

Inaugural III/LIS Comparative Economic Inequality Conference

The distribute impact of labour market and cash transfer policies during the COVID-19 pandemic in Latin America

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Motivation

- Latin America was one of the regions most strongly affected by the COVID-19 pandemic. -7% GDP, -10% employment in 2020.
- At the outbreak of the COVID-19 pandemic the region was going through a five-year period of slowdown or reversal of improvements in the labour market performance that characterized previous years.
- In the third quarter of 2021, nearly two years after the onset of the pandemic, the employment rate and economic participation rate were still below those of 2019, while the unemployment rate was higher.
- Atypical behaviour that informal employment has had during this crisis.

Objective and contributions

Assess the dynamics of labour and family incomes, and of inequality and its source since the onset of the pandemic in six Latin American countries: **Argentina, Brazil, Colombia, Costa Rica, Peru and Uruguay.**

Contributions:

- Assessment of the **evolution of income distribution during different phases** along the two years analysed.
- Evaluation of the **role of different income sources** by differentiating the effect of the evolution of formal and informal employment, as well as the role of cash transfers.
- **Data for six countries.** More than 50% of the total population in the region; broad picture of the impacts of COVID-19 in Latin America.
- Unlike some previous studies, **distributive changes actually observed** without resorting to assumptions or microsimulations.
- Particular attention to the **dynamics of labour informality and its impacts on inequality.**

Data, methodology and measurement of informality

Microdata from regular household / employment surveys:

Argentina. Encuesta Permanente de Hogares (EPH)

Brazil. Pesquisa Nacional por Amostra de Domicílios Contínua (PNADC)

Colombia. Gran Encuesta Integrada de Hogares Contínua (GEIH)

Costa Rica. Encuesta Continua de Empleo (ECE); Encuesta Nacional de Hogares (ENAHO)

Peru. Encuesta Nacional de Hogares (ENAHO)

Uruguay. Encuesta Continua de Hogares (ECH)

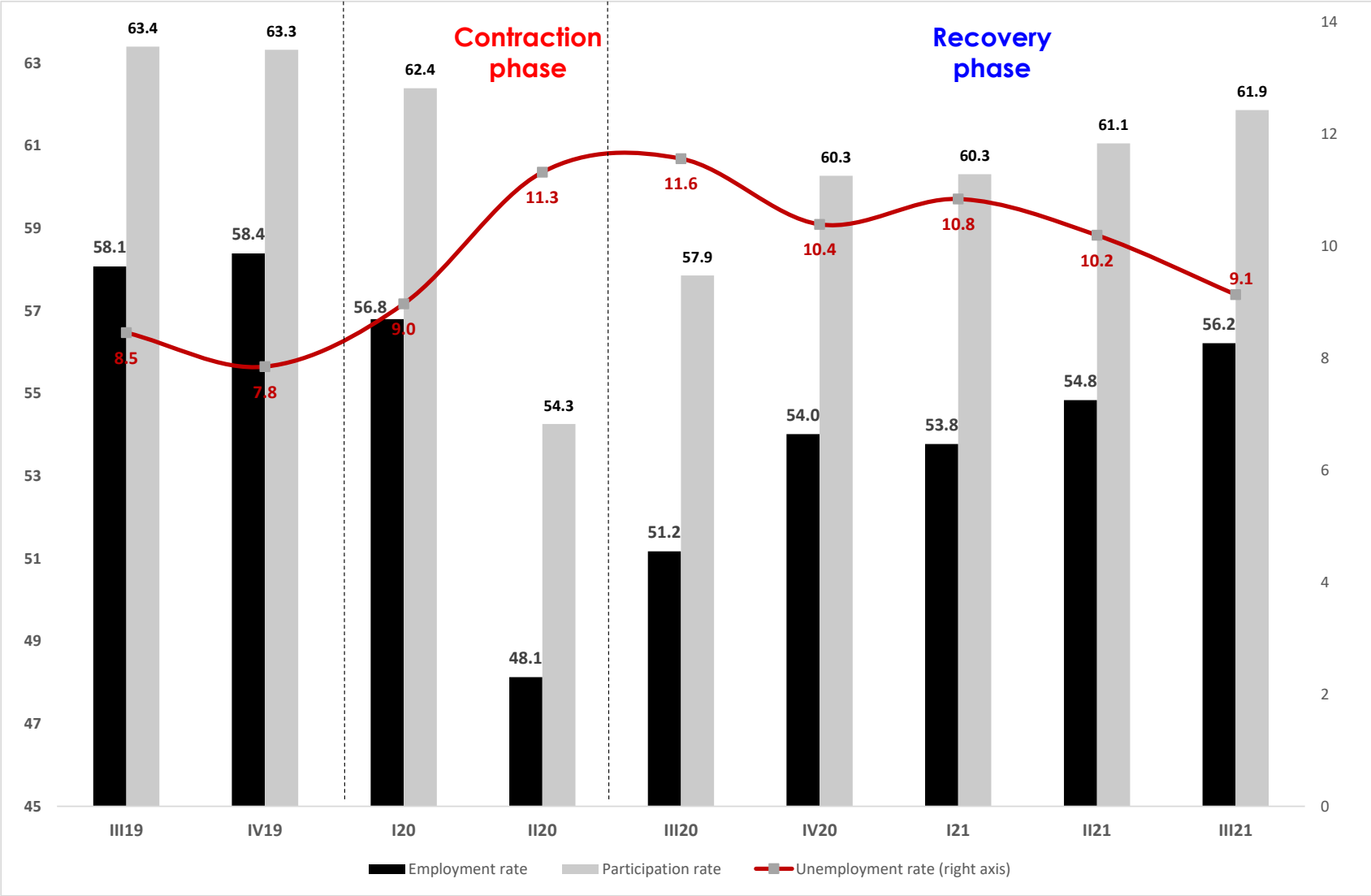
Period: IVQ2019 - IIIQ2021.

Methodology: analysis of different indicators of inequality. Decomposition of the Gini variation by income sources. Analysis of changes in total incomes and its sources by quintiles.

Measurement of informality. Based on the recommendations of the Conferences of Labour Statisticians (CIET).

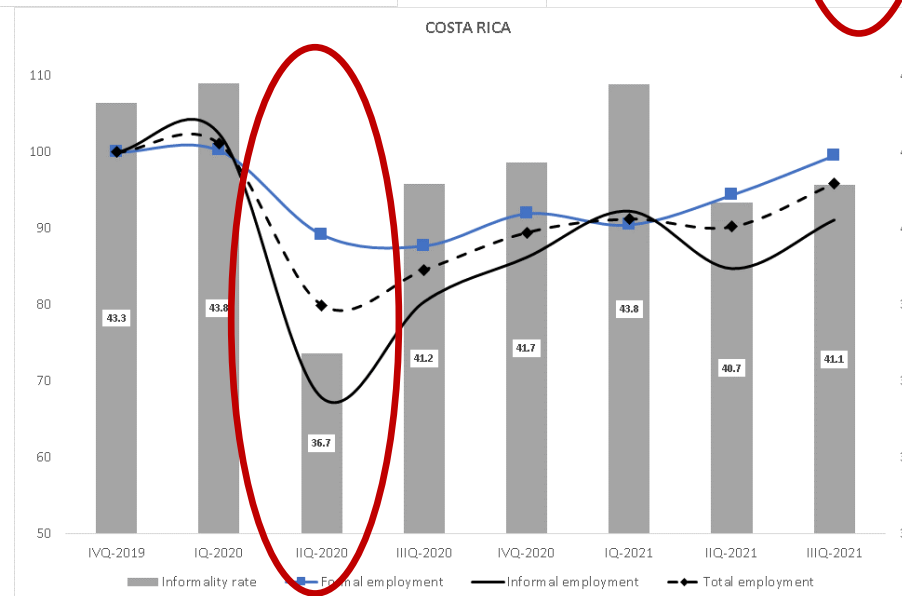
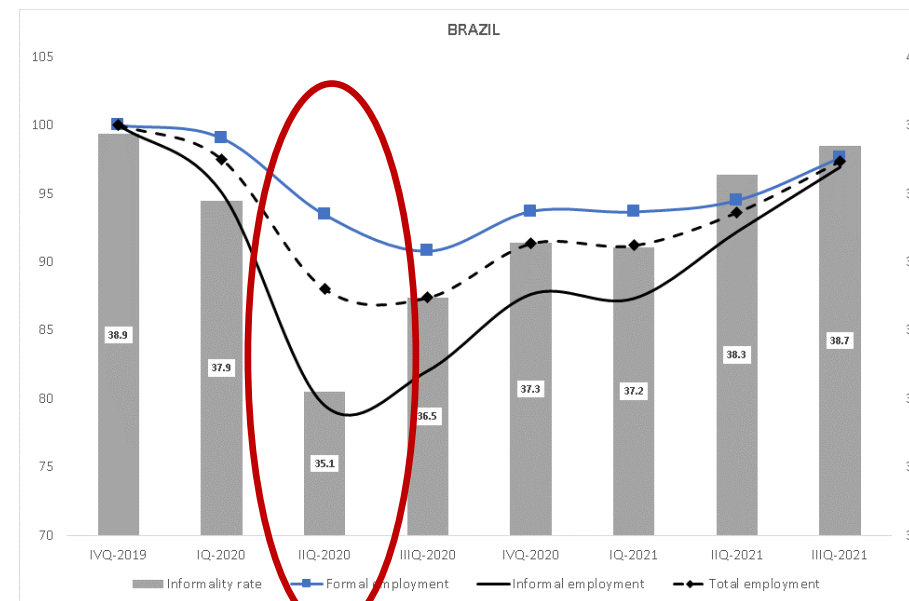
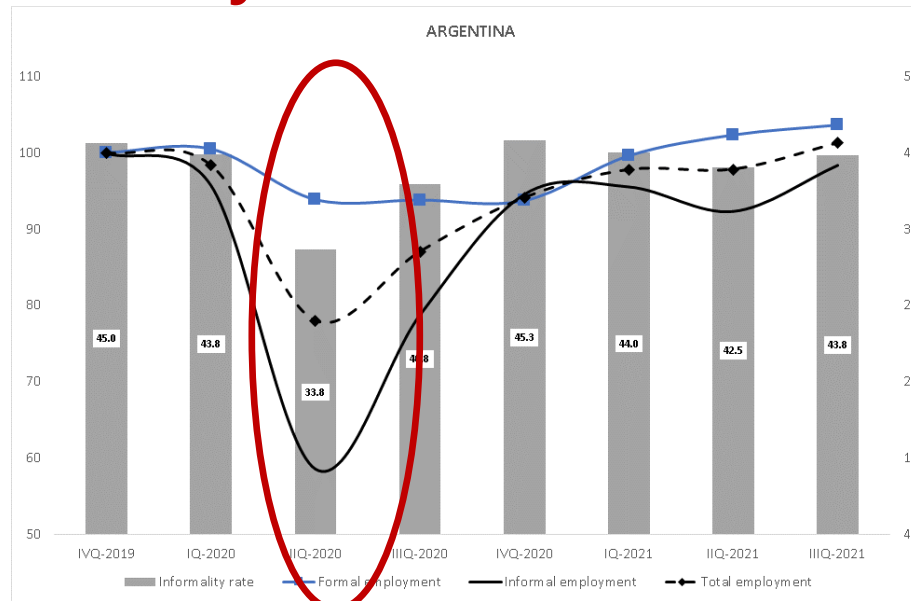
- **Informal employees** are those in jobs not subject to national labour laws or those concerning social security regulations.
- **Informal non-salaried workers** are those carrying out activities in the informal sector, i.e., people who work in units that are not registered in certain institutions (as tax agency) that are required for them to operate.

Evolution of the main labour market indicators



Two contrasting subperiods with partial recovery of the main labour indicators

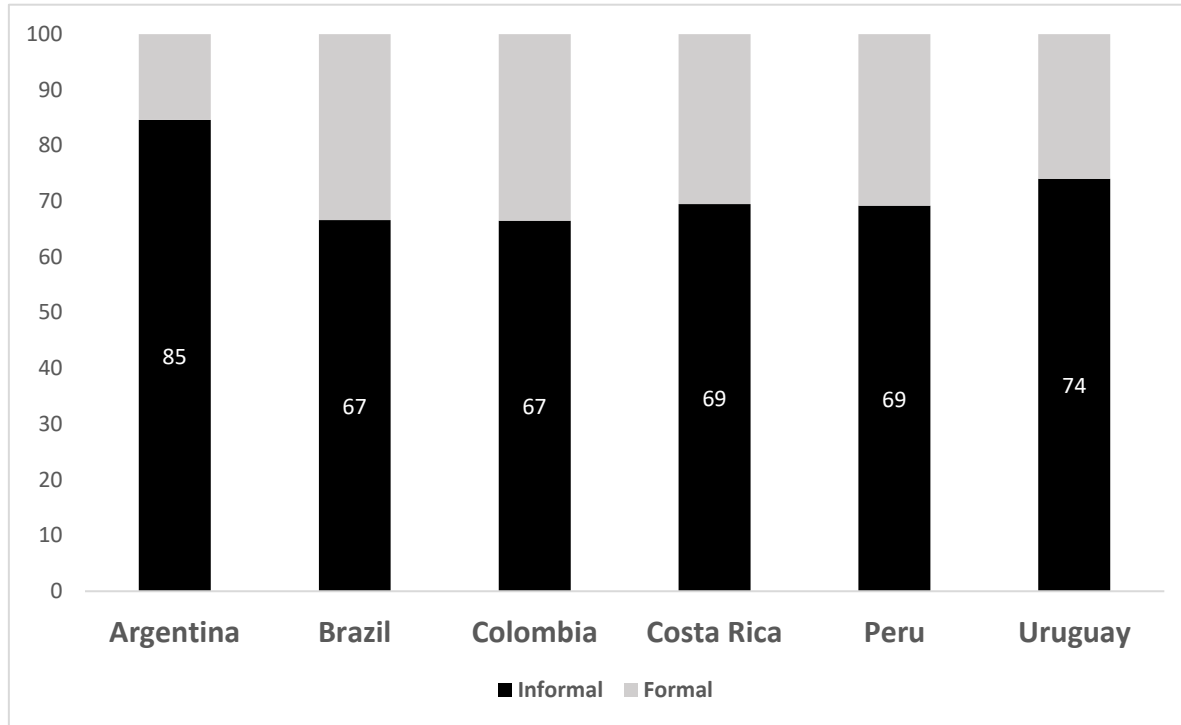
Evolution of total employment, informal and formal employment and informality rate



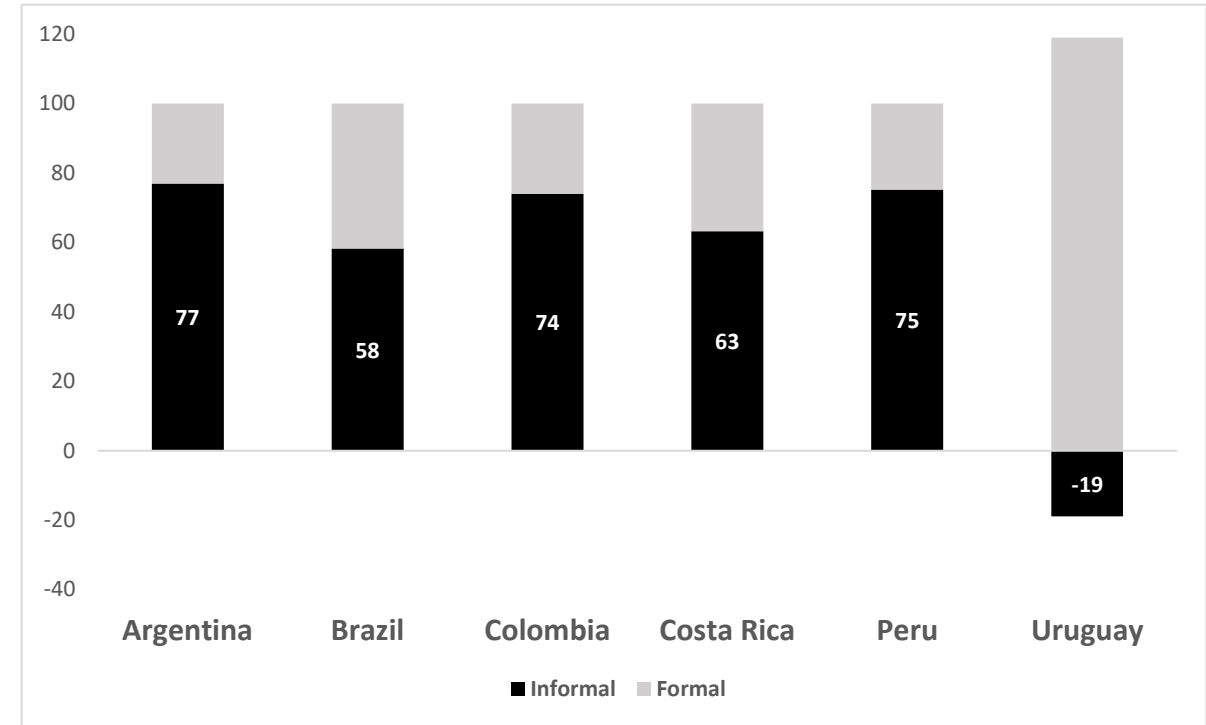
Traditional mechanism weakened:
 unlike previous crises, labour informality did not play the traditional counter-cyclical role.
Temporary drop in the informality rate.

Contribution of formal and informal employment to total employment

Contraction phase (IVQ2019-IIQ2020)



Recovery phase (IiQ2020-IIiQ2021)



Public policies implemented to support employment and incomes

	Retention of employment	Economic security for the unemployed	Economic security for vulnerable families and individuals
Instruments	<ul style="list-style-type: none">- Payroll subsidies- Unemployment insurance benefits- Other types of support to firms conditioned to the maintenance of employment	<ul style="list-style-type: none">- Contributory unemployment insurance	<ul style="list-style-type: none">- Conditional benefits- Unconditional (emergency) benefits- Other monetary and in-kind benefits
Target groups	<ul style="list-style-type: none">- Workers (full and part time, absent)	<ul style="list-style-type: none">- Unemployed	<ul style="list-style-type: none">- Unemployed, inactive and informal workers- People with no or low incomes regardless of their work status

Percentage change of total labour incomes

	Contraction phase (IVQ2019-IIQ2020)	Recovery phase (IIIQ2020-IIIQ2021)	Net Variation
Argentina			
Total labour income	-21.4		
Formal income	-10.7		
Informal income	-50.7		
Brazil			
Total labour income	-7.5		
Formal income	-4.6		
Informal income	-18.3		
Colombia			
Total labour income	-18.7		
Formal income	-14.1		
Informal income	-27.3		
Costa Rica			
Total labour income	-23.0		
Formal income	-15.9		
Informal income	-45.0		
Peru			
Total labour income	-64.9		
Formal income	-59.6		
Informal income	-72.8		
Uruguay			
Total labour income	-2.3		
Formal income	0.0		
Informal income	-24.2		

Reduction in total labour incomes during the first half of 2020. Greater intensity among income from informal jobs

Increase in total labour incomes during the recovery phase. Greater intensity among income from informal jobs

Insufficient labour incomes recovery, especially from informal workers

Percentage change of total family incomes

	Contraction phase (IVQ2019-IIQ2020)	Recovery phase (IIQ2020-IIIQ2021)	Net Variation
Argentina			
Total	-16.8		
Labour income	-21.4		
Cash Transfers	193.4		
Brazil			
Total	-8.9		
Labour income	-9.4		
Cash Transfers	216.3		
Colombia			
Total	-16.1		
Labour income	-18.7		
Cash Transfers	52.4		
Costa Rica			
Total	-11.3		
Labour income	-20.2		
Cash Transfers	203.8		
Peru			
Total	-52.8		
Labour income	-65.0		
Cash Transfers	153.1		
Uruguay			
Total	-2.1		
Labour income	-2.3		
Cash Transfers	28.7		

Significant **increase in cash transfers**. However, they were not enough to offset the drop in labour incomes.

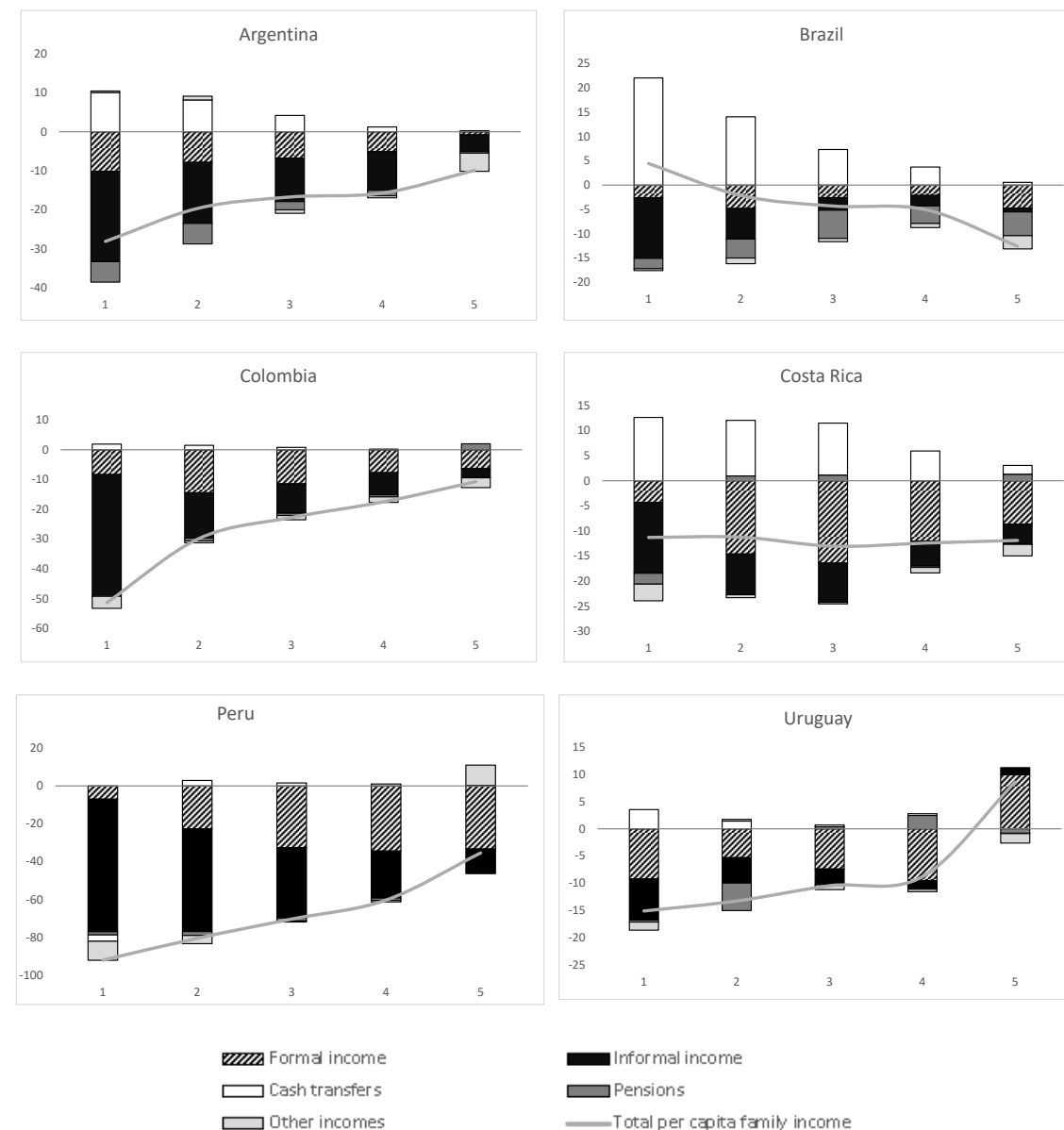
Opposite behaviors in the recovery phase.

Contraction phase IV2019-II2020

Changes in total per capita family income and its sources by income quintiles

Decomposition of Gini variation by income sources

Source	Argentina	Brazil	Colombia	Costa Rica	Peru	Uruguay
Total labour incomes	4.4	0.5	4.2	2.2	14.9	5.4
Formal	1.9	-0.4	1.9	1.4	6.1	3.8
Informal	2.5	0.9	2.3	0.7	8.8	1.5
Cash transfers	-2.3	-3.1	-0.4	-2.3	-1.0	-0.5
Pensions	0.9	-0.3	1.2	0.4	1.1	0.1
Other incomes	-1.0	-0.5	-0.4	-0.3	5.7	-0.2
Gini variation (pp)	2.0	-3.3	4.6	-0.1	20.6	4.8

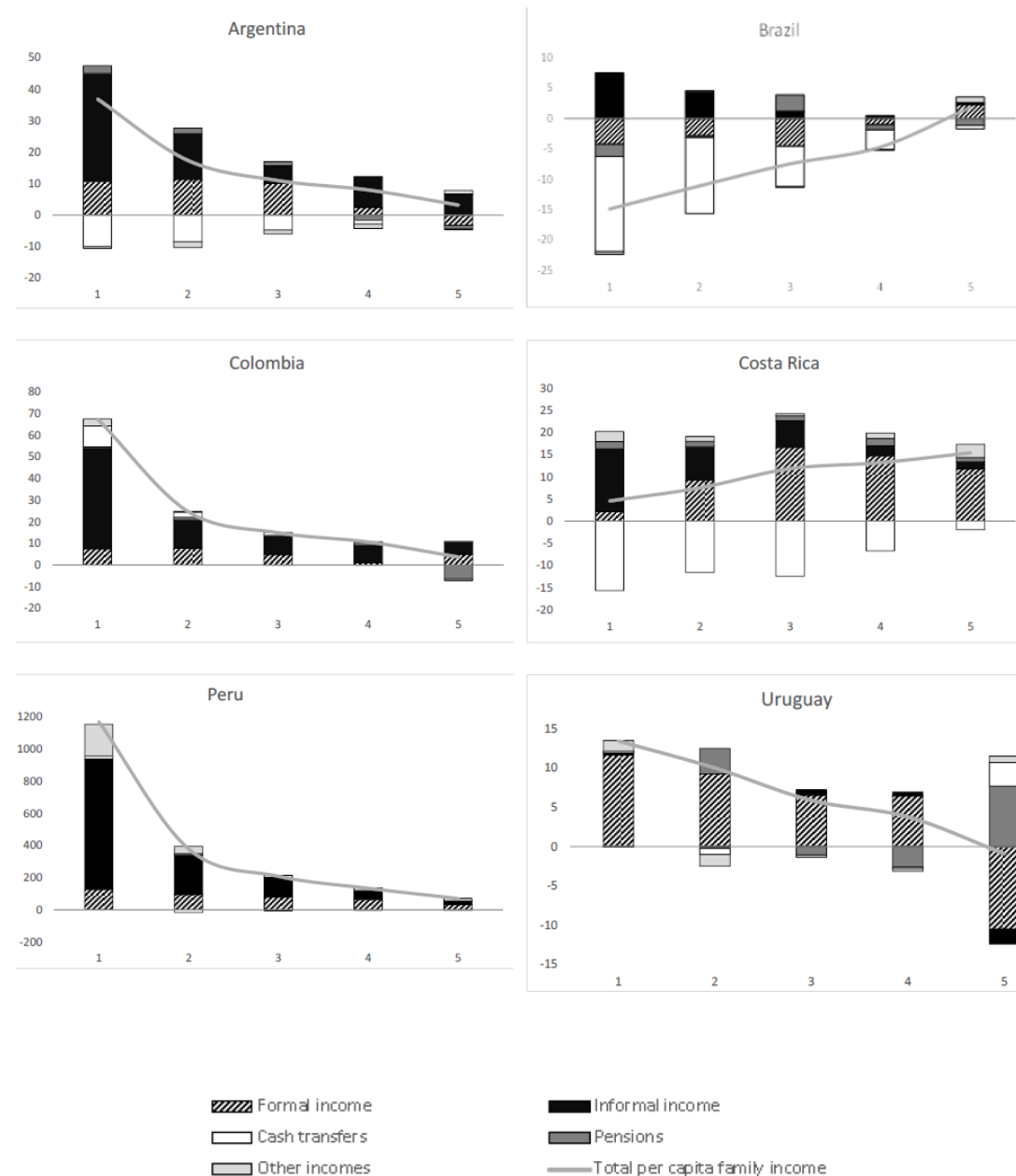


Recovery phase II2020-III2021

Changes in total per capita family income and its sources by income quintiles

Decomposition of Gini variation by income sources

Source	Argentina	Brazil	Colombia	Costa Rica	Peru	Uruguay
Total labour incomes	-3.2	0.4	-1.4	-1.3	-14.3	-5.0
Formal	-1.2	1.4	-0.4	-0.3	-7.3	-4.6
Informal	-2.1	-1.0	-1.0	-1.0	-7.0	-0.4
Cash transfers	1.9	2.3	-0.4	2.4	1.3	0.8
Pensions	-1.0	-0.3	-1.7	-0.3	-1.1	1.7
Other incomes	0.4	0.2	-0.2	0.4	-3.0	0.2
Gini variation (pp)	-1.9	2.5	-3.7	1.3	-17.0	-2.4



Whole period. IV2019-III2021

Decomposition of Gini variation by income sources

Source	Argentina	Brazil	Colombia	Costa Rica	Peru	Uruguay
Total labour incomes	1.2	0.8	2.8	0.9	-0.3	0.3
Formal	0.8	0.9	1.5	1.1	-2.1	-0.9
Informal	0.4	-0.1	1.4	-0.2	1.9	1.1
Cash transfers	-0.4	-0.8	-0.8	0.0	0.2	0.3
Pensions	-0.1	-0.6	-0.6	0.1	-0.1	1.8
Other incomes	-0.7	-0.2	-0.6	0.1	3.6	0.0
Gini variation (pp)	0.1	-0.7	0.8	1.2	3.5	2.4

Final remarks

- Unequalizing impact of the worsening of the labour market during the contraction phase. Significant loss of informal jobs. Lower tail of distribution. This effect was partially offset by the equalizing role of cash transfers.
- Opposite impacts of these income sources during the recovery phase.

Policies implemented: Progress but also challenges

- **Rapid and timely** interventions.
- Transfer schemes faced the **challenge of expanding registration** of people. **Previous experience** to reach the most affected population more rapidly.
- Need for a broad **agenda of far-reaching and comprehensive policies**.
 - Creation of formal employment and formalization of informal employment through a comprehensive set of instruments. Innovation, productivity, vocational training.
 - Labour institutions, in particular, minimum wage and collective bargaining.
 - Economic security and social protection.