

Wage inequality in Spain returns to the pre-pandemic levels

The economic crisis triggered by the COVID-19 pandemic dealt a heavy blow to Spaniards' incomes. In the space of just a few weeks, 600,000 workers lost their jobs and over 3.5 million were placed on furlough schemes. The subsequent waves of the coronavirus continued to severely limit the labour market. However, two years on, the situation has changed substantially: in Q1 2022, the level of employment (20.08 million people in work) is already higher than prior to the pandemic, while the unemployment rate, at 13.6%, is 1 point lower than the pre-pandemic rate.

In this article, we analyse the impact of the COVID-19 pandemic on income inequality in Spain using fully anonymised mass data from payrolls paid into CaixaBank accounts, as well as the public sector benefits received by workers (unemployment and «ERTE» furlough subsidies). These data are processed at high speed using big data techniques and allow us to perform a highly representative and detailed analysis.¹ With the information obtained from this analysis, we can conclude that the recovery of the labour market has managed to erase the impact of the pandemic on wage income inequality in Spain as of April 2022.

This study is part of a collaboration project with researchers from Pompeu Fabra University, the Institute of Political Economy and Governance (IPEG) and CaixaBank Research, which has made it possible to track changes in inequality month by month since the beginning of the pandemic. The full results of this work, including a variety of inequality indicators covering both the population as a whole and specific subgroups, as well as various publications, can be found in this section of our website: <https://inequality-tracker.caixabankresearch.com/>.

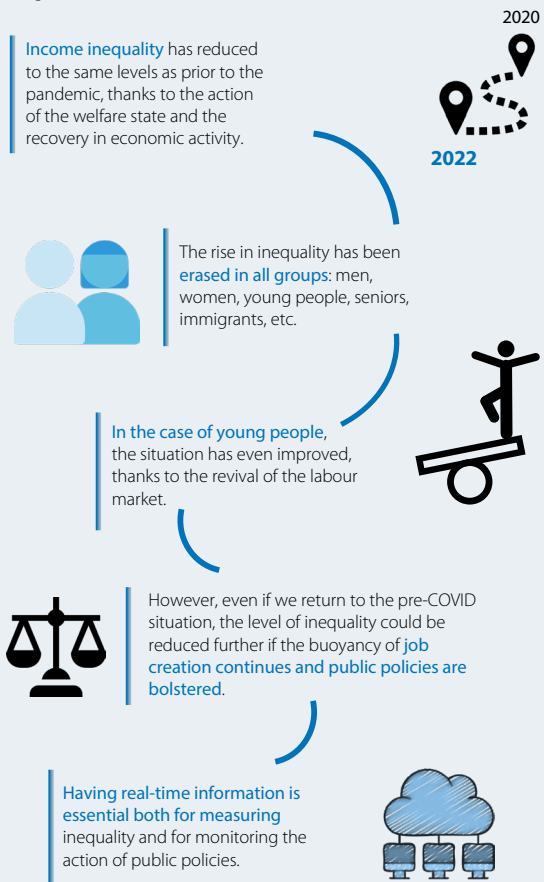
Return to the pre-pandemic situation in income inequality

A real-time analysis of wage incomes shows that, in 2022, the impact which the pandemic had on inequality has been undone and it now stands at a level very close to that which existed prior to the pandemic. Specifically,

1. For more details on the representativeness of the data, see O. Aspachs, R. Durante, A. Graziano, J. Mestres, M. Reynal-Querol and J.G. Montalvo (2021). «Tracking the impact of COVID-19 on economic inequality at high frequency». PLOS one, 16(3), at <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0249121>.

2. The Gini index is the benchmark index for analysing the level of wage inequality. It can have values between 0 and 100. Higher figures reflect higher levels of inequality, and vice versa. The change in the Gini index with respect to February 2020 is corrected for the mean seasonal change experienced during the same period of 2018 and 2019.

Inequality returns to the starting blocks in Spain



Source: CaixaBank Research.

the Gini index² for Spain as of April 2022 was 0.4 points below the level of February 2020, just before the first restrictions were imposed.

Wage inequality returning to a situation similar to that of February 2020 is a significant milestone, given the impact the pandemic had on workers' earnings. Inequality in Spain, as measured by the Gini index, increased by 10.8 points in just two months, from February to April 2020, before public sector benefits (see first chart). Over the following months, as the mobility restrictions were eased, the increase in inequality moderated, but it remained high, at above 4 points in the second half of 2020. It was not until the spring of 2021, with a more pronounced economic revival, that we saw an acceleration in the rate of inequality reduction.

Public sector subsidies played a key role in containing this rise in inequality, given that the benefits were able

to reduce inequality by around 80% at the height of the crisis. Specifically, the increase in wage income inequality taking into consideration the public sector benefits paid out between February and April 2020 was 2.4 points in Spain, compared to an increase of almost 11 points when considering wages alone. Two years on, in April 2022, the rise in inequality has been completely cancelled out. A curious observation is that inequality before public sector benefits as of April 2022 has actually fallen even more than after including those subsidies, contrary to what happened throughout the pandemic. While the difference between the two is small, it nevertheless shows how the significant rebound of the labour market has been the primary factor driving this improvement.

Has the impact of the pandemic on income inequality been erased for everyone?

Another good piece of news is that all groups of society have recovered to pre-pandemic levels of wage inequality. As of April 2022, almost all of the increase in income inequality for workers of different age groups, for women and men, and for those born in Spain or abroad have disappeared. For most groups, inequality is even lower than it was before the pandemic (see second chart).

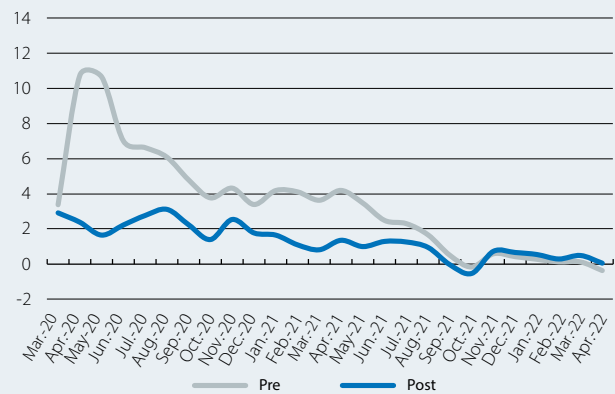
This is despite the fact that the impact of the economic crisis triggered by COVID-19 was very different for each group, affecting those with greater job insecurity the most. In April 2020, when the impact of the COVID-19 pandemic on economic activity was at its peak, the Gini index before public sector benefits increased by 16.3 points for young people (16 to 29 years of age), by 11 points for adults (30 to 49) and by 7 points for seniors (50 to 64). Also, inequality among foreign-born workers increased by 15.4 points compared to the pre-pandemic level, while for those born in Spain it rose by 9.8 points. The increase in wage income inequality between February and April 2020 was more similar between the sexes, with an increase of 11.4 points for women and of 10.4 points for men.

Has the impact of the pandemic on income inequality been erased throughout Spain?

All the autonomous community regions have returned to a situation in terms of wage inequality very similar to that of prior to the pandemic. This is despite the fact that the economic crisis triggered by the pandemic had a greater impact on regions such as the Balearic Islands and the Canary Islands, which registered increases in the Gini index of 18.8 and 16.2 points, respectively, between February and April 2020, or in Catalonia, where the index

Spain: evolution of the Gini index

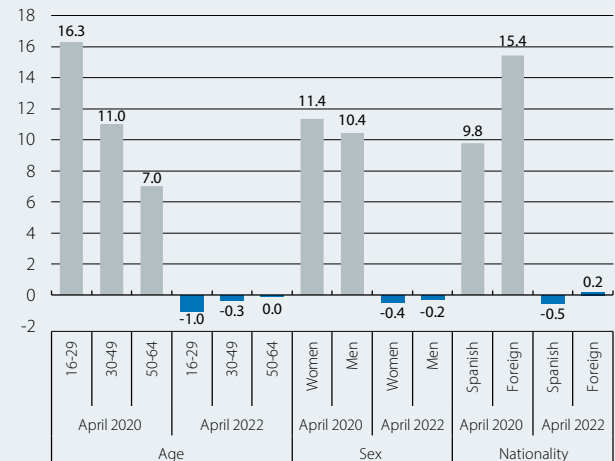
Change versus February 2020 * (points)



Notes: * Seasonally adjusted data. «Pre» corresponds to the Gini index before public sector benefits and «Post» to the index after these benefits.
Source: CaixaBank Research, based on internal CaixaBank data.

Spain: evolution of the Gini index for different groups

Change versus February 2020 * (points)



Notes: * Seasonally adjusted data. Gini index for each group corresponding to wage incomes before public sector benefits.
Source: CaixaBank Research, based on internal CaixaBank data.

rose by around 11 points. These differences between regions are due to the fact that the pandemic had a greater impact on economic activity in tourism sectors such as hospitality and catering, as well as in more urban areas.³

Two years on, in 2022, all regions are approaching the starting point just before the pandemic in terms of wage inequality, and some are even in a better situation than they were then (including the most touristy regions).

3. For further details, see the article «Factors behind the differences on inequality at the regional level» in the Dossier of the MR10/2021.

How have we returned to pre-pandemic levels: with an unprecedented public policy response and thanks to the ERTE furlough schemes

The rapid and broad response of public policies deployed to mitigate the impact of the pandemic is the first key to this rapid recovery. Workers were left unable to work for reasons beyond their control, but they kept their jobs thanks to the mechanisms of the ERTE furlough schemes. These schemes also allowed workers to maintain part of their wage incomes and are an essential element of the package of measures introduced to support businesses and households as part of the public policy response to counteract the crisis triggered by COVID-19.⁴

On the other hand, the strong economic recovery as we emerged from the crisis in Spain has made it possible for 20.08 million Spaniards to be in work in Q1 2022, 614,000 more than in Q1 2019. As a result of the great momentum with which economic activity has resumed, the increase in employment has favoured groups which traditionally found it harder to find work, such as young people, women or immigrants.

Reducing inequality in Spain remains a key objective

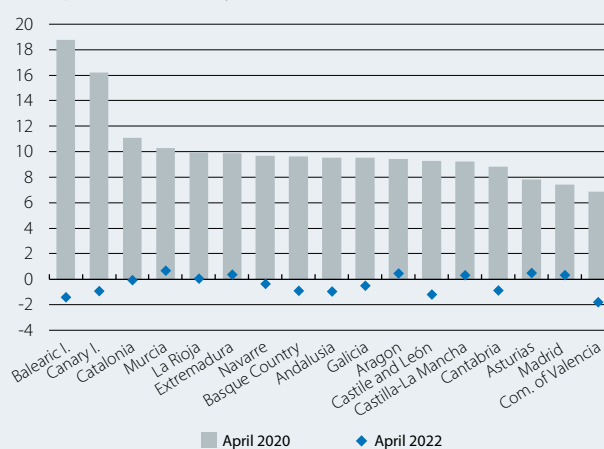
Despite the improvement in the sphere of workers' income inequality during the past crisis, we should not be complacent. When the pandemic broke out, the level of inequality prior to the financial crisis had not yet been recovered, and it is therefore necessary to reduce it further still. Buoyancy in job creation, as we have seen in this phase of emergence from the pandemic, is a key element for achieving this: more and better jobs for all groups of society enable a real and effective reduction in income inequality. On the other hand, policies aimed at reducing inequality need to be bolstered. In this regard, the minimum income (Ingreso Mínimo Vital) is an essential public policy for households with few resources and tenuous links to the labour market. However, introducing a policy of this magnitude requires careful assessment, as has already been planned, and above all requires it to be adjusted once the results of this process are known in order to improve its effectiveness.

Furthermore, in 2022 the war in Ukraine and the bottlenecks are pushing up commodity prices and, as a result, the prices of an ever-increasing number of consumer products. The economic outlook is complex, with widely differing impacts from sector to sector

4. For further details, see the article «[Economic measures to counteract the impact of COVID-19 in Spain](#)» in the MR04/2020.

Spain: evolution of the Gini index since the beginning of the pandemic by autonomous community

Change versus February 2020 * (points)



Notes: * Seasonally adjusted data. Gini index for each autonomous community corresponding to wage incomes before public sector benefits.

Source: CaixaBank Research, based on internal CaixaBank data.

and across different population groups, so we cannot lower our guard.⁵ Tracking the impact of a crisis in real time, by monitoring changes in inequality or other economic indicators, is as useful now as ever. This is particularly the case because it allows us to react quicker in adjusting the economic policy response, as well as to take steps to protect the most vulnerable groups, as has been successfully done during the COVID-19 crisis.

*Oriol Aspachs (CaixaBank Research),
Ruben Durante (ICREA-UPF, IPEG and Barcelona GSE),
Alberto Graziano (CaixaBank Research),
Josep Mestres (CaixaBank Research),
Jose G. Montalvo (UPF, IPEG and Barcelona GSE) and
Marta Reynal-Querol (ICREA-UPF, IPEG and Barcelona GSE)*

5. For further details, see the article «[The Spanish economy in the face of the war in Ukraine](#)» in the Key Points of the Month of the MR03/2022.