

Covid-19, Poverty, and Inequality

Growing inequality can worsen the pandemic's effects

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The Current Column

of 18 June 2020

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Deutsches Institut für
Entwicklungspolitik



German Development
Institute



The impacts that Covid-19 has brought about in our daily lives are very apparent. Less apparent is the immediate implications of the pandemic for global poverty. The calculation of economic losses or reductions in gross domestic product (GDP) that are currently being estimated at around 5.2 percent globally may convey only a partial picture of the social and human costs. In fact, these calculations may suffer from a similar bias that many economic impact assessments of climate change have. Absolute losses often appear larger in wealthier areas simply because there is more to be lost in economic terms. In terms on the effects on livelihoods, however, impacts are going to hit vulnerable communities the hardest. Any net loss for them represents a larger share of their already limited income and the effects will be felt well beyond shocks to their income.

It is therefore important to assess the impact of the pandemic on global poverty and how this may affect our ability to eradicate extreme poverty by 2030 in accordance with the Sustainable Development Goals. This is exactly what a team at the World Bank has done. Using a model jointly co-developed by DIE and the World Bank where we simulate global poverty up to 2030 and the role inequality changes could have in achieving that poverty goal, they estimate that roughly 70 million additional people will fall into extreme poverty worldwide because of the Covid-19 pandemic.

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This is indeed worrying. Particularly considering that the income level at which a person is deemed extremely poor by global standards corresponds to the average poverty line of several of the poorest countries and is thus a very low benchmark. Indeed, having some extra 70 million living on less than around two dollars (to be precise USD 1.9 in 2011 purchasing power parity) per person per day is definitely a matter of concern. In addition to adding more than 10 percent to the roughly 600 million people already in extreme poverty, many more are also falling into the not-so-extreme poverty level above, which is still very poor.

Another key issue is how the global recession translates into decreased incomes for people in different parts of the income distribution. The additional 70 million poor estimated above

assumes that everyone along the distribution sees their incomes fall at the same rate. However, in developing countries, lockdowns affect a lot of people working in the informal sector or with precarious jobs. Many of these low-income earners may see much of their income wiped out for a good few months. They will therefore be disproportionately impacted, thereby increasing inequality. If that is the case, decreases in GDP may translate into decreases in incomes at different rates across the distribution of incomes. This means that the distributional impacts of the recession need to be seriously taken into consideration.

Currently, we can only simulate how changes in inequality may affect the poverty estimate, since actual data on the distributional impacts are not available. If inequality decreases or increases by 1 percent in terms of the Gini index, a standard measure of inequality, the number of additional extreme poor could be 55 or 85 million, respectively. Such percentage changes in the distribution of income are within the range of what is common within a year for any given country. The numbers would widen to approximately 40-100 million people if changes in inequality were of the order of 2 percent. The possibility of all countries' inequality changing in the exact same way is remote, but this provides an idea of the outcome range when changes in the distribution are considered: 2 percent reductions in the Gini can nearly halve the global poverty impact of the pandemic, while a 2 percent increase in the Gini coefficient can magnify its poverty impacts by almost 50 percent.

Beyond what the exact number of additional poor is, what should also matter for policy makers throughout the world and development actors in particular is the important role that tackling inequality can have in attenuating the economic and social effects of the pandemic. These estimates show that while economic growth may falter, governments have an extraordinary responsibility in terms of not only acting counter-cyclically to spur growth – ideally prioritising investments that facilitate a green transition in accordance with the Paris agreements – but also by consciously and aggressively supporting the livelihoods of people in the lower parts of the income distribution. This particularly involves deepening and expanding social protection as a priority, and strengthening other well known inequality-reducing policies like progressive taxation and investments in rural infrastructure. Dampening the unequal effects of the pandemic and making sure that economic measures are, overall, inequality-reducing need to be at the core of the policy response.