

ECA RESEARCH NOTES

Office of the Chief Economist

EUROPE AND CENTRAL ASIA

COVID-19, Inequality and Trade-offs
March 2021



Hi Everyone,

This month's feature topic has been COVID-19 and Inequality. As we work closely with our clients to deal with the pandemic, we have been observing the disproportionate burden borne by the poor and the vulnerable, because their living and working conditions make them more likely to contract the disease, and they often suffer the most from job losses. That is why our work with governments to help alleviate the rising inequality and prioritize inclusive recovery as economic activity picks up is more important than ever.

We know COVID-19 made inequality in individual countries worse. But what about global inequality? That was the topic of our ECA Talk jointly organized with Poverty and Equity Global Practice this month where we heard from Angus Deaton about his latest research. You can watch the video below in case you missed the talk to find out the answer. Whether you care about global inequality or not, one interesting finding of this research though is the lack of support for a trade-off between lives and livelihoods. It appears it is not your money or your life, but your money and your life. This is consistent with our research in ECA that showed that faster introduction of interventions - such as social distancing and lockdowns – are not only associated with reduced mortality, but also associated with smaller reductions in economic activity. This is because the spread of the disease itself had a significant economic impact, suggesting that ignoring the disease to save the economy was never going to be a viable strategy. These lessons are important as the world continues to deal with the pandemic. Below, we include selected papers and blogs on these topics.

The rest of the month is a particularly busy one for us as we get ready to launch our Spring ECA Economic Update - which will feature Data, Digitalization, and Governance - in time for the IMF-World Bank Spring Meetings 2021. That will be the feature of our April newsletter.

Happy Reading!

Asli

FEATURE STORY



From left to right: Carolina Sánchez-Páramo, Asli Demirgüç-Kunt, Sir Angus Deaton, Mamta Murthi, Francisco Ferreira

COVID-19 and Global Income Inequality

There is a widespread belief that the COVID-19 pandemic has increased global income inequality, reducing per capita incomes by more in poor countries than in rich. In a recent joint ECA Talk - Poverty&Equity Seminar, Angus Deaton, Senior Scholar and Professor Emeritus at Princeton University, argued that this supposition is reasonable but false based on the recent research evidence.

[Video and event details](#)

Disclaimer: The views expressed by panelists are their own and do not represent the position of the World Bank.

RELATED RESEARCH

 [The Sooner, the Better: The Early Economic Impact of Non-Pharmaceutical Interventions during the](#)

[COVID-19 Pandemic](#)

Asli Demirgüç-Kunt, Michael Lokshin, Iván Torre, World Bank Policy Research Working Paper 9257 – May 2020

This paper provides estimates of the economic impacts of the non-pharmaceutical interventions implemented by countries in Europe and Central Asia over the initial stages of the COVID-19 pandemic. The results suggest that the sooner non-pharmaceutical interventions are implemented, the better are the economic and health outcomes.

[Opening-up Trajectories and Economic Recovery: Lessons after the First Wave of the COVID-19 Pandemic](#)

Asli Demirgüç-Kunt, Michael Lokshin, Iván Torre, World Bank Policy Research Working Paper 9480 – November 2020

Analyzing the reopening process of countries in Europe and Central Asia after the first wave of the COVID-19 pandemic this study provides evidence on the effects of different reopening trajectories, their timing, and speed on economic recovery. The analysis indicates that countries that adopted a gradual, staged reopening experienced stronger economic recovery compared with the countries that rushed into lifting the restrictive measures before the pandemic was under control.

[The Role of Inequality for Poverty Reduction](#)

Katy Bergstrom, World Bank Policy Research Working Paper 9409 – September 2020

Using World Bank PovcalNet data from 1974-2018 for 135 countries, this study approximates the identity that links growth in mean incomes and changes in the distribution of relative incomes to reductions in absolute poverty, and, in turn, examines the role of income inequality for poverty reduction. Overall, the results highlight the important role income inequality can play in reducing poverty even if prior poverty changes have, in large part, been a consequence of economic growth.

[Lives and Livelihoods: Estimates of the Global Mortality and Poverty Effects of the Covid-19 Pandemic](#)

Benoît Decerf, Francisco H. G. Ferreira, Daniel G. Mahler, Olivier Sterck, World Bank Policy Research Working Paper 9277 – June 2020

This paper evaluates the global welfare consequences of increases in mortality and poverty generated by the Covid-19 pandemic. As of early June 2020, the pandemic (and the observed private and policy responses) has generated at least 68 million additional poverty years and 4.3 million years of life lost across 150 countries. The ratio of additional years spent in poverty to the number of years of life lost is very large in most countries, suggesting that the poverty consequences of the crisis are of paramount importance.

[Income Distribution, International Integration and Sustained Poverty Reduction](#)

Pinelopi Koujianou Goldberg, Tristan Reed, World Bank Policy Research Working Paper 9342 – July 2020

What is the pathway to development in a world with less international integration? The authors explore this question within a model that emphasizes the role of demand-side constraints on national development. Counterfactual estimates suggest that, in the absence of international integration, the average resident of a low or lower-middle income country does not live in a market large enough to experience sustained poverty reduction.

[Scarred but Wiser: World War 2's COVID Legacy](#)

Michael Lokshin, Vladimir Kolchin, Martin Ravallion, World Bank Policy Research Working Paper 9481 – November 2020

This paper formalizes and tests the hypothesis that greater exposure to big shocks induces stronger societal responses for adaptation and protection from future big shocks. Support for this hypothesis is found in various strands of the literature and in new empirical tests using cross-country data on deaths due to COVID-19 and deaths during World War II. The results show that countries with higher death rates in the war saw lower death rates during the COVID-19 pandemic.

[The Early Labor Market Impacts of COVID-19 in Developing Countries: Evidence from High-Frequency Phone Surveys](#)

Melanie Khamis, Daniel Prinz, David Newhouse, Amparo Palacios-Lopez, Utz Pape and Michael Weber, World Bank Jobs Working Paper 58

This study presents estimates on the early impact of the crisis on labor markets in 39 countries based on high-frequency phone survey data collected between April and July 2020. Workers in these countries experienced severe labor market disruptions following the COVID-19 outbreak. 34 percent of the respondents reported stopping work, 20 percent of wage workers reported lack of payment for work performed, 9 percent reported job changes due to the pandemic, and 62 percent reported income loss in their household.

[A Global View of Poverty, Gender, and Household Composition](#)

Ana Maria Munoz Boudet, Paola Buitrago, Benedicte Leroy de la Briere, David Newhouse, Eliana Rubiano Matulevich, Kinnon Scott, Pablo Suarez-Becerra, *World Bank Policy Research Working Paper 8360 – March 2018*

The authors use data from 91 countries to profile the poor through a focus on the demographic composition of households. The results show that globally the share of young girls who reside in poor households is almost 1 percentage point larger than the corresponding share of boys, principally driven by results from India.

BLOGS

The sooner, the better: Early lockdowns save more lives and livelihoods

Asli Demirgüç-Kunt, Michael Lokshin, & Iván Torre, July 9, 2020

The analyses of high-frequency proxies of economic activity suggests that lockdowns led to a decline of about 10% in economic activity across Europe and Central Asia. On average, countries that implemented lockdowns in the early stages of the pandemic are found to have better short-term economic outcomes and lower cumulative mortality.

[Read the blog »](#)

Opening-up for a strong economic recovery: Lessons from the first wave of COVID-19

Asli Demirgüç-Kunt, Michael Lokshin, & Iván Torre, December 22, 2020

In response to the first wave of the COVID-19 pandemic, most countries of Europe and Central Asia went into national lockdowns almost simultaneously in the second half of March 2020. The reopening policies of early summer 2020 did not follow such a uniform script, however, with countries following quite different reopening paths. This analysis provides evidence on the effects of different reopening trajectories, their timing, and speed of reopening on economic activity.

[Read the blog »](#)

The urgency of promoting a more equal recovery: Insights from the COVID-19 crisis in Turkey

Javier E. Baez & Asli Demirgüç-Kunt, February 9, 2021

In Turkey poverty was on a downward trend until the 2018 currency crisis and inequality has been on the rise in recent years. Recent analysis, using micro data on job losses and household consumption to gauge the impact of the pandemic, suggests that the crisis may create 1.6 million new poor, setting back poverty reduction gains by three years.

[Read the blog »](#)

Updated estimates of the impact of COVID-19 on global poverty: Looking back at 2020 and the outlook for 2021

Christoph Lakner, Nishant Yonzan, Daniel Gerszon Mahler, R. Andres Castañeda Aguilar, & Haoyu Wu, January 11, 2021

In the two-decades since 1999, the number of people living in extreme poverty worldwide has fallen by more than 1 billion people. Part of this success in reducing poverty is set to be reversed due to the COVID-19 pandemic. The authors argue that for the first time in 20 years poverty is likely to significantly increase.

[Read the blog »](#)

CALENDAR OF EVENTS

- **March 30, 2021:** Launch of Spring 2021 ECA Economic Update "Data, Digitalization, and Governance"
- **May (TBD), 2021:** 2020 [ECA Academy](#) Award Ceremony with presentations of winning research

Check [ECA Lectures](#) and [ECA Talks](#) to learn more about our past and future events.

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