COVID-19 in Latin America: The effects of an unprecedented crisis on employment and income

Luis BECCARIA,* Fabio BERTRANOU** and Roxana MAURIZIO**

Abstract. In 2020, Latin America was gripped by an unprecedented labour crisis brought on by the COVID-19 pandemic. This article analyses the pandemic’s impact on employment and income dynamics, and the policies implemented by the countries in the region. Findings point to a severe contraction in employment, working hours and income in consequence of the sharp decline in economic activity. These impacts have fostered inequalities, and the pathway to recovery is widening employment and income gaps between different population groups.

Keywords: COVID-19, Latin America, employment, income, money transfers, employment policies, active labour market policies.

1. Introduction1

In Latin America, the COVID-19 pandemic has generated an economic recession that is unprecedented in both scale and pervasiveness. According to various estimates, gross domestic product (GDP) for the region fell by between 7 per cent (IMF 2021) and 7.7 per cent (ECLAC 2021a), just above the prediction for the eurozone of 6.6 per cent but significantly exceeding the global estimate of 3.3 per cent (IMF 2021) and estimates for other regions with a majority of emerging and developing economies, such as Asia and Africa.2

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* Universidad Nacional de General Sarmiento (Argentina), email: labeccari@gmail.com.
** International Labour Office (ILO), emails: bertranou@ilo.org (corresponding author); maurizio@ilo.org. The authors would like to thank the two anonymous reviewers for their comments and suggestions.

1 Some sections in this article are partially based on Maurizio and Bertranou (2020) and on the authors’ contributions to Labour Overview of Latin America and the Caribbean (ILO 2020a).

2 Unless otherwise indicated, all the estimates in this introduction and in section 2 are taken from ECLAC (2021a) and IMF (2021).
When the COVID-19 pandemic hit, the region was going through a period of economic deceleration and its previous labour market gains were running out of steam. At the same time, the region’s structural characteristics persisted, these involving labour informality, low average incomes, significant wage gaps, and holes in the coverage and services provided by social protection and health systems. It is therefore not surprising that, notwithstanding the implementation of a wide spectrum of response policies, the macroeconomic collapse is having a disproportionate impact on certain population groups and is widening the region’s existing wage and social gaps. At the time of writing, the prospects for economic recovery are limited and remain highly uncertain, calling for extreme caution regarding the chances of a reversal in the labour market’s critical situation.

The COVID-19 crisis could also have the effect of slowing the progress achieved in the region’s labour markets in recent years – especially over the 2000–15 period. Among other things, the increase in women’s labour market participation could be checked by the gloomy economic outlook and fewer labour market opportunities, as well as by the suspension or reduction of education and care services, which is bringing a greater load of family responsibilities to bear on women. Global supply chains (GSCs) could also undergo transformations. They have been directly affected by the pandemic's impact on trade and by ongoing global competition over information and communication technologies.

This article evaluates the pandemic’s impact on employment, working hours, income and inequality in Latin America, identifies the associated labour market transitions and analyses the policies that have been implemented to counter the crisis. We draw on various sources of information to outline the impacts of the pandemic on the economy, employment and incomes. We use the indicators of economic activity and GDP provided by the relevant offices of national statistics, and the 2020 GDP projections published by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and the International Monetary Fund (IMF). In addition, we make use of labour market information provided by the Latin American and the Caribbean Labour Information and Analyses System of the ILO (SIALC/ILO). Lastly, we draw on microdata from national household surveys that covered the whole of 2020.

The second section of this article provides a general description of the scale and reach of the economic crisis generated by the COVID-19 pandemic. The third section outlines the pre-COVID labour market context. The fourth provides a detailed analysis of the initial negative impact of the economic crisis on employment, unemployment, labour force participation and working hours, and of the subsequent partial recovery. The fifth section considers the effects of the crisis on the generation and distribution of income. The sixth section reviews the different types of policies implemented to protect employment, and labour and family incomes, and the seventh section offers some final conclusions.

2. The economic impacts of the pandemic: The worst crisis in the history of Latin America

The economic recession triggered by the COVID-19 pandemic in Latin America and the Caribbean is unprecedented in both scale and reach. IMF projections in October 2021 estimated that regional GDP for 2020 would have fallen by
Figure 1. Annual growth in GDP and total employment in Latin America, 1950–2020 (percentages)

Sources: Authors' calculations based on ECLAC data (https://statistics.cepal.org/portal/databank/index.htm) for GDP, SIALC/ILO employment rate data from 2010 onwards and World Bank data on the variation in the annual employment to population ratio for previous periods (https://data.worldbank.org/indicator/SL.EMP.TOTL.SP.ZS).
7 per cent, with losses of 9.9 per cent in Argentina, 4.1 per cent in Brazil, 5.8 per cent in Chile, 6.8 per cent in Colombia, 8.3 per cent in Mexico, 0.6 per cent in Paraguay, 11.0 per cent in Peru and 5.9 per cent in Uruguay (IMF 2021).

The Economic Commission for Latin America and the Caribbean (ECLAC 2021a) forecast a similar fall in regional GDP (–7.7 per cent), qualifying this as the worst economic crisis in Latin America and the Caribbean since statistical records began at the start of the twentieth century. During the so-called “debt crisis” (1983) the region’s GDP contracted by up to 2.5 per cent, and during the international financial crisis of 2009 it fell by 1.8 per cent (figure 1). Moreover, this is the first time that all the economies in the region have contracted during a global crisis.

Compared with other regions, Latin America and the Caribbean is estimated to have suffered a stronger decline in aggregate production in 2020, projected by the IMF to be twice the decline worldwide (–7.0 compared with –3.1 per cent), surpassing all other regions and the eurozone economies (–6.3 per cent, IMF 2021).

Aside from the sheer scale and extension of this crisis, one of its principal features – especially in a region where macroeconomic disruptions are commonplace – has been the speed of the impact from the immediate supply shock – resulting from the shutting down of economies and lockdown and social-distancing measures – and the subsequent nosedive in aggregate demand. Owing to the way in which the virus spread across different countries and continents, the greatest shock to the levels of activity in Latin America and the Caribbean came in the second quarter of 2020.

The crisis has led to significant and rapid employment losses resulting in the immediate collapse of the labour and family incomes of a large share of the population. For this reason, short-term adjustments of labour market variables differ from those in other crises and may not closely reflect the dynamics in the medium and long term. An indication of this is given by figure 1, which shows that the loss in employment is not only the worst on record since regional data have existed, but also exceeded the contraction in GDP, implying a high employment–output elasticity.

3. The pre-COVID labour market context

When the COVID-19 pandemic hit Latin America and the Caribbean at the start of 2020, the region was going through a period of stagnation and previous labour market progress was grinding to a halt or backsliding.

The 2014–19 period had registered the lowest level of growth since the 1950s (figure 1). The low economic growth rate in the years following the global financial crisis (2008–09) resulted in weak (especially quality) job creation. In particular, the employment rate in the period 2015–19 remained relatively stable, at around 58 per cent. This stands in clear contrast to the considerable rise in employment observed from 2003 to 2008. Indeed, the weak rise in employment in 2019 was not enough to bring the average unemployment rate of the region down from 8 per cent, the maximum rate recorded in the past 15 years.

This slowdown in the creation of employment was accompanied by a degradation in its composition. Although total employment grew by 1.8 per cent in
2019, self-employment leapt by 2.2 per cent and wage employment rose by only 1.7 per cent. This was in line with the general trend observed from 2015 to 2019 and reflected the traditional countercyclical role played by self-employment in the region to adapt to deficits in wage employment.

Labour market deterioration over this period is also apparent from the stagnation in formal wage employment as a share of total employment. This dynamic reversed the progress made since the early 2000s (figure 2). In some countries, such as Argentina, Brazil and Ecuador, the process of formalization had already been interrupted in the early 2010s.

Sluggishness in the labour market and rising unemployment meant that the purchasing power of labour income increased only slightly from 2015 to 2019. This feeble rise was also observed in the real wages of workers paying into social security systems, which grew by only 1 per cent (average for 14 countries in the region) after having risen by approximately 1.5 per cent in the two previous years. This accentuated the general slowdown in wage growth that had been observed in recent years (ECLAC and ILO 2020).

Another factor contributing to this outcome may have been the weakened growth also in the real minimum wage, which increased by even less than the average wage in 2018 and 2019 (ECLAC and ILO 2020). This stands in contrast to the generalized improvement in real minimum wages in the region over the period from 2005 to 2015 (ILO 2016).

The unfavourable trends observed in the region’s labour markets picked up speed in 2019. In particular, a persistently high unemployment rate was accompanied by a decline in job quality and limited growth in workers’ real wages.

**Figure 2. Formal wage employment as a share of total wage employment before the pandemic in selected Latin American countries, 2003–19**

Note: Index, 2010 = 100.
Source: Authors’ calculations based on data from national household surveys.
Figure 3. Levels of economic activity (seasonally adjusted variables) in selected Latin American countries, January–December 2020

Note: Index, January 2020 = 100.
Source: Authors’ compilation based on official national data.

Figure 4. Total employment in selected Latin American countries, January–December 2020

Note: Index, January 2020 = 100. See note 4.
Source: Authors’ calculations based on data from national household surveys.
4. The timeline of the impact on employment

Figure 3 illustrates how the outbreak of SARS-CoV-2 in the region in March 2020 and the ensuing lockdown and social-distancing measures – which were, on the whole, initially very restrictive – had a rapid and devastating impact on activity levels in some countries from March to May 2020. Following that, a recovery process began as the restrictions on economic activities were lifted. Nevertheless, in December 2020 activity levels in most of the countries for which data are available were still below those recorded at the start of the year.

Against this trend in aggregate activity levels, in April 2020 aggregate employment entered a steep downturn that started levelling off only two months later in some countries (figure 4). Then, in December 2020, most countries experienced similar, or even more drastic, downturns in their employment levels, which were in some cases 12–14 per cent below the levels that had been recorded at the start of the year.

4.1. The initial shock

The average employment rate for the ten Latin American countries for which 2020 data are available (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, Peru and Uruguay) stood at 51.3 per cent in the first half of 2020 (see table 1), down by 5.4 percentage points year on year, or by around 9 percentage points if we compare the first two quarters of 2020 in these countries. As indicated above (figure 1), this is an all-time low; it translates into some 35 million workers losing their jobs in these countries in the first half of the year, bringing total employment down by 16 per cent.

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3 Other reports that analyse the impacts of the COVID-19 crisis in the region include ILO (2021) and ECLAC (2021a and 2021b).

4 It is worth highlighting the challenges inherent in an analysis of labour market trends for the whole region in this particular context. The speed at which the pandemic spread differed from country to country, as did the way in which official statistic agencies began registering the resultant labour market impacts. Furthermore, only seven countries had monthly or quarterly employment data for the whole of 2020. The data for Bolivia, Colombia, Mexico and Uruguay are monthly. In the cases of Brazil, Chile and Peru the data refer to moving three-month periods where the reference month is the last in the period.

5 All the averages we use are weighted.

6 Together, in 2019, these countries accounted for some 80 per cent of the total labour force in Latin America and the Caribbean.

7 Owing to changes to the data collection procedures used in labour force and household surveys following the pandemic, data may not always be comparable with data for previous periods. In all countries, the in-person interviews used for household surveys were replaced by telephone interviews for a number of months, the period varying from one country to another. This resulted in modifications to the questionnaires (shortening them) in some cases. Some countries also reduced the sample size and there was a general fall in the response rate (see ILO 2020b, 112–114, for more details). These data collection difficulties during the pandemic mean that the data for this period may be of lower quality, which could affect the comparability of data over time, even though they have been qualified as reliable by the respective offices of national statistics.

8 Although the comparison may be affected by seasonality, it allows us to observe the short-term impacts of the economic crisis in greater detail.
The fall in the employment rate was somewhat greater among women, down by 18 per cent compared with 14 per cent for men. This stronger impact on women is linked, on the one hand, to higher female participation in sectors that were significantly affected, such as hospitality and other services, and the household sector; and, on the other hand, to the greater incidence of informality among women. In contrast to previous crises, employment losses in this crisis were largely explained by the impact of the pandemic on informal employment, which suffered a sharper contraction than formal employment.

Although the dramatic fall in employment triggered transitions to unemployment, it mainly resulted in massive disengagement from the labour force. Labour force participation fell to an unprecedented low, down from 61.6 per cent in the first quarter of 2020 to 52.9 per cent in the second quarter in the ten countries under consideration (table 1). Thus 33 million people exited the labour force in the first half of the year, reducing employment by 96 per cent. This significant decrease in labour force participation was as much a result of lockdown and social-distancing measures as it was of the negative labour market forecasts that reduced the job-search incentives for the jobless. As in the case of the employment rate, the fall in labour market participation was greater among women than men.

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9 These figures, and all figures in this section referring to labour indicators by sex, are our own estimates based on data from SIALC/ILO.

10 Owing to various approaches taken to furloughed workers by the different offices of national statistics in the region, the national data series presented in this article are not always strictly comparable. Nevertheless, they provide a reasonable approximation of the trajectories of these variables over the period under analysis.

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Table 1. Rates of economic activity, employment and unemployment in selected Latin American countries, Q1–Q4 2020 (percentages)

| Country          | Activity rate | Employment rate | Unemployment rate |
|------------------|---------------|-----------------|------------------|
|                  | Q1  | Q2  | Q3  | Q4  | Q1  | Q2  | Q3  | Q4  | Q1  | Q2  | Q3  | Q4  |
| Argentina        | 58.6| 49.2| 54.4| 57.3| 52.5| 42.8| 48.6| 51.0| 10.4| 13.1| 11.7| 11.0|
| Bolivia          | 69.0| 60.9| 64.2| 69.1| 63.6| 65.0| 57.3| 63.3| 5.8 | 8.4 | 10.8| 8.4 |
| Brazil           | 61.0| 55.3| 55.1| 56.8| 53.5| 47.9| 47.1| 48.9| 12.2| 13.3| 14.6| 13.9|
| Chile            | 62.5| 51.9| 53.4| 56.6| 57.3| 45.6| 46.8| 50.8| 8.2 | 12.2| 12.3| 10.3|
| Colombia         | 61.6| 54.8| 58.6| 61.8| 53.8| 43.7| 48.4| 53.3| 12.6| 20.3| 17.5| 13.8|
| Costa Rica       | 63.4| 57.6| 59.1| 60.8| 55.5| 43.7| 46.1| 48.7| 12.5| 24.0| 22.0| 20.0|
| Mexico           | 59.9| 49.4| 55.5| 57.5| 57.8| 47.0| 52.6| 54.9| 3.4 | 4.8 | 5.1 | 4.6 |
| Paraguay         | 71.2| 66.7| 70.7| 72.4| 65.6| 61.6| 64.9| 67.1| 7.9 | 7.6 | 8.2 | 7.2 |
| Peru             | 70.2| 45.3| 63.3| 70.5| 66.6| 41.3| 57.2| 65.6| 5.1 | 8.8 | 9.6 | 7.0 |
| Uruguay          | 61.6| 58.8| 60.3| 61.5| 55.6| 52.9| 53.8| 54.8| 9.7 | 10.0| 10.8| 10.9|
| Total – 10 countries | 61.6| 52.9| 56.8| 58.8| 55.9| 46.7| 49.7| 52.6| 9.2 | 11.7| 11.9| 10.6|
| Total – Latin America and the Caribbean | 61.7| 53.1| 56.8| 59.1| 56.2| 47.2| 50.3| 53 | 9.1 | 11.2| 11.6| 10.4 |

Source: SIALC/ILO data.
These transitions to inactivity softened the impact on unemployment of the contraction in employment. In contrast to during other economic crises, the unemployment rate thus provides only a dim reflection of the region's plight in the first half of 2020. In some cases, such as in Paraguay and Uruguay, the unemployment rate did not rise at all, or did so only slightly. Even so, the average unemployment rate of the countries under consideration was 11.7 per cent in the second half of 2020, in other words 2.5 percentage points higher than in the first half of the year (table 1). This translates into approximately 2 million more people who were out of a job but continuing to search for one. Again, it was the highest crisis-period unemployment rate on record in the region.

If those who lost their jobs – in some cases only temporarily – had remained in the labour force looking for another job, the impact on the unemployment rate would have been significantly more dramatic. In the group of countries under consideration, it would have reached 24 per cent in the second half of 2020.

The formidable and rapid contraction in aggregate employment – and its manifestation in a greater number of labour force exits than persons registering as unemployed – is explained not only by the magnitude but also by the characteristics of the recession in the region. Although, as mentioned above, total unemployment fell by 16 per cent between the first and second quarters of 2020, the fall in GDP was slightly lower (–14 per cent), which implies an employment–output elasticity greater than 1, far above the elasticity in previous recessions. This was the net result of two opposing forces: on the one hand, the relatively moderate contraction of formal employment; on the other, the significant loss of informal and non-wage employment that thwarted one of the adjustment mechanisms that traditionally come into play in the region during periods of decreased economic activity, and even accelerated the destruction of certain jobs.

Indeed, in some countries, the losses in formal wage employment (table 2) were relatively smaller than those in GDP, possibly reflecting the expectation that the crisis would be short-lived and the effectiveness of some corporate strategies to protect employment in enterprises (for example, shorter working days, furloughs and telework). Formal job retention was, in turn, enabled by policies that supported enterprises' employment protection efforts (for example, through wage subsidies) or facilitated corporate strategies in this regard (see section 6). Although these factors softened the recession’s impact, wage employment contracted further than in any previous crisis, by more than 10 per cent in Chile and Costa Rica and by 36 per cent in Peru. The latter may have been hit particularly hard on account of its greater recourse to temporary jobs, although it was also the country that suffered the sharpest decline in GDP.

The region stands out for its vulnerability to decreases in non-wage employment, which were one of the main reasons for the decrease in total employment in most of its countries. As informality is dominant in non-wage employment, informal job losses far exceeded losses in formal employment, except in Paraguay and Peru (table 2). This stood in contrast to the countercyclical role usually played by self-employment during economic crises in the region. The number of self-employed workers in 2020 plummeted because a significant share of their activities were suspended on account of lockdown and social-distancing measures. Many self-employed workers do not operate out of their homes, which meant that teleworking was often not an option for them either.
| Country  | Q1 2020/Q4 2019 | Q2 2020/Q1 2020 | Q3 2020/Q2 2020 | Q4 2020/Q3 2020 |
|----------|----------------|----------------|----------------|----------------|
| Argentina| -1.6           | -20.7          | 11.6           | 8.1            |
| Bolivia  | 0.3            | -13.6          | 3.4            | 11.1           |
| Brazil   | -2.5           | -9.6           | -1.1           | 4.5            |
| Chile    | -1.6           | -20.1          | 3.1            | 9.0            |
| Colombia | -6.4           | -18.6          | 11.1           | 10.5           |
| Costa Rica| 1.2            | -21.0          | 5.8            | 5.8            |
| Mexico   | -0.6           | -18.6          | 13.2           | 4.5            |
| Paraguay | -4.2           | -5.6           | 5.9            | 4.1            |
| Peru     | -5.3           | -36.1          | 36.8           | 15.1           |

Source: Authors’ compilation based on data from national household surveys.
Except in Mexico, an even sharper downturn was observed in informal wage employment, which, between the first and second quarters of 2020, fell by more than 60 per cent in Peru and by more than 40 per cent in Argentina, Chile and Costa Rica (table 2). In the countries for which data exist, the furloughing of domestic workers – most of whom are informal – explains a significant share (20 to 30 per cent) of this decline.

In short, non-wage and informal wage employment accounted for 60 per cent (Costa Rica) to 94 per cent (Argentina) of the initial fall in employment between the fourth quarter of 2019 and the second quarter of 2020.

The contraction in self-employment and informal wage employment varied across the region, partly as a function of the decline in economic activity in each country, and of the extent and strictness of the crisis-mitigation and lockdown restrictions that were imposed. Higher strictness levels (in Argentina and Peru, for example) may have particularly affected self-employed workers and small businesses.

However, the contraction of employment does not fully reflect the loss of work over the period, since it does not account for the decrease in working hours among those who continued to be employed. Estimates using survey data indicate that the total number of working hours fell more sharply than the employment rate in a number of the countries for which data are available. In Argentina and Mexico, working hours fell by twice as much as employment between the last quarter of 2019 and the second quarter of 2020 (in both countries total working hours fell by approximately 40 per cent and employment by 20 per cent); and in Brazil the relative difference was even greater (–29 and –12 per cent). In Costa Rica and Chile, in contrast, the gap was narrower (approximately –30 and –20 per cent).

The reduction in working hours, in turn, reflects two factors; first, the strong increase in the proportion of furloughed workers, in other words, those with zero working hours; and, second, the reduction in the working hours of those who worked at least one hour. As might be expected, the latter mainly concerns formal wage earners, whose work did not suffer as much because measures existed or were established to help protect their jobs and incomes. In contrast, the gap between the employment rate and the total number of working hours is narrower in the case of informal wage earners and non-wage workers. Absences did not have such a strong effect on those who remained in employment, except among non-wage workers in Brazil, where the effect was significant and may have been caused by lower employment losses in this worker category.

11 In this regard, it is worth stressing that, as indicated in note 10, the national household surveys used during the period of restrictions applied different definitions to those considered to be “employed”. In particular, people who were not able to continue working but were expected to return to their jobs are generally classified as “persons on temporary absence” if they are expected to return to their jobs within a given reference period; after that period they are considered to be “unemployed” if they are actively job seeking, or “inactive” if not. In the specific context of the pandemic, and in the light of the recommendations issued by the ILO (2020a), some countries extended this reference period, but others maintained it, giving the countries that extended it a greater share of employment relative to unemployment. However, in the countries that did not modify the reference period the share of inactivity is higher because, under the pandemic-related restrictions, those who were not able to keep their jobs often did not actively seek jobs.
Table 3. Labour market transitions between Q1 and Q2, 2019 and 2020, Argentina and Brazil (percentages)

ARGENTINA

|        | Q2 | Formal wage employment | Informal wage employment | Non-wage employment | Unemployment | Inactivity | Total |
|--------|----|------------------------|--------------------------|--------------------|--------------|------------|-------|
|        |    | Formal wage            | Informal wage            | Non-wage           | Unemployment | Inactivity | Total |
|        |    | employment             | employment              | employment        |              |            |       |
| 2019   |    | Formal wage            | Informal wage            | Non-wage           | Unemployment | Inactivity | Total |
|        | Q1 | employment             | employment              | employment        |              |            |       |
|        |    | Formal wage            | Informal wage            | Non-wage           | Unemployment | Inactivity | Total |
|        | Q2 | employment             | employment              | employment        |              |            |       |
| 2020   |    | Formal wage            | Informal wage            | Non-wage           | Unemployment | Inactivity | Total |
|        | Q1 | employment             | employment              | employment        |              |            |       |
|        |    | Formal wage            | Informal wage            | Non-wage           | Unemployment | Inactivity | Total |
|        |    | employment             | employment              | employment        |              |            |       |

BRAZIL

|        | Q2 | Formal wage employment | Informal wage employment | Non-wage employment | Unemployment | Inactivity | Total |
|--------|----|------------------------|--------------------------|--------------------|--------------|------------|-------|
|        |    | Formal wage            | Informal wage            | Non-wage           | Unemployment | Inactivity | Total |
|        |    | employment             | employment              | employment        |              |            |       |
|        |    | Formal wage            | Informal wage            | Non-wage           | Unemployment | Inactivity | Total |
|        |    | employment             | employment              | employment        |              |            |       |

Difference 2020 – 2019

|        | Formal wage | Informal wage | Non-wage | Unemployment | Inactivity | Total |
|--------|-------------|---------------|----------|--------------|------------|-------|
| Formal wage employment | –0.5        | –0.8          | –0.3     | 1.2          | 0.3        |
| Informal wage employment | –2.4        | –23.5         | –0.1     | 2.9          | 23.2       |
| Non-wage employment       | –0.9        | –6.4          | –15.7    | 2.5          | 20.5       |
| Unemployment              | –2.5        | –10.3         | –5.8     | –9.6         | 28.3       |
| Inactivity                | –0.8        | –3.7          | –2.0     | –2.2         | 8.7        |
| Total                     | –1.2        | –6.3          | –2.9     | 0.0          | 10.5       |
As indicated above, the exceptional situation created by the containment measures meant that many of those in self-employment or informal wage employment who were not able to continue their activities de facto exited the labour force. In the circumstances, they estimated their chances of finding another job to be low and so did not actively look for work. Moreover, transitions between these types of employment and economic inactivity were already very common in the countries of the region.

Evidence for this is found in the flows between different labour market and employment statuses. In particular, the data for Argentina and Brazil allow an analysis of the transitions recorded between the first and second quarters of 2019 and their comparison with the transitions in same period in 2020. The results are shown in table 3 and indicate that a considerable proportion of those who were employed in the first quarter of 2020 and left a non-wage or informal wage job entered inactivity.

Although this type of transition is more common for these forms of employment than for formal wage employment, it became much more frequent during the pandemic, as can be seen from a comparison of the situation in early 2020 with that at the start of 2019. In fact, inactivity was the only labour market status that registered a net growth in 2020, given that the three categories of employment shrank (at a lower rate in the case of formal wage employment) and unemployment remained constant.

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12 Although the household surveys for these countries are not longitudinal, the rotating panels of their samples allow us to obtain information about flows. Such samples are divided into a certain number of groups, each of which remains in the sample for a certain number of observations (waves). In each wave, one of these groups is added and one leaves. This allows the comparison of a proportion of the total number of individuals surveyed in two or more waves.

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Table 3. Labour market transitions between Q1 and Q2, 2019 and 2020, Argentina and Brazil (percentages) (concl.)

| 2020 Q1 | Q2 | Formal wage employment | Informal wage employment | Non-wage employment | Unemployment | Inactivity | Total |
|---------|----|------------------------|--------------------------|---------------------|--------------|-----------|-------|
| Non-wage employment | 0.9 | 1.7 | 82.5 | 3.6 | 11.3 | 100 |
| Unemployment | 3.3 | 4.9 | 3.3 | 61.6 | 26.8 | 100 |
| Inactivity | 0.8 | 1.8 | 2.0 | 3.6 | 91.8 | 100 |
| Total | 30.3 | 9.9 | 17.9 | 8.8 | 33.1 | 100 |

| Difference 2020 – 2019 | Formal wage employment | Informal wage employment | Non-wage employment | Unemployment | Inactivity |
|------------------------|------------------------|--------------------------|---------------------|--------------|-----------|
| Formal wage employment | 1.6 | -2.5 | -1.1 | 0.2 | 1.8 |
| Informal wage employment | -8.1 | 8.7 | -7.7 | 0.8 | 6.2 |
| Non-wage employment | -2.2 | -4.9 | 3.6 | 0.1 | 3.4 |
| Unemployment | -4.9 | -7.4 | -6.3 | 15.3 | 3.2 |
| Inactivity | -1.1 | -2.9 | -4.5 | -4.7 | 13.2 |
| Total | -0.9 | -2.3 | -2.4 | 0.1 | 5.5 |

Source: Authors’ calculations based on data from national household surveys.
4.2. The tortuous and uncertain path back from the recession and the contraction in employment

As indicated above, the restrictions on mobility were generally stricter in the months that immediately followed the arrival of COVID-19 in the region. They had a strong initial impact on activity levels, leading to the decline in employment that we have just analysed. However, the progressive relaxation of these restrictions, from April or May 2020, caused a reversal in aggregate production. The average employment rate for the ten countries included in table 1 increased by 3 percentage points (by approximately 6 per cent) in the third quarter of 2020 and by 2.9 percentage points (6 per cent) in the fourth quarter, only partially compensating for the fall of 9 percentage points (–16 per cent) in the first half of the year.

Figures 3 and 4 indicate that, in most countries, employment picked up only after the return to GDP growth. Employment (and activity levels) in Brazil and Chile had fared better than in other countries in the region, and the last decreases were recorded in July and June, respectively. The speed of the recovery in employment in the other countries was approximately proportional to the losses sustained in the first months of the crisis. In particular, Colombia and Mexico, which initially experienced a greater loss in employment, were in large part able to compensate for this in the third quarter. At the end of 2020, employment in Peru – the country in our sample where employment suffered the greatest decrease (contracting by more than half) – was still far below its level at the start of that year. This relatively slow recovery in employment is a recurrent dynamic in periods of post-crisis expansion and suggests that most of the countries in the region will continue to experience difficulties in their labour markets even if the economic upturn that started in mid-2020 continues.

Growth in total employment in the third and fourth quarters of 2020 almost exclusively reflected the trends in self-employment and informal wage employment (table 2). Thus, for example, in Argentina, Costa Rica and Paraguay these two forms of employment grew more than total employment, given that wage employment contributing to social security continued to decrease. Meanwhile, in Chile and Mexico these forms of employment account for approximately 90 per cent of the increase in total employment. This situation indicates, on the one hand, that increased activity levels did not require new formal workers, since companies absorbed the rise in production by increasing working hours. On the other hand, it points to the fact that, at least in part, self-employed workers and small employers were able to resume activities that had been interrupted by the restrictions. The rise in the number of informal wage jobs can also be explained by the reopening of small businesses (where paid workers are basically informal). However, part of this job growth may also be explained by the traditional adjustment role that informal employment plays in troubled labour markets, given that, as we have indicated, formal wage employment continued to decrease in most countries.

13 It should be noted that the monthly employment data available for Peru refer to the Lima Metropolitan Area and, for various reasons, the latter’s dynamics could differ from those of the whole country.
The relaxation of restrictions on mobility brought some inactive people directly back to work, but it also led others to begin actively seeking work. As a result, the average unemployment rate for the ten countries under consideration did not fall in the second and third quarters of 2020 (standing at 11.7 and 11.9 per cent, respectively), and the rate even increased in some countries (table 1).

Although in the fourth quarter of 2020 the unemployment rates of the region and of the countries included in table 1 (except for Uruguay) fell relative to the previous quarter, in all cases (except for Paraguay) these rates still exceeded those at the start of 2020. Given that the labour force participation rate in the fourth quarter of 2020 was still lower than the rate at the start of that year, it might have been expected to continue growing as restrictions on mobility were further relaxed. Part of that growth would relate to the return to work of furloughed workers, but net employment creation would be limited, given the modest expectations for GDP growth in the subsequent years (especially in 2021). It is therefore reasonable to expect that the increasing pressure of supply on the labour market will be reflected in greater declared unemployment and informality in the future.

This panorama is of even greater concern given the lag in the employment recovery of women relative to that of men in the second and third quarters of 2020. Although women caught up somewhat in the fourth quarter, the year ended with a contraction of employment (compared with the first quarter of 2020) of 4 per cent for men and of 7 per cent for women. A similar dynamic can be observed in the labour force participation of women in the second half of 2020. Although this statistic recovered somewhat in the last months, the year ended with a 9 per cent reduction in women’s participation, compared with a reduction of 6 per cent for men. We thus observe that the COVID-19 crisis has not only resulted in considerable setbacks for women's labour force participation in the region, but has also led to a significant widening of labour market gender gaps.

5. The impacts of COVID-19 on the generation and distribution of income

The sharp decreases in employment and working hours that we have analysed above resulted in a considerable loss in total labour market income. In the Lima Metropolitan Area, nominal labour income fell by an average of 8.1 per cent between the months of March and May 2020, compared with the same period in 2019. In conjunction with the contraction in employment, this brought the wage share down by more than 50 per cent and a strong downward trend persisted over the months that followed, such that an interannual decrease of 48 per cent was recorded between the months of May and July.

Between March and May, Argentina recorded its first fall in the average nominal income of formal private-sector employees, even before accounting for inflation. This, in part, reflects wage cuts affecting private employees on furlough; it also reflects the wage cuts sustained by those who continued working.

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14 The income data analysed in this section are our own estimations based on microdata from the household surveys in each country.
In turn, the country’s total real labour share shrank by 21 per cent between the fourth quarter of 2019 and the second quarter of 2020. In the same period, the total volume of real labour income contracted by 7 per cent in Brazil and by up to 27 per cent in Costa Rica. According to Chile’s compensation index, average labour income fell by 1.3 per cent in nominal terms (the real figure is very similar) from March to April 2020. In the months from May to July 2020, 34 per cent of those in employment reported an income loss, while 58 per cent reported no change and 2 per cent received a raise. It is interesting to track these losses separately for furloughed employees (19 per cent of those in employment) and for those who continued working. Much as was to be expected, income losses affected 58 per cent of furloughed workers, of whom 31 per cent received no income at all. Among those who continued working (81.1 per cent of total employment), partial and total income losses affected 28 and 2 per cent, respectively. Self-employed workers and employers were the groups hardest hit, experiencing income losses of 68 and 67 per cent, respectively. They are followed by informal wage workers (34 per cent), domestic workers (24 per cent) and formal wage earners (23 per cent). Lastly, and providing additional evidence of the inequality generated by these losses, self-employed workers and domestic workers were the groups that reported the greatest share of labour incomes equal to zero.

The contraction in the wage share also varied across households. In the case of Argentina, a country for which data for the period under analysis are available, the households with the lowest family incomes experienced the sharpest decrease in the number of persons employed per household. This is evident from figure 5, which shows the percentage variation between 2019 and 2020 in the average number of persons employed per household in each of the vigintiles of family income per capita.

These changes affected the composition of both labour and non-labour family incomes. For all households there was a contraction of almost 8 percentage points in the share in labour income from self-employment and informal wage employment. This contraction is significantly greater in the bottom quintile of the household income distribution, owing to a greater incidence of this type of job, among other factors. Seen from another perspective, a striking feature of the composition of non-labour income is the growth in income from government transfers, especially in lower-income households (table 4).

Beyond these changes in the relative shares of different sources of income, total family income declined in all quintiles, the greatest losses being sustained in the lowest quintile, where it shrank by a third (table 5). The entire distribution is affected by a fall in the labour share, which is not entirely compensated for by income from government transfers.

The inequality-inducing effects of the loss of total family income are also reflected in the Gini index, which increased by 3 percentage points between

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15 The remaining 6 per cent represents those in employment who indicated that they had been in their job for less than a month, or did not know the answer to the question, or did not answer it.
the fourth quarter of 2019 and the second quarter of 2020, rising from 0.436 to 0.468.

We find a similar situation in Costa Rica, where the real household income per capita fell by an average of 17 per cent between 2019 and 2020, reaching 19 per cent in the case of household labour income. Again, government transfers were the only source of income that rose over this period, up by 154 per cent, and the impact on inequality of the decrease in total real household income can be seen in the fact that the decrease was significantly greater in the lower tail of the distribution (figure 6).
6. Employment and income protection policies implemented during the pandemic

The response to the pandemic-induced economic crisis in Latin America has resulted in an array of direct actions to support enterprises, protect jobs and compensate for household income losses. It has targeted those who have been most affected and who are generally found in the informal economy. The countries in the region have turned to mechanisms set up in previous crises, as well as taking up new initiatives.
These policies can be separated into three main groups: (1) monetary measures and benefits as part of strategies to maintain and support formal employment; (2) contributory unemployment benefits; and (3) non-contributory cash transfer programmes.

6.1. Measures for the protection and support of formal employment

Measures to support and incentivize the maintenance of employment relationships are of crucial importance, first, because they shield both parties in the employment relationship from the loss of specific and general work skills, and from future search costs; and, second, because maintaining these relationships could help to facilitate a faster economic recovery.

In this regard, various innovations and programmes in the region have sought to maintain employment through the payment of benefits to either the enterprise or the worker, whether that be through social security institutions, the tax authorities or other bodies. These benefits are generally financed through general tax revenues, social security contributions or a combination of both.

Three different types of formal employment protection measures can be identified: (i) payroll subsidies; (ii) the use of unemployment insurance to cover furloughs, working-hour reductions and other alternatives to dismissal; and (iii) more recently, subsidies to incentivize the reinstatement of furloughed workers or the recruitment of new workers. As these measures were being implemented some countries were rapidly able to adopt teleworking regulations that allowed, under the exceptional circumstances, some enterprises and activities to continue their operations partially or fully.

Among the countries in the region that implemented mechanisms to protect employment relationships, Paraguay, for instance, established a subsidy for formal wage workers earning up to double the minimum wage and whose employment contracts were suspended owing to the cessation of activities caused by the pandemic. Colombia allowed firms and individuals who could certify a loss in revenue of at least 20 per cent to request, in the months of May to December 2020, a subsidy equivalent to 40 per cent of the minimum wage for all employees contributing to the social security system. In Peru, furloughed workers continued to be covered by the public healthcare system (EsSalud). In addition, private-sector employers received a subsidy of up to 35 per cent of the gross monthly salaries of their employees, capped at US$424. The Dominican Republic set up an employee solidarity assistance fund (Fondo de Asistencia Solidaria al Empleador – FASE), a cash transfer scheme to protect employment in the sectors most affected by the pandemic, through which the Government paid 70 per cent of wages up to a fixed remuneration ceiling.

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16 This section will focus only on the policies directly linked to employment protection. It will not refer to other enterprise support measures such as those facilitating access to, or reducing the price of, credit.

17 A study of the use of teleworking in the region during the pandemic was carried out by the ILO (2020a). It considers teleworking potential, the effective use of teleworking according to national statistics, and advances in its regulation.
Argentina implemented an emergency assistance programme for jobs and production (Programa de Asistencia de Emergencia al Trabajo y la Producción – ATP), cutting employers’ social security contributions by 95 per cent and providing private-sector firms with compensatory wage allocations. It also prohibited unjust dismissals, and dismissals owing to lack of (or reduced) work or to force majeure. The emergency employment and income protection programme (Benefício Emergencial de Preservação do Emprego e da Renda) in Brazil protected the income of formal wage earners on furlough or whose working hours or wages had been reduced. Costa Rica’s temporary cash transfer scheme (Bono Proteger) targeted workers who had lost income because they had been dismissed, given reduced working hours or placed on furlough as a result of the pandemic.

As indicated above, a second type of measure to protect employment relationships was implemented through unemployment insurance schemes. Different types of unemployment insurance were in force in Argentina, Brazil, Chile, Colombia, Ecuador, Uruguay, Venezuela and Mexico City. Such instruments are designed for cyclical periods of unemployment rather than for systemic crises that produce high rates of unemployment for longer periods, as in the case of the COVID-19 crisis. Their aim is generally to provide income security during unemployment, but in these particular circumstances they were modified and adapted to protect employment relationships, providing benefits in the event of furlough or working-hour reductions. This enabled employment relationships to be maintained between workers and enterprises that expected the decline in their activity to be only temporary. Such adaptations were implemented in Brazil, Chile, Colombia and Uruguay.

Lastly, a third type of instruments are subsidies to encourage the reinstatement of suspended workers. Examples of this type of measure were established in Chile, Peru and Uruguay.

6.2. Contributory unemployment benefits

Unemployment benefits for formal workers are those provided by unemployment insurance when employment relationships are terminated. As the crisis started to unfold in March 2020, insurance schemes began to adapt in order to respond to a crisis that, it was predicted, would be more severe and longer than any other previous period of high unemployment.

Some of these modifications have been transitory, aiming to increase coverage (the percentage of the unemployed population covered by insurance) and/or to adapt benefits (in relation to workers’ previous wages). Modifications comprised: (1) the relaxation of certain eligibility requirements; (2) the extension of benefit periods; (3) increased replacement rates and/or minimum and maximum benefit amounts; and (4) expansion of insurance to previously excluded groups of workers. Governments injected funds into unemployment insurance schemes to maximize the coverage of their populations throughout the period of the crisis.

Chile, for example, relaxed the eligibility requirements of its unemployment insurance scheme (Seguro de Cesantía); workers with balances in their individual accounts were able to access their funds regardless of the number
of months over which they had contributed. The replacement rates were also increased, and domestic workers were made permanently eligible for the insurance scheme. In Argentina, the minimum and maximum unemployment insurance payments were raised and expiry dates were extended. In Ecuador, before the Humanitarian Aid Law came into force in June 2020, dismissed workers had to be unemployed for 60 days before they became eligible for unemployment insurance. Under the new law, they can apply as of the tenth day.

In Uruguay, unemployment insurance covered dismissal, furlough and reduced working hours, but in the last of these cases only for day labourers. In March 2020, workers on monthly contracts were also declared eligible, and in May the eligibility requirements were relaxed, reducing the number of work months and days required in order to qualify for the insurance.

Notwithstanding these modifications, there are various reasons why this is the least popular type of measure in the region. On the one hand, this contributory mechanism exists only in some countries, and even there coverage has traditionally been low owing to high levels of informality and self-employment. On the other hand, as indicated above, policies to prevent dismissals have generally placed greater emphasis on protecting jobs in order to reduce the impact of crises on employment and to bolster subsequent recovery.

6.3. Non-contributory income transfer programmes
The third group of strategies and policies have aimed to provide families – many of them in the informal economy – who have lost income as a result of the pandemic with at least some level of compensation, regardless of employment and labour force participation status. An interesting aspect of this is that the scale and extension of the crisis made it necessary to reach a portion of the population that had traditionally been excluded from non-contributory transfer programmes.

Countries opted either for strategies that focused on universal income support to cover a large majority of the population, including the households of informal workers – as in the cases of Argentina and Brazil, each of which set a number of requirements – or for measures focusing on specific groups – as in the cases of Chile and Paraguay. The social security information systems in most countries in the region are limited, have not been updated for all households or include only the most vulnerable groups (for example, households with children/adolescents, or elderly or disabled persons). Transfer schemes therefore struggled to reach quickly enough all the households that potentially required assistance. Other countries were able to expedite implementation and provide greater coverage, but they nevertheless faced the usual dilemmas raised by the choice between the risks of exclusion and of inclusion.

The numerous attempts to expand programmes and introduce new benefit schemes to try to mitigate the pandemic’s devastating impact on labour income have met with varied success. These programmes have been described by the ILO (2020b) and we will mention only a few examples here: in Argentina, an emergency family income supplemented the existing universal child allowance; Colombia established a solidarity income programme to bolster two other
programmes supporting families and youth; Ecuador, Bolivia and Costa Rica each provided emergency protection vouchers; in Paraguay, a social fund and the “Pytyvõ” programme were added to the existing “Tekoporã” programme and a scheme for senior adults; Peru rolled out “Yo Me Quedo en Casa”, “Independiente”, “Bono Rural” and “Bono Familiar Universal” vouchers, as well as the “Contigo” programme; Chile set up a COVID-19 emergency voucher, an emergency family income programme, and support for self-employed workers; Uruguay provided top-ups through the “Uruguay Social” card and a family allowance scheme; and, in Brazil, emergency aid was added to the existing “Bolsa Família” programme.

7. Conclusion

A brief period of recession was caused by the outbreak of the COVID-19 pandemic in Latin America and the implementation of a range of restrictions on mobility to seek to bring the epidemiological situation under control. As far back as records go, the recession is unparalleled both in its scale and in its effect on employment – especially informal employment – as was demonstrated by the mass exit from the labour force that it triggered, especially among women.

The unprecedented magnitude of this crisis compelled governments in the region to implement measures to mitigate the impact on the employment, income and living conditions of their respective countries’ populations. These measures allow us to identify progress but also challenges.

Rapid and timely intervention not only mitigated the immediate loss of income and access to basic goods and services, but also limited the spread of these shocks in the medium term. Previous experience of developing intervention mechanisms helped make it possible to reach the population affected by labour income losses more rapidly. However, the widespread impact of the crisis engulfed the middle-income segments of the population, whose incomes were also severely affected. In the management of the crisis, transfer schemes have thus faced the challenge of expanding and improving the registration of these newly vulnerable people and households. This clearly points to the need to expand the coverage of unemployment subsidies, in particular to the informal economy.

Another challenge was the identification of the best intervention strategies to support an economic recovery to promote formal employment and the labour force participation of those whose sources of labour income have disappeared or severely diminished. The countries in the regions have different active labour market policies that could, in theory, meet the double objective of providing income for those with greatest difficulties in finding employment and of facilitating their participation in the labour force under decent conditions. However, the coverage of these policies is still far too limited and the chances of transfer programme beneficiaries finding formal employment are likely to be low. The challenge in the current context is even greater given the uncertainty over the shape that post-pandemic growth will take as new waves of contagion unfurl and the speed and effectiveness of mass vaccination campaigns prove hard to predict.
As mentioned above, some countries in the region have recently pursued policies to support the creation of new formal jobs through economic stimulus for the recruitment of workers in the private sector, or to encourage the reinstatement of furloughed workers. The region already had vast experience with this type of intervention. Aside from the design flaws to be avoided – such as the “dead weight” effect, where workers would have been hired even without a stimulus programme – the effectiveness of these policies will depend on the speed of the economic recovery and its power to boost labour demand.

Another highly relevant factor, which is linked to active labour market policies, is the debate about the post-pandemic sustainability and design of cash transfer programmes targeting the informal economy. As we have explained in this article, the scale and intensity of the crisis meant that these measures were exceptionally rolled out to sections of the population that have not traditionally been included in this type of programme. The challenge is – under reduced fiscal capacity and in step with economic recovery – to improve the identification of potential recipients of benefits and their characteristics in order to direct existing and future mechanisms more effectively and efficiently. The design of such mechanisms also needs to be assessed to ensure that they strengthen, rather than hinder, favourable formal job creation dynamics.

Lastly, the crisis opens up an opportunity to restructure labour market and social protection institutions in order to advance strategies for a labour guarantee and more permanent social protection floors, as well as structuring a comprehensive employment policy to accompany or be part of the strategy for economic recovery.

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