

# Covid and inequality: some first reflections

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# Covid-19 as a showcase of inequality

- The covid-19 pandemic often depicted as both showcasing and exacerbating inequality
  - Expected to hit harder people living in precarious conditions, although policy response may dampen –invert – that effect
  - Lockdown likely to affect more low-income people with unregular jobs (informal sector)
  - Global economic crisis increasing global poverty and, presumably, global inequality
  - Human capital loss in low-income and precarious households (unemployment hysteresis effect, interrupted schooling, .. ) will affect future inequality
- Too early to estimate and analyze the actual effect of the pandemic on inequality and poverty...
- ... but one may *speculate* of what they could be
  - Caution to confusion among various concepts of inequality –i.e. health, consumption, income, wealth
  - (e.g. Oxfam's rather specious argument about inequality based on 10 largest fortunes in the world having recovered from the crisis in less than a year)

# This presentation

1. Inequality of casualties
2. How unequal the cost of lockdown and impact of compensating policies
3. Did the Covid crisis increase global income inequality ?
4. Likely legacy effects of the lockdown and possible reversal of downward global inequality trend

Conclusion



# Inequality of casualties

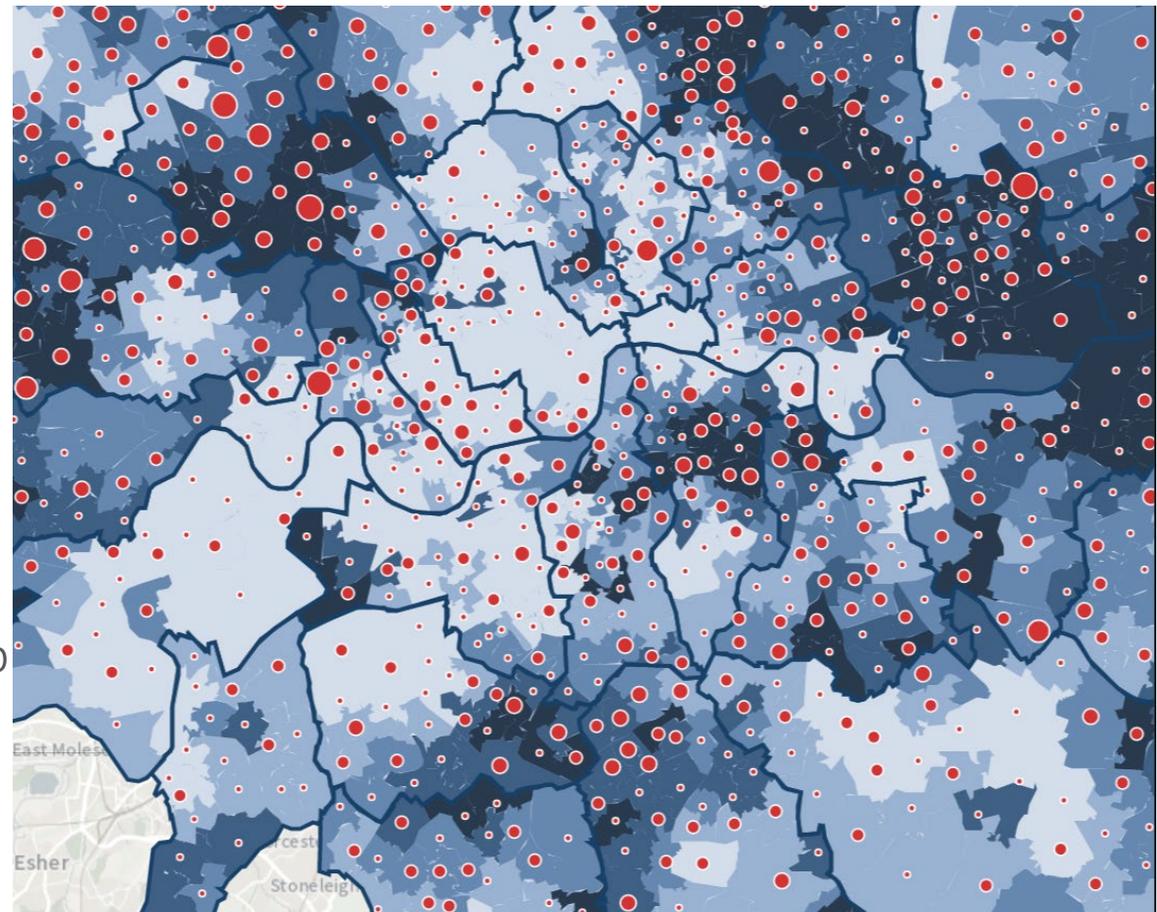
## b) Within country

- Little information available on socio-economic status of Covid victims
- Many studies found a geographical correlation between Covid-19 mortality and socio-economic status of local areas. Brown-Ravallion, Chen-Krieger, Brandily et al, Calderon-Larrañaga et al., ...

London's sub-ward units Covid death rate (red circles) by proportion of active people in 'unsecure occupations' -- temporary contracts, interim jobs, self-employed – (darker areas)

Same correlation with poverty of children

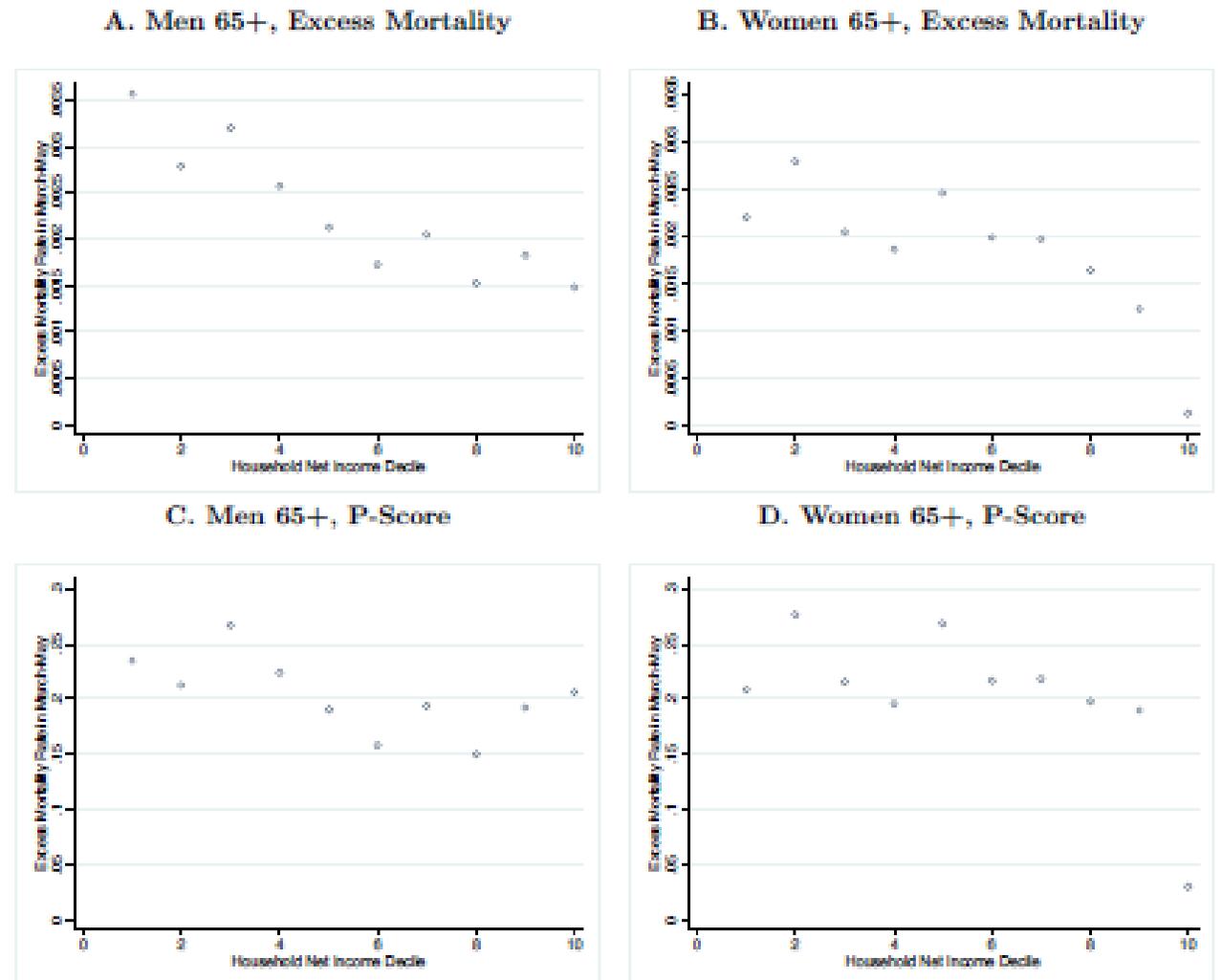
- A priori, same analysis would lead to a positive rather than a negative relationship across countries – but see Ashraf (2020)



# Inequality of casualties

- Previous correlation to be taken with very much care. Not clear it really adds to existing correlation between elderly mortality and socio-economic status of geographic areas.
- Belgium study (Decoster et al. 2020):
  - Correlation with income decile becomes non-significant when excess mortality is divided by baseline 65 + mortality.
- *Overall, the 'inequality' of Covid-19 casualties is ambiguous: conclusions depend on whether one uses an absolute or relative inequality criterion.*

FIGURE 3: INCOME GRADIENT IN ABSOLUTE AND RELATIVE EXCESS MORTALITY MARCH-MAY 2020



## 2. How unequal the cost of lockdown and impact of compensating policies ?

- Lockdown policies almost universally applied
- Coupled with teleworking and 'partial unemployment compensation' schemes for formal employees
- As a result, uncovered informal workers suffered most
  - .. in addition to being more exposed to the pandemic where they lived
- Partial compensation by ad hoc public cash transfer programs in most countries
- Too early to estimate the impact of crisis and policy measures on income inequality
  - Micro-simulation exercises plus results of some surveys

# Proxies for inequality effect of lockdown based on employment effects: e.g. UK, pre-crisis share of workers in shut-down sectors

- Lockdown policies almost universally applied
  - 'Shut-down sectors' = sectors where teleworking was impossible and the activity of which was severely reduced.
- But effect of compensation policies?

Share of workers in shut-down sectors pre-crisis, by socio-demographic and socio-economic group



*Note:* Breakdown by earnings refers to employees only. Excludes those in full-time education. Shut-down sectors include (with four-digit Standard Industrial Classification (SIC) codes in parentheses): non-food, non-pharmaceutical, non-internet retail (4719, 4730–4772, 4776–4789); passenger transport (4910, 4931–4939, 5010, 5030, 5110); accommodation and food (5510–5630); travel (7911–7990); childcare (8510, 8891); arts and leisure (9001–9329 except ‘artistic creation’ 9003); personal care (9601–9609 except ‘funeral and related activities’ 9603); and domestic services (9700).  
*Source:* Labour Force Survey, quarters 1–4 2019, waves 1 and 5 only.

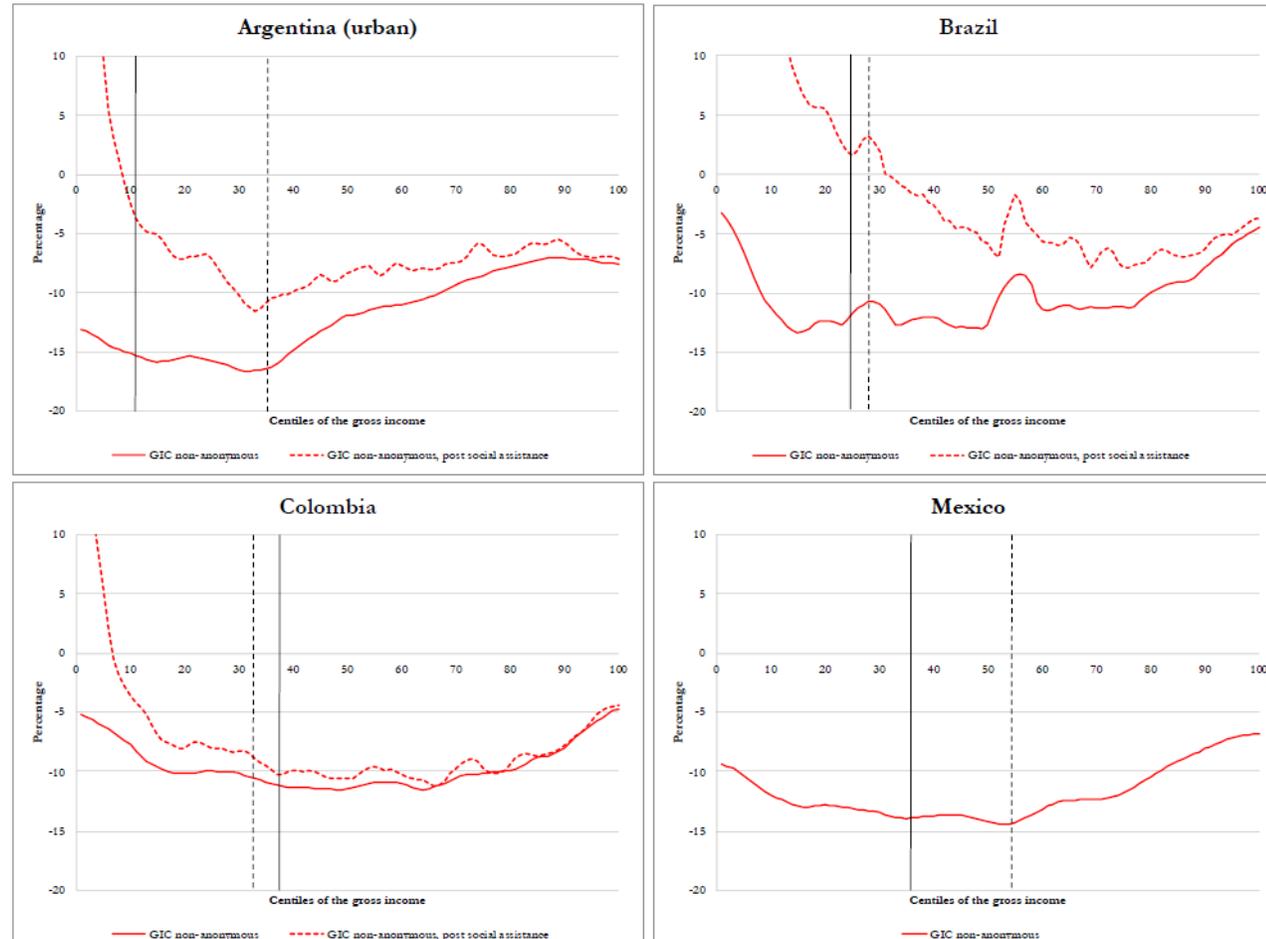
Source: Blundell et al. (2020)

# Micro simulation of inequality impact and compensation policies

- Studies in Europe and UK and Latin America by microsimulation based on GDP forecast and 'now-casting techniques' based on monthly/quarterly data on employment/unemployment and wages
  - Almeida et al. for EU countries, Brewer and Tasseva, for UK, O'Donoghue et al., for Ireland, Lustig et al. for Latin America
- Most find that lockdown led to a strong increase in income inequality, but effect almost completely compensated by cash-transfer policies
- Time dimensions is a key problem as shut-down has not always been permanent: annual impact may be different from monthly impact
- Extremely imprecise estimation but gives interesting orders of magnitude and suggest final effect on inequality is not unambiguous

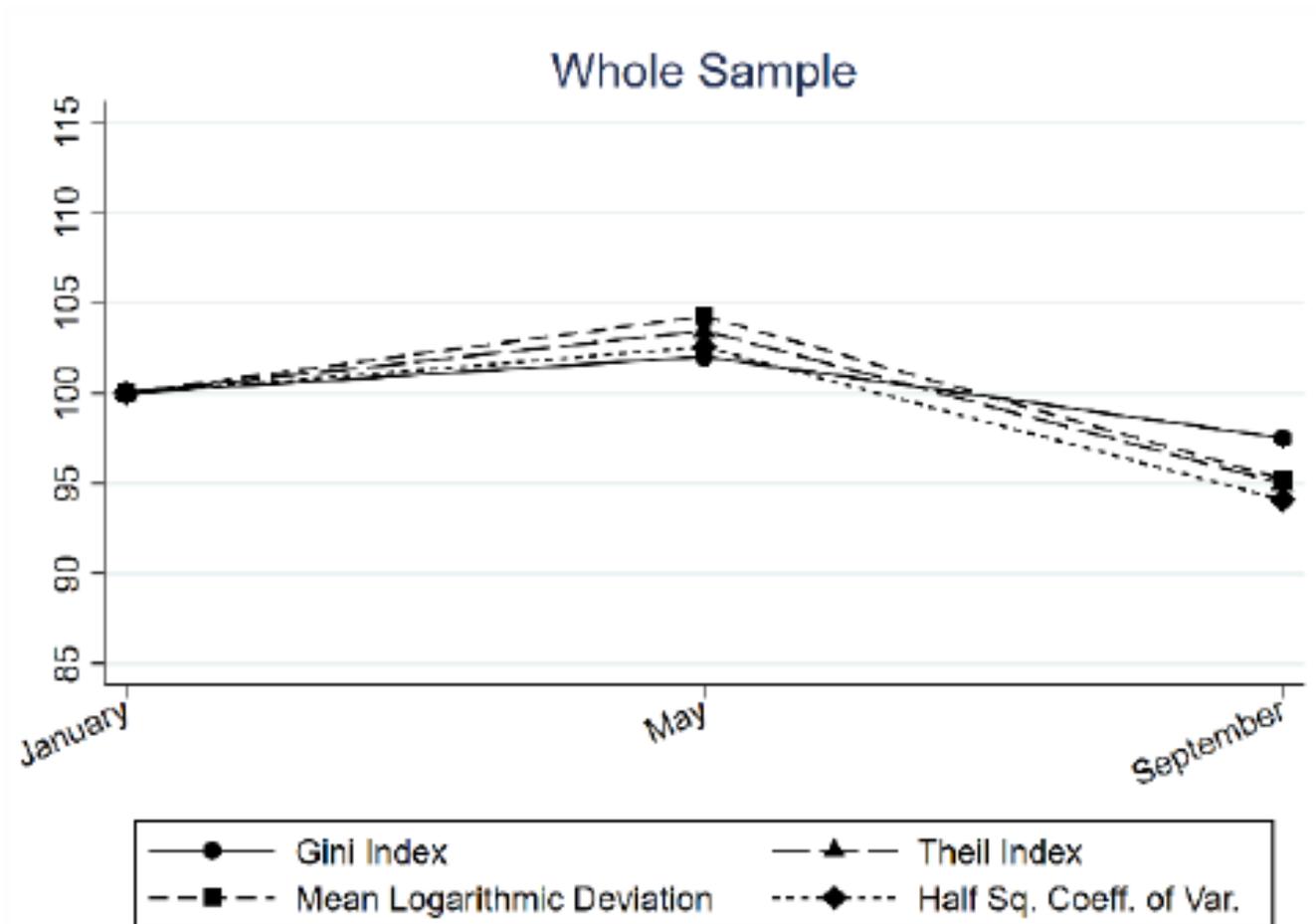
# Simulation of the inequality impact of covid-19 in Latin America (Lustig et al, 2020)

Figure 3. Non-anonymous Growth Incidence Curves  
Panel (a) “Concentrated losses”



## Results of few ad-hoc panel surveys available

- COME-HERE: Around 1600 individuals interviewed in January, May and September 2020 in 5 countries (France, Germany, Italy, Spain and Sweden)
- (Clark et al, 2020) found that equivalized disposable household income inequality may have increased by May (middle or end of lockdown, except Sweden) but has fallen in 4 out the 5 countries by September.
- Raihan, et al. Bangladesh, reinterview of 5,000 households surveyed in 2018 (panel attrition 37%): surge in poverty and notable increase in inequality.



Source: Clark et al. (2020) based on COME-HERE survey

### 3. Covid crisis and global income inequality

- Widespread expectation that Covid crisis has exacerbated inequality not only within countries, but also *between countries*:

*" Because the pandemic has increased inequality between nations, as well as between households, a decade of progress in reducing inequality has been wiped out in developing economies, according to the IMF."*

*Financial Times Dec. 31<sup>st</sup>, 2020*

Similar statements by UNDP (2020), WEF (2020), Stiglitz (2020)

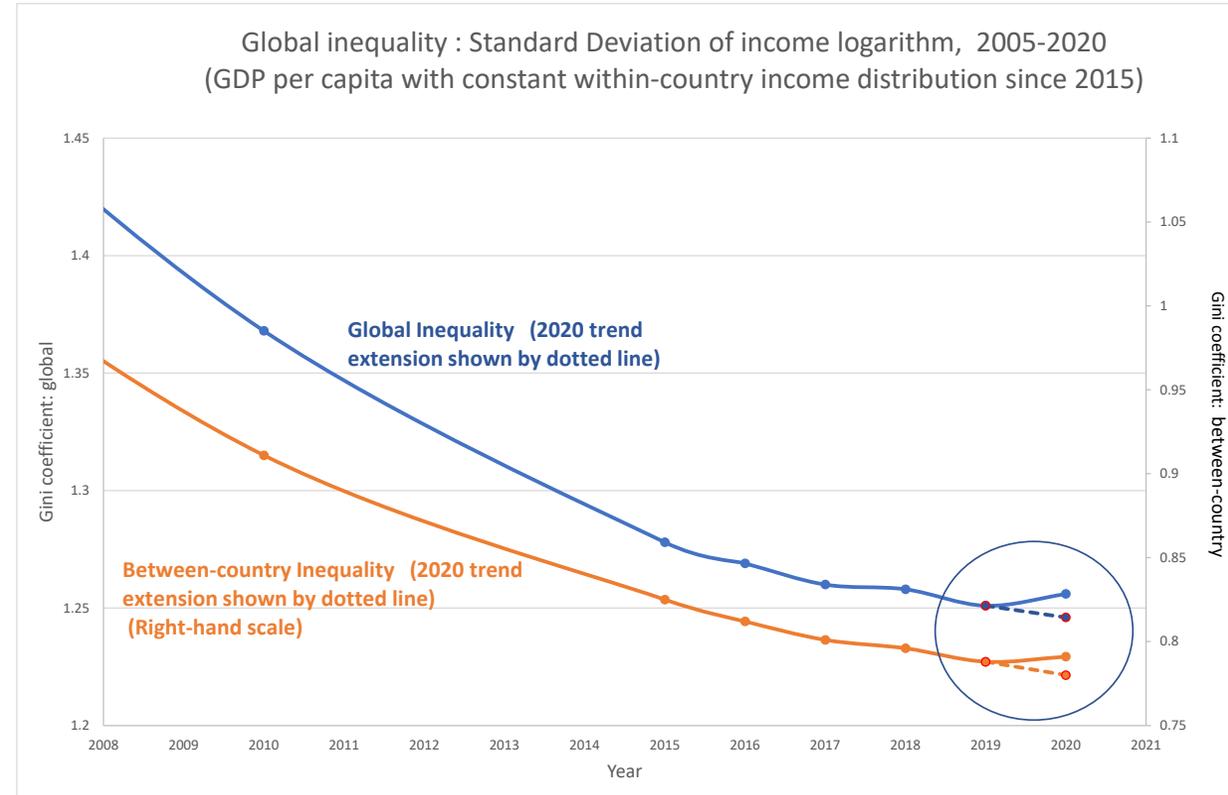
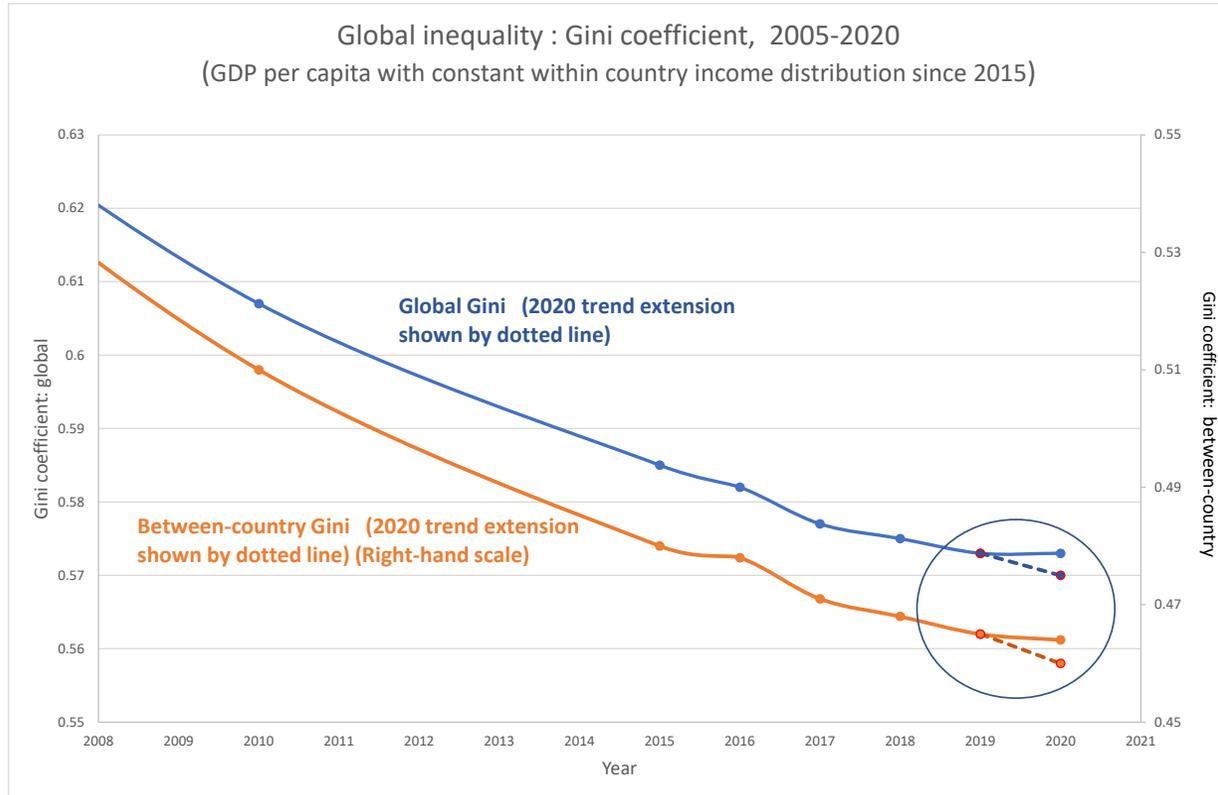
- Forecasters have consistently predicted a lower GDP growth impact of the crisis in developing than in advanced countries
  - GDP growth positive in China, Bangladesh, Vietnam and loss smaller in Indonesia (3%), Pakistan (1.6%) and even Sub-Saharan Africa (4.2%)<sup>a)</sup> than in OECD countries (6%)
  - Huge loss in India (8%)
- A priori, ambiguous effect on between-country inequality

<sup>a)</sup> Excluding South Africa

# Estimates of changes in global inequality based on IMF 2020 GDP growth early estimated

- Deaton (2021) estimates the evolution of between-country inequality using GDP per capita as proxy for income per capita since using 1995. Effect of crisis proxied by difference in global inequality using pre-pandemic and post-pandemic IMF forecasts.
- Results:
  - Limited inequality changes
  - Inequality *went down* if all countries are given the same weight
  - Inequality *went up* when using population weight, but this result is essentially due to China
- Estimates for this presentation based on previous work relying on a set of 107 countries (Bourguignon, 2015) and accounting for within-country inequality.
- In the absence of data on likely 2020 changes in within-country income inequality, income distributions kept constant after 2015 (2015 distribution)
- Focus on 2020/2019 change and comparison between 2020 and continuation of 2010-2018 GDP per capita growth trends

# Global inequality 2005-2020



# Global inequality impact of Covid crisis

- According to preceding estimates, Covid crisis slows down or interrupts the downward trend in global inequality
- Clear reversal in comparison with pre-2019 country growth trends
- Notable difference between Gini and standard deviation of logarithm suggests Lorenz curves may cross each other
  - Inequality goes down in the upper part of the income range (role of China)
  - Inequality goes up in the lower part (i.e. low income lose relative to median – Indonesia, Vietnam, Egypt, Cote d'Ivoire).
- China found to contribute to positive effect of Covid on inequality when using standard deviation of income logarithm – as in Deaton (2020) – but to a drop in inequality when using Gini or Theil coefficients.
- 2019 changes small enough to suggest that a significant reversal is likely to be observed when within-country inequality changes will be introduced.

## 4. Likely legacy effects of the lockdown and possible reversal of downward global inequality trend

- Major legacy effects of lockdown include:
  - a) Consequences of present severe increase in poverty on the health of the population
  - b) Loss of human capital through school interruption, and increase in dropouts (irreversibility of leaving school)
  - c) Increase in indebtedness in Sub-Saharan Africa, adding to a situation which was already at a critical level
- Yet, the major factor will be the way economies will exit from the very special period they're in today with both the pandemic and strong rescue policies still strong. This is when 'partial unemployment' may become 'full' and massive unemployment.
- In Sub-Saharan countries, all factors may affect growth in the long-run (human capital) and in the medium-run in case of a debt crisis – recall the 1990s which led to the HIPC initiative.
- Situation may worsen if pandemic endures, generating stop-and-go lockdown policies, because of lagging vaccination program.
- The global income equalizing trend thus is under serious threat, especially when viewed from the low-income countries' point of view.

# Conclusion

- Major uncertainty remains on past, present and future incidence of Covid-19 in low-income countries, particularly in Sub-Saharan Africa
- Yet, lockdown policies and global economic slowdown have already caused a major slow down and a drastic increase in poverty (see WB estimates) in these economies
- Recovering from the Covid shock on global poverty may take time
- Income catching-up and global equalizing trend observed over the last 20 years at risk of durably reverting themselves
- Major action needed by development community to handle the debt situation in numerous countries and provide the vaccination capacity needed to prevent the present slowdown to last.