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How Brazil and Mexico Diverged on Social Protection in the Pandemic

NORA LUSTIG AND MART TRASBERG

Although the numbers of infected people and death rates in the region were initially low, Latin America soon emerged as one of the hotspots of the COVID-19 pandemic. By the end of October 2020, Argentina, Brazil, Colombia, Mexico, and Peru were among the top ten countries in the world by number of infections. Bolivia, Brazil, Chile, Ecuador, Mexico, and Peru were among the top ten in terms of deaths per hundred thousand inhabitants. With only 8.2 percent of the world population (640 million people), Latin America and the Caribbean had 28 percent of all cases (9.3 million) and 34 percent of all deaths (341,000).

The pandemic, people’s behavioral responses to fend off contagion, and the measures designed by governments to contain the spread of the virus took an enormous toll on the region’s economies and living standards. Adverse external shocks—falling demand for exports and tourism, declining commodity prices, and unprecedented capital outflows—compounded the negative effects. The contraction of economic activity was extremely sharp during the second quarter of 2020. Some countries experienced their largest quarterly declines on record. Since then, most have begun to recover, but not fast enough to compensate for this dramatic slump.

In its Regional Economic Outlook released in October, the International Monetary Fund (IMF) projected that Latin American economies would contract by 8.1 percent in 2020. Latin America has

been hit particularly hard because (among other things) the composition of the workforce makes the region more vulnerable to the damaging effects of lockdowns than other parts of the world. The share of employment in contact-intensive sectors such as restaurants and retail stores is around 45 percent, compared with 35 percent in advanced economies and 27 percent in low-income countries, according to the IMF. The share of workers in jobs that can be done remotely is around 40 percent in the advanced countries, compared with less than 20 percent in Latin America.

In the first decade of this century, the region achieved notable progress in the reduction of inequality and poverty. There were also gains in intergenerational mobility. That progress was peetering out before the pandemic, but COVID-19 is putting the gains at serious risk as a consequence of the unprecedentedly sharp reduction in employment, especially for low-skilled workers.

More importantly, the risk of retrogression goes well beyond the short-term impact on inequality and poverty caused by the pandemic-induced economic dislocation. Higher levels of malnutrition and interruptions to schooling are likely to have irreversible effects on the human capital of today’s poor children and young people. These lasting effects in turn will shape how poverty and inequality evolve in Latin America.

Meanwhile, the region has minted, on average, one new billionaire every two weeks during the pandemic. According to Oxfam, the fortunes of Latin America’s 73 billionaires surged by a combined \$48.2 billion, or 17 percent, between March and July 2020.

Most countries in Latin America deployed vigorous policy responses to mitigate the immediate health and socioeconomic fallout of the pandemic.

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They introduced fiscal support packages amounting to about 8 percent of gross domestic product, on average (including spending, loans, and guarantees). Variation among countries was wide, however, with Brazil's fiscal stimulus among the highest and Mexico's among the lowest.

To mitigate the impact of COVID-19 on living standards, most countries' stimulus packages included increased spending on existing or new social protection programs. On average, the region spent around 2.5 percent of GDP on the expansion of social assistance to households. These programs usually have taken the form of cash transfers, in-kind food assistance, and measures to protect households' access to basic utilities.

In a September 2020 report for the United Nations Economic Commission for Latin America and the Caribbean, Merike Blofield, Cecilia Giambruno, and Fernando Filgueira argue that governments confronted a triple challenge in delivering social protection during the pandemic. They had to provide resources to people included in the existing contributory social security schemes, to those included in noncontributory schemes and government-run assistance programs, and to those who fall through the net and are covered by none of these programs.

Some governments were able to rise to the challenge better than others. Comparing the experiences of Brazil and Mexico is especially revealing. They are two of the largest countries in the region, with roughly similar socioeconomic development levels, and they faced similar challenges in terms of intensity of the COVID-19 shock. Yet their social policy responses varied considerably during the crisis. We compare the potential effects of COVID-19 on inequality and poverty and the two governments' divergent responses to mitigate these effects.

BRAZIL'S PROACTIVE MEASURES

The first case of COVID-19 in Latin America was diagnosed in Brazil on February 26, 2020. On March 16, the first death in the country was confirmed. Between January and October, more than 150,000 people died in Brazil, placing the country first among Latin American nations and second globally, after the United States.

The pandemic's effects on economic activity were likely to be devastating in Brazil, possibly

wiping out a large share of the country's considerable gains in poverty reduction made over the previous two decades. Nearly 40 percent of Brazilian workers are in the informal sector. Informal workers do not have formal labor contracts, and they usually lack access to unemployment benefits and contributory old-age pensions, which put them in an especially vulnerable situation when the pandemic hit.

In the absence of any mitigating measures, the incidence of poverty in Brazil, as measured by the international poverty line of \$5.50 per day (in terms of purchasing power parity, or PPP, in 2011) would have increased from around 25 percent to roughly 30 percent, according to an analysis by Nora Lustig, Valentina Martinez, Federico Sanz, and Stephen Younger in an October 2020 Commitment to Equity (CEQ) Institute working paper. Using Brazil's national poverty line (\$6.30, in PPP), the poverty rate could have risen from around 28 to 32 percent. The number of people living in poverty could have risen by as much as 9 million. Inequality would have

increased markedly, too: from an already very high pre-pandemic Gini coefficient of 0.55, it could have risen as high as 0.58. (The Gini coefficient is the most common measure of income dispersion, with zero expressing perfect equality and one maximal inequality.)

Even as the death toll increased rapidly, President Jair Bolsonaro, a right-wing populist elected in 2018, sought to downplay the pandemic and its effects, opposing quarantine measures and ousting two health ministers in quick succession. Since no mandatory physical distancing measures were enacted at the federal level, responsibility for mounting a response largely fell to the governments of the country's 27 states. Several governors imposed mandatory quarantines and closed schools in their states.

Despite Bolsonaro's rejection of social distancing requirements and his erratic leadership, Brazil's social protection response turned out to be surprisingly dynamic and proactive. Over the course of March and April 2020, the federal government enacted unprecedented measures to offset the economic effects of lockdowns. To mitigate the effect on formal employment, it created a credit line to help small and medium-sized companies continue to pay workers' salaries for two months,

Higher levels of malnutrition and interruptions to schooling are likely to have irreversible effects.

up to twice the monthly minimum wage. It also paid for a share of formal workers' wages on behalf of firms that decided to introduce temporary furloughs rather than resort to layoffs. These measures were expected to benefit nearly 25 million workers.

The government's efforts to provide income support to informal workers reached even farther. Bolsa Família—Brazil's flagship conditional cash transfer program—was scaled up through the inclusion of 1.2 million people that had been on the program's waiting list, increasing the number of recipient households to 14.3 million by May. However, since many households experiencing income losses did not qualify for Bolsa Família or other noncontributory transfer programs, this measure was criticized as insufficient by the Brazilian Congress and civil society organizations from the start. As a result of this pressure, the government launched a new temporary cash transfer program in April.

This program, Emergency Aid (Auxílio Emergencial, or AE), targets low-income informal workers, the self-employed, and those already registered in Bolsa Família (who are eligible to receive this transfer in lieu of their regular payment). By October, spending on the new program amounted to around 2 percent of GDP, and it reached nearly a third of Brazilians. AE is by far the largest social protection program to mitigate the effects of COVID-19 in Latin America. The monthly transfer of 600 reales (about \$107 dollars) represents roughly 120 percent of the national poverty line.

The initiative to adopt these measures stemmed not from the executive branch, but from the Congress. In this fragmented legislature, where more than twenty political parties hold seats and both Bolsonaro and the leftist opposition lack solid majorities, a clear consensus emerged on the necessity of new social protection measures that would go beyond expanding Bolsa Família. The government's initial proposal for the monthly AE transfer—200 reales per month—was widely criticized as insufficient. A coalition of legislators and civil society actors called for a payment of 600 reales—the equivalent of the national urban poverty line in 2018. At the end of March, Congress unanimously approved legislation to set the benefit at that level. Lawmakers also approved monthly payments of 1,200 reales for single-parent households, which had been a proposal from the congressional women's caucus.

Bolsonaro, evidently seeking to play a more active role in the pandemic response and improve his plunging approval ratings, signed the measure into law on April 1. He subsequently issued several executive decrees to extend AE until the end of 2020.

GAPS AND GAINS

As with other emergency cash transfer programs in Latin America, the implementation of AE has been plagued by recurrent problems. Blofield and her coauthors summarized some of these shortcomings. First, AE's reliance on electronic applications and delivery resulted in the exclusion of at least 7.4 million eligible Brazilians who lacked access to the Internet. In the poor northeast, over 30 percent of households lack Internet access.

Second, AE has been overly centralized. The execution of the program did not make sufficient use of the state- and municipal-level bureaucracies and existing databases developed over the past twenty years. Federal administrators failed to collaborate with state governments.

Third, the AE program left out a large share of the population located in the "middle" of the income distribution. These are individuals who lack the income floor provided by the preexisting cash transfers and often move in and out of poverty. The risk is that some could get trapped in poverty by a major shock at the household level, such as an illness or the economic effects of the pandemic. Of special concern are the negative effects on these households' children. If the losses in human capital experienced during the pandemic are of an irreversible kind, these children will be worse off in the future.

Notwithstanding these shortcomings, the program was successful in supplementing the incomes of the poorest deciles. Microsimulations explained by Nora Lustig and coauthors in their October 2020 working paper indicate that AE largely mitigated the effect of the pandemic on the three poorest income deciles. Thanks to this expanded social assistance, inequality may have not risen at all, and the number of the newly poor could end up being less than a million, instead of the 9 million that would have been expected in the absence of income support programs for households (both existing programs such as Bolsa Família and new ones like AE).

Given the size of the AE program, under some of the simulated scenarios, poverty could even be lower than pre-pandemic levels. Preliminary

analyses of household survey data made available by the Brazilian statistics agency confirm this. According to a study carried out by Daniel Duque of Fundação Getúlio Vargas (FGV), a leading Brazilian research institution, the number of severely impoverished people in the country—families living on less than \$1.90 per day—declined to 2.3 percent of the population in August 2020, a dramatic fall from the 6.9 percent recorded in 2019. Meanwhile, the rate of households earning less than \$5.50 a day dropped to 18.4 percent, down almost five percentage points from August 2019.

The AE program provided an unlikely popularity boost for Bolsonaro. The far-right president had constantly insulted welfare recipients and denied the need for social distancing measures even as Brazil endured one of the world's largest coronavirus outbreaks. But ahead of local elections in November 2020, when nearly 5,600 Brazilian municipalities would select their mayors, Bolsonaro was eager to throw his support behind emergency aid.

According to Brazilian pollster Datafolha, approval for Bolsonaro rose to 37 percent in August 2020, from 32 percent in June, giving him his highest rating since taking office in January 2019. Datafolha found that much of his increased popularity came from the demographic groups eligible for the new stipend, especially in the poor northeast region.

Uncertainty over the extent of the pandemic's economic effects has raised concerns about how long AE will remain in effect. In October 2020, the government halved the monthly emergency payments, to about \$54. The research by Duque at FGV shows that this reduction will likely result in an increase in poverty; ending the payments completely could send 15 million people back into poverty.

Another major question concerns the fiscal sustainability of the new social assistance initiatives. In late 2020, both the executive branch and opposition politicians, as well as economists, were working on ambitious proposals for a permanent cash transfer program called Income Brazil (Renda Brasil). This program would replace or overhaul the existing noncontributory social protection schemes, including Bolsa Família.

However, the Brazilian economy is projected to contract by 5.8 percent in 2020 and to grow by only 2.8 percent in 2021, according to IMF

estimates from October. The fiscal deficit for 2020 is projected to reach the sky-high level of over 10 percent of GDP. Given these weak growth prospects and fragile federal finances, it is unlikely that the trend of rising social spending will remain sustainable in the long term.

Beyond its short-term impact on inequality and poverty, the pandemic could leave lasting effects on Brazilian poor children by limiting their human capital gains. One of the key areas to watch is how much the pandemic limits access to schooling. Here, four main factors are in play: the closure of educational institutions, the income losses suffered by families, the health consequences related to the spread of the virus, and the ability of households to replace in-school instruction with alternative forms of homeschooling.

Public interventions are needed to cushion the educational, economic, and social impacts of the crisis. In another October 2020 CEQ Institute working paper, Lustig, Guido Neidhöfer, and Mariano Tommasi quantified the effects of the pandemic on potential educational achievements of children

with different parental socioeconomic backgrounds in Argentina, Brazil, Colombia, and Mexico. Their results showed that in families with relatively highly educated parents (having completed the secondary level or more),

the probability of the children completing high school was around 90 percent before the pandemic, and was unaffected by the crisis. For households with less educated parents, in contrast, the likelihood of completing high school was near 60 percent before the pandemic, and fell below 25 percent during the emergency despite the government's mitigation policies.

This drop occurred primarily because less-educated parents are much less able to replace normal schooling with home schooling. The projections are based on past observations that when they miss a certain portion of the last year of high school, some of these students drop out and never return. School reopenings, curricula reform, and remedial actions will be needed to target the children who are most at risk of dropping out or not learning.

MEXICO'S ILL-TIMED AUSTERITY

Between February and October 2020, at least 87,000 people died due to COVID-19 in Mexico,

Brazil's social protection response turned out to be surprisingly dynamic and proactive.

giving the country the world's fourth-highest death toll to date, behind only the United States, Brazil, and India. Preexisting social and economic conditions made Mexico particularly vulnerable to the pandemic's effects. More than 55 percent of Mexicans were employed in the informal sector, 54 percent were below the national poverty line, and 55 percent of households reported experiencing food insecurity before the pandemic.

Much like Bolsonaro in Brazil, Mexican President Andrés Manuel López Obrador (commonly known as AMLO) took a dismissive attitude toward COVID-19. Also as in Brazil, city- and state-level officials—including some of López Obrador's closest allies—have been at the forefront of the crisis response, imposing lockdowns, urging use of face-masks, and promoting other measures to counter the spread of the virus.

Yet in terms of providing support to workers and households, the Mexican government's response differed crucially from those of Brazil and most other governments in the region. While the rest of Latin America's largest countries implemented large-scale fiscal stimulus packages and social spending initiatives, Mexico's response has been extremely limited. As a result, the IMF projects that the Mexican economy will contract by 9 percent in 2020, while Lustig, Martinez, Sanz, and Younger foresee a potentially sharp increase in poverty.

Mexico's relative inaction is puzzling, since López Obrador and his MORENA (National Regeneration Movement) party won the 2018 elections with a leftist platform promising to improve the well-being of the poor. So far, though, AMLO's record as a pro-poor president has been checkered, to say the least. His government did raise the daily minimum wage from 103 pesos (roughly \$5) to 123 pesos, approximately a 20 percent increase. But López Obrador abolished practically all early childhood programs, including the conditional cash transfer program Prospera, as well as support for organizations that cater to the needs of Indigenous women. During the pandemic, no real effort has been made to protect the poor, the vulnerable (households above but close to the poverty line), and the unemployed from the brunt of the crisis.

Some limited measures to protect formal sector workers were put in place, however. In March 2020, the Mexican Health Ministry granted permission for employees in high-risk groups—such as those over 65 years of age and pregnant women—to stay home without working but

continue to receive their salaries. The government sought to prevent mass unemployment by banning firms from unilaterally laying off workers without just cause (it imposed legal and financial sanctions for violations), while requiring them to pay salaries in full during the health emergency. The government also provided loans of 25,000 pesos (roughly \$1,150) each for about one million proprietors of small and medium-sized enterprises in the formal and informal sectors. It also paid two months of old-age pensions in advance.

López Obrador reaffirmed his commitment to austerity in an economic plan announced at the beginning of April. He vowed not to increase either taxes or borrowing, instead claiming that he could fund emergency spending with measures such as cutting the salaries of high-level public officials. He also pledged to create two million new jobs through public works projects such as the construction of a new oil refinery and the Mayan Train, an intercity railway that would traverse the Yucatán Peninsula, as well as a massive tree-planting initiative. Opposition parties and the media have questioned the effectiveness of such measures in shoring up the incomes of people whose livelihoods have been damaged due to the pandemic.

The president's plan did not call for additional subsidies to protect formal sector employment, as other countries had done. Nor did it provide for new cash transfers to the poor and unemployed. Instead, López Obrador largely relied on noncontributory programs that were already in place before the pandemic. But they have proved insufficient to alleviate the income losses incurred during the emergency.

In 2019, AMLO had replaced the previous conditional cash transfer program, Prospera. Prospera and its predecessors, Progresa (1997–2002) and Oportunidades (2002–14), were the second-largest conditional cash transfer programs in Latin America after Bolsa Família in Brazil, covering more than 6 million households. These programs have been credited with reducing poverty and inequality in Mexico. The decision to end Prospera drew criticism from opposition parties and the media, but AMLO went ahead and replaced it with two new, smaller cash transfer programs for schoolchildren living in poverty and unemployed youth. A third program provides income support for citizens 65 and older.

In combination, the new programs cover nearly 16 million people. But the problem with these

transfers is that they primarily target people above or below working age; they do not provide an income floor for the working-age population, which is needed especially by those in the informal sector. A December 2019 Oxfam report found that 60 percent of Mexicans below the poverty line did not meet the requirements to access these programs.

COSTS OF INACTION

In the absence of mitigating measures, unemployment in Mexico has massively increased during the pandemic. In just March and April 2020, the number of people working fell from 55.8 million to 43.3 million, with two million jobs lost in the formal economy and 10 million in the informal economy, according to data from the National Statistics Institute. A survey conducted by Ibero-American University found that nearly a third of Mexican households experienced a loss of income of 50 percent or more between March and April.

Food insecurity also rose among Mexican households. A survey conducted by UNICEF in September found that almost 80 percent of households with children were unable to meet basic nutritional requirements.

For the year as a whole, Lustig, Martinez, Sanz, and Younger estimate that the incidence of poverty in Mexico, as measured by the international poverty line of \$5.50 per day (in purchasing power parity), could increase from around 35 percent to roughly 42 percent. Based on the national poverty line (\$7.80 at 2011 purchasing power parity), the poverty rate could potentially increase from around 54 to near 60 percent. The number of people in poverty could rise by up to 9 million. Inequality could rise markedly too, as high as a 0.50 Gini coefficient, from a pre-pandemic level of 0.46.

What explains this Mexican government's failure to act to protect the livelihoods of the poor? López Obrador's MORENA party and its allies held majorities in both houses of Congress and could have passed bold mitigation measures. However, the president lacked the political will to enact them. He appeared to hold a mistaken belief that the existing social protection programs would be sufficient and already covered the people who would be worst affected by the pandemic.

As political analyst Viri Ríos noted in a June *New York Times* op-ed piece, López Obrador also has long been hostile toward fiscal deficits and public debt, which he believes benefit socioeconomic elites and the business sector and might lead to international financial institutions, such as the IMF, dictating Mexico's domestic policies. By contrast, he sees fiscal austerity as "pro-poor" and "pro-worker" because it avoids the damaging effects of an IMF stabilization program, which would put his other policies and spending priorities under threat.

So far, the president's inaction has not hurt his approval ratings. Oraculos, a polling firm that aggregates results from different Mexican surveys, shows that AMLO has continued to enjoy a level of popularity that other presidents in the region would envy. During the pandemic in 2020, his approval ratings declined only slightly, from 65 percent in January to 59 percent in September. This might be partly explained by the weakened state of the main opposition parties, the Institutional Revolutionary Party (PRI) and the National Action Party (PAN), which took turns in power

until 2018. Burdened by past corruption scandals and policy failures, they are not currently seen as viable governing alternatives.

As in Brazil, Mexican state governments have shouldered a crucial role in the

pandemic by providing social protection services in the absence of federal action. Mexico City Mayor Claudia Scheinbaum, a key ally of the president, launched a small-scale unemployment insurance program. Most Mexican states have provided some food assistance to their populations. Some instituted emergency cash transfer programs for informal sector workers and for small and mid-size enterprises, temporary employment programs, and subsidies covering basic utilities and providing Internet service to poor neighborhoods. Due to the limited fiscal resources of state governments, however, these measures could not compensate for the federal government's inaction.

Beyond its short-term impacts on inequality and poverty, the pandemic could leave lasting effects on the educational levels of Mexico's poor children, just as in Brazil. Lustig, Neidhöfer, and Tommasi have shown that in Mexican families with relatively highly educated parents (those who completed secondary level or more), the

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likelihood of children completing high school was around 90 percent before the pandemic and remained unaffected despite its effects in 2020. For households with less-educated parents, though, the likelihood of completing high school was near 55 percent before 2020, and it fell below 25 percent during the pandemic.

This will result in rising inequality of opportunities and potentially an increase in wage inequality. With fewer people completing secondary education, the wage gap between workers with at least a high school degree and those who drop out will widen.

CHOICES AND CONSEQUENCES

Brazil and Mexico display the potentially severe effects of COVID-19 on inequality and poverty, as well as the importance of governments' responses to mitigate those effects. Although the negative impact of the pandemic on inequality and poverty has been significant in both

countries, the expansion of cash transfers in Brazil, through both existing and new programs, provided an important income floor for the population, mitigating the worst effects of the crisis—at least temporarily. In contrast, both a social protection response and countercyclical macroeconomic policies have been largely missing in Mexico, leaving most of its people to fend for themselves through the crisis without active government support.

As for the long-term effects, in both countries the disruption to education due primarily to school closures is disproportionately hitting those who were already disadvantaged. Even after mitigation policies are accounted for, secondary school completion rates for children with less-educated parents could fall by 30 percent in Mexico and 35 percent in Brazil. This means that in the future, opportunities will become even more unequal in countries where inequality across many dimensions is already pervasive. ■