The Role of COVID- 19 in Poverty and Income Inequality

Why in news?

There are signs that this pandemic has not followed the usual script of the poor bearing the brunt of the pain.

How is the present crisis different from the earlier ones?

> *Extreme poverty is defined by the World Bank as the percentage of the population with an income below $ 1.90*
>
> *Income inequality refers to the significant disparity in the distribution of income between individuals, groups, populations, social classes, or countries.*

- In macroeconomic crises, including the oil shock of 1990-91 or the global liquidity crisis of 2007-08, many expect the poor to bear the brunt of the pain.
- They are the most vulnerable without contractual protections and adequate safety nets.
- But there are signs that this pandemic has not followed that script as examined from the monthly data of roughly 2,00,000 households from the Consumer Pyramids Household Survey (CPHS).
- **Present trend**- Over two-thirds of the country has been infected by COVID-19.
- Poverty rose from 7.6% in November 2019 to 11.7% in July 2021.
- Even though there has been a V-shaped recovery, output remains about 10% lower than 2019.
- Inequality, measured as the percentage change in the income of the top quartile minus the income in the bottom quartile, fell by 15-20 percentage points.
- Richer households saw larger drops in income all along the income scale, in rural and urban areas, within each State, and even within caste groups.
- Historians observed the same dynamic during the plague in 14th century Europe.

Why inequality fell during the pandemic?

- **Sources of household income**- The three sources of household income include
    1. Government transfers- cash or in-kind payments
    2. Business profits- Profits from any business
    3. Labour income- wages earned from hourly work or employment contracts

- **Government transfers-** Households received roughly Rs. 400 per month in urban areas and nearly Rs. 500 per month in rural areas during the lockdown.
- Even when government transfers were netted out from income, income inequality fell by over 20% points by July 2021.
- **Business profits**- The rich saw a larger decline in business income and depended more on that income than the poor.
- Business income is volatile because it is susceptible to changes in demand and business

income of the top quartile is four times more sensitive to the aggregate performance of the economy than the bottom quartile.

- **Labour income**- Labour income is over 65% and 80% of the income of the top 25% and bottom 25% of households.
- When the economy contracted, people lost jobs and income and they tried to compensate by finding alternate work which was true for both the bottom 25% and top 25%.
- The disproportionate loss of labour income among the top quartile households is that the rich tend to work in the service sector, and demand for services fell more than demand for other sectors.
- During the pandemic, consumer spending on services fell by 30%-40%, far more than the decline in spending on manufacturing or agriculture.
- The manufacturing which employs a larger share of bottom quartile workers declined less than 20% during the pandemic.
- **Social mobility**- The change in a person's income percentile is called the social mobility which was largely responsible for the decline in inequality.

The Gini coefficient is the measure of income distribution, defined based on the Lorenz curve. The higher the coefficient, the greater the gap between the incomes of a country's richest and poorest people.

What does this analysis signify?

- The loss of life and rise in poverty make it one of the larger disasters the country has borne.
- The reduction in inequality would be a silver lining if it were accomplished by lowering poverty rather than reducing the income of the rich.
- By understanding the decline in inequality during the pandemic we can assess prospects for inequality after it ends.
- Once demand for services rises, along with aggregate income, demand for the labour of the rich and the business income will likely return and there is a risk that inequality will return to pre-pandemic levels.

References

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