

# Informal Labor Markets in Times of Pandemic: Evidence from Latin America and Policy Options\*

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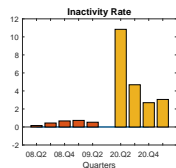
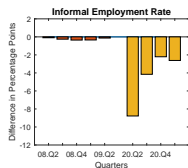
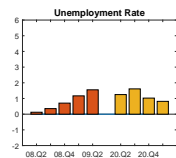
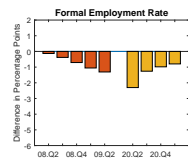
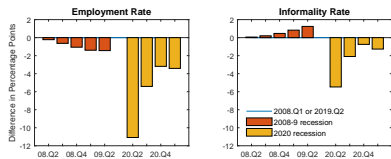
<sup>2</sup>ITAM, Department of Economics

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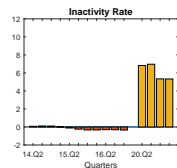
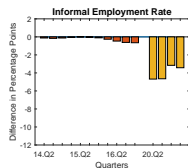
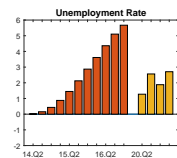
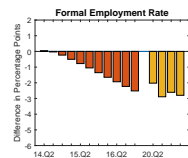
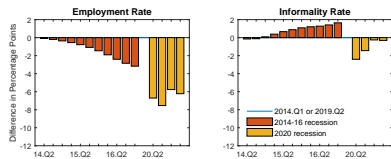
\* The views expressed here are those of the authors and do not necessarily reflect those of Banco de México or its Board of Governors. This project was sponsored by the Inter-American Development Bank. Leyva declares having worked for this project *ad honorem*.

# A Tale of Two Countries and Two Recessions

## Mexico

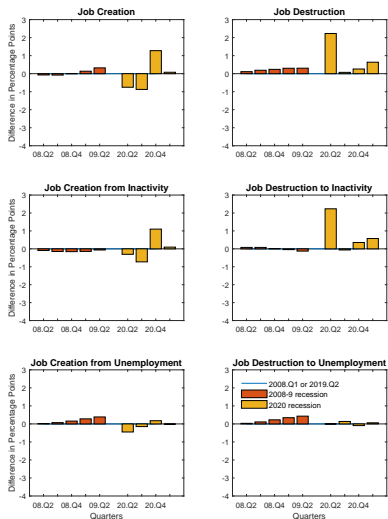


## Brazil

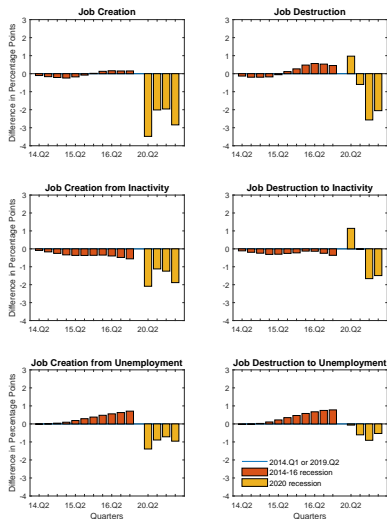


# Job Creation and Job Destruction by Type of Non-Employment

## Mexico

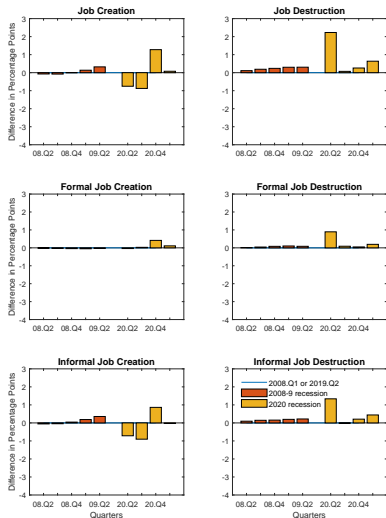


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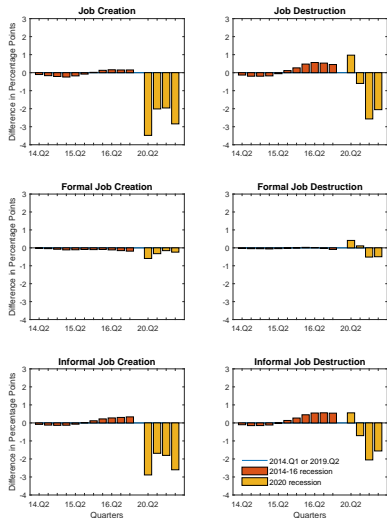


# Job Creation and Job Destruction by Type of Employment

## Mexico

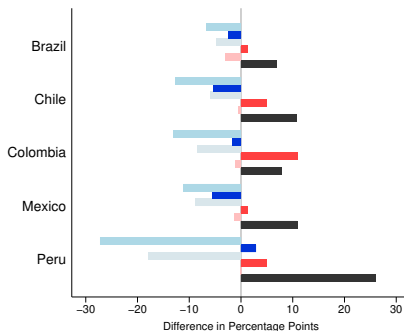


## Brazil

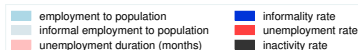
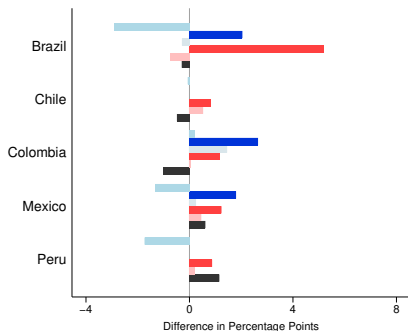


# Latin American Labor Markets during the Pandemic (absolute changes)

## Pandemic Slump



## Previous Downturns



## A Model of Informal Labor Markets

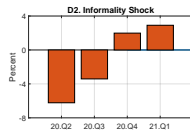
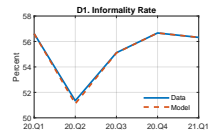
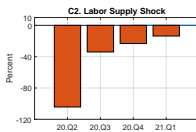
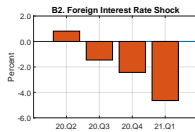
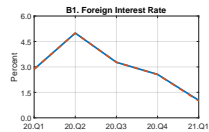
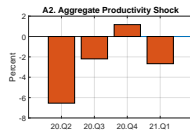
- Small open economy subject to technology and interest rate shocks
  - Endogenous participation (leisure choice)
  - Formal and informal (self-employed) sectors
  - Matching frictions in the formal labor market

Calibrated to Mexican data *before* the pandemic

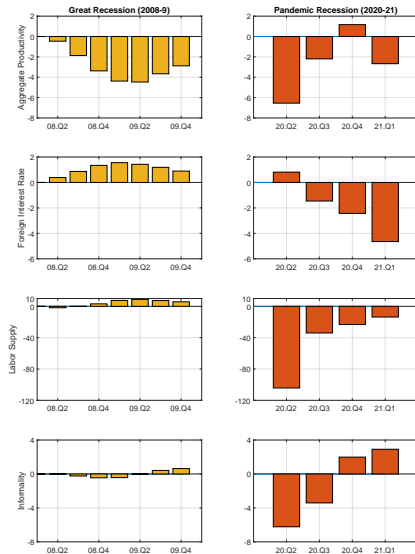
- Extended model with two new shocks
  - A shock to labor supply (disutility of work parameter)
  - A sector-specific productivity shock (*relative* informality parameter)

Reduced-form representations of the impact of the pandemic

# Accounting Exercise: Shocks Recovered



# Placebo Test: Accounting for the Great Recession





## Policy Options: Summary of Results after One Year

Policy Instrument	Employment Rate	Informality Rate	GDP	Fiscal Cost % GDP	Policy Size
No Policy Intervention	-1.72	0.33	-1.84	-	-
Payroll Tax Cut	0.00	-5.57	4.18	7.49	19.9
Hiring Subsidy	0.00	-5.57	4.18	0.23	53.4
Informal Income Subsidy	0.00	3.73	-1.61	4.13	11.0