

# Covid-19: Public Policies and Society's Responses



**Quality information for refining public policies and saving lives**

## Technical Note 8

**Emergency benefit providing R\$600 needs to continue and could be funded by emergency contribution on high incomes**

## Main Conclusions

- The prolongation of social distancing measures has disrupted the labor market and affected employment and household income. The public debate regarding the continuation of the Emergency Basic Income (EBI) has become inevitable, both in society and Congress.
- Negotiations to reduce workload and wages, grounded under Provisional Measure (PM) 936, led to a drop of almost R\$200 in per capita household income. Formal registered workers who were unable to access the Emergency Basic Income, were left without compensation for these losses.
- So far, despite pressure from Congress, the Federal Government is hesitant to extend the R\$600 benefit. A reduction to R\$200, as proposed by Minister Paulo Guedes, would push another 20 million people into poverty.
- The continuation of the R\$600 benefit for another three months could be fully subsidized by an Emergency Social Contribution on High Incomes.

## Introduction

This Bulletin addresses recent labor market trends during the pandemic, with emphasis on the growth of unemployment rates and how PM 936 has affected the income of workers and families. Furthermore, we assessed the current effects of the Emergency Basic Income and proposed suggestions to enable its continuity.

## 1. The continuity of the Emergency Income

Given the severity of the economic situation and the intense negative impacts on employment and household income, there is widespread understanding that emergency assistance measures must be extended.

Shortly after the approval of the Emergency Basic Income (EBI) by the National Congress on March 30, a series of changes were proposed to its base text: (i) removal of the limit requirement over taxable income received in 2018; (ii) inclusion of beneficiary mothers under 18 (eighteen) years old; (iii) inclusion of the EBI amount to the income tax should the beneficiary receive, in the fiscal year 2020, other taxable income in an amount higher than the first range of the tax table; (iv) double share of the benefit for single parents (v) creation of a list, purely illustrative and non-exhaustive, comprising all categories apt to receive the benefit. President Jair Bolsonaro sanctioned these modifications to the EBI with partial vetoes on May 14, whereas the main rejected measures were items "i", "iv", and "v" (Congress has not yet assessed the president's veto, however, and it may be overturned).

Nine bills have been introduced in Congress regarding the extension of the emergency assistance. Six of them propose that benefits be paid at least until December 31, 2020; one proposes a 3-month renewal; another proposes an extension until March 2021; and, finally, a project proposes that the benefit should be permanent. In all proposals, the amount of the emergency assistance would remain R\$600 and there is no indication of funding sources for extending the benefit. Of the nine proposals filed in Congress, six are signed by Opposition members (PSOL, PDT, and PT) and three by the PSDB, DEM, and PP.

On the other end, the Government does not yet have a definitive stance, although it informally declares considering an extension of the benefit beyond the three installments determined by Law No. 13,982/20. What the Government deems essential, however, is to reduce the initially granted amount (R\$600). In addition to the amount, the Government remains unclear as to the period through which the benefit would be paid and the strategy to support this extension. At this moment, an amount in the vicinity of R\$200 is the closest the Government has come to manifest itself on the issue.

The following table summarizes the Bills in Progress in Congress that request the extension of the EBI.

**Table 1** - Comparison between bills requesting the extension of the Emergency Basic Income

Bill	Author	Political Party	State	Date	Position in relation to the federal government	Monthly value of the benefit	Extension period of the EBI	Cost (billions R\$)
2222/2020	Wolney Queiroz	PDT	PE	27/04/2020	Opposition	R\$600,00	Another three months	98,2
2365/2020	Fernanda Melchionna	PSOL	RS	04/05/2020	Opposition	R\$600,00	Until December 2020	196,4
2357/2020	José Guimarães	PT	CE	04/05/2020	Opposition	R\$600,00	Until December 2020	196,4
2283/2020	Gleisi Hoffmann	PT	PR	29/04/2020	Opposition	R\$600,00	Another nine months (until March 2020)	495,68
2531/2020	Frei Anastácio Ribeiro	PT	PB	11/05/2020	Opposition	R\$600,00	Until December 2020	196,4
2777/2020	Luis Miranda	DEM	DF	20/05/2020	Neutral	R\$600,00	Until December 2020	196,4
2550/2020	Eduardo da Fonte	PP	PE	11/05/2020	Neutral	R\$600,00	Until December 2020	196,4
2632/2020	Bancada do PT	PT	[ - ]	14/05/2020	Opposition	R\$600,00	Permanent	-
2729/2020	Alexandre Frota	PSDB	SP	18/05/2020	Neutral	R\$600,00	Until December 2020	196,4

This debate rises to prominence insofar that its conclusion will determine the greater or lesser worsening of an already critical situation which afflicts millions of families living in extremely vulnerable conditions. This is the main motivation behind the Solidarity Research Network's decision to participate in this discussion based on projections of unemployment, income drop, and the identification of mechanisms capable of evaluating the necessary public expenditure.

## 2. The labor market and the pandemic

The pandemic has severely affected the labor market. The first information covering the validity period of policies to contain the advance of the pandemic was released on May 27 and 28 – and even so, only partially. This data comes from the General Register of Employment and Unemployment (CAGED in the Portuguese Acronym), under the responsibility of the Ministry of Economy, and the aggregated monthly information of the Continuous PNAD, from the IBGE, during the quarter from February to April.

The CAGED reveals a negative balance of over 1.067 million formal jobs from March to April. The Continuous PNAD showed an increase of 4.9 million in the number of unemployed persons in the current quarter (February-April/2020) when compared to the previous quarter (November/2018-January/2019). The Service sector was the most affected, followed by the Trade and Repair sectors and the Manufacturing Industry.

There are, however, limits to the use of this newly released data. The CAGED, for example, does not report the balance of the informal sector. Nonetheless, according to the continuous PNAD, 70% of job terminations in recent months were in the informal sector: that is, the CAGED's unemployment variation is vastly underestimated. The results disclosed by the Continuous PNAD, in addition to not being available in microdata, are a moving average and comprises the entire month of February and the first half of March – moments when the economic impacts of the pandemic were not yet clear (the first aggressive measures against Covid-19 were taken on 03.12 in the Federal District and on 03.15 in the state of São Paulo).

In an attempt to obtain a scenario closer to the present, the Solidarity Network researchers combined several data sources. The starting point was the annualized version of the 2019 Continuous PNAD, which contains more thorough information on households. We simulated several unemployment scenarios and proportionally distributed the layoffs and dismissals across the economic sectors according to the CAGED. Maintaining the same proportion registered by the Continuous PNAD between February and April, we estimated that for each formal worker discharged, two informal workers also became unemployed.

Furthermore, data from the Ministry of Economy informs that until May 26, 8,154,997 formal workers had made some kind of bargaining negotiation with their employers, which suggests a proportional reduction of the working hours and wages based on the possibilities granted by Provisional Measure 936<sup>1</sup>. Every scenario indicates a drastic reduction in income – with greater losses for those who further reduced working hours and for those with higher income, since unemployment insurance has a maximum value of R\$1,813.03 (Of all negotiations, 54.4% were suspension, precisely those that caused greater losses).

**Table 1** - Socioeconomic scenarios resulting from increased unemployment and negotiations made via PM 936, without the Emergency Basic Income

	Unemployment**	Household income per capita	Poverty	Gini
Observed in 2019	11,7%	R\$ 1.442	18,7%	0,543
April 2020 (estimate)	17,1%	R\$ 1.289	21,1%	0,538
One-month extrapolation of the unemployment trend	22,1%	R\$ 1.248	23,4%	0,550
Two-month extrapolation of the unemployment trend	26,6%	R\$ 1.209	25,5%	0,562

\* Poverty Line = 1/3 of the Minimum Wage. To simulate the consequences of PM 936, we randomly selected a number of formal workers proportional to the number and type of negotiation made in each economic sector, as informed by the Ministry of Economy. \*\* The unemployment hereby estimated assumes that participation rates are reasonably constant.

<sup>1</sup> Reductions can be 25%, 50%, or 70%, for up to three months. The Federal Government covers an assistance and the value is based on what the worker would earn if they received Unemployment Insurance. For example, under a reduction of 25% of the working hours, the worker would receive 75% of his or her original salary and 25% of the amount equivalent to the unemployment insurance. There is also the possibility of temporary suspension of the employment contract, in which case the amount received as a complementary benefit is exactly the same of the Unemployment Insurance.

Table 2 shows the simulation results for the month of April. In these counterfactual scenarios, which sought to describe what would have happened in the absence of the Emergency Assistance<sup>2</sup>, per capita household income would fall by 11% and poverty would rise to 21%. Inequality, however, as measured by the Gini coefficient, would have dropped – since, while unemployment mostly affects informal workers, PM 936 strongly reduces income in the upper half of the income distribution. In other words, the decrease in inequality at the bottom of the social pyramid is due to a general drop in per capita income.

### 3. Impacts of the Emergency Basic Income

This Technical Note focused on combining only two unemployment projections with two values for the emergency benefit: R\$600, the current value, and R\$200, due to the signaling, however informal, by the Minister of Economy<sup>3</sup>.

**Table 2** - Simulated Scenarios regarding the Effects of the Emergency Basic Income

Benefit amount	Eligible	Monthly Cost	Average Income		Per capita benefit	Poverty		Gini	
			ex-ante	ex-post		ex-ante	ex-post	ex-ante	ex-post
-	-	-	R\$1.442	-	-	18,7%		0,543	0,543
Unemployment: 17,2%									
R\$600	57.718.396	R\$38.373.762.431	R\$1.293	R\$1.476	R\$310	21,1%	4,0%	0,539	0,443
R\$200	57.776.197	R\$12.801.964.650	R\$1.286	R\$1.348	R\$103	21,1%	13,8%	0,538	0,500
Unemployment: 26,2%									
R\$600	61.141.052	R\$40.595.411.978	R\$1.207	R\$1.401	R\$314	25,5%	5,6%	0,561	0,451
R\$200	61.222.288	R\$13.547.278.707	R\$1.206	R\$1.271	R\$105	25,5%	17,7%	0,561	0,517

Source: Microdata Annualized Continuous PNAD, 2019; Online queries to the New CAGED data; Tabulations of the Continuous PNAD, Quarter Feb-Apr/2020. Data prepared by the authors.

In a scenario where unemployment has reached 17.1%<sup>4</sup>, losses in the average income observed before the incidence of the EBI (ex-ante value) are only compensated if the benefit is R\$600 (see the ex-post value). The definition of a R\$200 benefit would keep the household income per capita 6.5% below the threshold observed before the pandemic and a poverty rate of 13.8%. This means circa 20 million more people in poverty than estimated for the scenario with the R\$600 benefit, which would have a poverty rate of 4.0%.

Since eligibility and concession rules focus on providing emergency assistance to the poorest population, and as both simulated values for the benefit are higher than *Bolsa Família*, the impact, in all scenarios, is poverty reduction.

The partial and temporary compensation of the poorest population, together with the income loss of formal workers, ultimately pushes for an even greater drop in inequality. We should note, however, that the leveling of average incomes stems from the loss of purchasing power, due to both unemployment and PM 936. These individuals have not become eligible for social programs. The magnitude of this equalization may also be temporary: as long as the emergency assistance lasts.

<sup>2</sup> We estimated an unemployment variation in April of 17% to 22% or up to 27%.

<sup>3</sup> We constructed a total of 49 different scenarios, but this Bulletin contains only the most informative. These results are at [www.redepesquisasolidaria.org/dados](http://www.redepesquisasolidaria.org/dados).

<sup>4</sup> We underline that this value should be interpreted solely in reference to previous months as a basis for comparing the increase in people who lost their jobs, since increased inactivity could hide the size of the fall in employment.

## 4. Emergency Basic Income: the current situation and future expenditure

According to Caixa Econômica Federal (CEF), the release of the first two installments of the emergency assistance reached 57.9 million beneficiaries until May 26, who received a total of R\$74.6 billion. This means that the amount was R\$49.32 billion below the R\$123.92 billion made available through extraordinary credit, created through PM 937/2020 and 956/2020, for the three assistance installments.

Still according to Caixa, 101.2 million applications were processed, whereas 19.9 million came from Bolsa Família (PBF in the Portuguese acronym) and 32.1 million came from CadÚnico<sup>5</sup>. It should be noted from all applications processed from the PBF, 3.51% (0.7 million) were considered ineligible, while 67.2% (21.6 million) of applications processed from CadÚnico were also deemed ineligible. In other words, more than two thirds of the registrations processed by CadÚnico had their assistance benefit denied by the CEF, even though the institution does not indicate the reasons for refusing the benefit.

There were 54.5 million applications for the EBI through the mobile application or website, from which 49.2 million were processed, with 29.3 million considered eligible and 19.9 million deemed ineligible. There are 5 million requests undergoing preliminary analysis and, among those ineligible, 5.1 million requests are being re-analyzed.

In the scenario with higher unemployment (26.6%) and greater coverage (61.1 million beneficiaries), the monthly value of the EBI would be R\$40.5 billion per month. If extended for another 3 months, the total expenditure would reach R\$121.5 billion.

Although a high amount, the proposal for an Emergency Contribution on High Income, devised by Úrsula Dias Peres and Fábio Pereira dos Santos<sup>6</sup>, would sufficiently cover this cost. This contribution would apply to total income, that is, the sum of taxable income, exclusive (already collected at source) and exempt, burdening only those with monthly incomes above R\$15,000,00 (stratum of the richest 10%, according to the distribution of taxpayers on Individual Income Tax).

**Table 3 - Estimated Collection from the Emergency Social Contribution on High Income**

Monthly Min. Wage Bracket	Number of declarants	Total Income	Assets and rights	Tax rate	Contribution Collection
15 to 40	2.631.706,00	681.702.281.727,00	1.875.911.992.622,00	10%	23.783.874.777,00
From 40 to 80	478.310,00	287.730.801.467,00	956.804.478.231,00	15%	24.336.208.480,00
Over 80	194.268,00	551.651.083.305,00	2.532.618.056.445,00	20%	93.947.596.221,00
<b>Total &gt; 15mw</b>	<b>3.304.284,00</b>	<b>1.521.084.166.498,00</b>	<b>5.365.334.527.298,00</b>		<b>142.067.679.478,00</b>

Source: Úrsula Peres and Pereira, 2020

The contribution on high income would have progressive tax rates, starting from 10% for those who earned between 15 and 40 minimum wages (MWs), 15% for taxpayers between 40 and 80 MWs, and 20% for those who earned at least 80 MWs. This design would collect R\$142 billion - that is, sufficient to extend the R\$600 EBI for up to four months, even in the most pessimistic unemployment scenario. We also underscore that these accounting calculations do not consider the positive impacts of the collection of taxes on consumption and production, as the economy reacts from the emergency basic income.

<sup>5</sup> Translator's Note: Single Registry for Social Programs, or CadÚnico in the Portuguese acronym, is an instrument for collecting data and information to identify all low-income families in the country for inclusion in social assistance and income redistribution programs.

<sup>6</sup> <https://politica.estadao.com.br/blogs/gestao-politica-e-sociedade/por-uma-contribuicao-social-emergencial-para-enfrentar-a-covid-19/>

## ABOUT

We are over 40 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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