https://www.oecd-forum.org/posts/the-pernambuco-paradox-the-pandemic-s-effects-on-brazil-s-labour-market

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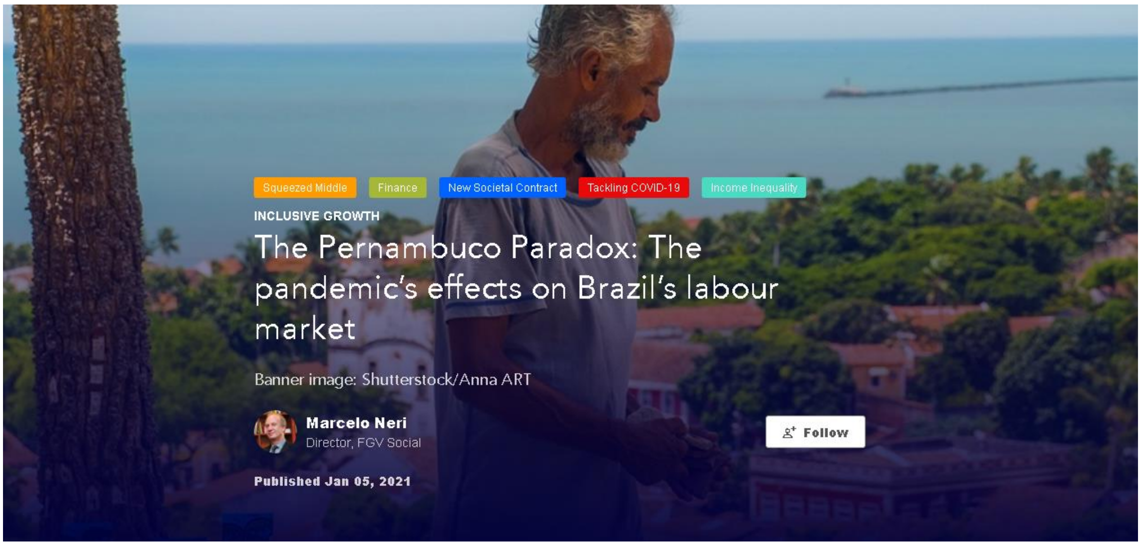

This article is part of a series in which OECD experts and thought leaders — from around the world and all parts of society — address the COVID-19 crisis, discussing and developing solutions now and for the future. It aims to foster the fruitful exchange of expertise and perspectives across fields to help us rise to this critical challenge. Opinions expressed do not necessarily represent the views of the OECD.

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The first results regarding the COVID-19 pandemic's effects on individual labour income in Brazil show a sharp decline. After the first complete quarter (i.e. the months of April, May and June), there has been a drop 20.1% in its mean, and an increase of 2.82% in its inequality measured by the Gini Index. Both the level and changes of these two estimates are new negative records in their respective time series initiated in 2012. The labour income of the poorest half of the distribution has diminished by 27.9% against a 17.5% fall for the richest 10% Brazilians. The main losers among the social groups were the indigenous people (-28.6%), the illiterate (-27.4%) and youth aged between 20- and 24-years-old (-26%). Every area of the country assessed here has also seen reductions in mean labour earnings.

The comparison of these results with evidence that considers income from all sources reveals a paradox. In particular, when we include emergency social cash transfers implemented to attenuate the pandemic impacts in our estimates, we see that both poverty and inequality have reduced to their lowest level in the historical series. For example, Pernambuco and Recife were, respectively, the most adversely affected locations when only considering labour income based indicators. However, Pernambuco has had the second best poverty performance between all Brazilian States if we include other income sources, in particular emergency social transfer created during the pandemic,.

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These contrasts reveal that, once the emergency social transfers (*auxílio emergencial*) that have been protecting Brazil's poorest end, the situation will probably deteriorate rapidly if the labour market does not improve. We have to assess not only the symptoms but also the vital signs of the labour market once it will represent the main pillar of social wellbeing after the pandemic is over and public spending is back to sustainable levels. Monitoring it is of central importance if our goal is to gradually reduce emergency social transfers, and slowly withdraw the labour legislation implemented to mitigate the pandemic's negative social impacts.

Given the pandemic's effects, the government implemented a policy that enabled employers to partially or totally suspend job contracts, starting in April and later extended until December 2020. This measure protected companies and employees during the social isolation period, using public money to help employers to pay workers with reduced hours while maintaining their job. Similar policies were put into practice in many countries around the world. Administrative registries collected up to September show that the programme has supported approximately 17.5 million contract deals, saving jobs and reducing the negative impacts of the pandemic on the labour market.

The reduction of 20.1% on mean individual labor income was led mainly by a fall of 14.34% in working hours, in addition to a contraction of 9.9% on the occupation rate. However, a counterfactual empirical estimate suggests that the occupation rate would have in fact been reduced by 22.8% if the workings hours had been kept constant. This “attenuation-effect”, derived from reducing working hours, led to a socialisation of the pandemic’s negative effects as well as avoiding more permanent scars on the labour market related to job losses. This job-saving process was more intense for women and formal private employees with lower earnings. This is consistent with the design of progressive subsidies that have partially suspended job contracts following the pandemic.

This research assesses the initial effects of the new coronavirus pandemic on the Brazilian labour market, addressing the following questions:

1. What was the impact of the COVID-19 crisis on individual labour earnings' mean and inequality?
2. Who was most affected in the labour market?
3. What were the main transmission channels of the crisis’ effects in the Brazilian labour market (regarding classic labour ingredients such as unemployment, participation rate, hourly-wages, working hours, etc.)?
4. What was the role of public policy-making in mitigating the pandemic’s effects on labour (in particular regarding the partial suspension of jobs contracts implemented by the Federal Government)?

The research can be accessed at http://www.fgv.br/cps/COVID&Labor

To read the executive summary of the research click here:

https://www.cps.fgv.br/cps/bd/docs/COVID&Labor-Marcelo_Neri-FGV_Social-ENG.pdf

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Marcelo Neri

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Director of FGV Social and founder of the Center for Social Policies at the Getulio Vargas Foundation. He teaches at FGV EPGE. PhD in Economics, Princeton University. He writes regularly in scientific journals and in general magazines. He has been twice cited as one of the 100 most influential Brazilians by Época Magazine. He has edited ten books. Previously he was the Secretary-General of the Council of Economic and Social Development (CDES), President of the Institute for Applied Economic Research (Ipea) and Minister of Strategic Affairs. He has evaluated policies in more than a dozen countries and also designed and implemented policies at three government levels in Brazil.