I Z A Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

United States (June 2020)

Susan Houseman

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ABSTRACT

Widespread business closures and social distancing practices led to an unprecedented fall in employment and rise in unemployment in the United States in March and April, although the labor market has improved somewhat since May. Extended and more generous benefits for the unemployed and measures to encourage businesses to retain workers have been the focus of the labor policy response. Although new policies strongly incentivize work share, program take up has been relatively low thus far. As key labor policy measures will expire at the end of July, the US Congress is debating a new relief package.

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Labor market impact of COVID-19

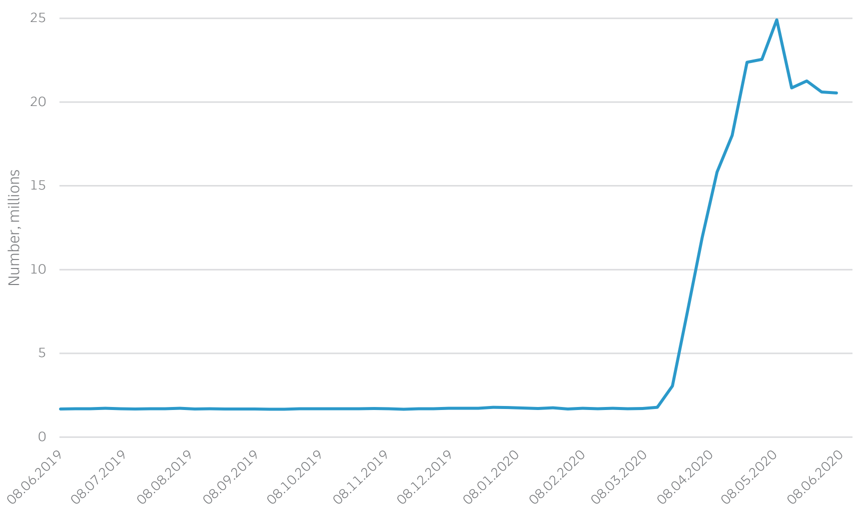
Widespread mandatory business closures and social distancing practices have led to an unprecedented fall in employment and rise in unemployment in the United States since March.

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). A separate employer survey tracks changes in payroll employment. According to the U.S. Bureau of Labor Statistics (BLS)[1], the official unemployment rate was 14.7 percent in mid-April, 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 reported 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.

Reflecting the loosening of restrictions on business openings, the employment situation improved somewhat between April and May. The official unemployment rate fell by 1.4 percentage points to 13.3 percent, and the employment to population ratio improved by 1.5 percentage points to 52.8 percent. The Bureau of Labor Statistics continued to flag as a problem the potential understatement of the unemployment rate.

Administrative data on unemployment insurance[2], which are published weekly, similarly show a surge in unemployment during the crisis. Figure 1 depicts the number of people previously in wage and salary jobs receiving unemployment benefits over the last year. That number started rising sharply in mid-March and peaked at 25.9 million in early May. For the week ending June 6, the number receiving unemployment insurance benefits had declined to 20.5 million. Because this figure does not count those who are unemployed but do not normally qualify for unemployment benefits, which includes the self-employed and new entrants to the labor force, the concept is different from that measured in the household survey.

Figure 1: Number receiving unemployment insurance (millions)



Source: Administrative data published by the U.S. Department of Labor. The numbers exclude those on work-share programs and the self-employed on Pandemic Unemployment Assistance, who do not normally qualify for unemployment benefits.

1 https://www.bls.gov/news.release/pdf/empsit.pdf

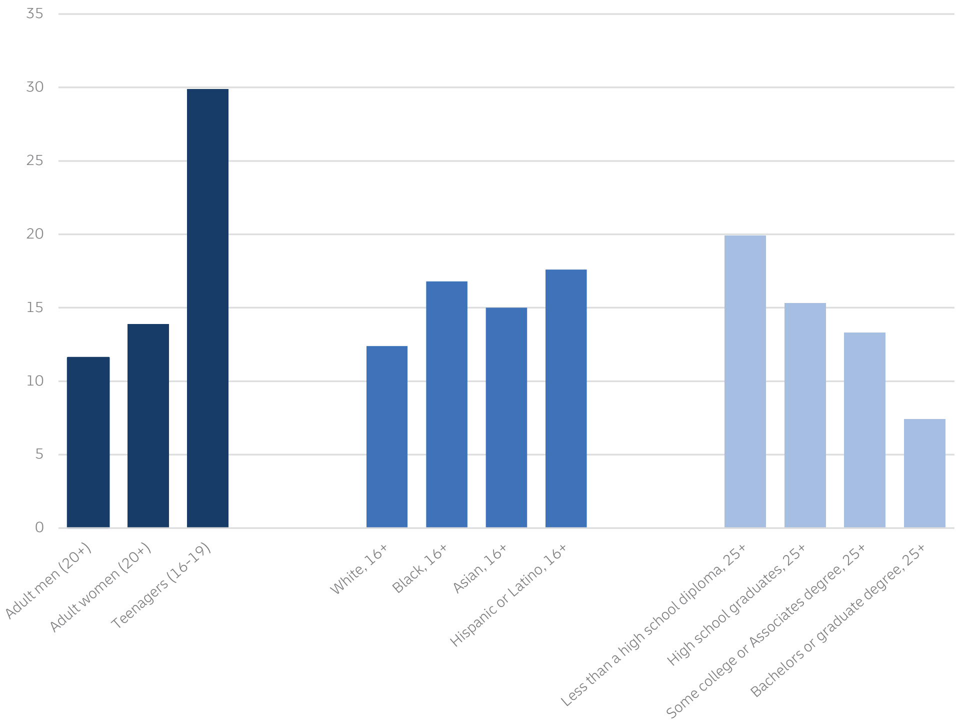
2 https://www.dol.gov/ui/data.pdf

Analyses[3] 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. Especially striking is the fact that in California nearly half of those without any college education have applied for unemployment benefits during the crisis.

Mirroring the dramatic rise in unemployment, figures from the BLS employer survey[4] show payroll employment falling by 20.7 million between March and April. Nonfarm payroll employment rose by 2.5 million, recovering about 12 percent of the jobs lost in the preceding month. Job losses were widespread across sectors but especially steep leisure and hospitality, education and health, professional and business services (particularly temporary help agencies), and retail trade. Employment in the leisure and hospitality industry, which includes restaurants, fell by nearly half or 7.7 million between March and April; that sector recovered 1.2 million of those jobs between April and May.

Reflecting the composition of employment in sectors hardest hit by the crisis, the data show that youth, minorities, and the low educated have suffered especially high levels of unemployment (See Figure 2). Teenage employment, for example, was nearly 30 percent in May compared nearly 14 percent among adult women and between 11.6 percent among adult men. Unemployment falls dramatically with educational attainment. As shown in Figure 2, the unemployment rate among those age 25 and over with less than a high education was nearly 20 percent in May compared to an unemployment rate of 7.4 percent among the college educated.

Figure 2: Unemployment rates by age and gender, race and ethnicity, and educational attainment, May 2020



Source: U.S. Bureau of Labor Statistics, Current Population Survey

In addition to job loss, many people have experienced lower earnings because of reduced hours or a pay cut owing to the financial stress experienced by their employer. New data

3 https://www.capolicylab.org/wp-content/uploads/2020/05/May-21st-Analysis-of-California-UI-Claims-During-the-COVID-19-Pandemic.pdf

4 https://www.bls.gov/news.release/pdf/empsit.pdf

from U.S. Census Bureau[5] show that in the week ending June 9, nearly half of those surveyed reported that they or someone in their household had experienced a loss of employment income since March 13. That figure was about 60 percent for those age 18-24, for Hispanics, and for those with less than a high school education.

Orientation and targeting of adopted measures

The Corona Virus Aid, Relief, and Economic Security Act (CARES Act[6]) enacted at the end of March contains several important measures designed to mitigate the impacts of the pandemic on workers and businesses. In policies designed to reduce employment costs for businesses, the CARES Act gives businesses a payroll tax credit and sets up a program (the Paycheck 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 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 normally 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, and the federal government reimburses the states for these extended benefits. Moreover, out of concern that 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 being rapidly 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.

Even if an employee is not laid off, the worker may be unable to work for reasons related to the Covid-19 crisis. Workers may themselves be sick with the virus or may have to care for family members who are sick. Additionally, most schools and daycares closed, leaving many workers without affordable childcare options. In response to these problems,

5 https://www.census.gov/data/tables/2020/demo/hhp/hhp6.html#tables

6 https://www.govinfo.gov/content/pkg/BILLS-116hr748enr/pdf/BILLS-116hr748enr.pdf

the Families First Coronavirus Response Act[7], enacted into law in March, requires small and medium sized employers to provide paid sick leave (up to two weeks with full pay) and paid family and medical leave (up to 10 weeks at two-thirds workers' regular pay) to employees who must miss work for reasons related to the coronavirus outbreak. Although most large employers offer paid sick leave and family and medical leave, this act does not mandate coverage by employers with over 500 workers, and some have argued this omission represents a major gap in coverage[8].

Immediate liquidity support to businesses

Under the Paycheck Protection Program, if the business retains all employees, the loan is forgiven. The original law stipulated that at least 75 percent of the loan must be used for employee compensation, but that share was subsequently reduced to 60 percent. 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. The loans under the Paycheck Protection Program are only available for businesses with 500 or fewer employees. 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.

Additionally, the federal government has helped provide liquidity to medium and large businesses by purchasing loans on favorable terms. For large businesses, the federal government has been buying corporate bonds directly (up to $750 billion), and for medium sized businesses it has been purchasing business loans from banks (up to $600 billion).

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 which come from the self-employed—have been large in recent weeks. In the week ending May 30, 9.2 million of the 29.2 million receiving some type of unemployment benefit in the United States were funded through the PUA[9].

Support of 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 the 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. The insured unemployment rate for dependent workers, defined as the share of dependent workers receiving unemployment benefits, 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,

7 https://www.dol.gov/agencies/whd/pandemic/ffcra-employee-paid-leave#:~:text=Families%20First%20Coronavirus%20Response%20Act%3A%20Employee%20Paid%20Leave%20Rights,reasons%20related%20to%20COVID%2D19.

8 https://www.washingtonpost.com/business/2020/03/16/paid-sick-leave-coronavirus-house-bill/

9 https://www.dol.gov/ui/data.pdf

however, makes benefits very generous for low and middle-income workers. Analyses of unemployment insurance administrative data[10] 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. Consistent with this evidence, a study[11] of the entire United States estimates that, with the federal benefit supplement, the median unemployment insurance benefit replacement rate in the United States is 134 percent and that two-thirds of workers eligible for unemployment insurance could earn more than they would earn on their jobs. 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 offer or are recalled to their old job, this rule may be hard to enforce during the economic crisis.

Thus far, although use of work-share programs is high by historical standards, less than one percent of workers receiving unemployment insurance benefits are on work-share programs. Active labor market programs 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 job service centers have been reassigned to assist with the processing of unemployment insurance claims and setting up work-share programs.

Working conditions and work organization

As in other countries, there has been a tremendous increase in remote work wherever this is feasible—generally for office workers. Although U.S. statistical agencies have not collected data on the prevalence of remote work since the start of the crisis, several privately conducted surveys have. The Gallup organization reports that in mid-April, 62 percent of employed respondents to its panel survey[12] reported working from home out of concern for the Covid-19 virus, up from 31 percent in mid-March. Consistent with this estimate, a Google Consumer Survey[13] conducted by researchers at MIT and Upwork in early April estimates that among those employed four weeks prior to the survey and still employed at the time of the survey, about 55 percent were working remotely and that 38 percent, or 69 percent of those working remotely at the time of the survey, had shifted to remote work during the four weeks.

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.

Even though all states have greatly relaxed restrictions on business openings since

10 https://www.capolicylab.org/wp-content/uploads/2020/05/May-21st-Analysis-of-California-UI-Claims-During-the-COVID-19-Pandemic.pdf

11 https://www.nber.org/papers/w27216.pdf

12 https://news.gallup.com/poll/311375/reviewing-remote-work-covid.aspx

13 https://john-joseph-horton.com/papers/remote_work.pdf

May, many companies, including prominent tech companies[14], continue to have their employees work remotely when feasible. Google, Facebook, and Microsoft, for example, have announced that many of their workers can work from home through the end of 2020.

Some businesses have redesigned their workplaces to make them safer for employees. For instance, many stores and factories[15] have erected plexiglass barriers to protect workers from customers or other employees. Some businesses, most notably meat packing[16] facilities where employees work in cramped conditions, have been forced to shut owing to Covid-19 outbreaks among workers.

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. As shown in Figure 2, the unemployment rate for teenagers—which includes high school leavers—was nearly 30 percent in mid-May and points to the serious challenges facing new labor market entrants.

Policy innovations and labor market trends

Virtually all state governors implemented mandatory business shutdowns in March and April and have since largely lifted restrictions, allowing most if not all businesses to reopen. There has been considerable variation across states in approaches to and the timing of re-openings, 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.

Provided another major coronavirus outbreak does not materialize, the economy is expected to continue to steadily improve. Nonetheless, many businesses likely will not be operating at full capacity until a vaccine or effective treatment is developed, and the Congressional Budget Office[17] projects unemployment to remain high through 2021. As noted earlier, the federal government is permitting employers to use work share to rehire furloughed workers[18], which has the potential to significantly lower unemployment and help reconnect workers to jobs. Furthermore, the CARES Act provides strong incentives for states to promote the program and for employers and businesses to use it: The federal government will pay for all short-time compensation benefits through 2020, and consequently state unemployment insurance trust funds will not be drained and employer unemployment insurance tax rates should not increase if employers use STC in lieu of layoffs; employees on STC receive a generous federal supplement to the unemployment insurance premium, making this option attractive to workers.

Although there have been reports of strong interest in STC by both private sector and government employers, as noted, the weekly unemployment insurance reports suggest that use is still relatively low—accounting for less than 1 percent of those receiving

14 https://www.cnn.com/2020/05/08/tech/tech-companies-working-remotely-2020/index.html

15 https://www.cnn.com/2020/04/30/cars/gm-ford-plans-restart-us-factories/index.html

16 https://www.wired.com/story/why-meatpacking-plants-have-become-covid-19-hot-spots/

17 https://www.cbo.gov/publication/56335#:~:text=The%20Labor%20Market.,percent%20in%20the%20first%20quarter.&text=In%20particular%2C%20the%20unemployment%20rate,by%20the%20end%20of%202021.

18 https://www.wsj.com/articles/since-work-is-rare-its-time-to-share-11589235150

unemployment benefits. Low use may reflect lack of familiarity among employers in the program. Prior research[19] 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. 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 increased staff to handle this interest and this is likely occurring in other states as well. Given strong financial incentives to use work share programs, there may be a significant increase in use of the program in the coming months. It is also possible that states unemployment insurance agencies, whose staff have been overwhelmed during the current crisis, lag in their reporting on STC program use.

Next steps and fiscal viability

The United States is at a policy crossroads. Three months into the pandemic recession, unemployment remains at historically high levels and Congress is debating the next round of legislation to give further relief to the unemployed, to provide additional liquidity to businesses, and to boost hiring. Generous federal supplemental benefits to regular weekly unemployment insurance benefits have been effective in providing financial assistance to the many low-wage workers who have been laid off, but these benefits are set to expire at the end of July. The fact that a majority receiving unemployment insurance earn more than they did while working has been highly controversial, and it is unclear whether these payments—or any federal supplement—will be extended beyond July.

Another salient issue is budgetary problems[20] faced by states. Unlike the federal government, which can run budget deficits, states must balance their budgets each year. High unemployment and a reduction in business revenues are expected to lead to large state budget shortfalls. States, in turn, will need make deep cuts to services, which will have adverse spillover effects on the economy. So far, the federal government has provided limited assistance to states, and those funds must be directly tied to expenditures related to addressing Covid-19 issues. This situation has prompted calls for additional, significant aid from the federal government to states.

It is likely that a new focus of this round of legislation will be on economic stimulus measures that will increase hiring through federal spending on infrastructure projects. The policy landscape is fluid, but reports suggest that federal budgetary expenditures in legislation that includes infrastructure spending could be large—possibly approaching or even exceeding $1 trillion.

19 https://research.upjohn.org/cgi/viewcontent.cgi?article=1081&context=externalpapers

20 https://www.upjohn.org/research-highlights/automatic-stabilizers-and-federal-aid-states