

Employment, the key factor for reducing inequality

Debates about inequality often focus on dispersion in wage levels and omit one very important aspect: inequality in wage income also depends on the «intensity» of employment, that is, on whether people are working at all and, if so, how frequently. Spain is a prime example, with a high rate of temporary employment (25.1% in Q2 2021) and a proliferation of ever-shorter labour contracts which has a marked impact on inequality. During the financial crisis (2007-2011), the sharp increase in inequality in Spain was 80% attributable to the drop in employment and 20% to an increase in wage dispersion among workers.¹ These proportions were almost the polar opposite of the OECD average, where only 18% of the increase in inequality between 2007 and 2011 was explained by changes in employment and 82% was due to the greater dispersion of wages among workers. What happened during the pandemic?

Employment, the main factor behind the changes in wage inequality during the COVID-19 crisis

During the crisis triggered by the pandemic, the evolution of inequality in Spain was once again heavily influenced by swings in employment. For instance, between February and April 2020, almost 90% of the increase in wage inequality (before public transfers) was due to the fall in employment, while the rest resulted from increases in wage inequality among those in work.² Therefore, in order to understand the evolution of inequality, we must review the dynamics in employment, in particular among the most affected groups.

The likelihood of remaining in employment was not equal for all workers during the COVID-19 crisis

To begin with, we looked at what happened during the pandemic to those who had been working in the months prior to the outbreak. Specifically, from March 2020, when restrictions on mobility and activity began to be imposed, the likelihood of remaining in employment³ was significantly reduced for the population as a whole, but the impact was very different depending on the characteristics of each worker.

- Workers with lower wage incomes before the pandemic were the ones most likely not to be employed in the following months. Specifically, for workers in the lowest wage quintile, the probability of being employed was reduced by as much as 38% in May 2020, 23 pps higher than in the case of those in the highest quintile. These differences declined somewhat in the following months, although workers in the lower wage quintiles continued to be more likely not to be employed than those in the upper quintiles.
- By age, young people have been the group hardest hit by the pandemic in the labour market. In May 2020, the probability of being on a payroll was 18 pps lower, and the recovery in the following months was only partial.
- The probability of employment was also reduced more for foreign-born workers than for Spanish-born workers. The gap in the probability of being employed was 8 pps in April 2020 and, surprisingly, it continued to widen as the months passed, reaching 11 pps in November.
- Women were less likely than men to remain in employment in the first few months of the pandemic, with a gap in the probability of being employed which exceeded 4 pps and did not begin to recover until September.

More and higher-quality employment, the recipe for reducing wage inequality

Lower-income workers, young people, immigrants and women have once again been those most affected in the labour market. The recovery in employment is not yet complete, especially for the most vulnerable groups. That is why the increase in inequality compared to the pre-pandemic level is still considerable, and employment, as the main factor affecting inequality, will once

1. Internal calculations based on data from the OECD (2015). «In it together. Why Less Inequality Benefits All». OECD Publishing, Paris.

2. See O. Aspachs, R. Durante, A. Graziano, J. Mestres, J. Montalvo and M. Reynal «Real-time inequality and the welfare state in motion: evidence from Covid-19 in Spain», Economic Policy, soon to be published, for a detailed explanation of this estimate.

3. For this exercise we do not consider workers on furlough as being in employment, since they do not work while they are on furlough, and we restrict the analysis to the period from March to November 2020. We computed a regression at the individual level of the probability of being employed month by month according to a worker's individual characteristics (gender, age and country of birth) and their income quintile prior to the pandemic (in February 2020), also controlling mobility restrictions at the provincial level as well as the province in question:

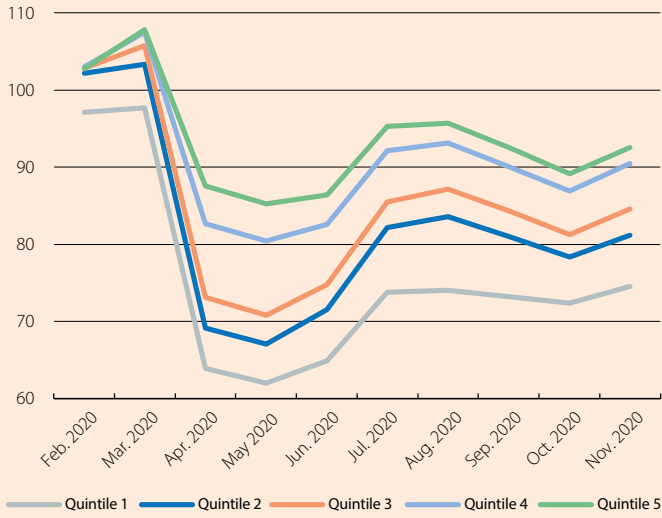
$$E_{ijt} = \sum_{k=1}^5 a_{kt} I(qk) + \sum_{g=1}^6 \beta_{gt} X_{ijt} + \sum_{j=1}^{49} \delta_j I(Prov = j) + \varepsilon_{ijt}$$

Ibidem, for more details on the methodology used.

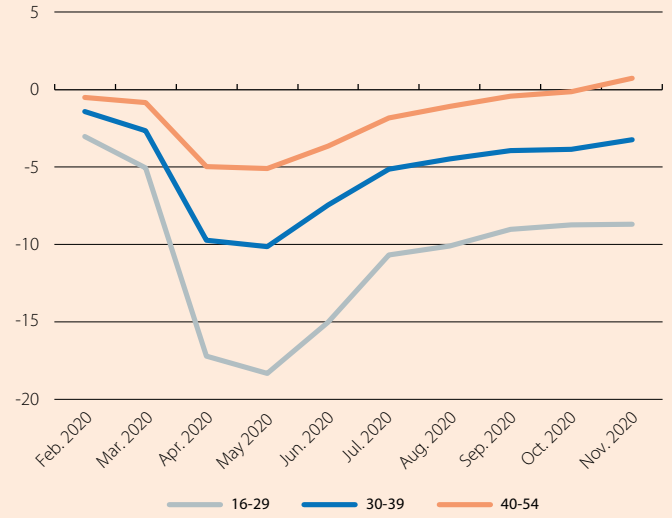
Probability of employment during the COVID-19 crisis *

Change in probability (pps) **

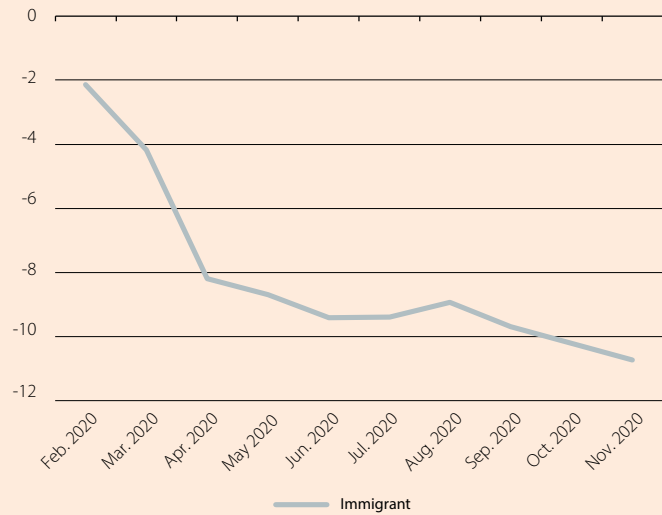
a) Pre-pandemic income quintile



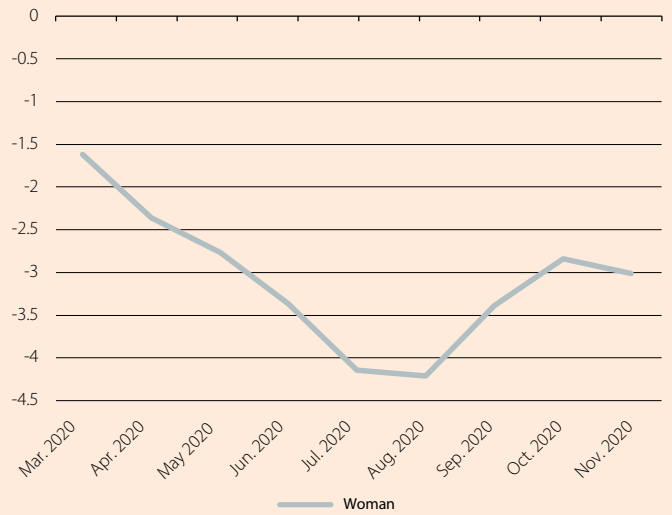
b) Age (reference group: workers from 55 to 65 years old)



c) Country of birth (reference group: Spain)



d) Gender (reference group: men)



Notes: * Coefficients resulting from a regression at the individual level of the probability of being employed month by month, controlled by the mobility restrictions at the provincial level in question and according to the worker's individual characteristics (gender, age and country of birth) and their income quintile prior to the pandemic (e.g. February 2020) except for in the case of gender. For further details on the methodology employed, see O. Aspachs et al. (2021), «Real-time inequality and the welfare state in motion: evidence from Covid-19 in Spain», *Economic Policy*, soon to be published.

** For the income quintiles the chart shows the probability of employment rather than the change in probability.

Source: CaixaBank Research, based on internal data.

again be the main lever for correcting it. Improving workers' employability so that no one is left behind, as well as increasing the «intensity» of their employment, are the key tools for ensuring that the rise in inequality does not become a permanent scar left by the pandemic.

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