assets, across the respective distribution

- HFCS 2nd Wave, 2014/5
- All EZ countries pooled
- Financial asset behavior, by financial asset decile
- Real asset behavior, by real asset decile
- Notice the declining role of primary residence

Participation in financial asset components by decile of financial assets
(percentage of households holding asset category)

Share of financial assets components in total financial assets, by decile of financial assets
(percentage share as a fraction of total financial assets)

Source: HFCS. Euro area. Hungary and Poland are not included.

Participation in real asset components by decile of real assets
(percentage of households holding asset category)

Share of real assets components in total real assets, by decile of real assets
(percentage share as a fraction of total financial assets)

Source: HFCS. Euro area. Hungary and Poland are not included.
Different Measures and Evolution of Wealth Inequality in EZ
HFCS, Waves 1, 2, 3: 2010/11 versus 2014/5 versus 2017

Selected measures of net wealth inequality in the euro area

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Wave 1</th>
<th>Wave 2</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini coefficient</td>
<td>68.0</td>
<td>68.5</td>
<td>69.5</td>
</tr>
<tr>
<td>S.E.</td>
<td>(0.6)</td>
<td>(0.5)</td>
<td></td>
</tr>
<tr>
<td>P90/P10</td>
<td>427.6</td>
<td>503.5</td>
<td>525</td>
</tr>
<tr>
<td>S.E.</td>
<td>(50.2)</td>
<td>(32.7)</td>
<td></td>
</tr>
<tr>
<td>P80/P20</td>
<td>40.1</td>
<td>41.0</td>
<td>42.4</td>
</tr>
<tr>
<td>S.E.</td>
<td>(2.0)</td>
<td>(2.0)</td>
<td></td>
</tr>
<tr>
<td>P90/P50</td>
<td>4.7</td>
<td>4.8</td>
<td>5.3</td>
</tr>
<tr>
<td>S.E.</td>
<td>(0.09)</td>
<td>(0.08)</td>
<td></td>
</tr>
<tr>
<td>P50/P10</td>
<td>91.6</td>
<td>105.7</td>
<td>99.4</td>
</tr>
<tr>
<td>S.E.</td>
<td>(10.6)</td>
<td>(8.94)</td>
<td></td>
</tr>
<tr>
<td>Share of top 5%</td>
<td>37.2</td>
<td>37.8</td>
<td>38.1</td>
</tr>
<tr>
<td>S.E.</td>
<td>(1.2)</td>
<td>(1.9)</td>
<td></td>
</tr>
<tr>
<td>Share of top 10%</td>
<td>50.5</td>
<td>51.2</td>
<td>51.9</td>
</tr>
<tr>
<td>S.E.</td>
<td>(1.0)</td>
<td>(0.9)</td>
<td></td>
</tr>
</tbody>
</table>

Source: HFCS. The indicators for wave 1 are calculated for nominal variables (i.e. are not HICP-adjusted). Standard errors in Table 4.1 reflect uncertainty about the statistics, and are calculated with the Rao-Wu rescaled bootstrap method using replicate weights provided by the countries (1,000 replicates; see Chapter 7 of the HFCS Methodological Report for details). For normally distributed variables, the 95% confidence intervals can be calculated by adding ±1.96 times the standard error to the estimate.
Evolution of Wealth Shares by Education in the **US**: 1989-2020

In the US, where wealth data over a longer horizon are available, the educated have been increasing their share of the pie.

Source: Survey of Consumer Finances and Financial Accounts of the United States
Wealth inequality and beliefs in opportunity

**Source:** Haliassos, Jansson, Karabulut (2021)

Based on: OECD Wealth Distribution Database. The information for Sweden comes from Lundberg and Waldenström (2018). The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).

This figure presents the cross-country correlations between wealth inequality, measured by the share of aggregate wealth held by the people who are in the top 10 percent of the wealth distribution, and proportion of the corresponding population that agrees with the statement: "I have equal opportunities for getting ahead in life, like everyone else". The pairwise correlation between perceptions and inequality is 0.52 (p-value=0.018). The data for the top 10 share for sampled countries are obtained from OECD Wealth Distribution Database. The information for Sweden comes from Lundberg and Waldenström (2018). The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).
Wealth inequality and perceived fairness

Source: Haliassos, Jansson, Karabulut (2021)
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Figure III: Perceived Fairness and Wealth Inequality

This figure presents the cross-country correlations between wealth inequality, measured by the share of aggregate wealth held by the people who are in the top 10 percent of the wealth distribution, and proportion of the corresponding population that agrees with the statement: “I believe that, by and large, people get what they deserve.” The pairwise correlation between perceptions and inequality is 0.37 (p-value=0.11). The data for the top 10 share for sampled countries are obtained from OECD Wealth Distribution Database. The information for Sweden comes from Lundberg and Waldenström (2018). The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).
Wealth inequality and beliefs in opportunity

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Figure II: Beliefs in Opportunity and Wealth Inequality by Education Level

This figure presents the cross-country correlations between wealth inequality, measured by the share of aggregate wealth held by the people who are in the top 10 percent of the wealth distribution, and proportion of the corresponding population that agrees with the statement: "I have equal opportunities for getting ahead in life, like everyone else" separately for the two subsamples of respondents in each country, namely those who have had at least some years of college education and those without any college education. The pairwise correlation between perceptions and inequality is 0.64 (p-value=0.002) and -0.21 (p-value=0.38) for college and high-school sample, respectively. The data for the top 10 share for sampled countries are obtained from OECD Wealth Distribution Database. The information for Sweden comes from Lundberg and Waldenström (2018). The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).
Wealth inequality and perceived fairness

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Figure IV: Perceived Fairness and Wealth Inequality by Education Level

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Income inequality and beliefs in opportunity

Source: Haliassos, Jansson, Karabulut (2021)

Based on: OECD Wealth Distribution Database. The information for Sweden comes from Lundberg and Waldenström (2018). The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).

Figure V: Beliefs in Opportunity and Income Inequality

This figure presents the cross-country correlations between income inequality, measured by the share of aggregate disposable income received by the people who are in the top 10 percent of the disposable income distribution divided by the share of all income received by the 40 percent people with the lowest disposable income, and proportion of the corresponding population that agrees with the statement: "I have equal opportunities for getting ahead in life, like everyone else". The pairwise correlation between perceptions and inequality is -0.09 (p-value=0.72). The data for income inequality for sampled countries are obtained from OECD Income Distribution Database. The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).
Income inequality and perceived fairness

Source: Haliassos, Jansson, Karabulut (2021)

Based on: OECD Wealth Distribution Database. The information for Sweden comes from Lundberg and Waldenström (2018). The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).

Figure VII: Perceived Fairness and Income Inequality

This figure presents the cross-country correlations between income inequality, measured by the share of aggregate disposable income received by the people who are in the top 10 percent of the disposable income distribution divided by the share of all income received by the 40 percent people with the lowest disposable income, and proportion of the corresponding population that agrees with the statement: "I believe that, by and large, people get what they deserve". The pairwise correlation between perceptions and inequality is 0.01 (p-value=0.96). The data for income inequality for sampled countries are obtained from OECD Income Distribution Database. The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).
Wealth inequality

- Fascinating new work on heterogeneous returns:
  - *Household historical wealth returns explain most of the level and volatility of changes in top wealth shares*

- Wealthier people tend to have
  - Persistently higher *expected returns* *(Bach, Calvet, Sodini, AER 2020)*
  - Persistently higher *actual returns* *(Fagereng, Guiso, Malacrino, Pistaferri, Ecta 2020)*
    - even across generations
Wealth inequality
Bach, Calvet, Sodini, AER 2020

- Expected return on household net wealth is
  - strongly persistent
  - increasing in net worth

- This is primarily due to higher systematic risk

- They do not find that the wealthy have superior investment skill
  - Their historical returns are predicted well by exposures to real estate and equity
  - They do not earn higher risk-adjusted returns than other households on stocks or abnormal returns on private equity holdings
Wealth inequality: a different take

- Fagereng, Guiso, Malacrino, Pistaferri (Ecta 2020)
  - 12 years of Norwegian data, ALL individuals (including the very top)
    - observing parents and children allows intergenerational study.
  - Returns on
    - net worth
    - Financial wealth
    - Real wealth (housing and private business)
    - Debt
  - All: very heterogeneous, correlated with the relevant wealth concept (+ for assets, - for debt)
Wealth inequality
Fagereng, Guiso, Malacrino, Pistaferri (Ecta 2020)

- Model: Heterogeneity in returns on wealth arises from:
  - *Time-varying observables:*
    - scale: lagged wealth
    - portfolio composition
    - risk exposure: $\beta$
    - time, demographics
  - *Individual fixed effect:*
    - A persistent component attributable to:
      - *observables,* such as education
      - *unobservables:* financial sophistication, ability to access, process, and use financial information, ability to overcome inertia, talent to manage business
  - *Idiosyncratic transitory variations (good or bad luck)*

- Central finding:
  - *Observable characteristics explain roughly 1/3 of return variability on net worth*
  - *With individual FEs, it goes to $\frac{1}{2}$.***
Propagation of wealth inequality

- Literature on return heterogeneity:
  - The *wealthier earn higher returns* (on larger amounts), *becoming even wealthier*

- New work: Haliassos, Jansson, Karabulut (2021) finds a further propagation mechanism:
  - Exposure to greater wealth *(but not income)* *inequality at the launch of one’s economic life makes it more likely that:*
    - educated people will attain *higher wealth levels* 10-20 years later in life
    - educated people will get into *self-employment, stockholding,* and *homeownership*
    - This holds *only in localities with above median mobility*
    - There is *no similar response* by the less educated
Implications and conclusions

■ The pandemic has left
  - *people* with *higher average savings* and *differential employment prospects*
  - *countries* with *differential prospects for fiscal support* and need for *sectoral shifts*

■ The "pandemic reset" will open up investment and employment opportunities

■ This generates a potential for further social polarization
  - *due to the documented tendency of the wealthy and of the more educated* to access *high asset returns* and *low borrowing costs*

■ Now may be a good time for us to design policies to promote access to financial opportunities more broadly!