The deepening inequalities during COVID-19 demands a reconstruction with equality. Between 2019 and 2020, the poorest 10% of Bolivian households suffered a shrinkage of almost one fifth of their income, while the richest 1% did not register any loss.
INTRODUCTION

Around the globe, the effects of the health crisis along with the containment and preventive measures to avoid infection left a greater unequal socioeconomic balance than the one present before the pandemic. Worse yet, the global economic prospects declared an uneven recovery, slower in low income countries. It is estimated that almost all population groups experienced income losses, but that these significantly affected the poorest 20% of the population.¹

At the beginning of 2022, going through the fourth wave of COVID-19 infection, Bolivia faces the enormous challenge of economic revival and rebuilding with equality. Even though the economy has already shown signs of recovery, as reflected in a Gross Domestic Product (GDP) rate close to 6% by the end of 2021², the persistent waves of infection leave behind a feeling of uncertainty, mainly about what the future holds in terms of the devastating effects caused by the crisis.

The days after COVID-19 will be complicated. Added to the economical impact are the loss of thousands of lives, health effects on the population, new educational inequalities and loss of learning opportunities, as well as the widening gender gaps associated with the public crisis³, among others.

Tax systems and states face the challenge of designing new strategies to finance social protection and emergency programs, reestablish the health and education institutions in the short term and make them sustainable in the long term. This notice presents some of the recent inequality trends during the pandemic in Bolivia, within the context of a global crisis. From Oxfam, we seek to contribute to an open dialogue on the most pressing needs to think about rebuilding beyond the economic reactivation, promoting reflection and discussion on the challenges of overcoming the deepening regressive impacts of this situation.

THE PARADOX OF THE COVID-19 CRISIS: PRODUCT DECREASE AND GLOBAL WEALTH INCREASE

In 2020, largely due to the COVID-19 pandemic, the global economy shrunk but household wealth kept increasing. Unlike former crises that affected both wealth and income, the current pandemic has seen an increase in total wealth, along with a severe concentration at the top of the distribution⁴. As a result, inequality has increased between regions and also within them, and the world’s wealthiest 1% concentrated the majority of the generated wealth. According to Oxfam, the wealth of the 10 richest men has doubled, while the incomes of 99% of humanity are worse off, because of COVID-19.⁵

At the end of the second year of the pandemic, world’s economies are moving towards a recovery in the economic activity within a context of deepening existing inequalities and the surfacing of new forms of inequality: in access to vaccines, in a greater monetary poverty, food insecurity and the uncertainty about the end of the pandemic.⁶

Recent statistics from Credit Suisse⁷ report that the global wealth accumulation was practically immune to the measures taken by the world during 2020 to face and/or mitigate the pandemic’s socioeconomic effects. Despite the drop in GDP due to the general confinement, the wealth accumulation did not stop and registered an increase of 7.4% while wealth per capita increased in 6%. Never before has the relation between wealth accumulation and economic performance been so contradictory.
The same source of information confirms that Europe and North America have stockpiled the majority of the wealth generated during 2020; in contrast, Latin America and India registered net wealth losses. In 2020, Latin America suffered an estimate of -10% of wealth shrinkage, both in financial and non-financial assets, although the greatest loss was registered in the former.

According to the World Inequality Database’s global wealth inequality estimates, all countries registered changes in their wealth distribution, although the trends have not been homogenous. For example, Brazil and Chile, where the richest 1% of the population concentrates almost 50% of the aggregated wealth of each country, a growing trend was maintained for the past decade, including 2021. Something similar happened in Peru, where the wealth of the richest 1% exceeds the 40%, a growing trend was maintained during the last decade, even during 2021. On the other hand, in Argentina the 1% of the richest population holds around 25% of the aggregated wealth, a proportion that has remained unchanged during the last years.

In Bolivia, the estimates of the concentration of wealth show a period of redistribution until 2018, which coincides with a period of economic wealth with a reduction of poverty and inequality. Whereas, as of 2019, along with the shrinkage of economic activity, the redistribution of wealth has stopped. Available data show a steady decline in the wealth concentration at the top of the distribution: in 2007 the top 1% of the Bolivian population withheld 38% of the aggregated wealth, while the top 10% held 71% of the overall wealth. Although these percentages fell 10 percentage points in the last decade, in 2019 the top 10% captured 61% of the wealth, twelve times more than the bottom 50% who at the time held barely 5% of overall wealth (see figure 1).
Since 1995 in Bolivia, **THE TOP 10%** have captured the lion’s share of wealth. In 2020 it is estimated that this group held 61% of total wealth, 12 times more than **THE POOREST 50%**


According to the global comparison of wealth, in order to be a part of the world’s richest 1% it is required around a million dollars (adjusted by PPP\(^{(11)}\)) in assets (financial and non-financial)\(^{(12)}\). Around 56.1 million adults worldwide are part of this group.\(^{(13)}\)

The pandemic triggered a global decline in the economic activity, at the same time wealth kept increasing along with a concentration at the top. This reality has awoken a global interest: during the crisis, several countries applied taxes on wealth and/or large fortunes as a mechanism to finance programs and politics to handle the health crisis.\(^{(14)}\) In Bolivia, by the end of 2020 the Plurinational State chose to implement a Tax on Large Fortunes (see box 1).

**BOX 1. Tax on Large Fortunes (IGF in Spanish) in Bolivia**

In Bolivia, at the end of 2020, the Plurinational State decided to create the Tax on Large Fortunes (IGF in Spanish)\(^{(15)}\). During the first year of implementation, this tax collected around Bs 240 million,\(^{(16)}\) collected from 206 taxpayers, applying an effective rate from a net worth above 4 million dollars. The collected amount, although it represents a small percentage of tax revenue, more than doubles the municipal investment made by the implementation of the programs and projects in favor of family co-responsibility of care and the reproduction of labor in 2019, which amounted to Bs 97 million, including public childcare centers.\(^{(17)}\)

The proposals of tax reforms aimed to facilitate a greater resource collection from the State in various countries of the world emerge as a commitment to progressive tax changes, that is, based on taxing those who are better equipped to face the crisis.\(^{(18)}\) The crisis has opened the possibility for new fiscal policy proposals that allow wealth redistribution mechanisms never before tried in the country; the challenge will be to find a balance between accumulation and the needs of the basic and social services that the population needs.
A NEW SOCIAL PACT TO FIGHT INEQUALITIES

Given the characteristics of the pandemic and lockdowns, household income decreased immediately and there was a loss in wealth (assets, savings) increased debt, which in the long term, will affect the decrease in productivity capacity.

Particularly in developing countries, households in higher income and wealth strata were better equipped to handle the crisis and, in some cases, were even economically empowered. The World Bank (WB) estimated that while the wealthiest part of the population is on its way to financial recovery, the poorest 40% has yet to recover from the losses brought by lockdowns.19

In Bolivia, during 2020, the economy fell drastically (-8.8% in contrast to 201920), as a result of the health crisis along with a political and institutional crisis. According to the National Institute of Statistics of Bolivia (INE in Spanish), the drop in sector performance in 2020 affected mainly in mining (-28%), construction and transportation (both -19%), and other services (-18%) leaving, regardless, farming and other services with positive growth rates in contrast to 2019.

According to phone surveys conducted between May and July 2020, the damage in the Bolivian household’s economy combined temporary or permanent job loss, a drop in family income and food insecurity, leaving behind a balance of greater poverty and inequality as a result of the lockdown period.21 It’s estimated that, during the months of rigid quarantine, households had losses in labor income, with a greater impact on those with lower income. This situation was the result of the decrease in both hours worked and labor income; transitory, inactivity rates increased, especially for women.22

Based on the processing of Household Surveys, it is estimated that between 2019 and 2020, households in the poorest income percentiles registered significant losses and worsened the distributive situation compared to increases in the highest percentiles. Households located in the bottom 10% suffered an average loss of a fifth of their income, while the top 1% suffered no income loss, and the poorest 1% registered a loss of up to 30% (see Chart 2).23 In short term, income losses also contributed to greater inequality.

CHART 2: Household income variation of the top 1% and the bottom 10% (2019-2020)

<table>
<thead>
<tr>
<th>Percentile</th>
<th>2019-2020 Income Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1%</td>
<td>0%</td>
</tr>
<tr>
<td>Bottom 10%</td>
<td>-22%</td>
</tr>
</tbody>
</table>

Between 2019 and 2020, the fall in income affected the poorest households more: while THE POOREST 10% SUFFERED AN AVERAGE LOSS OF FIFTH OF THEIR INCOME, THE TOP 1% REGISTERED NO INCOME LOSSES.

Source: Estimates made by ARU Foundation, based on Household Surveys – INE.
The COVID-19 pandemic and containment measures resulted in immediate losses and transitory losses in the population’s labor income. Several of the region’s countries, including Bolivia, rapidly adopted cash transfer methods to mitigate the impact of household income, as a social protection response against COVID-19. Bolivia reached one of the highest coverages of the population with these transfers and, in the case of the Bono contra el hambre, the amount signified an income equal to 1.5 times the extreme poverty line, a condition achieved by few countries in the region. Although the monetary transfers adopted in the region contributed to mitigating household income losses in the short term, their design and limitations did not allow to reverse the income-reducing impact in the long term.

To avoid greater long term income losses and reverse the poverty trend that the pandemic has caused, it will be necessary to adopt strategies on three different fronts: strengthen the social protection system, fight the gender gaps that impede women’s economic autonomy through the promotion of care co-responsibilities and domestic labor, and reactivate the productive capacity of self-employment.

**BOX 2. Thinking about the basis of a new social pact: universal minimum wage, care co-responsibility, and equal productive reactivation**

The pandemic has deepened income inequalities, which is why new arrangements between different actors in society on terms of recovery. The basis of this new social pact demand to bring forth the conversation on relegated issues in the design of public policies and that the pandemic leaves behind clear lessons on equal sustainable recovery; there are more evident tensions now in the face of the need of a solidary and progressive recovery. Sustainable recovery implies thinking about social protection beyond transfers; commit to promoting women’s economic autonomy through citizen’s co-responsibility policies to close the gender gap in access to paid labor, and adopting explicit measures to prevent income losses and assets accumulation by informal workers, who have been greatly affected during the crisis.

**A LONG IMPACT AND DURATION CRISIS THREATENS THE SUSTAINABLE RECONSTRUCTION**

The coronavirus pandemic will have an impact on the population’s wellbeing in medium and long term. Households not only lost their financial and non-financial assets, but their rights to health and education were also affected with the consequent loss of human capital.

Since the pandemic began, Bolivia registered almost 20,000 deaths from COVID-19 and close to 650,000 coronavirus infections. ECLAC (2021) has warned that as long as the necessary conditions to control the health crisis are not met, progress towards a transformative recovery is at risk.

Around 254,000 boys and girls dropped out of school and dropout rates, which had declined for more than a decade, are currently higher than they were at the beginning of the pandemic. Due to low income and a lower resilience of poor households to face the crisis, it was the children...
who suffered the greatest violation of the right to education; in fact, an increase of 10% in school exclusions is estimated.\textsuperscript{30}

The few studies on these losses in Latin America point that not only has the possibility of accessing education been affected in the short term; but also long term, remote learning will cause cumulative effects on nutrition and mental health, among others.\textsuperscript{31} Likewise it has been warned about the losses, for children and adolescents, in terms of protection, sociability, violence prevention, care and monitoring; effects that transcend the academic objectives of school.\textsuperscript{32}

In Bolivia, as in other countries with high degree of informality, close to 80% of household income comes from labor,\textsuperscript{33} with a strong contribution from self-employment. After the coronavirus pandemic, accumulated losses in human capital are expected to affect these households the most, which due to the crisis’ impact also lost their productive assets.

Wealth, also understood as the group of financial and non-financial assets to face health shocks, unemployment, disasters or pandemics, \textit{often built from small family businesses, has been affected in this crisis, accounting for the decrease of assets (real and financial), and putting at risk the future capacity of lower income households to respond to new shocks that this long-term crisis anticipates.}

Households have lost income; their assets have been reduced and they are exposed to greater education and health losses in the medium and long term. Reviving the economy also implies recovering the productive capacity of households, especially family businesses on which a significant percentage of the country’s employed population rely on, and which are represented by small and medium-sized companies that account for a significant percentage of the country and region’s employed population (see box 3). According to INE’s Continuous Employment Survey, in Bolivia, in 2021, more than 75% of the employed population in urban areas were employed in a SME, either producer (farming, manufacturing, mining and construction) or non-producer (commerce, services).

\begin{center}
\textbf{BOX 3. Sustainable economic revival}
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According to recent estimates, Small and Medium-sized enterprises represent 99.5% of businesses in Latin America, concentrate 60% of working population and contribute to 25% of GDP.\textsuperscript{34} The crisis’ impact in this area has been devastating: higher sales losses compared to larger scale enterprises, as well as higher closure rates during the pandemic. Among the crisis’ lessons, the diagnoses suggest the need to solve structural barriers that these types of businesses face as a necessary requirement for sustainable economic revival. The suggestions include promoting financial access, encouraging investment in digitalization in innovation, among others.

In this context, the economic and social measures of the near future must pay special attention to losses and recovery of financial and non-financial assets of households and productive units, and in their distribution; as well as to the interaction between wealth, income, health and education inequalities.

The post-pandemic poses a double challenge: coming up with new formulas for redistribution and sustainable financing and, at the same time, encouraging the revival of economic activity. Such synchrony seems to be the inescapable condition for a sustainable recovery that will guaranty a new period of economic growth with redistribution in the country.
Measures of wealth

Household wealth is conceptualized as the financial assets (currents and deposits, financial instruments, shares and life insurance reserves, pension systems and others), non-financial assets (facilities, constructions, structures, land improvements, machinery and equipment, crops and livestock and other assets of businesses owned by households) and labor force; the productive capacity of people. Both the financial and non-financial capital have the function of stocking for future consumption, specially at retirement age, but they also act as a collateral resource against the need of loans, as well as facing health shocks, unemployment, disasters or pandemics. Hence, wealth inequality also affects the ability of households and individuals to face a crisis.

From the economic theory, wealth accumulation is a condition for growth and, at the same time, is a result of growth. An economic revival means, therefore, boost wealth accumulation.

NOTES


2 According to the "Report on 2021 economy and 2022 perspective", the Ministry of Economy of Bolivia projected an economic growth of 6% at the end of 2021, exports above 10 000 million dollars, positive trade balance, controlled inflation and lower fiscal deficit. On the other hand, he mentioned signs of economic revival based on indicators such as a higher demand for electrical energy, construction rates and the demand for industrial power that anticipates a higher requirement in goods and services that is reflected in an increase in billing for the consumption of services, restaurants and hotels by 39%, after a sharp drop of -48% registered in 2019 (available in: https://es-la.facebook.com/EconomiaBo).


8 WID (2021), World Inequality Database. Available in: https://wid.world

9 Ibid.

10 Ibid.

11 PPP refers to Purchasing Power Parity and is used to make prices comparable, according to purchasing power in different countries.

12 In this regard, the global wealth comparator is available in: https://wid.world/income-comparator


14 In April 2021, the general secretary of the United Nations, Antonio Guterres, suggested the application of “a solidarity tax” to those who had benefited during the pandemic in order to fight the inequalities. He has referred to the need for a “paradigm shift” that is up to par with the challenge of facing a long-term crisis (In: https://news.un.org/es/story/2021/04/1490732).

15 The IFG taxes the assets of the individuals when their worth exceeds the Bs 30 million threshold, or its equivalent in a foreign form of currency. The heritage is calculated from the value of all financial or non financial assets that the individual owns, including real estate, motorized vehicles, per capita investments and participations within companies, deposits in every kind of financial institution, cash both in national and foreign currency, credits of all kinds, income generated by insurance, collectibles, jewelry, antiques and works of art, intellectual and industrial property, among others.

16 In: https://www.impuestos.gob.bo/site/notice/2306

17 According to the Fiscal Justice Observatory from Women (Observatorio de Justicia Fiscal Desde las Mujeres), the municipal investment aimed to gender equality projects and programs in 2020 was of Bs


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22 The tightness of the labor market was reflected in the increase in unemployment to nearly 12% in July 2020 and a drop in the employment rate close to seven percentage points in urban areas (In Fundación Aru, 2020, “Impacto de la Covid-19 sobre el empleo, el tejido empresarial y los ingresos”, informe elaborado para la OIT).

23 Estimates made by ARU Foundation, based on Household Surveys – INE.


26 ECLAC has thoroughly discussed the need to aim towards a new social pact.


31 Unicef Lacro Education Section (2020), Latin America & the Caribbean COVID-19 Education Response


33 Obtained by the processing of 2011-2020 household surveys. The data is rounded up to the national average of that period. Household income is broken down by source: work activities, government transfers (bonds), other household transfers, rents, income derived from capital or savings, among others.