IZA Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

United States (November 2020)

Susan Houseman

IZA COVID-19 Crisis Response Monitoring

United States (November 2020)

Susan Houseman
Upjohn Institute for Employment Research

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 considerably since May, employment among low-educated women continues to be especially depressed, owing in part to closures of daycare facilities and schools. Moreover, a new wave of Covid-19 cases threatens the fragile economic recovery. The initial federal government's response to the economic crisis included extended and more generous benefits for the unemployed, measures to encourage businesses to retain workers, and government loans and purchases of corporate bonds to increase liquidity for businesses. Most of these programs have expired or are about to expire however, and an election year political stalemate has thus far prevented agreement on new measures. A new round of government measures to support unemployed workers and businesses is needed.

Cite as:
Houseman (2020): IZA COVID-19 Crisis Response Monitoring: United States (November 2020).

IZA – Institute of Labor Economics

Schaumburg-Lippe-Straße 5–9
53113 Bonn, Germany

Phone: +49-228-3894-0
Email: publications@iza.org

www.iza.org

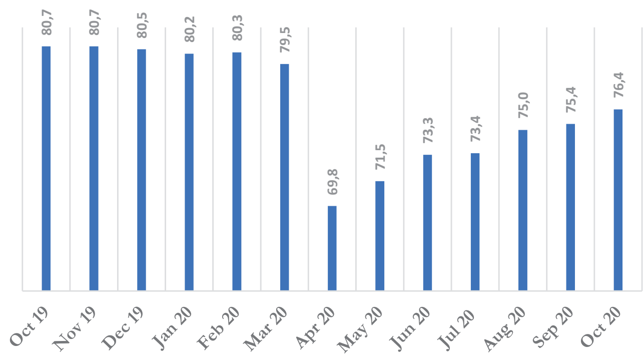
Labor market impact of COVID-19

Official unemployment statistics for the United States are based on a monthly household survey, the Current Population Survey (CPS). 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.

Widespread mandatory business closures and social distancing practices led to an unprecedented fall in employment and rise in unemployment in the United States in the spring. According to the U.S. Bureau of Labor Statistics[1] (BLS), 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, also known as the employment rate, was 51.3 percent, 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 has improved considerably since April. By October, the unemployment rate had fallen to 6.9 percent, though it was still nearly double the rate prior to the start of the crisis. Similarly, the seasonally adjusted employment rate for those age 16 and older had risen to 57.4 percent but remained well below the pre-crisis level. Figure 1 depicts monthly estimates of the employment rate for "prime-age workers"—those age 25-54 who generally have completed their schooling and have not yet retired. The employment rate for this group plummeted by over 10 percentage points from 80.3 percent in February 2020 to 69.8 in April. Since then, it has steadily risen and by October was 76.4 percent, though still 4.3 percentage points below its level in October 2019.

Figure 1: Percent of Population Age 25-54 Employed



Source: Current Population Survey, U.S. Bureau of Labor Statistics, not seasonally adjusted.

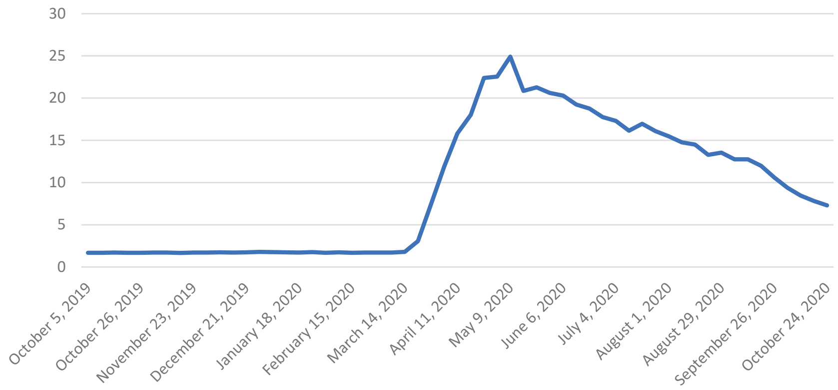
Administrative data on the number receiving unemployment insurance[2], which are published weekly, similarly depict a surge in unemployment during the crisis. Figure 2 displays trends in the number of people previously in wage and salary jobs receiving regular state unemployment benefits from October 2019 to October 2020. That number started rising sharply in mid-March and peaked at 25.9 million in early May. Since then the number receiving unemployment insurance has steadily fallen and in late October was 7.3 million. Because this figure does not count those who are unemployed but do not normally qualify for unemployment benefits, which includes the self-employed, new entrants to the labor

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

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

force, and those who have exhausted their regularly unemployment benefits, the concept is different from that measured in the household survey.

Figure 2: Number Receiving Regular State Unemployment Insurance Benefits in United States (millions), Oct. 2019 to Oct. 2020



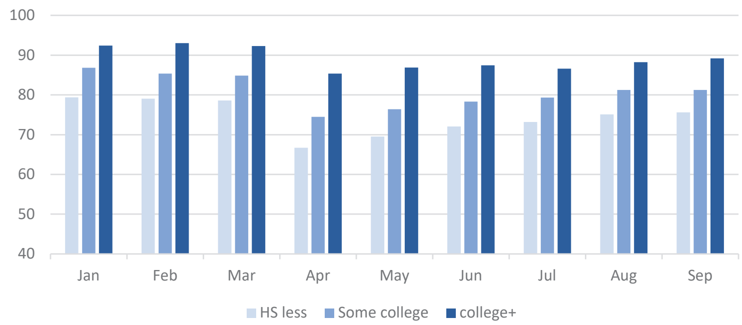
Source: Administrative data published by the U.S. Department of Labor. The numbers exclude those on work-share programs, on Pandemic Unemployment Assistance, and on extended benefits, who do not normally qualify for unemployment benefits.

Analysis[3] of unemployment insurance claims from the state of California in the spring revealed extraordinarily high rates of claims among young and low-educated workers. By May, one-third of wage and salary workers age 16-23 and one fourth of those age 24-39 had filed for unemployment benefits. Especially striking is the fact that nearly half of those without any college education in California had applied for unemployment benefits.

Mirroring the dramatic rise in unemployment, figures from the BLS employer survey[4] show (seasonally adjusted) payroll employment falling by 22.1 million between February and April. Job losses were widespread across sectors but were especially steep in leisure and hospitality, education and health, professional and business services (particularly temporary help agencies), and retail trade. By October, more than half of the job losses sustained in the spring had been recovered.

Minorities, women, and the low educated have experienced particularly steep reductions in employment, reflecting in part the composition of employment in sectors hardest hit by the crisis. Between October 2019 and October 2020, the employment rate among all workers age 16 and older fell by 3.5 percentage points. Over the same period the employment rate fell by 3.0 percentage points among Whites, 5.3 percentage points among Blacks, and 4.7 percentage points among Hispanics.

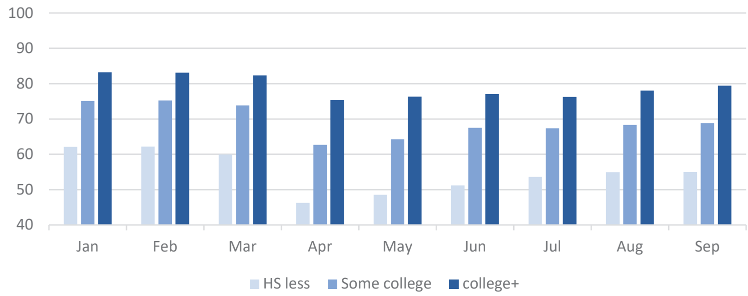
Figure 3a: Percent of Men Age 25-54 who were Employed, by Educational Attainment, 2020



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

Figure 3b: Percent of Women Age 25-54 who were Employed, by Educational Attainment, 2020



Source: Author's calculations based on public use micro data from Current Population Survey, U.S. Bureau of Labor Statistics

Interestingly, the employment rate has fallen somewhat more among prime age workers than among those under age 25 and over age 54. This fact largely reflects the steep employment declines among prime-age, low educated women. Figures 3a and 3b display the seasonally unadjusted monthly employment rates in 2020 for men and women by educational attainment (high school degree or less, some college, and four-year college or post graduate degree). In October the employment rate was between 3.5 and 4.1 percentage points lower compared to that at the beginning of the year for men of all educational levels and for college-educated women. In contrast, for women with a high school education or less or with some college, the decline was 7.1 and 6.3 percentage points, respectively. While the relatively sharp declines in employment among low-educated prime-age women is partly due to the fact that they were disproportionately employed in service industries hardest hit by the pandemic, it also reflects their role as caregivers. Many schools and daycare facilities have closed during the pandemic, and mothers have been more likely than fathers to provide childcare in these circumstances. The decline in employment among prime age women exceeds that among prime age men by more than a million, despite the fact that men outnumber women in the workforce.

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 or their business. New data[5] from the U.S. Census Bureau show that in the latter part of October, 45 percent of those surveyed reported that they or someone in their household had experienced a loss of employment income since March 13. Those who were minorities, had low educational attainment, had low household incomes, and had children were substantially more likely to report a decline in income.

Orientation and targeting of adopted measures

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act)[6] enacted at the end of March contained several important measures designed to mitigate the impacts of the pandemic on workers and businesses. To reduce employment costs for businesses, the CARES Act gave businesses a payroll tax credit and set up the Paycheck Protection Program, which provided forgivable loans to small and medium sized businesses if they did not lay off employees.

The Act also provided substantial federal support for unemployment insurance during the crisis. The unemployment insurance system in the United States is a federal-state partnership. While the federal government provides states with funding for the

5 https://www.census.gov/data/tables/2020/demo/hhp/hhp17.html

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

administration of the program, the benefits paid out to the unemployed normally come from state trust funds that are financed through taxes on employers operating in the state. The CARES Act extended 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 was too low in many states to sustain the unemployed and their families during a period when new hiring was very weak, the federal government provided a supplemental unemployment insurance benefit of $600 per week through July. When this provision expired at the end of July and, as discussed further below, Congress was unable to agree on a new package of supplemental unemployment insurance benefits, President Trump used his executive powers under a disaster relief program to provide a $300 per week federal supplemental benefit to those receiving state unemployment benefits. This supplemental benefit was available for up to six weeks and was limited to those receiving at least $100 in state unemployment benefits, thus excluding workers with very low earnings. How the program was administered varied greatly from state to state[7], though all but one (South Dakota) applied for and distributed the supplemental benefits.

Additionally, the CARES Act contained 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 provided 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 have been drained by the high level of regular unemployment insurance payments, will be unaffected 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 have been 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 weekly federal supplement to their unemployment benefit, irrespective of the percentage cut in hours. These generous STC benefits have made work sharing attractive to workers.

The CARES Act also provided 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 reimbursed the states for all unemployment benefits paid to these groups. 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 have been large. In the week ending November 7, 45 percent of the 20.5 million people receiving some type of unemployment benefit in the United States were funded through the PUA[8].

Many workers, however, have already exhausted unemployment insurance benefits extended to them under the CARES Act, and for those still receiving them, the Act’s provisions will soon expire. One study[9] estimates that twelve million people will lose their benefits with the expiration of the CARES Act at the end of December.

Another law enacted by the U.S. Congress in March mandated that small and medium sized businesses offer their employees paid leave under certain circumstances. The Families First Coronavirus Response Act[10] was a response to the fact that, even if workers are not laid

7 https://www.forbes.com/sites/jenniferbarrett/2020/10/01/extra-300-weekly-unemployment-benefits-are-still-going-out-in-these-states/?sh=2b3a7a2f44c8

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

9 https://tcf.org/content/report/12-million-workers-facing-jobless-benefit-cliff-december-26/?agreed=1

10 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.

off from their job, some are unable to work for reasons related to Covid-19. Workers may themselves be sick with the virus or may have to care for family members who are sick. Additionally, many daycares and schools closed or, in the case of schools, moved to remote learning, leaving many parents without affordable childcare options. In response to these problems, the Act 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[11]. As is the case with the CARES Act, however, the provisions of the Families First Act will expire at the end of December.

Immediate liquidity support to businesses

If a small or medium sized business received a loan under the Paycheck Protection Program and retained all its employees, the loan was 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 was very popular and ran out of its initial $349 billion allocation in less than two weeks. The U.S. Congress replenished the fund with an additional $310 billion. The loans under the Paycheck Protection Program were available for businesses with 500 or fewer employees. One concern has been that relatively large organizations were better equipped to apply for loans, which private lenders administered, and that smaller businesses were underrepresented among those receiving funds. The Paycheck Protection Program closed on August 8.

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 bought corporate bonds directly, and for medium-sized businesses purchased business loans from banks. In a recent controversial move, the Secretary of Treasury—over the objection of the chair of Federal Reserve Board—moved to end[12] rather than extend several programs to assist businesses, despite the pandemic's recent resurgence, which threatens the economic recovery.

Support of dependent workers

As outlined above, the primary policy for dependent workers (i.e., employees) losing their jobs has been income support through state-run unemployment insurance systems, supplemented with a federal benefit and a federally financed 13-week extension of the maximum duration of benefits. 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 hired and trained new staff and are now better able to process the applications. The insured unemployment rate for dependent workers, defined as the number of dependent workers receiving unemployment benefits as a share of the labor force (the sum of the employed and the unemployed), was high—11.1 percent—in the week ending July 4, although it had fallen to 4.1 percent by mid-November[13].

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

12 https://www.cnbc.com/2020/11/19/treasury-seeks-to-extend-some-emergency-fed-programs-but-end-others-including-main-street-facility.html

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

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, made benefits very generous for low and middle-income workers. Analyses of unemployment insurance administrative data[14] in the state of California showed that during the time this supplement was available, the wage replacement rate for the median worker on unemployment insurance was 140 percent—meaning that more than half of workers receiving benefits were earning substantially more than they did when employed. Consistent with this evidence, a study[15] of the entire United States estimated that, with the $600 federal benefit supplement, the median unemployment insurance benefit replacement rate in the United States was 134 percent and that two-thirds of workers eligible for unemployment insurance could earn more unemployed than they would earn on their jobs. There were widespread reports from employers that was 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.

While use of work-share programs was high by historical standards, at any point in time during the crisis, workers participating in work-share programs made up less than two percent of those receiving unemployment insurance benefits, and by November, that share was well under one percent. Active labor market programs have been greatly pared back because initially there was relatively little new hiring and because many job centers have been closed due to health risks. In Michigan, some employees who had been working in job service centers were reassigned to assist with the processing of unemployment insurance claims and setting up work-share programs.

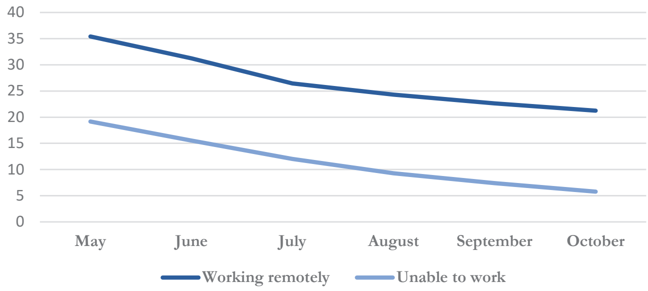
Working conditions and work organization

As in other countries, there has been a tremendous increase in remote work wherever this is feasible—generally for office workers. Beginning in May, the U.S. Bureau of Labor Statistics added several questions to its monthly Current Population Survey to, among other things, gauge whether people were teleworking or were unable to work because of the pandemic at any point during the prior four weeks. In May, a time when virus infections were peaking and restrictions on business openings were widespread, 35 percent of the employed indicated that they had teleworked during the prior four weeks and 19 percent reported that they had been unable to work because of the pandemic. Those rates steadily fell to 21 percent and 6 percent, respectively, by October (Figure 4). With the resurgence of the virus, states have once again begun to impose some restrictions on business openings, and many businesses are voluntarily curtailing in-person operations. The share working remotely or unable to work because of the pandemic is thus likely to climb in the coming months.

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

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

Figure 4: Percent Working Remotely and Percent Unable to Work at any Point during Prior 4 Weeks Due to Covid-19



Source: Author's calculations based on public use micro data from Current Population Survey, U.S. Bureau of Labor Statistics

There has been no national policy in the United States 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, resulting in a patchwork of rules governing business operating conditions across the country, which occasionally have been challenged and struck down by courts.

In this sometimes chaotic and uncertain policy environment, individual businesses often have adopted restrictive practices to protect workers or redesigned their workplaces to make them safer for employees. For instance, many stores and factories[16] have erected plexiglass barriers to protect workers from customers or other employees. Numerous businesses have been forced to shut temporarily owing to Covid-19 outbreaks among workers, causing widespread supply chain disruptions.

New labor market entrants

College students usually graduate in May and high school students in June. The labor market for new graduates is weak, but the labor market policies adopted thus far have focused on assisting those who have lost work, not on those entering the labor market. Although the unemployment rate for teenagers age 16-19 has dropped from nearly 30 percent in mid-May to slightly under 14 percent in mid-October, the high level of unemployment among this group continues to point to the serious challenges facing new labor market entrants.

Next steps and fiscal viability

The pandemic outbreak occurred during a contentious presidential election year. In the highly charged partisan atmosphere preceding the fall election, Congress was unable to agree on a stimulus and coronavirus aid package to replace the CARES Act passed in March, whose provisions have largely expired or are set to expire at year's end. Legislation must be approved by both the U.S. House of Representatives and the Senate. The House, controlled by the Democrats, most recently passed a $2.2 trillion bill[17] that, among other things, renewed generous federal supplemental unemployment insurance benefits and the Paycheck Protection Program, which extends forgivable loans to small businesses and non-profits. The Senate, controlled by Republicans, most recently introduced a much

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

17 https://appropriations.house.gov/sites/democrats.appropriations.house.gov/files/Updated Heroes Act One Pager_0.pdf narrower measure[18] that also would have renewed the Paycheck Protection Program and provided a federal supplemental unemployment benefit (albeit at half the prior level) but was estimated to cost $500 to $700 billion.

A major difference between the House and Senate versions concerned federal aid to state and local governments, set at nearly $1 trillion in the House bill but absent from the Senate version. Like unemployment insurance, the budgetary problems faced by states[19] has become a salient policy issue. While the federal government can run budget deficits, states must balance their budgets each year. High unemployment and a reduction in business revenues are leading to large state budget shortfalls. States will need to make deep cuts to services, which will have adverse spillover effects on the economy. The federal government aid to states thus far has been limited to expenditures on Covid-19 issues.

The economy appeared to be rapidly recovering during the summer, and the disagreement between Republicans and Democrats partially reflected a differing perspective on the need for further stimulus. Many Republicans were more concerned about incurring a large federal deficit than about a weak economy. With the virus's resurgence in the fall, bringing record infections and deaths and new state-led measures to curtail certain business activities, a second slowdown seems certain.

A new relief package, however, is unlikely to be passed before the Biden administration takes office in January. The shape of any package will depend not only on the state of the economy early next year but also on the outcome of runoff elections for the U.S. Senate in the state of Georgia. These runoff elections will determine whether the Republican party retains control of the Senate or whether the Democrats will have a majority, giving them control of both legislatures and paving the way to a more generous relief and economic stimulus package.

18 https://www.bloomberg.com/news/articles/2020-09-08/mcconnell-aims-for-vote-on-senate-republican-stimulus-this-week

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