

The role of tax-benefit systems in protecting household incomes in Latin America during the Covid-19 pandemic

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Abstract

The Covid-19 pandemic drastically affected household incomes around the world. However, as documented for developed economies, the tax-benefit system in place before March 2020 and the emergency transfers to households mitigated the negative income shock. Less is known of the effect of government intervention on household incomes in developing countries. The aim of this paper is to assess in a comparative way the role of tax-benefit policies on the changes in the distribution of household income in seven Latin American countries: Argentina, Bolivia, Colombia, Ecuador, Mexico, Peru, and Uruguay during the Covid-19 pandemic by means of tax-benefit microsimulation. Departing from previous studies, our microsimulation models allow us to decompose income changes into the effects of automatic stabilisers, new policies, and market income variations. We find a great deal of heterogeneity between countries in terms of earnings losses and the effect of tax-benefit policies. There is an important cushioning effect of emergency policies, especially at the bottom of the pre-pandemic income distribution, but automatic stabilisers are mostly present at the top of the distribution given the high labour informality in the region, and thus they play a very minor role.

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