Institute of Labor Economics
Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring:

USA

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May 24, 2020

Labor Market Policies during the Covid-19 Crisis: The United States

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Draft Report

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1. ***The current overall impact of COVID-19 on the labor market in terms of employment, unemployment, sectors, firms*:**

Official unemployment statistics for the United States are based on a monthly household survey. They are released at the beginning of each month and reflect the unemployment situation in the middle of the prior month (specifically, the week including the 12th of the month). According to the U.S. Bureau of Labor Statistics (BLS), in mid-April, the official unemployment rate was 14.7 percent, the highest since the Great Depression of the 1930s. Owing to potential problems in the coding by interviewers of individuals who were not at work during the survey week, the BLS reports that the unemployment rate could have been up to 5 percentage points higher. The employment-to-population ratio for those age 16 and older was at 51.3, the lowest rate recorded in the history of the series, which date back to January 1948.

Unemployment insurance administrative data similarly show a surge in unemployment during the crisis. Since March 14, nearly 39 million workers have filed for unemployment benefits, according to the U.S. Department of Labor. The insured unemployment rate—which measures the percent of payroll employees on unemployment insurance—was 15.7 percent the week ending May 2. Because this figure does not count those who are unemployed but do not qualify for unemployment benefits, which includes the unemployed who were self-employed or new labor market entrants, the concept is different from that measured in the household survey.

Payroll employment statistics from the monthly establishment survey show that wage and salary employment fell by 20.5 million in April following a loss of 842,000 in March. Employment in the leisure and hospitality industry, which includes restaurants, fell by nearly half or 7.7 million, in the month. Job losses were widespread across sectors but especially steep in education and health, professional and business services (particularly temporary agencies), and retail trade.

Reflecting the composition of employment in sectors hardest hit by the crisis, the data show that youth, African Americans, Hispanics, and low-educated workers have suffered especially high levels of unemployment (See BLS release, Table A). Analyses of unemployment insurance claims from the state of California show that one-third of wage and salary workers age 16-23 and one fourth of those age 24-39 have filed for unemployment benefits. Nearly half of low-educated workers in California have applied for unemployment benefits during the crisis.

2. ***The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19***

The Corona Virus Aid, Relief, and Economic Security Act (CARES Act) enacted at the end of March contained several important measures designed to mitigate the impacts of the pandemic on labor markets and workers. The CARES Act gives businesses a payroll tax credit and sets up a program (the Payroll Protection Program) that provides forgivable loans to small and medium sized businesses if they do not lay off employees.

The Act also provides substantial federal support for the unemployment insurance during the crisis. In the United States, the unemployment insurance system is a federal-state partnership. While the federal government provides states with funding for the administration of the program, the benefits paid out to the unemployed come from state trust funds that are financed through experience-rated taxes on employers operating in the state. The CARES Act extends by 13 weeks the maximum duration of unemployment benefits; the federal government reimburses the states for these extended benefits. Moreover, out of concern that the level of the unemployment benefit is too low in many states to sustain the unemployed and their families during a period when new hiring is very low, the federal government is providing a supplemental unemployment insurance benefit of $600 per week.

The CARES Act also provides benefits to selected groups who normally are not eligible to receive unemployment benefits—primarily the self-employed, which includes independent contractors and freelance workers. The federal government reimburses the states for all unemployment benefits paid to these groups.

Additionally, the CARES Act contains several provisions designed to promote the use of short-time compensation (STC) or work sharing during the recession. At the start of the recession, only 26 states, which accounted for about 70 percent of the U.S. workforce, operated work-share programs. The law provides financial support to states without work-sharing to develop one. Through the end of the year, the federal government will reimburse states for all STC benefits paid out. This means that state UI trust funds, which are rapidly being drained by the high level of regular unemployment insurance payments, will not be affected by STC use and employers will not face higher future unemployment taxes if they use work sharing in lieu of layoffs. Importantly given the already high level of unemployment, employers are permitted to use work sharing to bring furloughed workers back to work and even to hire new employees. Those on work share receive the flat $600 weekly federal supplement to their unemployment benefit, irrespective of the percentage cut in hours. These generous STC benefits should make the work sharing attractive to workers.

3. ***Policies providing immediate liquidity to small firms and freelancers***:

Under the Payroll Protection Program, at least 75 percent of the loan must be used for employee compensation and if the business retains all employees, the loan is forgiven. This program has been very popular and ran out of its initial $349 billion allocation in less than two weeks. Congress has replenished the fund with an additional $310 billion. One concern has been that relatively large organizations have been better equipped to apply for loans, which have been administered through private lenders, and that smaller businesses have been underrepresented among those receiving funds.

As noted, independent contractors, freelancers, and other self-employed individuals may receive unemployment benefits through a special federally funded program. This new program, Pandemic Unemployment Assistance (PUA), took time to set up in each of the 50 states, but applications for unemployment benefits through the PUA—many if not most of whom were self-employed—have been large in recent weeks. In the week ending May 2, 6.1 million of the 27.3 million claiming unemployment benefits in the United States were funded through the PUA.

4. ***Effectiveness of policies for dependent workers***:

As outlined above, the primary policy for dependent workers (i.e., employees) losing their jobs has been income support through the state-run unemployment insurance system, supplemented with a federal benefit. States were overwhelmed with applicants in the early weeks of the pandemic and processing of applications was slow. While the situation varies across states, the state unemployment insurance agencies have been hiring and training new staff and are now better able to process the applications. As noted, the insured unemployment rate for dependent workers was high—17.2 percent—in the week ending May 9.

The federal supplement to the state benefit was set at a fixed amount ($600 per week through the end of July) to speed the processing of claims. The supplement, however, makes benefits very generous for low and middle-income workers. Analyses of unemployment insurance administrative data in the state of California show that the wage replacement rate for workers on unemployment insurance is 140 percent—meaning that more than half of workers receiving benefits are earning substantially more than they did when employed. There have been widespread reports from employers that it is difficult to get workers to return to work. Although in principle workers become ineligible for benefits if they turn down a job, this rule may be hard to enforce during the economic crisis.

Thus far, work sharing has been used relatively little in the crisis. Out of the more than 27 million claiming unemployment benefits during the week ending May 2, only about 143,000 were on work-share programs. Prior research shows that relatively few employers in states with programs know about the option, and that this lack of information poses a major impediment to its use. In addition, the process of setting up a work share program is more involved for employers, and just as unemployment agencies have been slow to process regular unemployment claims from individuals, state agencies have been ill-equipped to handle the surge of interest from employers in work sharing. In Michigan, for example, the state agency has been increasing staff to handle this interest and this is likely occurring in other states as well. As discussed, states, employers and workers have strong financial interests in using work sharing as the economy starts to recover, and so there may be a significant increase in use of the program in the coming months.

Active labor market program (ALMPs) if not fully halted have been greatly pared back both because there has been relatively little new hiring and because job service centers have been closed due to health risks. In Michigan, some employees who had been working in ALMPs have been reassigned to assist with the processing of unemployment insurance claims and setting up work-share programs.

5. ***Working conditions and work organization within firms***

As in other countries, there has been a tremendous increase in remote work wherever this is feasible—generally for office workers. In the United States, there has been no national policy regarding which businesses should be shut down to prevent the spread of the virus, when those businesses may reopen, and what workplace practices must be adopted to help prevent the spread of the disease and to protect workers. Instead, those decisions have been left up to the governors of each of the 50 states and, in many cases, individual businesses have adopted more restrictive practices to protect workers. Restrictions, for example, have involved limiting the number of people who may enter retail stores, requiring individuals in open spaces to wear face masks and stay at least 6 feet from others, and mandating daily checks of employees' health status before they may enter the workplace.

Some businesses have redesigned their workplaces to make them safer for employees. For instance, some stores and factories have erected plexiglass barriers to protect workers from customers or other employees. Some businesses, most notably meat packing facilities where employees work in cramped conditions, have been forced to shut owing to Covid-19 outbreaks among workers.

6. ***New labor market entrants***

College students usually graduate in May and high school students in June. Although the labor market for new graduates is very weak, thus far, labor market policies have focused on assisting those who have lost work, not on those entering the labor market.

7. ***Further developments, issues, and next steps***

Virtually all state governors implemented mandatory business shutdowns in March and April and have begun lifting restrictions, allowing many if not all businesses to reopen. There has been considerable variation across states in approaches to and the timing of reopenings, and because there has been no uniform national policy to govern the process, this variation is not always related to regional variation in coronavirus trends.

No consensus currently exists in the U.S. Congress about the need to adopt additional measures to stimulate the economy and mitigate unemployment. Some, primarily Democrats, want to extend measures passed in the CARES Act and adopt a major economic stimulus package that would include significant infrastructure spending. Others, primarily Republicans, are reluctant to pass additional large-scale spending measures and instead want to wait to see the effects of the existing measures and how the economy responds as governors lift restrictions on business openings.