Title: “Wage inequality and poverty effects of lockdown and social distancing in Europe”

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Abstract
The “social distancing” measures taken to contain the spread of COVID-19 impose economic costs that go beyond the contraction of GDP. Since different occupations are not equally affected, this supply shock may have distributional implications. Here, we evaluate the potential impact of enforced social distancing on wage inequality and poverty across Europe. We compute a Lockdown Working Ability (LWA) index which represents the capacity of individuals to work under a lockdown given their teleworking index—that we obtain for European occupations using 2018 EU-LFS—and whether their occupation is essential or closed. Combining our LWA index and 2018 EU-SILC, we calculate individuals’ potential wage losses under six scenarios of lockdown. The Lockdown Incidence Curves show striking differential wage losses across the distribution, and we consistently find that both poverty and wage inequality rise in all European countries. These changes increase with the duration of the lockdown and vary with the country under consideration. We estimate an increase in the headcount index of 3 percentage points for overall Europe, while the mean loss rate for the poor is 10.3%, using the 2 months lockdown simulation. In the same scenario, inequality measured by the Gini coefficient increases 2.2% in all Europe, but more than 4% in various countries. When we decompose overall inequality in Europe into between- and within-countries components, both elements significantly increase with the lockdown, being the change of the latter more important.

Data description
In this study we use three different databases, all of them necessary for our combined analysis of working ability during the lockdown and changes in wage. First, we use information about the key attributes and characteristics of occupations from the American O*NET database, necessary to assess occupational teleworking ability. Second, we use the latest 2018 wave of EU-LFS (2020 release)–with detailed employment and occupational information for European countries–to accurately obtain occupational teleworking information for the European occupational categories. Finally, this information is combined with the rich socioeconomic data–crucially, salaries–from the 2018 wave of EU-SILC (2020 release). This allows for our analysis of the potential impact of lockdown and social distancing measures on wage inequality and poverty, in the absence of counteracting government policies.

JEL codes for the project: D33, E24, I32, J21, J31

Keywords: wage inequality, poverty, teleworking, social distancing, Europe

Working paper: https://www.inet.ox.ac.uk/files/Lockdown_inequality_Palomino_Rodriguez_Sebastian_WP.pdf