

PANDEMIC Research News

The Fall in Income Inequality during COVID-19 in 4 European Countries

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Very little is known due to a lack of data, as the household surveys we generally use to analyse income inequality will only be available with a significant lag. Much of the current debate is hence based on expert opinion and microsimulations. The great majority of researchers expect that the pandemic will increase inequality. Among them is Nobel Laureate Joseph Stiglitz, who writes [“COVID-19 has exposed and exacerbated inequalities between countries just as it has within countries.”](#)

Others expect income inequality to fall within some countries. Nobel Laureate Angus Deaton writes [“The COVID-19 pandemic has threatened the lives and livelihoods of the less-educated and less-well paid more than those of more educated and better paid, many of whom can stay safely at home and continue to work. To a lesser or greater extent, the increase in domestic income inequality has been offset by large scale government income support programs in the US and in many other countries.”](#)

Microsimulation analyses use past data to simulate different future scenarios via complex models. Their predictions for rich countries are an increase in inequality without any policy response due to the pandemic, but lower income inequality following policy intervention. The COME-HERE data that we have been collecting since the beginning of the pandemic allows us to offer the first evidence-based answer to this question across countries, to the best of our knowledge: we find that income inequality fell from January 2020 to January 2021 in four rich countries - France, Germany, Italy and Spain.

The figure below shows the evolution of the Gini coefficient, the best-known index of inequality, from January 2020, our pre-pandemic observation, to January 2021. The Gini values are normalized to 100 in the first period to better picture the country profiles. Inequality in January 2021 is everywhere lower than it was in January 2020. The time path of inequality is not the same across countries: Germany is the only country where inequality fell continuously; in the other three countries, inequality started to drop only after an initial increase in May 2020. This latter initial jump is particularly pronounced in Italy.

Research Institutions: University of Luxembourg (UL), Paris School of Economics (PSE).

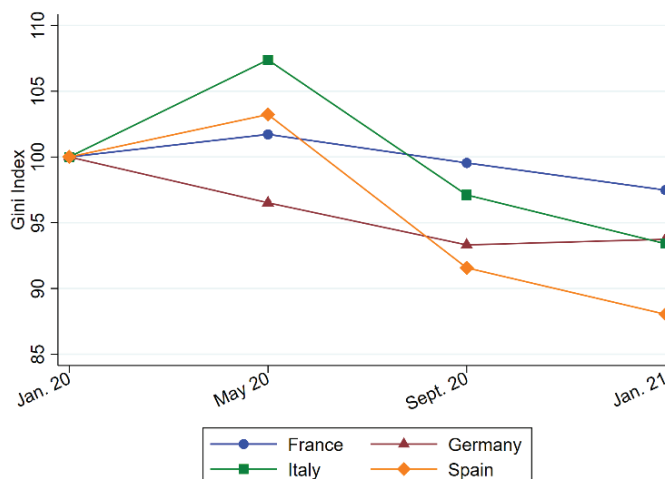
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What lies behind the fall in income inequality we observe?

Following the start of the pandemic, some households lost more than others. Almost all the losses in income between January and May 2020 were to be found among the self-employed, including the self-employed with the highest incomes. Since government compensation schemes were both targeted towards the poorest and transferred amounts that mostly did not fully compensate for the losses of the richer, income differences fell.

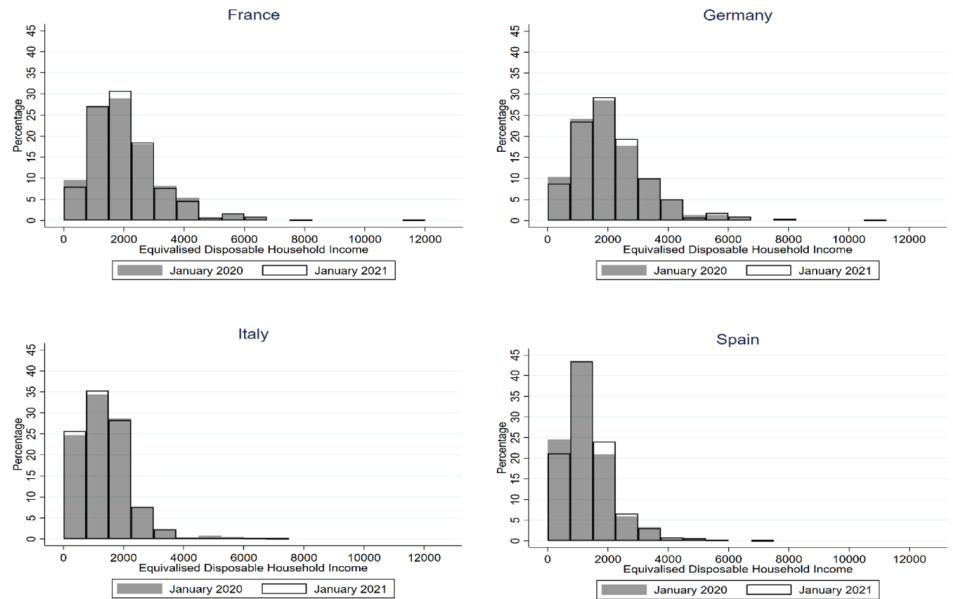
The combined effect on incomes of government intervention and income losses over one year can be seen in the histograms of the income distributions in the figure below. (NB: The height of the bar in each income interval reflects the percentage of the population whose income lies in that income interval). The grey bars refer to the pre- COVID-19 observation of January 2020, and the white bars to the situation one year later. From January 2020 to January 2021, we see a shift from the bottom towards higher levels of income - except in Italy - and a shift from the top towards the centre of the distribution in each country.

Question

Taking all sources together and all household members living with you, what was your total monthly household income (after taxes and transfers) in the month of January 2020 (May 20, September 20, January 21)?

- 0 - 1 250 Euros
- 1 250 - 2 000 Euros
- 2 000 - 4 000 Euros
- 4 000 - 6 000 Euros
- 6 000 - 8 000 Euros
- 8 000 - 12 500 Euros
- >12 500 Euros

In order to compare different types of households based on their needs we compute equivalent income. Equivalent income is equal to household income divided by the square root of the number of household members. All our results refer to equivalent income.



Why is Italy different?

Italy was the country that lost the most in the early months of the pandemic. It was the first EU country to be hit hard by COVID-19, and the first to impose a strict lockdown. It is also the EU country with the second-highest share of self-employed among those in work (behind only Greece), and the self-employed were the group that suffered the most of all labour-force groups.

From the beginning of March 2020, the Italian government introduced a number of measures to compensate for the losses due to the pandemic; however, there were complaints about the length of time required to obtain access to government transfers, mainly due to the bank and public-administration procedures. At the same time, wage-compensation schemes for fewer hours of work were extended to cover all employees. Workers outside of the standard wage-guarantee fund again experienced problems in receiving these sums, as their applications also needed to be processed by the region in which they lived. The self-employed received a flat transfer of 600 Euros, later increased for some to 1000 Euros, regardless of their actual loss.

Regarding the poorest in our data, only Germany avoided a rise in the lowest income group between January and May 2020. In France, Italy and Spain the percentage in the lowest income group rose, with this rise being the most pronounced in Italy. The percentage in the bottom income group then started to fall over time everywhere, and was already back to pre-pandemic levels in France and Spain by September 2020. We expect the same recovery to take place in Italy very soon.

Research sponsors

