

THE DISTRIBUTIVE IMPACT OF LABOUR MARKET AND CASH TRANSFER POLICIES DURING THE COVID-19 PANDEMIC IN LATIN AMERICA

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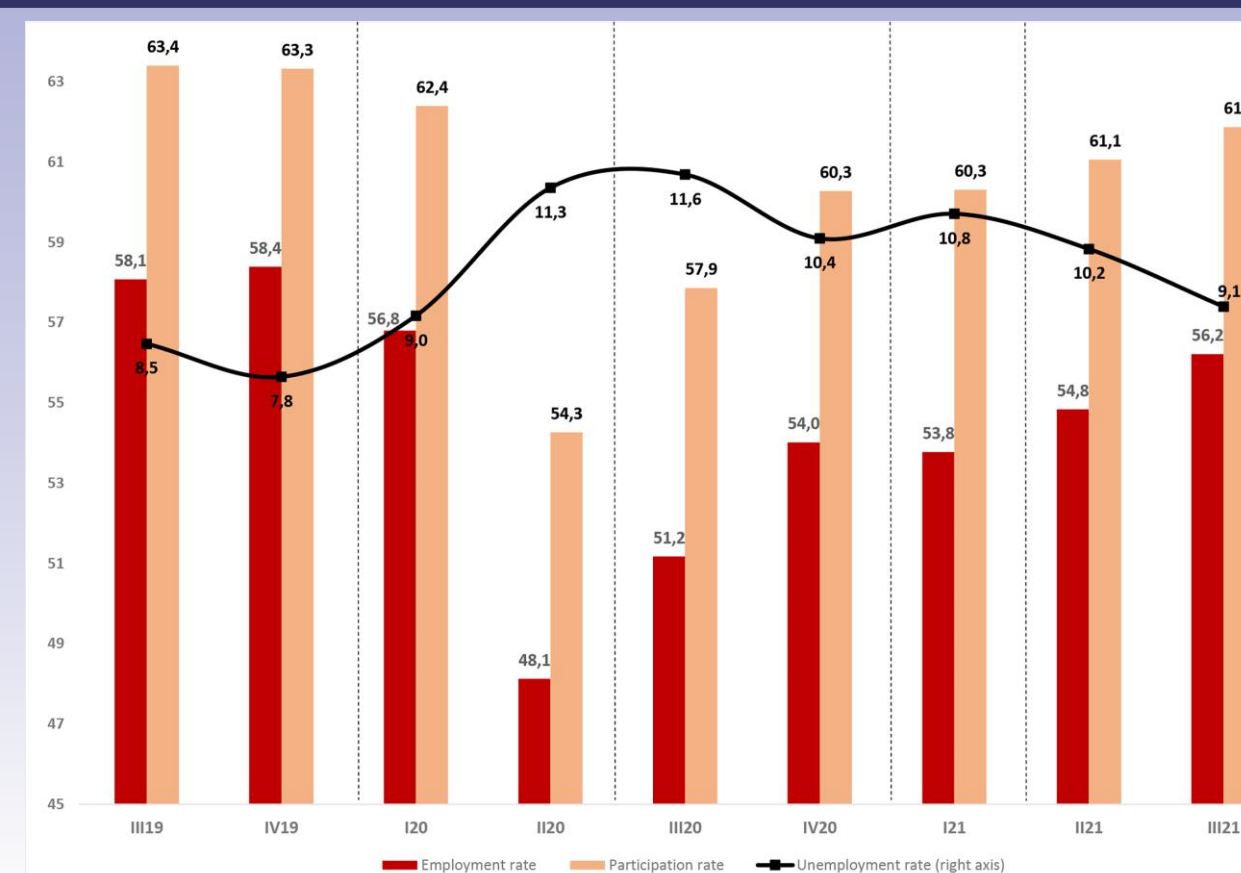
OBJECTIVES

The main aim of this paper is to assess the dynamics of family income inequality and its components since the onset of the pandemic in six Latin American countries: Argentina, Brazil, Colombia, Costa Rica, Peru and Uruguay.

DATA AND METHODOLOGY

Data coming from national household surveys is employed to estimate inequality indicators and to analyze the effect of different variables through decomposition methods. For Argentina the data source is EPH (INDEC), PNADC (IBGE) for Brazil, GEIH (DANE) for Colombia, ECE and ENAHO (INEC) for Costa Rica, ENAHO (INEI) for Peru and ECH (INE) for Uruguay.

- The COVID-19 pandemic has triggered an economic recession of unprecedented magnitude and scope in Latin America as aggregate GDP contracted about 7% in 2020.
- The drastic reduction in GDP had an also rapid impact on employment with an intensity that is also unprecedented in the region: it declined by 15% between the first and second quarter of 2020.
- In the third quarter of 2021 the employment rate and economic participation rate were still below those of 2019, while the unemployment rate was higher.
- The significant reduction in the level of occupation differed among types of employment. This was reflected in a heterogeneous dynamic of income from formal and informal jobs, expecting a distributive impact. Such effect, however, could be offset by the evolution of non – labour incomes.



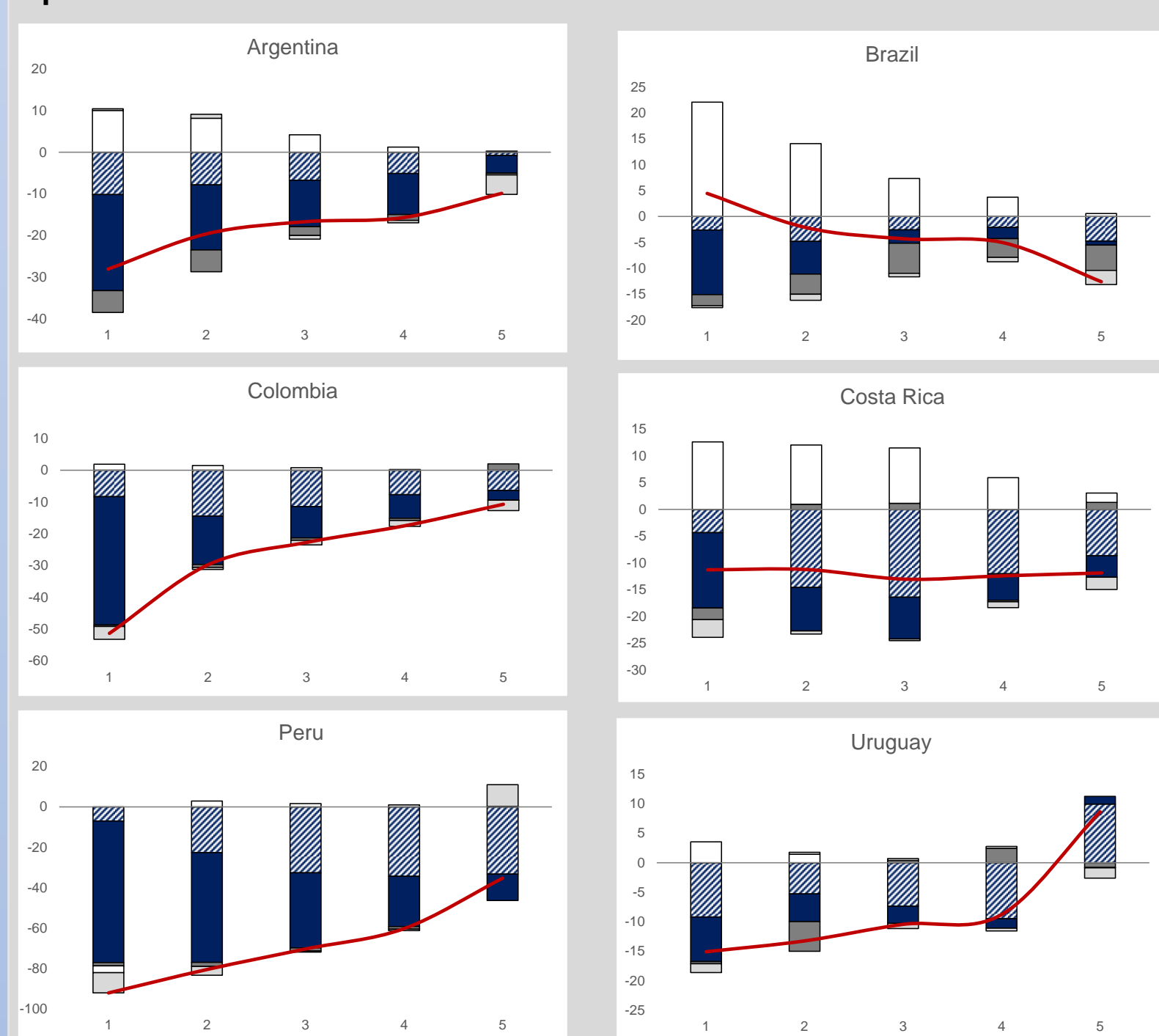
RESULTS

Inequality indicators. Per capita family income. IVQ 2019- IIIQ 2021

	Gini			Theil		
	IV19	II20	III21	IV19	II20	III21
Argentina	0.442	0.462	0.442	0.353	0.395	0.350
Brazil	0.548	0.515	0.515	0.609	0.529	0.529
Colombia*	0.532	0.578	0.541	0.594	0.781	0.605
Costa Rica**	0.526	0.525	0.538	0.529	0.519	0.566
Peru	0.465	0.671	0.500	0.409	1.004	0.542
Uruguay***	0.413	0.461	0.437	0.304	0.450	0.477

- Except in Brazil and Costa Rica, the inequality of per-capita household income increased during the initial phase.
- Then, hand in hand with the recovery of employment, there was a distributive improvement in all countries, with the exception of Costa Rica.

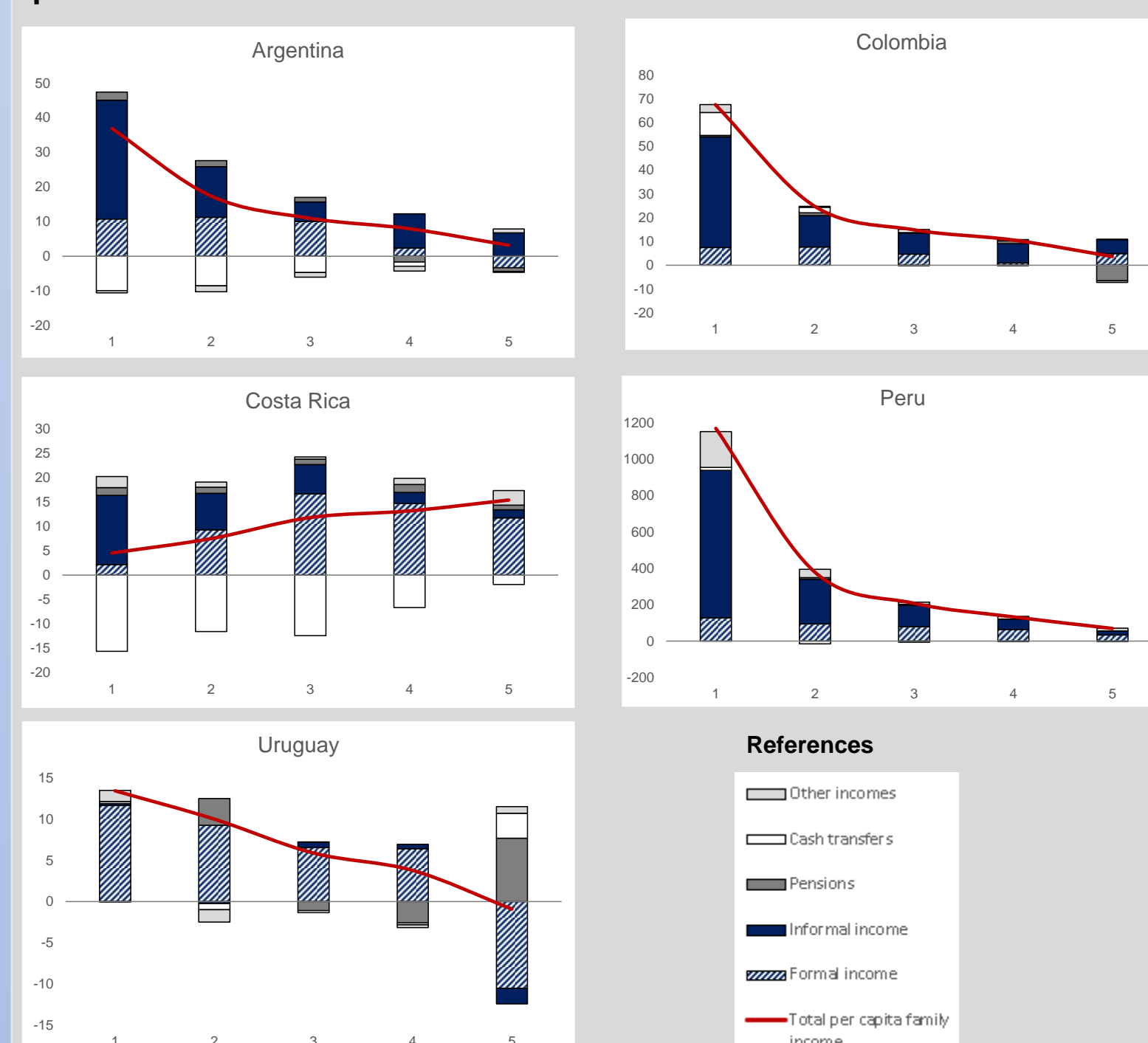
Changes in total per capita family incomes and its sources by income quintiles. IV2019-II2020



Gini decomposition by income sources. Contraction phase

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

Changes in total per capita family incomes and its sources by income quintiles. II2020-III2021



Gini decomposition by income sources. Recovery phase

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

CONCLUSIONS

- During the economic contraction phase, family incomes fell somewhat less than labour incomes, as a result of the cash transfer policies put in place.
- The unequalizing impact of the worsening of the labour market was mainly associated with the significant loss of informal jobs, which concentrate the largest share of overall employment at the lower tail of distribution. This effect was offset, at least partially, by the equalizing role of those cash transfers.
- The opposite impact of these income sources appears during the recovery phase, as most countries gradually reduced or stopped those transfers and employment and, therefore, labour incomes partially recovered.
- Nearly two years into the COVID-19 pandemic inequality is higher than 2019 in almost all countries studied exacerbating existing high-income gaps in the region.