DID INEQUALITY FALL OR RISE DURING THE COVID-19 LOCKDOWN?

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INTRODUCTION

- Covid-19 induced nationwide lockdown in April and May 2020 was a huge shock to the economy.

- We investigate how incomes were impacted by the lockdown across the income distribution using Consumer Pyramids Household Survey panel data.

- Consistent with previous reports, we find that richer households were more severely impacted.

- But we also find that this progressive trend predates the pandemic.

- In the year prior to the pandemic, richer households saw a much smaller rise in incomes than poorer ones.

A PRE-PANDEMIC PHENOMENON?

- Growth incidence curves showing % change in income across income distribution.
- Negative slope indicates progressive change (faster growth of poorer households).

Real Income Growth between 2018 and 2019

Real Income Growth between 2019 and 2020
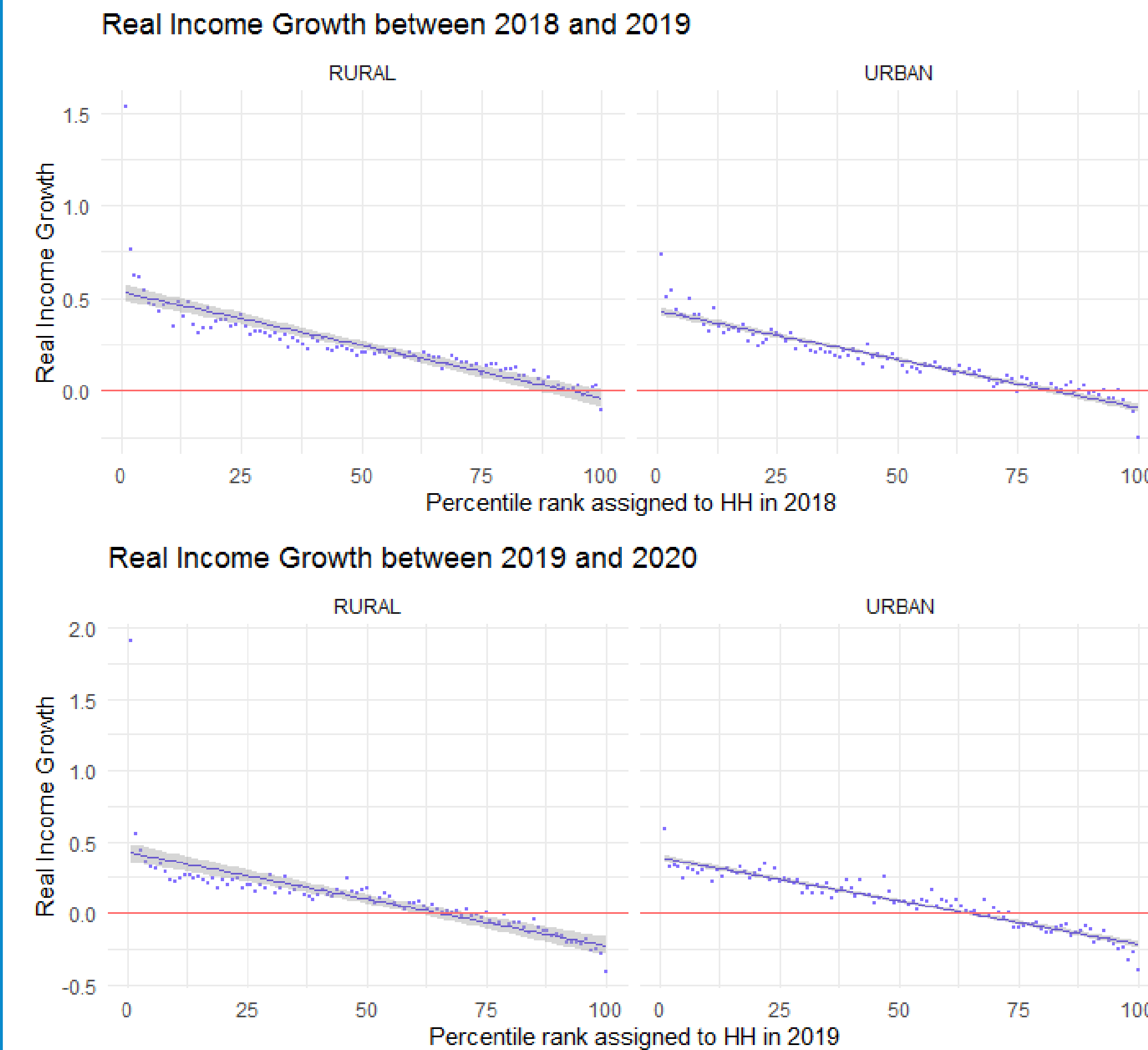
CONCLUSIONS

- Earlier studies have reported that impact of the Covid-19 lockdown in 2020 was progressive (richer households suffered more).
- We show that this progressive trend pre-dates the pandemic year. In fact, this pre-existing trend was muted during the lockdown.
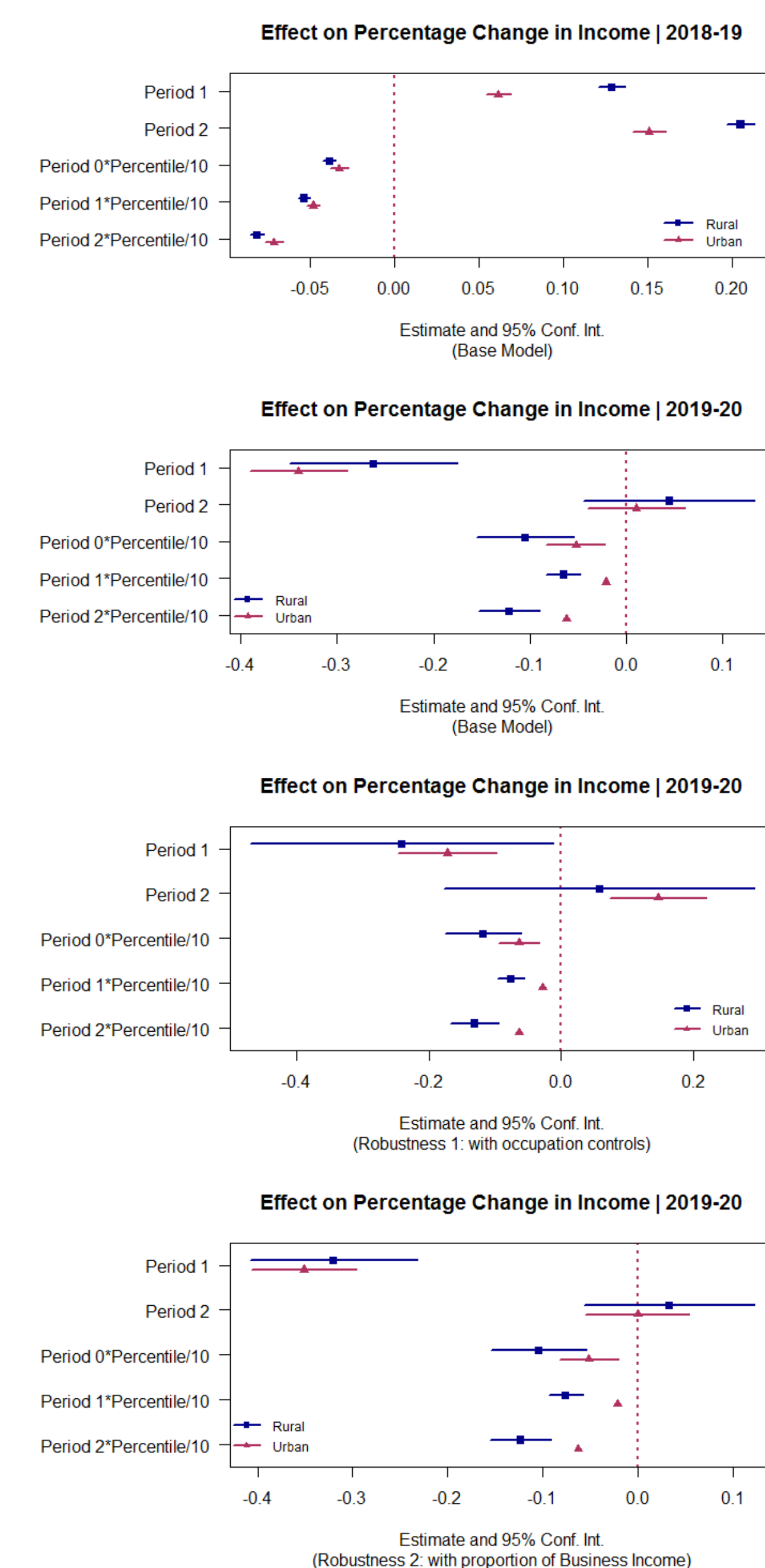
DATA AND METHODS

- **Consumer Pyramids Household Survey by CMIE**
  - Large, nationally representative panel dataset of 2,00,000 households across India.
  - Information available since 2016 on demographics, employment status, income, consumption, and assets.
  - Each household interviewed thrice a year.
- **Method**
  - Monthly household income from all sources per capita generated using 1st month's weight and adjusted for inflation.
  - We regress % change in income over baseline year's average on time (month or group of months) and income percentile to which household belonged in baseline year.

## EXPLORING MECHANISMS FOR WHY RICHER HOUSEHOLDS SUFFERED LARGER PROPORTIONATE FALLS IN INCOME

- Progressive nature of income shock during lockdown months persists after controlling for source of income.
- Progressivity is smallest during lockdown months.

Legend			
2018-19 Panel		2019-20 Panel	
Period	Month	Period	Month
0	Jan-Mar 2019	0	Jan-Mar 2020
1	Apr-Jun 2019	1	Apr-Jun 2020
2	Jul-Dec 2019	2	Jul-Dec 2020

Base Model: $\Delta Income_{i,t} = [\beta_0] + \beta_1 period_t + \beta_2 percentile_i + \beta_3(period_t \times percentile_i) + \varepsilon$

Effect on Percentage Change in Income | 2018-19

Effect on Percentage Change in Income | 2019-20

Effect on Percentage Change in Income | 2019-20
(Robustness 1: with occupation controls)

Effect on Percentage Change in Income | 2019-20
(Robustness 2: with proportion of Business Income)

CHANGES IN PER-CAPITA INCOME DURING THE COVID PERIOD

- Drop and recovery of household income during pandemic for each decile.
- Income trends with reference to January 2019 for each decile.
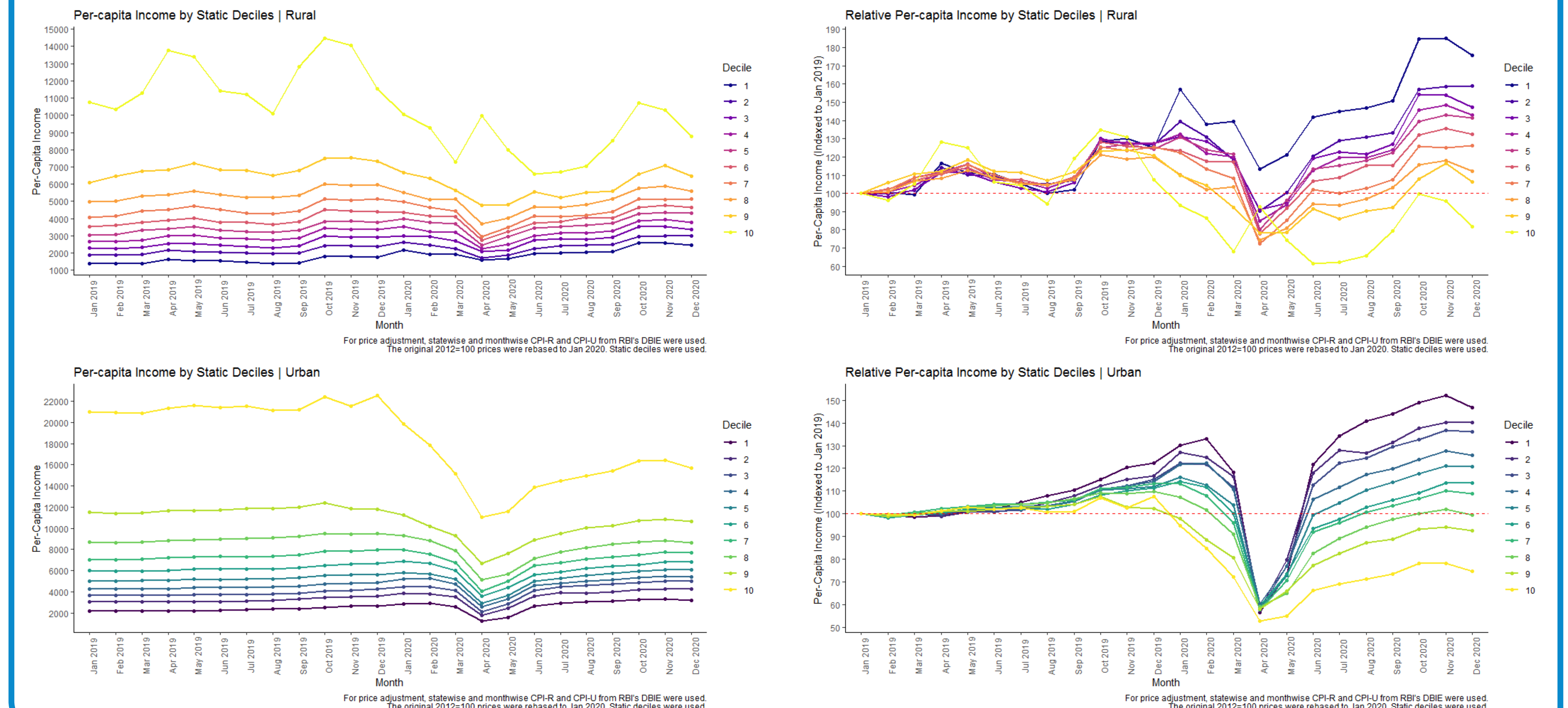
RELATIVELY RICHER HOUSEHOLDS SUFFERED LARGER PROPORTIONATE FALLS IN INCOME

$\Delta Income_{i,t} = [\beta_0] + \beta_1 month_t + \beta_2 percentile_i + \beta_3(month_t \times percentile_i) + \varepsilon$;
where $\Delta Income_{i,t} = \frac{Income_t - Mean\_2019\_income}{Mean\_2019\_income}$, i = household, t = month.

- Left column - month coefficients showing income drop and recovery for median household
- Right column - month-percentile interaction showing extent to which income decline rises with higher percentiles.

Month Coefficients| Rural

Month*Percentile Marginal Effects| Rural

Month Coefficients| Urban

Month*Percentile Marginal Effects| Urban