

## COVID-19 in Latin America: Socioeconomic Impacts and Policy Responses

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The Latin American region has been among the worst hit by the COVID-19 pandemic. According to Johns Hopkins University, of the twenty-five countries currently most affected by COVID-19 seven are from Latin America. Brazil, Mexico, Peru, and Colombia are among the top ten countries with the highest number of reported deaths from COVID-19, with Brazil second only to the United States. Peru has the highest case fatality rate worldwide at 9.3%, with Mexico a close second at 8.9%. Latin America represented only 8.4% of the world's population in 2020 but accounted for 18.6% of cumulative infections and 27.8% of deaths as of December of that year. What helps explain this? What lessons can be derived from the region's experience to promote an inclusive and resilient recovery from COVID-19? I draw on research from the Commitment to Equity Institute to sketch some responses.

Rank	Country	Cases	Deaths	Case Fatality	Deaths/100k Population
1	Peru	2,092,125	195,047	9.30%	599.95
2	Hungary	808,725	30,015	3.70%	307.22
3	Bosnia and Herzegovina	205,285	9,666	4.70%	292.82
4	Czechia	1,670,823	30,336	1.80%	284.32
5	San Marino	5,094	90	1.80%	265.80
6	North Macedonia	155,901	5,487	3.50%	263.36
7	Montenegro	100,622	1,623	1.60%	260.88
8	Bulgaria	422,930	18,169	4.30%	260.46
9	Brazil	19,342,448	541,266	2.80%	256.46
10	Moldova	257,903	6,224	2.40%	234.19
11	Colombia	4,621,260	115,831	2.50%	230.10
12	Slovakia	392,034	12,524	3.20%	229.63
13	Argentina	4,749,443	101,434	2.10%	225.72
14	Belgium	1,103,413	25,209	2.30%	219.51
15	Italy	4,284,332	127,864	3.00%	212.06
16	Slovenia	258,169	4,425	1.70%	211.93
17	Croatia	361,488	8,236	2.30%	202.48
18	Paraguay	444,427	14,230	3.20%	202.00
19	Poland	2,881,355	75,212	2.60%	198.08
20	United Kingdom	5,407,428	128,960	2.40%	192.95
21	United States	34,067,912	608,884	1.80%	185.50
22	Mexico	2,654,699	236,240	8.90%	185.18
23	Chile	1,598,481	34,403	2.20%	181.53
24	Romania	1,081,588	34,252	3.20%	176.95
25	Spain	4,100,222	81,096	2.00%	172.26

Source <https://coronavirus.jhu.edu/data/mortality> accessed 7/19/21

Latin America was ill-prepared to deal with the pandemic crisis due to regional and structural vulnerabilities. At the regional level, its continued reliance on commodity exports made it vulnerable to falling demand and the attendant decrease in commodity prices. Many

countries in the region also rely on tourism and remittances from emigres as sources of revenue. Tourism ground to a halt due to travel bans triggered by the pandemic and remittances fell with reductions in economic activity. Supply-chain disruptions also affected production processes and flows of foreign direct investment slowed down due to heightened uncertainty. On the demand side, quarantines and shutdowns led to the closure of businesses and a contraction in economic activity that was expected to reach -7.7% in 2020, the largest in 120 years according to the Economic Commission for Latin America and Caribbean (ECLAC 2021b). Per capita GDP will fall by 8.5% in 2020, bringing the regional average back to its level in the mid-2000s.

In confronting the pandemic, the region lacked capacity for coordinated action at the national and sub-national levels. Its health systems and intensive care units were under-resourced and ill-prepared to deal with the level of hospitalization required by the pandemic. Regional spending on public health is below the 6% of GDP target recommended by the Pan-American Health Organization, and funding for primary care is below the recommended level of 30% of the public health budget. Social protection levels were inadequate even before the crisis. ECLAC estimates that only 47.2% of employed persons were affiliated or contributed to pension systems, and 60.5% to health systems. Governments were fiscally constrained, so they were forced to borrow to meet the additional spending required by the emergency. Combined with falling revenues because of the economic contraction, Latin America and the Caribbean became one of the world's most indebted regions, with an average public sector debt of 56.3% of GDP in 2020, over ten percentage points higher than in 2019. The overall average fiscal deficit for the region reached -6.9% of GDP in 2020.

But most importantly, structural inequalities related to employment, housing, gender, and income conditioned the impact of the pandemic in a variety of ways. High levels of labor informality meant that many workers could not rely on paychecks for subsistence and were hard to reach with government transfers. This made it challenging for them to remain at home and isolate from the virus. Those who did isolate had to contend with crowded living conditions. According to ECLAC, 30% of urban households, which represent over 80% of the population, and 50% of poor households, are overcrowded. The incidence of infection and deaths from COVID-19 have been concentrated in these areas, which tend to have an overrepresentation of indigenous and Afro-descendant populations. Indigenous populations, for example, have twice the poverty rate of the nonindigenous. People in these spaces must contend with a lack of water and sanitation, precarious and saturated public transportation, and deficient access to electricity and the Internet. This makes it exceedingly difficult to implement basic hygiene and social distancing practices that are essential for preventing the spread of infection. It also limits the ability to engage in remote work and education.

In terms of gender, the disproportionate burden on women to provide paid and unpaid care services exposes them to higher levels of unemployment and a higher likelihood of dropping out of the labor force and the educational system. To cite one example, 52.5% of the jobs lost to COVID in the second quarter of 2020 in Costa Rica belonged to women, and their workforce participation rate may have fallen to an unprecedented 31% at the height of the

pandemic (Programa Estado de La Nación 2020). This burden results from a rigid sexual division of labor or the absence of high-quality and accessible public care services for the elderly, the young and the disabled. The increased stress of living in close quarters and confinement also make women more vulnerable to domestic and sexual violence. These conditions have resulted in large equality gaps between men and women, and between women of different socioeconomic levels.

However, although responses were heterogenous, governments in the region did not remain passive in the face of the crisis. They introduced several measures to protect employment, including, most prominently, the suspension of payroll taxes, tax moratoriums, reductions in working hours, and loan restructurings and credit facilities for employers. A series of programs also sought to mitigate the impacts on those who lost employment, including compensatory payments and unemployment insurance expansions. Lustig et al (2021) find that confinement measures in the region did not impact the poorest as much as they could have—and as they did other vulnerable sectors such as the lower middle class and the moderately poor—due to social protection measures. ECLAC also finds that transfers and subsidies helped contain the increases in poverty and extreme poverty by over three percentage points each. They also attenuated the increase in income inequality.

Governments undertook the largest fiscal expansion on record, at 4.6% of GDP, with total central government spending reaching 24.7% of GDP on average during 2020. However, as mentioned, there were some important regional variations (Lustig and Trasberg 2021). Brazil increased the number of recipient households in its conditional cash transfer program (*Bolsa Familia*) and launched a new temporary transfer program (*Auxilio Emergencial*) targeting informal and self-employed workers that amounted to 2% of GDP and reached nearly a third of Brazilians. This effort appears to have been effective in reverting the impoverishment effects of the pandemic (Lustig, Martnez Pabon, Sanz, et al. 2021). In contrast, Mexico did not promote countercyclical polices or include new subsidies or cash transfer programs in response to the crisis. Although the government replaced its existent cash transfer program (*Prospera*) with alternative programs covering sixteen million people, these did not provide an income floor for the working age population and excluded most of the poor. A large increase in poverty is likely as a result. Mitigation policies made a difference in protecting the vulnerable against the short-term socio-economic impacts of the pandemic. However, their impact on the potential long-term effects is likely to have been minimal (Lustig, Martnez Pabon, Neidhöfer, et al. 2021), a point I will return to briefly.

Many countries enlarged existent or created new programs for cash transfer payments, including in large countries like Argentina and, as already discussed, Brazil. Thirty-two countries adopted 263 social protection measures aimed at the most vulnerable during the pandemic, including cash or in-kind transfers. According to ECLAC, one hundred new cash transfers were created, and among existent programs, 26 increased their payment amounts, 12 advanced payments, and 9 increased their population coverage. An important innovation was the creation of 33 cash transfers in 20 countries targeted to informal and vulnerable workers. These programs were key to counteracting income losses from the pandemic. Other programs

included school meals at home, moratoriums in public service payments (electricity, gas, water), rent and eviction moratoriums, and mortgage and personal loan forbearance and restructuring programs. Cash and in-kind transfers reached, on average, 49.4% of the region's population.

Despite these efforts, however, ECLAC expects that the number of people in poverty and extreme poverty will rise by twenty-two million and eight million, respectively. This represents a regression of 12 years for poverty, and 20 years for extreme poverty. Inequality as measured by the GINI coefficient is expected to rise by 2.9 percentage points. At the same time, the economic shocks of confinement and other mitigation policies were hardest on the poor. The decrease in labor income for workers in the first quintile, for example, is estimated to have been 42% during 2020, but only 7% for those in the fifth quintile.

Inequalities in the region overlap with impacts from the pandemic. Low productivity workers suffered larger losses of employment than formal workers; uneducated workers suffered larger than educated workers; and women had larger losses than men. The poor are also less likely to have social protection from pensions and health care insurance. Moreover, as mentioned, poverty in the region is multi-dimensional, which means that income reductions overlap with other challenges like cramped living spaces, inadequate or absent public services, limited access to health and education, informal employment, and discrimination (Lustig and Tommasi 2020). The sectors of the population that are most vulnerable to these shocks are children, women, the elderly, the indigenous, and LGBTQI. Social policies must ensure that the temporary setbacks they suffer do not become long-term and even permanent deprivations.

Infant malnutrition, school dropout, violence traumas, and drug use are all factors that can lead to a loss of human capital with long-term repercussions in terms of lifetime earnings, human security, and the social mobility of the most disadvantaged. For example, for children shut out from schools the ability to continue learning depends on their parents' income and education level. Income is a key determinant of access to proper housing, computers, internet connectivity, and hired tutors. Parental education is in turn determinant of the knowledge and non-cognitive skills that are necessary to support home schooling. The likely result is that the poor will end up with lower education levels and higher dropout rates because of COVID-19 confinement mandates. Lustig, Neidhöfer and Tommasi (2020) estimate that the likelihood of completing secondary education may fall from 61% pre-COVID to 46%, on average, but for individuals with low-educated parents it may decline from 52% to 32%. Such a low educational attainment level has not been seen in the region since the 1960s. This means that current inequalities are likely to produce higher future inequalities. As the number of dropouts increases, the supply of skilled labor falls and its wage premium increases, leading to higher wage inequality.

Mitigating these impacts will require making up for lost school time with extended schedules, summer and after-school programs, and more personalized instruction. It will also require an expansion of online and offline support resources for families, particularly focused on the most vulnerable children. Many countries are likely to require fiscal stringency in the

aftermath of the pandemic. In this context, policy makers must resist the temptation to reduce spending on education.

Current gender inequalities are also likely to produce higher future inequality for women. Women in the region depend more on part-time employment than men and carry the larger burden of unpaid work as well. This will be compounded by the effects of COVID mitigation efforts, which, as mentioned, have resulted in higher unemployment and lower workforce participation rates for women. The result will be lower earnings and diminished autonomy for females. Alleviating this will require promoting policies that help women balance family life and work to foster their reinsertion into the labor market. A rebalancing of the burden of care is essential to reduce gender-based inequalities. In part this may be accomplished through a strengthening of the care systems outside of the home, including universal access to childcare through early childhood centers and nurseries, elderly care, and care for people with disabilities. But it will also be necessary to increase awareness about the need for a more equitable distribution of these responsibilities than is dictated by established social norms. Policies should also aim at lowering the barriers for women to access the labor force. The greater prevalence of remote work during the pandemic presents an opportunity for adopting regulations that may standardize it, together with flexible schedules, and making it an option for women. This could also be aided by replacing process-oriented work with results-oriented work, so that women can tailor their work to their schedules, and by providing them with the necessary digital skills-training.

As Javier Solana and Enrique Iglesias called for in a recent op-ed, Latin America needs a new social compact.<sup>1</sup> This compact must be oriented towards mitigating inequality and improving access to the pillars of wellbeing: health, education, housing, environmental services, transportation, etc. It requires capable states endowed with the means necessary to provide these public goods in sufficient amounts and of the appropriate quality, which may in turn require difficult tax reforms. But it also requires engagement from the private sector and civil society. Rebuilding equitably must be an enterprise for the entire community. And it should also engage the international community. As Solana and Iglesias point out, Latin America contains 40% of the world's biodiversity, 30% of its freshwater resources, and 25% of its forests, but only around 8% of its population. As the world confronts the challenges of global warming this alone should serve as a basis for international cooperation.

Most countries in the region have had to rely on borrowing from the IMF and regional organizations. This has worsened the fiscal situation of countries that already faced a constrained fiscal space coming into the COVID crisis. According to ECLAC (2021a) Brazil, Panama, El Salvador, Peru, Costa Rica, Colombia, Dominican Republic, Ecuador, Chile, and Honduras all ended 2020 with fiscal balances above -7%, a clearly unsustainable level. Coupled with higher debt levels this will likely result in lower credit ratings, reducing access to credit markets and making it more expensive. Countries in the region will therefore need support

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<sup>1</sup> <https://www.nacion.com/opinion/columnistas/un-nuevo-contrato-social-para-latinoamerica/74CCHMT66ZC6XDMA26AF7LWNKE/story/>

from the international community in managing their foreign debt loads after the crisis, including debt relief and restructuring. Fiscal sustainability will be central to the ability of these countries to advance the social policies necessary in the aftermath of the crisis.

Resilience comes from the Latin word “resilire”, which is a composite of “re”, meaning back, and “salire”, meaning jump. Resilience therefore refers to the ability to jump back, as from a fall or setback. Ensuring that the region has the capacity to jump back from the current and future shocks requires building structures for social protection that encompass everyone, but especially the most vulnerable. Countries in the region need to create a “care economy” where care services for children, the elderly, and those with disabilities are liberated from the domestic realm, guaranteed by the state, and translated into quality jobs with adequate pay and working conditions. The positive externalities of care that are currently mostly provided by women must be internalized into market transactions and monetized. This will also enable the application of modern technology to care services, allowing care workers to capitalize from technical training and certification. Countries must also make social protection available to workers in precarious, informal, and domestic employment. Some of the innovations introduced during the pandemic to reach and register these strata of the workforce may serve as a starting point. Social protection must provide the basic means to ensure workers can bounce back from temporary adversity without suffering irreversible long-term consequences.

As Lustig and Tommasi point out, the appropriate institutional architecture is crucial to translating national priorities to policy implementation at the local level. Vulnerable groups require focused attention, tailored to their specific needs. Successful policies require proximity to these groups and effective coordination with centralized programs at the highest level as well as at the neighborhood and grassroots level. Information must flow from the grassroots level upwards, and resources must flow from the top levels downwards. Governments must have in place all critical measures to ensure the protection of the means of survival, human capital, and basic services. At a minimum these must include access to income, food, and crucial services (electricity, water, internet); protection against domestic violence; continuity of education; and access to health services and medicines.

The economist Paul Romer famously said that “A crisis is a terrible thing to waste”. Most Latin American governments mustered the political will and resources to deal with the short-term impacts of the COVID-19 crisis, sometimes in innovative ways, though not always sufficiently. As we contemplate the challenges of recovering from the crisis in an inclusive and resilient fashion, we must tackle its long-term consequences. The social protection measures that will accomplish this are those that will also ensure wellbeing and dignity for all.

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