Income Loss Compensation during the Covid-19 Pandemic: The Winners and the Losers[2]

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Summary of key findings

- In this study we analyze how income compensation tools adopted by the Czech government in response to the Covid-19 pandemic were targeted at various groups of households. We reveal what proportion of the state's overall expenditure on compensatory measures was targeted to the households most heavily affected by the pandemic.

- Despite the fact that the state spent a substantial amount on measures to compensate households for loss of income, the pandemic still had a substantially heavier impact on the poorer layers of society. This may manifest itself in the future as a deepening of existing problems with debt, executions and child poverty.

- Our analysis is based on unique data from a continuous survey of a sample of households that was collected as part of PAQ Research's 'Life During the Pandemic' project in collaboration with IDEA at CERGE-EI and with financial support from the Czech Academy of Sciences. The data on household income structure are from the SILC survey run by the Czech Statistical Office and our simulations are performed using our own TAXBEN model.

- The most adversely affected sets of households as far as economic activity is concerned were households involving self-employed individuals and those who were in various kinds of precarious work immediately prior to the pandemic. Households with children under 12 years of age, single-parent households and households who were already in income poverty prior to the pandemic also experienced substantial reductions in income.

- The greatest proportion of the funds set aside to compensate for the Covid-19 pandemic's negative impact on incomes was spent on taxation amendments (almost 130 billion CZK per year). More than 63 billion CZK was spent on temporary pandemic measures directly designed to help households affected by Covid-related restrictions. The smallest proportion of expenditures in this area was allocated to strengthening the benefits system, changes to which only cost just under 4 billion CZK per year.

- While they had the heaviest impact on state finances, the tax modifications made during the pandemic primarily benefitted wealthier households and those with higher incomes, which were relatively less affected by the pandemic.

- The range of measures implemented to directly compensate for the income effects of pandemic-related restrictions were successful in compensating income losses among workers with stable incomes (both employees and the self-employed). However, these measures were not capable of helping people with occasional or intermittent incomes from precarious jobs. On the contrary, as part of these measures, more than 14 billion CZK were allotted to a one-off contribution for pensioners, whose incomes were only minimally affected by the pandemic.

- The modifications made to the benefits system were minimal in scope and were not sufficient to assist low-income families whose financial situation had substantially worsened.