

Covid-19: Public Policies and Society's Responses



Quality information for refining public policies and saving lives

Policy Briefing Note 14

Dramatic unemployment remains hidden in official indicators. Without the emergency income of R\$ 600.00, poverty would reach 30% of the population

Main Conclusions

- For the first time in history, the employment rate between March and April was below 50%, indicating that more people were out of work than working in the country, according to the IBGE's PNAD-Covid.
- The Solidarity Research Network found that 75% of the drop in the working hours in Brazil results from the suspension of contracts and reduced workday. The remaining 25% stem from inactivity.
- The credit announced by the federal government did not reach companies and hindered the potential of PM 936 (Provisional Measure 936), as expenditure reached only ¼ of the bill's initially estimated amount.
- A significant share of laid-off workers was excluded from the Unemployment Insurance and left without access to the compensatory income for not complying with the government-defined requirements.
- The combination of credit inefficiency, unemployment, and access constraints to the Emergency Basic Income benefit was responsible for the inefficacy of PM 936 as expressed in the sharp drop in income.
- The average income of Brazilian families fell by R\$250, mainly due to the drop in income resulting from labor. If the Emergency Basic Income had not been in force, this drop would have been 40% greater (R\$350)
- Without the emergency aid of R\$600.00, the poverty rate could have reached 30% of the population.

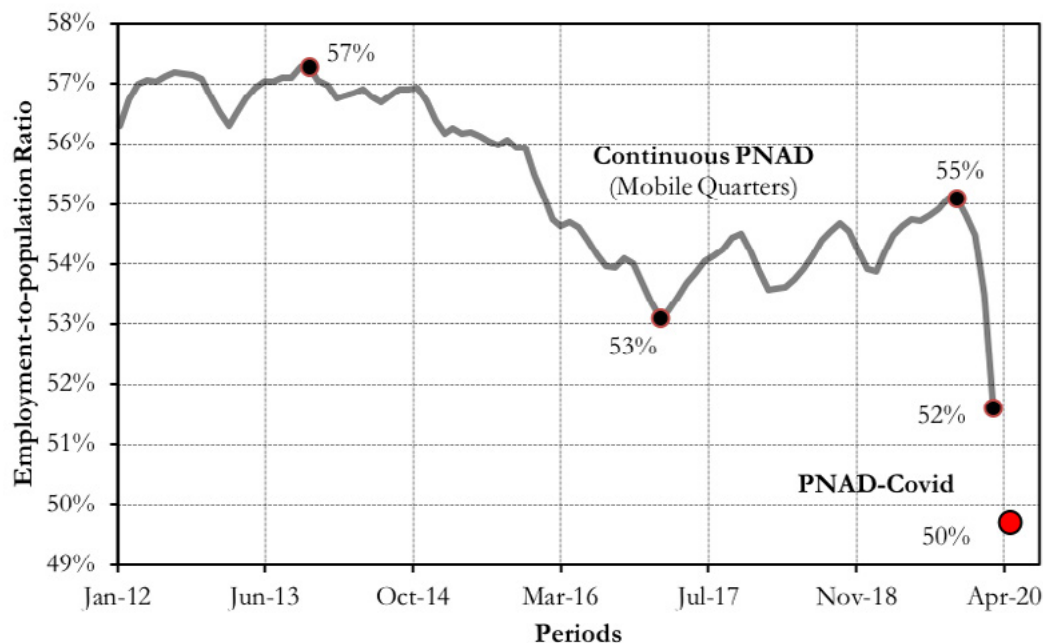
Social distancing and hidden unemployment

The pandemic has changed how we evaluate the performance of the labor market. According to the results of the IBGE emergency survey, known as PNAD-Covid, the unemployment rate in the month of May remained close to 10%, a counter intuitive result as it is lower than the 12.6% registered in the first quarter of the year by the continuous PNAD. How may we interpret this result within the context of an economic downturn?

The notion of “unemployment” presumes that individuals are actively looking for a job. However, social distancing policies, necessary to contain the spread of the coronavirus, have drastically reduced the possibilities for seeking work – both due to the impossibility of doing it in person as well as the lack of job offers, on account of the poor performance of companies. Individuals who, under a different context, would be job seekers, are forcibly classified as “economically inactive”, given that the open unemployment rate only counts people who are openly seeking labor insertion.

There is, however, another complementary, more realistic indicator for expressing the employment-to-population ratio: the ratio between the number of workers and the working age population (over 14 years old). In April/May this indicator reached a threshold below 50%. In other words, it indicated that for the first time in Brazil’s history, more people were out of work than working in the country (see graph).

Graph 1 – Brazil: Employment-to-population Ratio (Jan/2012-May/2020)



Source: Continuous PNAD, Mobile Quarters. PNAD-Covid Microdata. Prepared by the Authors.

This Technical Note goes beyond that interpretation and adds one indicator, expanded and corrected, for the unemployment rate in Brazil, made possible by the information collected from the PNAD-Covid. The IBGE survey registers individuals who did not seek work **because of the pandemic** or **due to lack of job offers in their locality**. The contingent found was 17.7 million, comprising people who would like to work and are available to work.

From this number, the Solidary Research Network devised a measure of “**hidden unemployment due to social distancing**”, as follows:

$$\text{Hidden unemployment due to social distancing} = \frac{P}{O + D + P}$$

In this brief explanation, O represents the number of people occupied (who are working), U the number of people who are unoccupied (looking for a job) and P refers to the contingent of people who would like to work, but have stopped seeking work due to the pandemic.

As a complement, “open unemployment during the pandemic” would be given by:

$$\text{Open unemployment during the pandemic} = \frac{D}{O + D + P}$$

Thus, we arrive at an **expanded measure of unemployment** from the sum of the previous ones:

$$\text{Expanded Measure of Unemployment} = \text{Open unemployment during the pandemic} + \text{Hidden unemployment due to social distancing}$$

Through this indicator unemployment is much higher than official figures suggest: expanded unemployment was 25.3%, which corresponds to the sum of open unemployment (9.6%) in tandem with hidden unemployment due to social distancing (15.7%), measured in the 4th week of May.

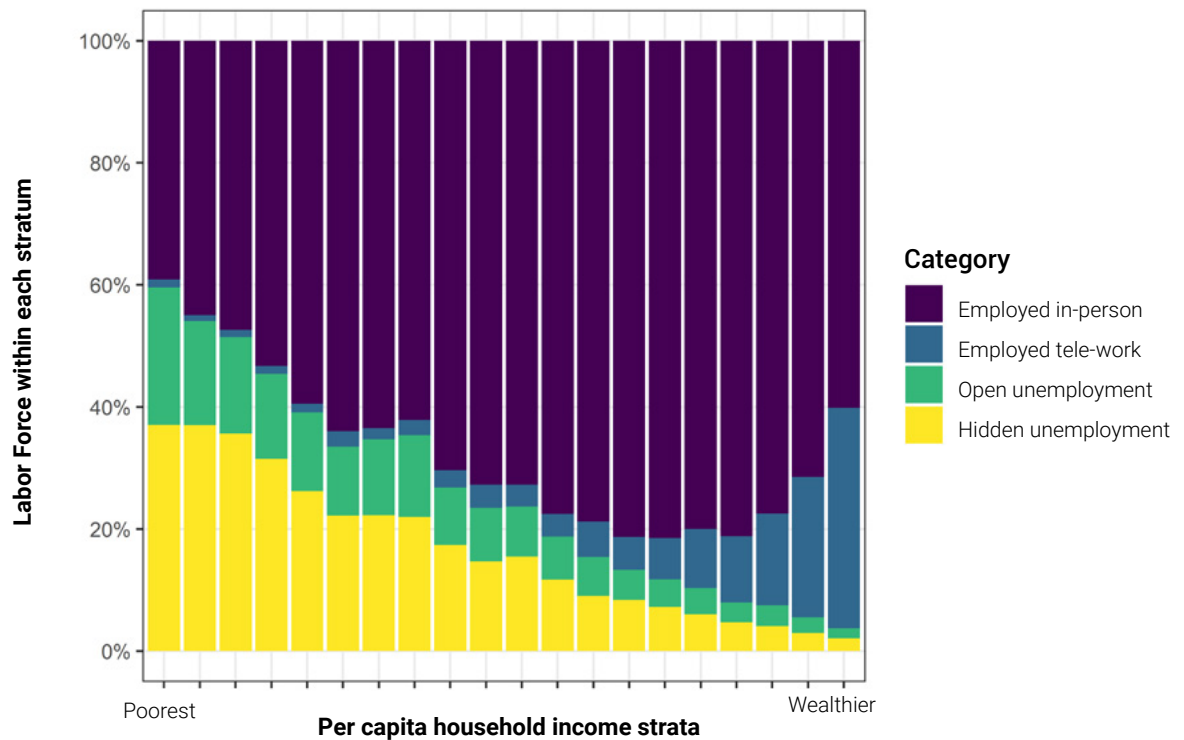
Hidden Unemployment affects the Poorest. The Least Vulnerable Are Telecommuting

Insertion in the job market depends on the socioeconomic conditions of individuals. Both unemployment hidden by social distancing and open unemployment disproportionately affect the poorest. Employed individuals working in-person are mostly concentrated in the middle strata. The wealthier, in turn, have the possibility of working remotely (tele-work/home-office).

The Expanded Workforce is comprised of four categories: open unemployment, hidden unemployment, in-person work, and remote work¹. The graph below shows this distribution within each stratum of per capita household income.

¹ Labor Force, as officially defined by the International Labor Organization (ILO), does not take into account hidden unemployment due to social distancing. But the ILO itself has called attention to the fragility in the distinction between “labor force” and “inactive population” during the pandemic.

Graph 2 – Proportion of employed people in-person, tele-work, open unemployment, and hidden unemployment due to social distancing, according to income (May 2020)



Source. PNAD-Covid Microdata. Prepared by the authors.

Among the poorest, 40% of workers are in the “hidden” modality. Unemployment dropped across the income strata and reached insignificant levels among the richest 5%. In this group, 40% finds themselves in some form of tele-work.

Unemployment hidden by social distancing and tele-work in the pandemic are novel, but they operate amidst pre-existing inequalities. Thus, the differences in the income distribution extremities are now pronounced by the contrast between forced inactivity, the need to risk infection through in-person work, and the safety of remote activities.

Emergency social and economic policies

The effects of the pandemic on the labor market and, consequently, on the income of workers and families emerge as a result of (i) the market structure (especially the size of the informal market) and social protection systems in place prior to the crisis; and (ii) the political choices reflected in the adopted emergency measures.

1. Policies for the formal labor market

Changes in unemployment insurance and programs to reduce working hours or suspend contracts were the main measures adopted for the formal labor market around the world. Regarding the OECD member countries, 22 introduced changes in their unemployment insurance programs, totaling 36 changes. The main modifications concern the creation of new categories for insurance (making eligibility more flexible) and benefits, the expansion of the number of installments, and reduced bureaucracy for insurance, especially by way of virtual registrations. Programs for maintaining employment by reducing working hours and suspending employment contracts have been adopted in 25 countries.

In Latin America, adaptations to the formal market were more modest. Brazil did not stray from the rule and made a few occasional changes in the Unemployment Insurance benefit, albeit restricted to already eligible workers, such as the anticipation of 25% of the payment of unemployment insurance for workers with income of up to 2 minimum wages, and the use of a virtual platform for registering new applicants. On the other hand, PM 936 seeks to preserve jobs by encouraging employers and employees to establish an agreement to reduce working hours and wages. This reduction may be 25%, 50%, or 70% for up to three months – or alternatively the complete suspension of the employment contract. The federal government then grants a supplementary benefit, based on the Unemployment Insurance to which the worker would have access, according to his or her income level. Under a 25% workday reduction, the worker would receive 75% of his or her original salary and 25% of the amount equivalent to his or her entitled insurance, and so forth.

Table 1 – Policies focused on the Formal Labor Market: Brazil, Latin America, and OECD.

Measures	Country	Brazil	Latin America	OECD	Total
Unemployment Insurance	Changes in eligibility	No	2	10	12
	Changes in the value of the benefits	No	0	3	3
	Expansion of the benefit	No	2	8	10
	Creation of a new benefit modality	No	5	8	18
	Reduced bureaucracy and measures to facilitate access	Yes	1	7	9
Contract Suspension and Reduced Working Hours	Contract Suspension	Yes	1	24	26
	Reduced working hours	Yes	3	15	19
Total amount of measures		3	14	75	97
Total countries		-	18	36	54

Source: CEPALSTAT and OECDSTAT

2. Loans to companies

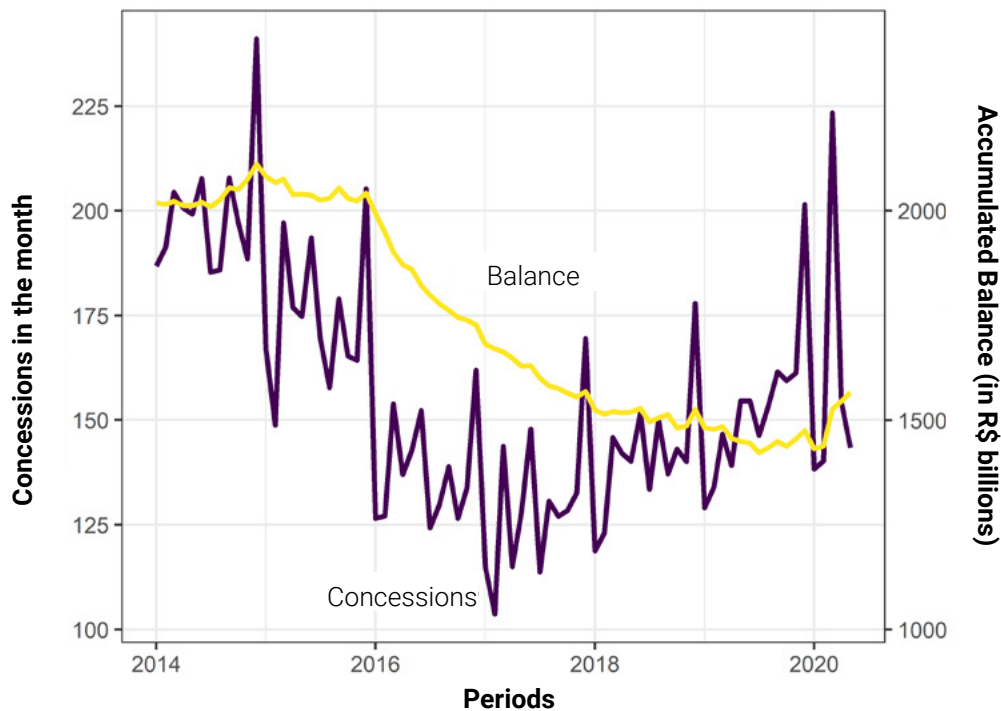
Measures to provide credit for companies are diverse around the world. Brazil was no different². Germany and Italy, for example, are more solid economies where investments exceed 40% of GDP (values for 2019). Brazil (15.43%), Chile (11.81%), and Spain (10.95%) seek expressive reactions within their economic contexts, while Mexico (5.55%) and Argentina (3.68%) have presented more modest initiatives.

Brazil has shown signs that credit-related measures have not yet had the expected effectiveness, especially if we look at the situation of micro and small companies³. The measures with the greatest projected impact referred to monetary policies and corporate credit policies. Data from the Central Bank on total concessions to legal entities show a strong growth in the month of March, when the measures were first adopted. However, these figures correspond to a variation of only 8.5% when compared to the previous quarter.

² For a more detailed analysis regarding the different measures in several countries see the Technical Note that underpins this Bulletin. Available at: www.redepesquisasolidaria.org

³ <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeriesv>

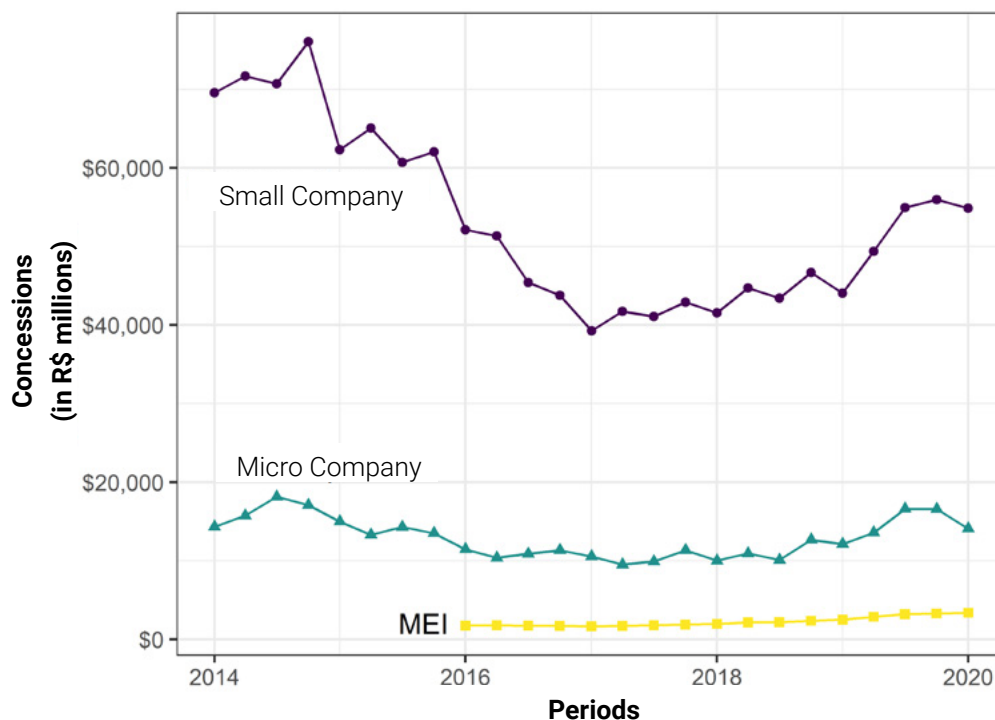
Graph 3 - Concessions and credit balance in Brazil (2014-2020)



Source: SCR (Credit Information System)/Central Bank

Supplementary data confirms that the measures did not achieve the expected result. The greatest impact of the recently adopted policies was in March, and the difference in comparison to February was 83 billion reais – an increase of almost 60%. Nevertheless, this represents only 10% of the expected impact via monetary measures and 36% of direct credit measures. If we consider all the measures related to credit expansion adopted by the government, they represent only 8% of the expected impact. If the comparison is quarterly (March to May in comparison to December to February), the impact is even lower: 40 billion additional credit, which represent 5% of the expected via monetary measures, 18% of credit measures, and less than 4% when we combine all these measures.

Graph 4 - Credit concessions to micro and small businesses and individual micro-entrepreneurs (MEI) (2014-2020)



Source: SCR (Credit Information System)/Central Bank

The scenario remains practically the same for small and micro-companies as well as individual micro-entrepreneurs. The volume of loans directed to small and micro-companies in the first quarter of 2020 dropped when compared to the last quarter of 2019. While we do find a slight increase in loans to individual micro-entrepreneurs, the volume is modest.

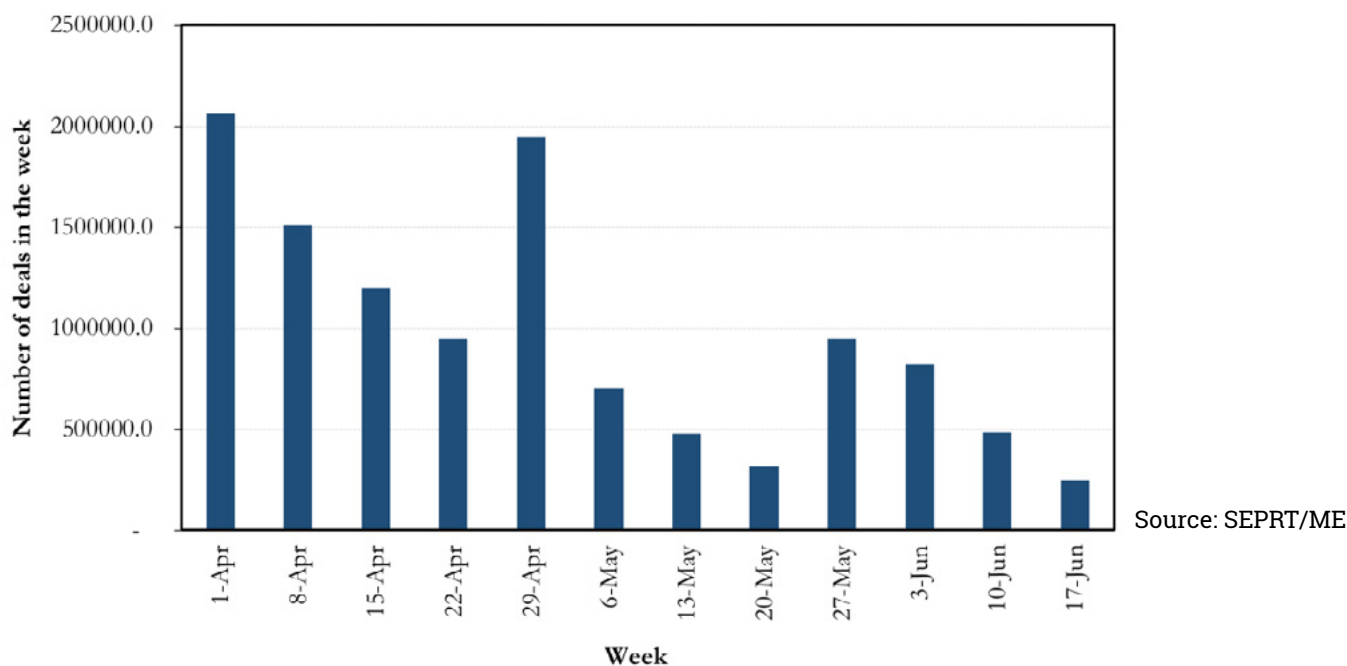
The data indicates two main problems in the policies adopted. The first is that the volume of credit borrowed has grown, but at a much lower rate than expected. More importantly, the reduction in credit borrowed by small and micro companies in the first quarter of 2020 indicates that credit mostly reached large companies. Furthermore, although adherence to payroll financing has doubled, this value only reached 1% of estimates in early May⁴.

The evidence reveals that the obstacles for credit concessions⁵ – required guarantees, bureaucracy, and commitment to no layoffs – prevented the success of the adopted measures, limiting credit access to most companies, especially micro and small companies.

The Consequences for PM 936, Unemployment Insurance, and the formal labor market⁶

In addition to the negative consequences for the financial health of companies, with impact on the labor market, these results suggest that adherence to PM 936 remains lower than its potential. Without access to credit, many companies have faced difficulties in adhering to the government program and have thus resorted to layoffs. Not surprisingly, from the initial projection of 51.64 billion, the estimated expenditure at the present time is just over ¼ of the amount (14 billion)⁷. New adherences to the program have dropped systematically and there is no indication that they will grow in the short and medium term.

Graph 5 – Number of PM 936 agreements, per week (April-June/20)



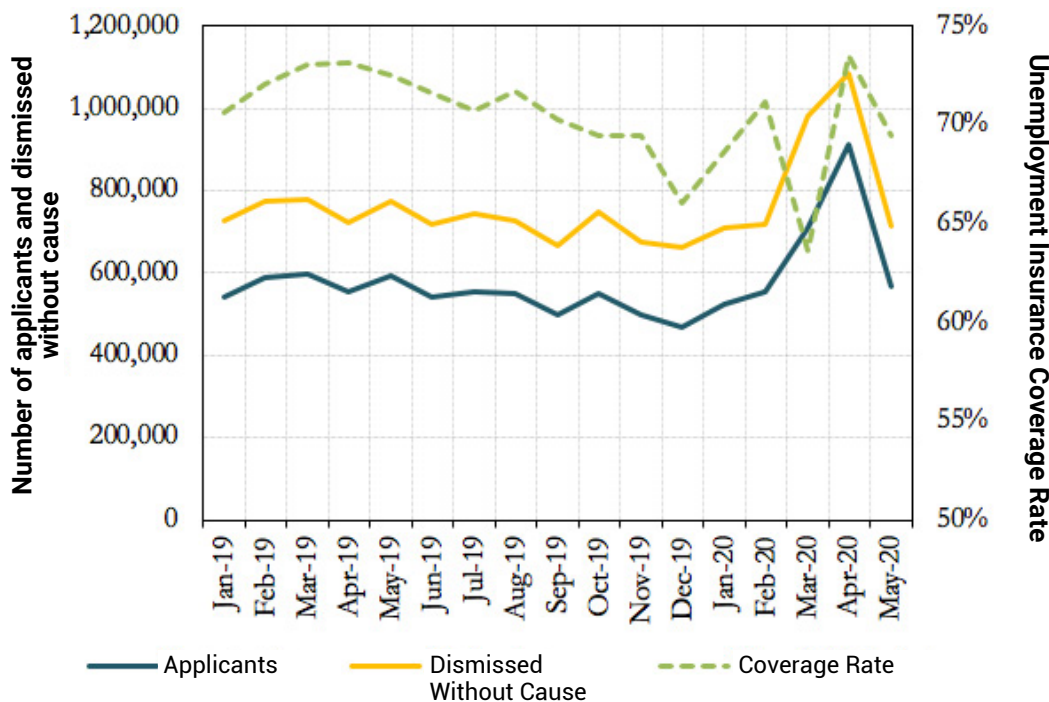
⁴ <https://www1.folha.uol.com.br/mercado/2020/05/adesao-a-financiamento-da-folha-de-salarios-dobra-mas-ainda-fica-abaixo-de-estimativa.shtml>.

⁵ <https://www1.folha.uol.com.br/mercado/2020/05/empresarios-relatam-que-burocracia-e-demora-dos-bancos-limitam-acesso-ao-credito-para-folha-de-pagamento.shtml>.

⁶ We thank Mariana Eugênio Almeida (Ministry of Economy) for her attentive clarifications regarding the data in the Novo Caged, the Unemployment Insurance, and PM 936.

The federal government has not made significant changes to the rules for Unemployment Insurance. Therefore, despite the substantial increase of new applications in March, the Unemployment Insurance coverage rate dropped in relation to previous months (from 71.2% to 63.7%)⁸, leaving many laid-off workers from the formal market unsupported during the pandemic.

Graph 6 – Number of applicants, dismissed without cause, and Unemployment Insurance Coverage Rate, Jan/19 – May/20



Source: SEPR/ME

Two main limitations hindered the policies aimed at the formal market in Brazil. First, the difficulty in effectively conveying resources to companies (especially micro and small companies) limited the potential of PM 936. On the other hand, a large share of laid-off workers was excluded from the support program for not meeting the defined requirements.

The emerging dilemma is whether less restrictive unemployment insurance rules would further encourage layoffs due to informal agreements between employers and employees – when they continue to work informally and receive insurance simultaneously. On the other hand, with the low adherence to PM 936, employers continue to lay off workers, a scenario that jeopardizes the income of a high number of workers barred from the program as it currently stands.

⁷ <https://www.tesourotransparente.gov.br/visualizacao/painel-de-monitoramentos-dos-gastos-com-covid-19>

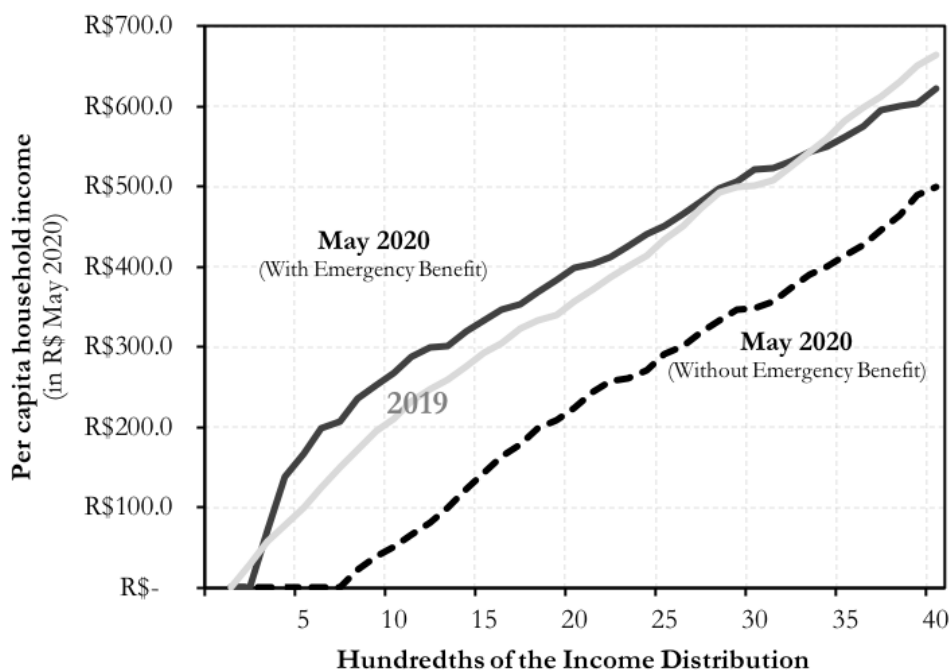
⁸ The unemployment insurance coverage rate is the ratio between the number of new insured persons in the month and the total terminations without cause in the month (considering the date of dismissal).

Negative impacts on income, inequality, and poverty

Different emergency policies affected different segments of the income distribution. The net effects are a combination of the protection and losses, which are also unevenly distributed.

In graph 8, each line represents the average per capita household income for each of the social strata, focusing on the poorest 40%. The solid gray line shows the values as observed in 2019 (deflated for May 2020). The dashed black line shows what the average earnings would have been in the absence of any emergency cash transfer policy. The losses in this situation would be drastic. Due to unemployment and the impossibility of working, the poorest 7% would be deprived of all their income sources.

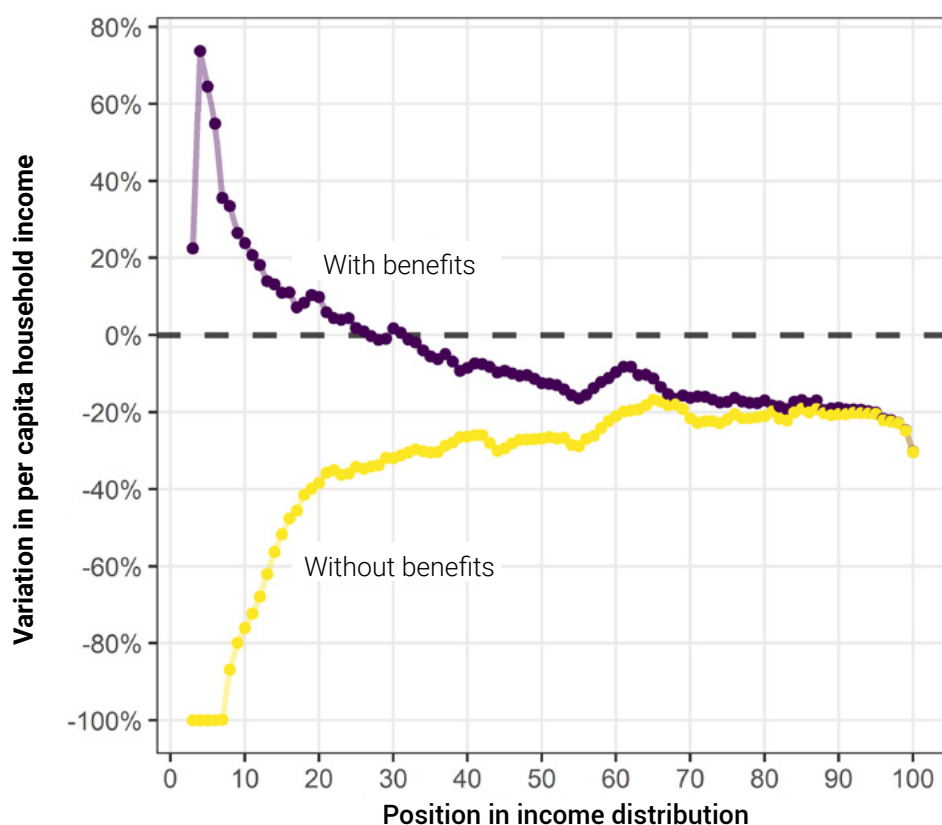
Graph 7 - Per capita household income across the poorest 40% strata: scenarios **with and **without** emergency income benefits (May 2020), compared to a prior situation (2019)**



Source: Yearly Continuous PNAD 2019; PNAD-Covid. Prepared by the authors.

Emergency programs (both federal and state level) have been reasonably effective in protecting the poorest. For this population, almost all transfers come from the Emergency Basic Income Program (EBI). The solid black line shows that, with the incidence of the EBI, the strata up to the poorest 30% preserved their incomes. There is even a slight positive difference compared to 2019 levels. It is worth remembering, however, that the purpose of the program is also to encourage social distancing, preventing individuals, as much as possible, to leave to work or look for work amidst the pandemic. Thus, the positive differential also has an epidemiological purpose – the effectiveness of which remains to be assessed.

Graph 8 - Variation in per capita household income across strata: scenarios **with** and **without** emergency income benefits (May 2020), compared to a prior situation (2019).



Source: Yearly Continuous PNAD 2019; PNAD-Covid. Prepared by the authors.

The graph above shows that income transfer measures have had an effect on up to the poorest 90% of the population – and have resulted in some protection against income losses. The most intense effect on the poorest (dark curve) signals that, despite implementation flaws, the Emergency Basic Income operated with a specific focus, protecting the most vulnerable against losses that would have been disproportionately harmful to them (see yellow curve). The graph also reveals, however, that the intermediate strata experienced losses of up to 10% to 20% of their household income, which was not compensated even with the emergency benefits.

Table 2- Summary table of the main indicators on income distribution

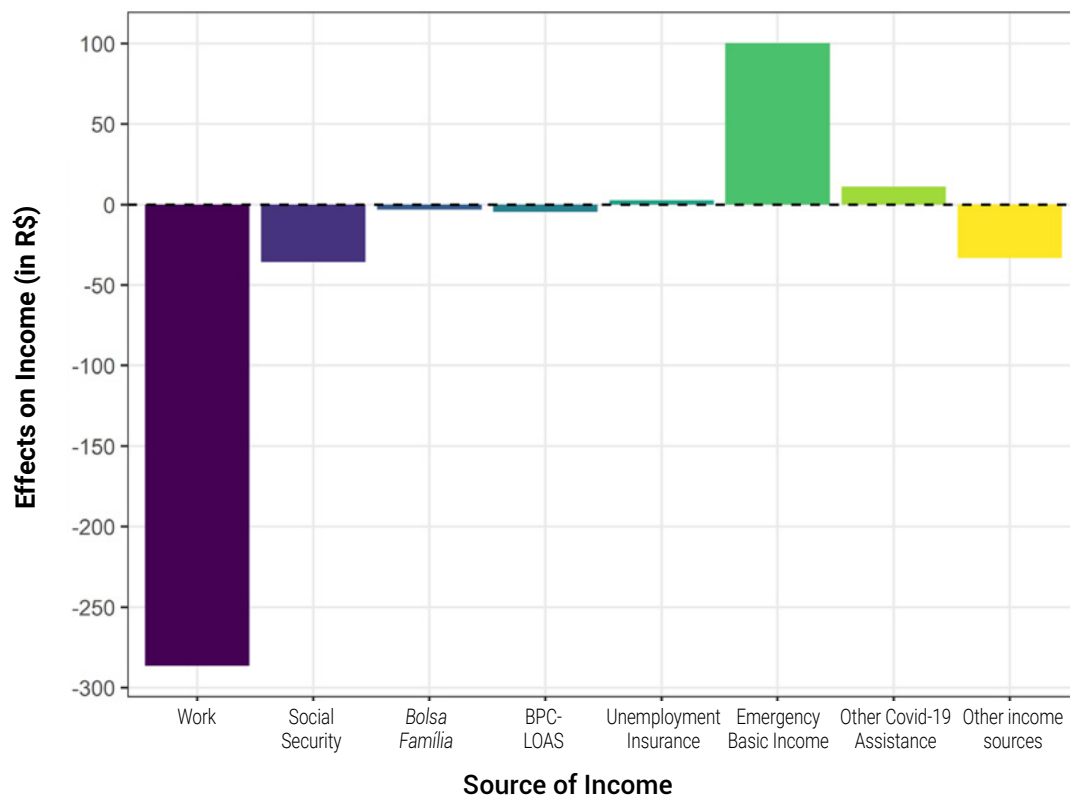
Scenarios	Household Income per capita	Gini coefficient	Poverty Rate
Baseline - 2019	1441	0,543	18,7
May/2020 – With Benefits	1192	0,492	16,1
May/2020 – Without Benefits	1081	0,569	29,8

Source: Yearly Continuous PNAD 2019; PNAD-Covid. Prepared by the authors.

The table above shows the overall balance of all vectors acting on the distribution of per capita household income. Average income dropped from R\$1,441 to R\$1,191 – without the benefit, however, the drop would have been worse, down to R\$ 1,081. Inequality, measured by the Gini coefficient, dropped from 0.543 to 0.492. This is the result, on the one hand, from protecting the lower income strata by way of the Emergency Benefit and, on the other, from the uncompensated losses of the middle and upper strata. This equalization thus expresses a “leveling down” or impoverishment of the middle-income strata. In the absence of income transfer programs, inequality would have jumped to 0.569 – a value seen in the 1980s and mid-1990s, which would represent a gigantic distributive setback. Emergency Basic Income further reduced the poverty rate from 18.7% to 16.1%, which, in the absence of emergency benefits, would have risen to 29.8%.

While these results confirm our projections published in Bulletin #8 of the Solidarity Research Network, they indicate that the socioeconomic deterioration was more intense than anticipated. In this scenario, the value of the Emergency Basic Income proved adequate. However, losses endured by the middle strata suggest that policies directed at these sectors – particularly for employment protection – have been largely insufficient, mostly due to the lack of policy coordination for providing credit to small and medium-sized companies, which are the largest employers of these workers.

Graph 9- Contribution of each income source to the variation in per capita household income. Brazil, 2019 vs May 2020



Source: Yearly Continuous PNAD 2019; PNAD-Covid. Prepared by the authors.

The graph above shows the contribution of each source of income to the difference between the average values of per capita household income in May 2020 (considering the emergency benefits) compared to 2019. Labor income accounts for almost the entire reduction. The net balance is almost negative R\$300 – due to the reduction in working hours, unemployment (open and hidden), and inactivity. The graph also shows that those who received income from social security as well as from other sources of income also had negative balances.

The only significant positive vector is the Emergency Basic Income. Even so, its magnitude, around R\$100, does not in any way compensate for the drop in labor income. The other emergency assistance (including the supplementary benefit envisioned in PM 936) had a negligible effect.

Significantly, the countercyclical performance of the Continuous Payment Benefit (CPB) and Unemployment Insurance was close to zero – the latter due to the restricted coverage and strict rules amidst the crisis. The low effect of *Bolsa Família* justifies itself, among other things, since almost all program beneficiaries automatically received the Emergency Basic Income.

Conclusion

The future scenario, once the EBI ends, points to an sharp increase in poverty levels, in addition to an extremely fragile formal labor market and an increase in informality. Given this scenario, we strongly recommend further debates for elaborating and implementing a Public Basic Income Program, sufficiently capable of mitigating, even if partially, the negative impact of an explosion of poverty and inequality in the country.

ABOUT

We are over 70 researchers, actively engaged in the task of improving the quality of public policies within federal, state, and municipal governments as they seek to act amidst the Covid-19 crisis to save lives. We dedicate our energies towards rigorous data collection, devising substantial information, formulating indicators, and elaborating models and analyses to monitor and identify pathways for public policies and review the responses presented by the population.

The Solidary Research Network has researchers from all scientific fields (Humanities as well as Exact and Biological Sciences) in Brazil and overseas. For us, the combination of skills and techniques is vital as we face the current pandemic. The challenge ahead is enormous, but it is particularly invigorating. And it would never have come to fruition if it weren't for the generous contribution of private institutions and donors who swiftly answered our calls. We are profoundly grateful to all those who support us.

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