

# LONG COVID: THE EXTENDED EFFECTS OF THE PANDEMIC ON LABOR MARKETS IN LATIN AMERICA AND THE CARIBBEAN\*

July 2022

## Main messages:

- *More than a year on from the start of the COVID-19 pandemic and with massive vaccination campaigns underway, over a quarter of the adult population (18+) in Latin America and the Caribbean (LAC) who had a job before the pandemic were still not working. Of these, over half left the labor force entirely.*
- *While the economic recovery remains ongoing, economic activity is not creating as many jobs as needed to absorb the number of people who want to work. Of every 100 workers who are unemployed today, 75 were employed prior to the pandemic, while 20 were out of the labor force and five were searching for work.*
- *The quality of available employment has deteriorated significantly, with a shift from wage employment to self-employment, a transition from large and medium-sized firms to micro-firms, a decline in the number of paid work hours, and an increase in informality levels.*
- *Women, young people, older workers, and individuals with low educational attainment levels have been disproportionately affected by this crisis. In many cases, workers have become discouraged or unable to return to work, exiting the labor market altogether (thus, becoming inactive).*
- *The exit of workers from the labor market was simultaneously accompanied by entry from inactivity into the labor force at unprecedented levels during the pandemic, suggesting that further examination at the country level is required to understand the role of government transfers and care work as determinants of people's activity choices. Still, as of mid-2021, inactivity rates remained higher than before the pandemic in most countries.*
- *In principle, it is desirable for previously inactive adults to enter the labor force as this causes dependency rates to fall. Yet, it remains to be seen whether the overall activity level will sustain and improve as the region exits the pandemic. Many of those who entered the labor force are people between 18 and 25 who may have left the education system to compensate for lost household income.*

**Latin American and Caribbean economies began to recover in 2021 in response to vaccine campaigns, a relaxation in confinement measures, and improvements in external conditions.** The region's gross domestic product (GDP) growth forecast for 2021 is 6.7 percent, representing a rebound from negative growth rates in 2020 and permitting the region's return to 2019 GDP levels (World Bank, 2022).<sup>1</sup> Labor markets also began recovering in 2021, albeit slowly and unevenly. Multiple questions arise about the fate of those workers who lost their pre-pandemic jobs.

\* This note was jointly prepared by Ximena del Carpio, Sergio Olivieri, Ana Rivadeneira, and Hernan Winkler from The World Bank, and Adriana Camacho, Pablo Hernández, Marcela Meléndez and Laura Tenjo from the United Nations Development Programme's (UNDP) Regional Bureau for Latin America and the Caribbean. Carolina Mejía-Mantilla, Gabriel Lara Ibarra, and Javier Romero contributed with their comments and inputs.

<sup>1</sup> In this note, 'region' or 'LAC' refers to the population of the 24 countries in Latin America and the Caribbean where the High Frequency Phone (HFPS) surveys were conducted. World Bank, 2022. [Global Economic Prospects, January 2022](#). Washington, DC: World Bank. doi: 10.1596/978-1-4648-1758-8.

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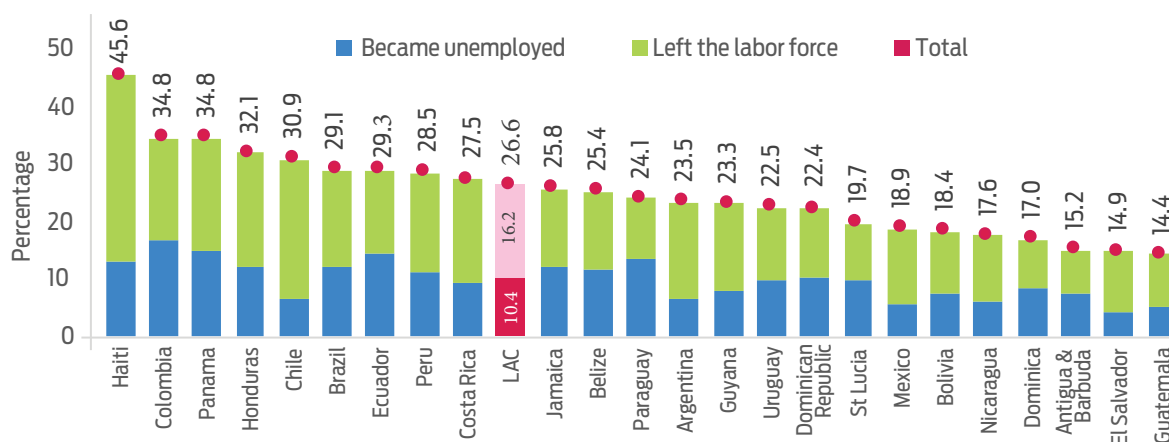
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Two critical concerns exist: first, the feasibility of current economic growth rates sustaining enough existing jobs or creating enough new jobs for employment to return to pre-pandemic levels; and, second, the nature of the jobs being sustained or created in the recovery phase. This note gives a snapshot of the region's labor market in 2021, using household data collected in the first wave of the 2021 Latin America and Caribbean High-Frequency Phone Surveys (HFPS).<sup>2</sup>

***In 2020, many people lost their jobs due to compulsory lockdowns and due to health and contagion risks. What has happened to those people a year and a half later?***

**Over a quarter of people employed before the pandemic had stopped working by mid-2021, with more than half of them leaving the labor force altogether.** While job losses in Haiti are the highest in the region, the fact that this country went through more than one crisis simultaneously in 2020 and 2021 makes it impossible to attribute job losses exclusively to the COVID-19 pandemic. Where COVID-19 and the consequent lockdowns have the highest impacts on workers is in Colombia, Panama, Honduras, and Chile (Figure 1). Chile also stands out for having the largest share of workers who lost their jobs and then stopped participating in the labor market, together with Argentina and Mexico. More than 70 percent of the people who lost their jobs in these countries (and in Haiti) have so far exited the labor market. In only a few countries – Paraguay, St. Lucia, Ecuador, and Antigua & Barbuda – the share of workers that remain searching for a job is equal to, or higher than, that of workers becoming discouraged and exiting the labor market.

**Figure 1: Share of people that were employed pre-pandemic and became unemployed or left the labor force (18+) – by country**



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

<sup>2</sup> These surveys were possible thanks to the financial support of the World Bank Latin American and Caribbean Regional Vice Presidency, the United Nations Development Programme's (UNDP) Regional Bureau for Latin America and the Caribbean, the Joint Data Center on Forced Displacement (JDC), and the Global Facility for Disaster Reduction and Recovery (GFDRR).

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**Women, young people, older workers, and individuals with low education levels are the most affected by job losses.** The slowdown of economic activity has hit female workers the hardest. Since the onset of the pandemic, 38 percent of women have stopped working compared to 17 percent of men (Figure 2). Furthermore, over 60 percent of women who lost their jobs have left the labor force altogether. Mothers with small children (0-5 years old) are finding it more challenging to work than the average female, and a larger share among them have not found a job so far (40 percent compared to 38 percent among all females). A contributing factor here may be their increased load of unpaid housework, such as cleaning, cooking, childcare, and helping children with their educational activities. Young and older workers also suffered higher job loss rates (29 and 31 percent, respectively) than their middle-aged counterparts (22 percent for those aged 30-54 years old). Still, while most younger workers keep looking for work, 78 percent of older workers have exited the labor force. This is of particular concern as a minority of the elder in the region are protected by a pension. Lower-skilled workers (measured by their educational attainment) who were economically active before the pandemic are also more likely to have stopped working than workers with higher levels of education (i.e., those who completed secondary or higher education). Most workers with low skill levels who lost their jobs during the pandemic have left the labor force altogether. Given the importance of labor income to alleviating poverty in LAC, especially over the last twenty years (World Bank 2021), increased levels of inactivity among the poor represent a risk both to the region's longer-term recovery and to poverty reduction.

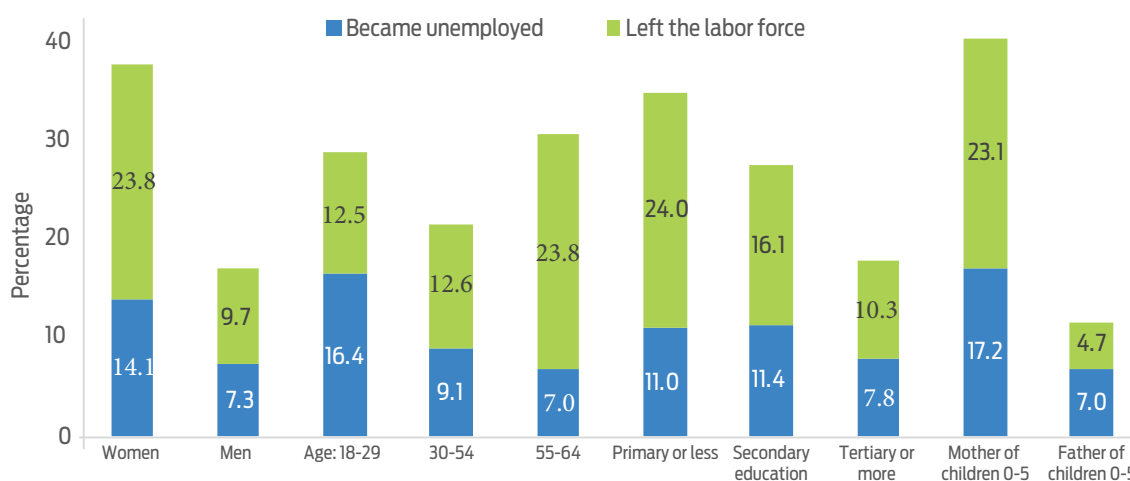
### **Box I:** ***The Latin America and Caribbean High-Frequency Phone Survey – Phase II***

The World Bank and UNDP joined forces to conduct a two-round High-Frequency Phone Survey (HFPS) assessing the impact of the coronavirus pandemic on the welfare of Latin American and Caribbean households. Between May-June 2021 (July-September for Brazil), the first wave of the HFPS collected nationally representative information for 24 countries: Antigua & Barbuda, Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Lucia, and Uruguay. This first wave provides information on the welfare loss that households and individuals experienced regarding food insecurity, changes in employment, income loss, access to health services and education, gender disparities, access to digital technology, and connectivity.

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**Figure 2: Share of people that were employed pre-pandemic and became unemployed or left the labor force (18+) – by groups<sup>3</sup>**



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

## **Are growth rates able to sustain existing jobs or create enough new jobs?**

**Since mid-2021, the economic recovery has been underway in the Latin American and Caribbean region, with employment levels improving, albeit at a slow pace.<sup>4</sup>** By mid-2021, the region's average employment rate was eleven percentage points below its pre-pandemic level. While substantial variation exists in employment recovery across countries, employment rates are still lagging in most LAC countries (Figure 3). In only three countries they are the same or higher than pre-pandemic levels. Colombia, Brazil, and Ecuador show the most significant gaps in employment-to-population ratios relative to pre-pandemic rates (16, 15, and 14 percentage points below, respectively).

<sup>3</sup> The education levels of workers throughout this document group those with any primary, any secondary or any tertiary education, whether they completed these levels or not. The first group includes those with no formal education and the last includes all post-secondary education. When using a different definition to consider only complete education level, most workers in the region group in complete primary education (39%), and only a quarter have completed third level education. However, in terms of how the pandemic impacted each group with job loss, the conclusions remain unchanged: less-skilled workers had a greater impact that lessens as education rises, and more than half of those who became jobless left the labor force across education groups.

<sup>4</sup> Employed population = people 18+ who worked at least one hour in the reference week (week before the survey) and people 18+ who did not work in the reference week but had a job to go back to. Employment-to-population ratio = employed persons 18+ / total population 18+.

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## **Box II.** **Definitions of employment in Phases I and II of the HFPS**

Employment is usually measured by the working-age population who worked at least one hour in a reference week or who did not work in a reference week but had a job to go back to<sup>5</sup>. In the HFPS, the working-age is defined as 18 years old and over and the reference week refers to the seven days before the interview. As for a job to go back to, this refers to the existence of a job attachment and the temporary nature of a worker's absence. This employment definition was implemented in the 2020 HFPS (i.e., Phase I), although job attachments and the duration of absences from work could not be strictly determined.<sup>6</sup>

The second phase of the HFPS that went to the field in 2021 included new questions to identify job attachment more precisely. People reporting "temporary absence" were counted as part of the employed population when they mention one of the following reasons for not working in the reference week: (i) temporary suspension with pay, (ii) sickness or accident, (iii) quarantine because of exposure to COVID-19, (iv) vacations or furlough, and (v) workers were on strike or other collective conflicts. These questions permit other reasons for inactivity as a signal of job attachment to be discarded.

For the above reasons, the employment-to-population ratio and other indicators used in this note may not be strictly comparable to those from the World Bank 2020 HFPS. However, comparable indicators can be calculated using the 2021 HFPS. The employment-to-population ratio for LAC is 62 percent when using the refined definition and 69 percent when using the previous 2020 definition.

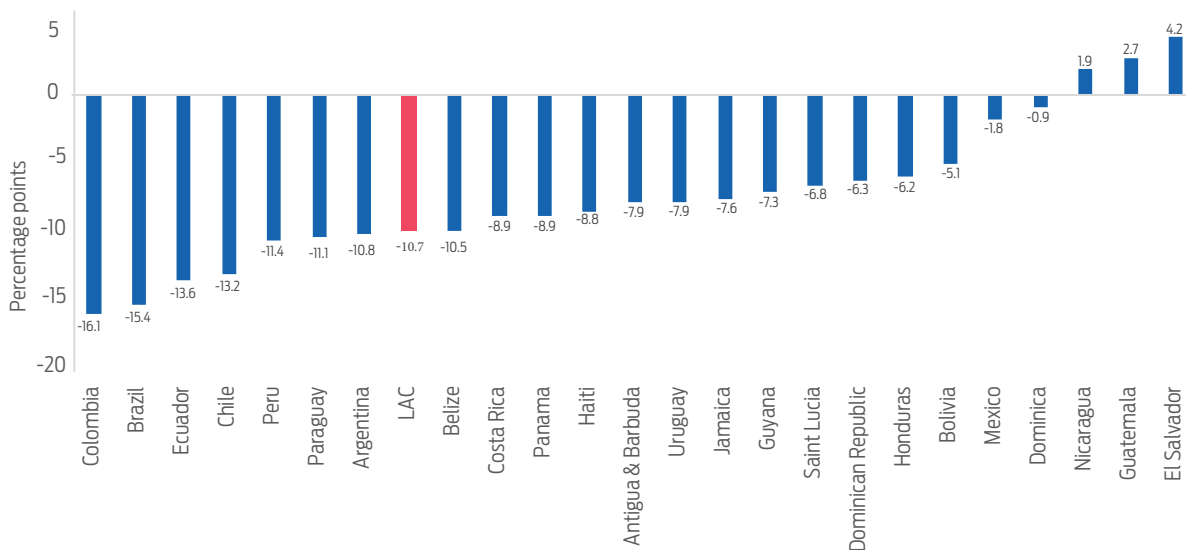
<sup>5</sup> International Labor Organization. 2020. [Monitoring labour markets amid lockdowns to contain the COVID-19 virus: Essential labour force survey content and treatment of special groups](#), ILO Technical Note April 2020.

<sup>6</sup> Mejia-Mantilla, C.; Olivieri, S.; Rivadeneira, A.; Lara Ibarra, G.; Romero Haaker, J.; Del Carpio, X.; (2021). [Jobs Interrupted: The Effects of COVID-19 in the LAC Labor Markets](#). Washington, D.C.: World Bank Group.

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**Figure 3: Gaps in the employment-to-population ratios (18+) relative to pre-pandemic levels (p.p.)**



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

**Increasing gaps in the employment-to-population ratio relative to pre-pandemic levels are explained mainly by the fact that many previously employed people remain unemployed.** Previously employed workers represented 75 percent of the unemployed and 43 percent of the inactive population in June 2021. On the other hand, employment recovery includes 65 percent of those who were previously unemployed and 30 percent of those who were previously inactive and entered the labor force during the pandemic. But not all who were previously inactive and are now in the labor force have a job; in fact, about 8.5 percent are looking for work.

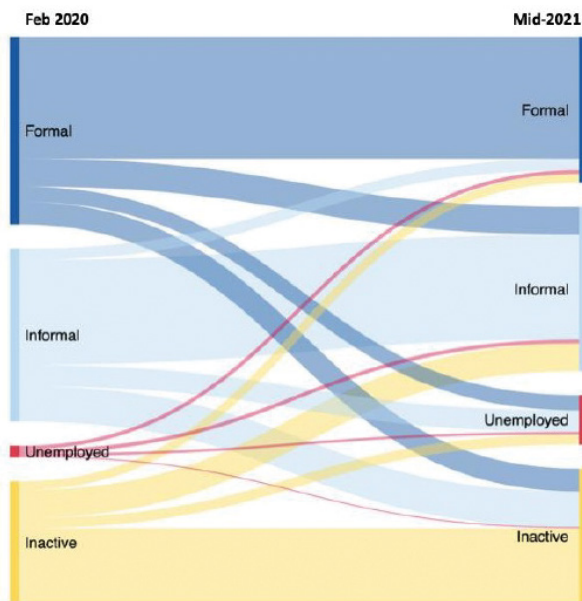
**Region-wide transitions across distinct labor status groups – namely, employed, unemployed, and inactive – suggest labor markets have undergone significant changes during the pandemic.** Such changes merit further examination at the country level, including a need to understand the potential role of targeted government transfers on people's choice to become active or remain inactive (Figures 4 and 5). Family care responsibilities and roles, traditionally assigned to women, may have also played a role in their decision to work, to not work, or to stay out of the labor force permanently. While the share of women shifting from inactivity to employment (26 percent of inactive females) exceeds the share shifting from employment to inactivity (24 percent of previously employed women), the latter rate is still 14 percentage points higher than that for men. Of those individuals classified as newly inactive, 42 percent are women, while all of them have secondary education levels or lower. The group of newly inactive women is equally split between two age ranges, 26–46 years old and 46–64 years old. Moreover, a significant share of inactive males shifted from inactivity to employment during the pandemic.



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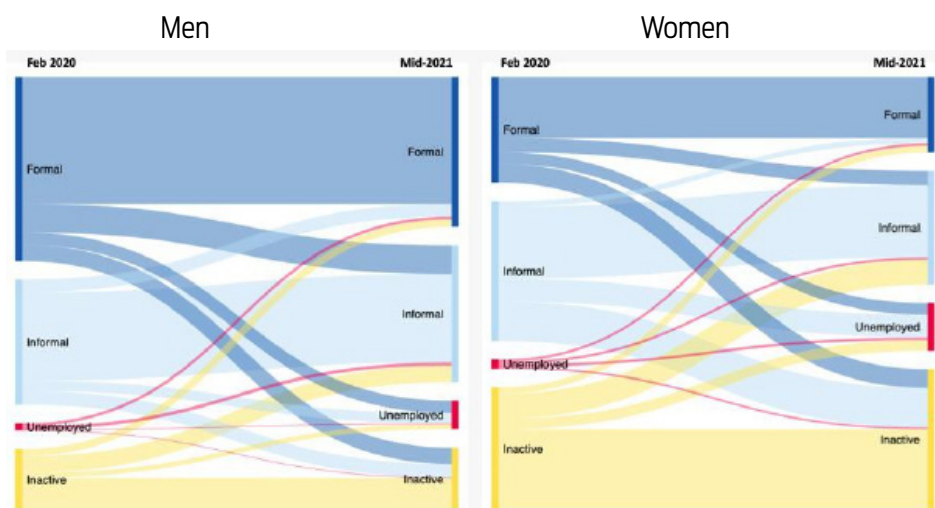
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Figure 4: Transitions between employment, unemployment, and inactivity



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

Figure 5: Transitions between employment, unemployment, and inactivity – by gender



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

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## **The slow employment recovery continues to disproportionately affect some of the most vulnerable groups – namely, older workers and women, plus workers who are less educated and likely less skilled.**

Employment rates were almost 16 percentage points lower than pre-pandemic levels for workers between 55 to 64 years old. For younger workers aged between 18 and 29 years old, meanwhile, the gap in employment-to-population ratios relative to pre-pandemic levels is only four percentage points. The employment-to-population ratio for males is six points below pre-pandemic levels, while the females' ratio is 15 percentage points behind. This difference in employment recovery increases an already wide pre-pandemic employment gender gap, with female employment rates 26 percentage points below that of their male counterparts. Differences are even more significant for mothers with small children under five years old (35 percentage points below that of comparable fathers). Job recovery has also been significantly slower for workers with lower levels of educational attainment (who are potentially also those with lower skill levels). These workers were 15 percentage points below their pre-pandemic employment rate, compared to a gap of six percentage points for workers with higher education levels. As a result, the employment ratio gaps between workers with primary education and those with secondary education widened by five percentage points. The gap between workers with primary and tertiary-level education is even larger, at ten percentage points.

## ***What types of jobs have been sustained or generated in the recovery process?***

**Many workers have seen a change in the type of firm where they work, with jobs shifting from larger companies to micro-businesses and self-employment.** The region has seen a decline in people working in small (5-19 workers), medium (20-99), and large firms (100+) of around seven percentage points, while employment in micro-sized firms (1-4 workers) has increased (Figure 6). Panama, Peru, and Haiti lead the highest positive employment shifts towards micro-sized firms, with increases of 20.6, 16.1, and 15.8 percentage points, respectively. In Panama and Costa Rica, the large firms' segment has shrunk the most in terms of employment. In Colombia, by contrast, losses in wage employment relate mainly to small firms. Despite governments' efforts, larger formal firms appear not to have been able to sustain their workforce through the pandemic. Self-employment has also risen by five percentage points in LAC, with Haiti, Panama, and Peru exhibiting the most significant variations (between 11 and 14 percentage points). These trends are particularly worrisome in a region that started pre-pandemic with an already disproportionate share of workers in self-employment and employment in businesses of less than five employees. This has unfortunate implications for inequality and growth.<sup>7</sup> In addition, on average, work hours per week have decreased in the region, from 43 down to 37. Panama, Dominican Republic, and Ecuador saw reductions of 11, 10 and nine hours, respectively, in the total number of hours worked per week. This may reflect either less demand for full-time work or the need for more flexibility (and fewer hours) by some workforce segments due to care responsibilities and family activities. These trends show workers returning to jobs that are different from those they had before the pandemic.

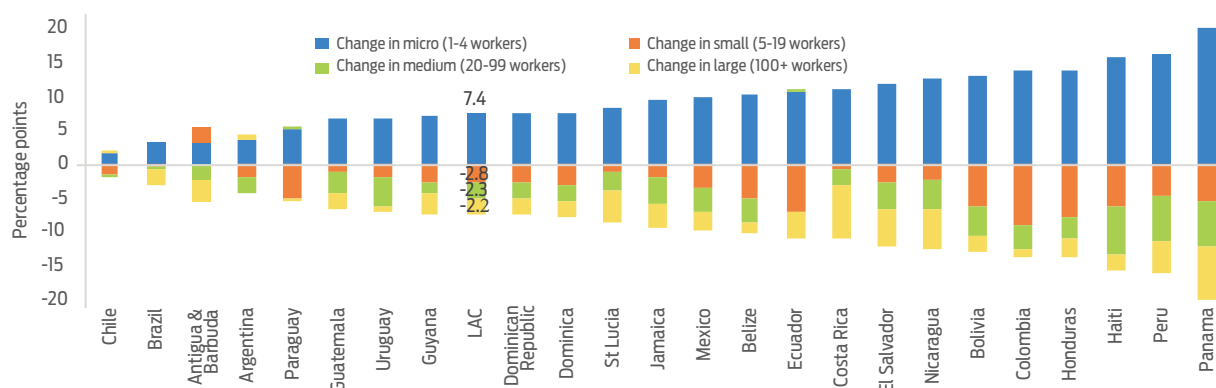
<sup>7</sup> See: Eslava, Meléndez, and Urdaneta. 2021. <https://www.undp.org/latin-america/publications/market-concentration-market-fragmentation-and-inequality-latin-america>. UNDP LAC Working Paper No. 11.



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**Figure 6: Change in the share of employment by business size (p.p.)**



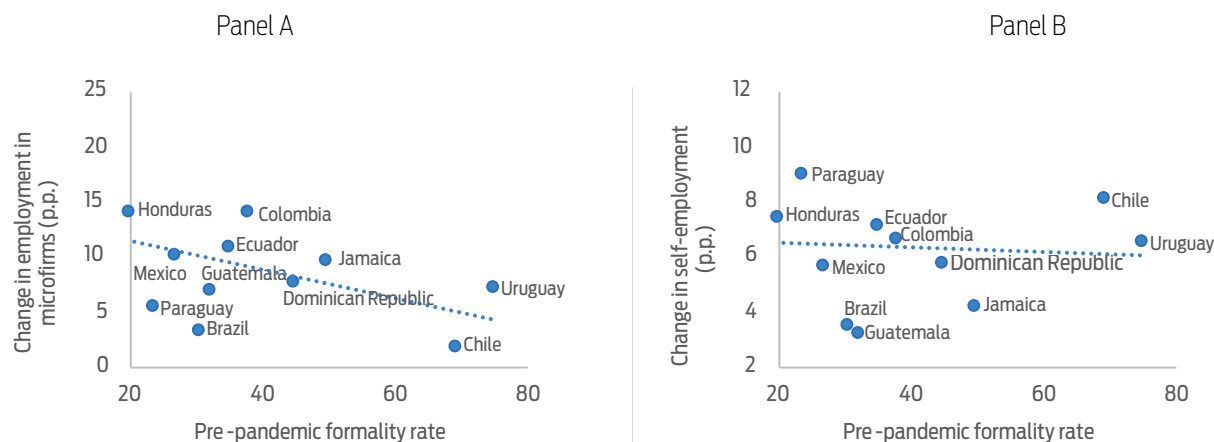
Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

**The deterioration in the quality of jobs sustained and created in the region during the recovery process follows already challenging pre-existing conditions.** The prevalence of self-employment and employment in micro-businesses of fewer than five workers before the pandemic is associated with high levels of labor informality throughout the region. The shifts observed in employment relate to pre-existing dynamics in the labor market. Notice, for instance, that shifts in employment to micro-sized firms were lower in countries with higher pre-pandemic formality rates, like Uruguay and Chile (Figure 7, Panel A). Pre-pandemic formality, however, does not appear to have prevented employment shifts towards self-employment during the pandemic (Figure 7, Panel B). High informality will continue to be a challenge in Latin America and the Caribbean. The region has had an average decrease of five percentage points in the share of formal employment over the last year, although some countries have been more hit than others. Panama, Nicaragua, and Peru appear to be the most affected, for instance, with an 11-to-23-point decrease in their formality rates.

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**Figure 7: Pre-pandemic formality rates and shifts to self-employment and micro-firms**



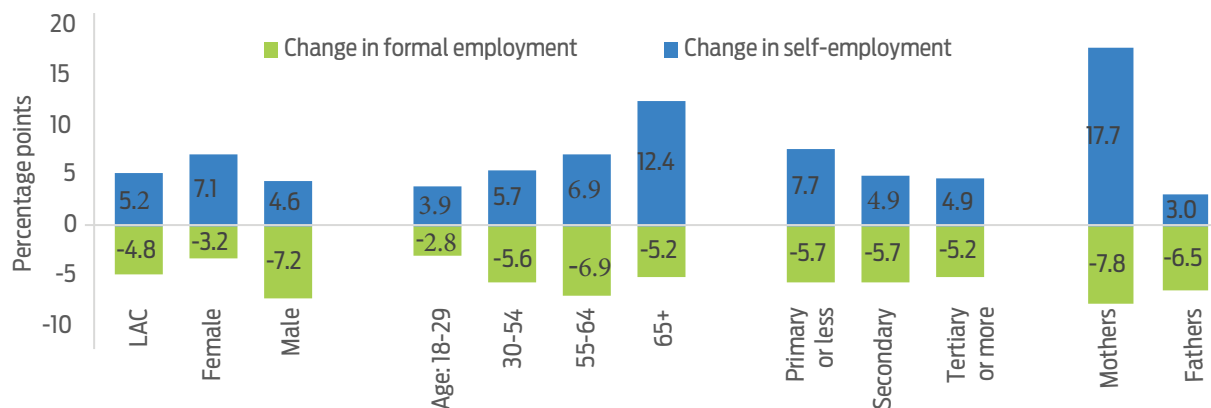
Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations. Pre-pandemic informality rates from National Household Surveys from 2019.

**Women, older cohorts, and less-educated workers were the most affected by the rise in precarious employment.** These vulnerable groups have not only suffered from the region's sluggish employment recovery, but they have also experienced a deterioration in job quality. On average, shifts to self-employment were 2.5 percentage points higher for women. The figure was even higher for mothers with children under 5 years old, as compared to the average woman, the average male, and their father counterparts (Figure 8). Formality rates have decreased less for females than for males, which is good news given that in some LAC countries women started out with a disadvantage in the labor market by this measure. The lower impact on female labor formality may be, at least in part, a result of intra-household dynamics preventing previously informally employed women from returning to their jobs (or of formally employed women holding faster to their jobs than others). Relative to their pre-pandemic situation, meanwhile, workers over 55 years old have seen their employment in formal jobs decrease, while their shift into self-employment has been above average. Compared to their younger counterparts, their decrease in formality is higher, and their transition into self-employment is much higher. While shifts to self-employment affected workers with lower educational attainment the most, the probability of having a formal job has decreased for workers across all education levels. Most new jobs created during the pandemic are informal (Figures 4 and 5).

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**Figure 8: Change in shares of formal employment and self-employment in LAC – by groups (p.p.) HFPS-II vs. pre-pandemic<sup>8</sup>**



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

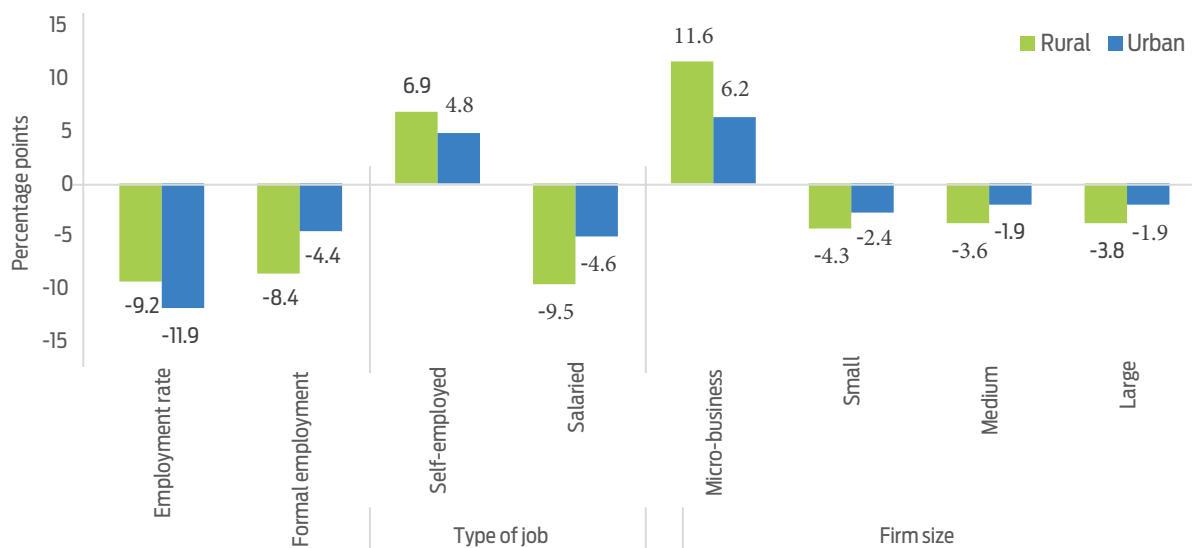
**Workers in rural areas have benefited more than those in urban areas from a faster employment recovery, albeit at the cost of job quality.** Rural employment has recovered faster than in urban areas, although neither has reached its pre-pandemic level (Figure 9). However, the quality of jobs has deteriorated more in rural areas than in urban areas. Compared to its pre-pandemic levels, formal employment has fallen twice as much in rural areas. The differentiated evolution of employment has further widened the rural-urban divide, with rural workers concentrating even more in informal jobs. Again, while workers are shifting from small, medium, and large firms to micro-businesses and self-employment independently of their place of residence, this movement has been more acute in rural areas. Finally, the average working hours per week have recovered faster in urban areas than in rural areas, although both are still below pre-pandemic levels.

<sup>8</sup> When using a classification of workers with complete education levels, as explained above, a change in the conclusion is observed when looking at changes in the formality rate (self-employment remains the same): the proportion of formal workers reduces more the higher the (completed) education level of workers. However, the resulting formality rates are larger the higher the education level, which also responds to a better starting point for higher-skilled workers. This means that the pandemic affected all workers, across all education levels, in terms of increased informality, yet no changes in the structure of formal employment are seen.

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**Figure 9: Change in employment rates, shares of formal employment, type of employment, and firm size in LAC by areas (p.p.) HFPS-II vs. pre-pandemic**



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data. Authors' calculations.

## Final remarks

**COVID-19 upended people's lives in 2020, with the effects still very much felt across Latin America and the Caribbean.** Even though there has been a rebound in 2021, labor markets have not reactivated sufficiently to reach their pre-pandemic levels.

**Most notably, the region has witnessed a significant deterioration in the quality of jobs now available.**

Not only has formality decreased, but there has been a major shift from salaried employment to self-employment or own-account work. Larger formal firms (medium-sized as well as large) were unable to keep many of their workers employed, leading to a notable shift in employment from large and medium-sized firms to micro-sized firms and self-employment. This shift away from larger firms is undesirable as micro-firms and self-employment are associated with higher informality, lower labor incomes, and lower productivity, leading to higher inequality and lower economic growth.

**Another impact of the pandemic is a general drop in the number of hours that people work.** In many cases, this mirrors the sluggish nature of the economic recovery, with less demand for full-time work. Another possible factor in play is workers' demand for greater flexibility as they seek to juggle employment requests with new-found responsibilities for household care and support for children's education. In fact, the data show that working hours drop on average because entrants into the labor force work far fewer hours than previously active workers.



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**While changes in employment patterns have affected the labor force across all segments, those already engaged in vulnerable employment before the pandemic saw their employment situation worsen.**

This group includes a significant share of women, young people, older workers, and individuals with low educational attainment levels and lower skills. Many of these vulnerable workers were engaged in the informal economy and lost their jobs during the pandemic.

**Though a significant segment of the workforce exited the labor market altogether, there was also a large share of people that entered the labor force during the pandemic.**

Labor markets have undergone substantial changes that merit further examination at the country level. Some of the changes might be positive, such as increases in labor-market activity by previously inactive people, if they result in reduced dependency rates and are not explained by young people leaving the education system to compensate for lost income. Other changes are less positive, however, such as the rise in informality and unemployment. These changes prompt the need to look deeper into distinct factors that may have played a role in the household decision-making process. For instance, government transfers may have had a part to play in how households distribute their labor assets into the economy. Also, the distribution of family and/or home care roles and responsibilities within households may have changed, potentially influencing labor market decisions within households.