I Z A Institute of Labor Economics
Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

United States (January 2022)

Susan Houseman

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ABSTRACT

When the Covid-19 pandemic first hit the United States in early 2020, widespread business closures and social distancing practices led to an unprecedented fall in employment and rise in unemployment. The 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. By the close of 2021, the economy had largely recovered, labor markets were tight, and these programs had been phased out or were set to expire. The United States stands at a policy crossroads again, however, as the omicron variant again threatens major economic disruptions. But policies of mandatory business closures and generous benefits to workers and businesses are unlikely to be reinstated this time. With effective vaccines against the Coronavirus now widely available, the policy problem is seen as resistance to vaccines among a sizable minority of the population, and the policy response emphasizes a combination of education and vaccine mandates.

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Labor market impact of COVID-19

Official statistics on labor market status, including unemployment, 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 survey of employers tracks changes in payroll employment.

Widespread mandatory business closures and social distancing practices beginning in the spring of 2020 led to an unprecedented fall in employment and rise in unemployment in the United States. According to the U.S. Bureau of Labor Statistics (BLS), in just a two-month period from February to April 2020, the number of (seasonally-adjusted) payroll jobs dropped by more than 22 million, or nearly 15 percent, and the official unemployment rate jumped from 3.5 percent to 14.7 percent, the highest since the Great Depression of the 1930s. 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. 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 dates back to January 1948. At the same time, the number of people on unemployment insurance spiked, peaking at 25.9 million in early May 2020. Since then, the employment situation has greatly improved, reflecting the removal of restrictions on business openings in the second half of 2020 and the widespread availability of vaccines against the virus beginning in 2021.

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 in two months from 80.3 percent in February 2020 to 69.8 in April. Since then, it has steadily risen and by November 2021 was only 1.5 percentage points below the employment rate two years earlier.

Figure 1 Percent of Population Age 25-54 Employed

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

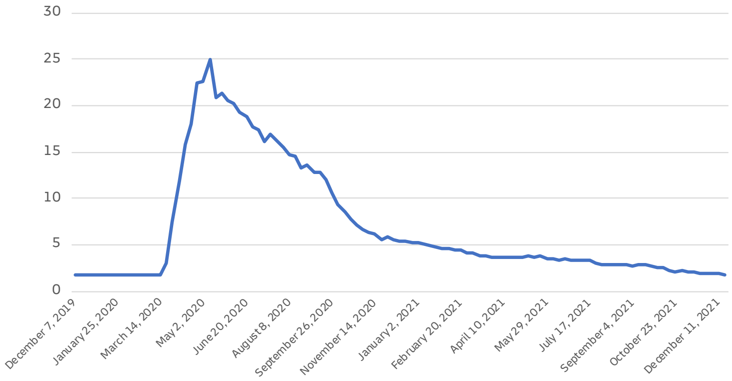
The number of payroll jobs also has grown strongly, though in November 2021 there were still nearly 4 million fewer than the number recorded just before the start of the pandemic. The employer payroll survey does not capture self-employment, and data suggest that growth in the number who are self-employed accounts for some of the shortfall in jobs in that survey. Data from the U.S. Census Bureau on new business formations[1] show a spike in

1 https://www.census.gov/econ/bfs/index.html

new business applications since the start of the pandemic, particularly among businesses without employees. The CPS also shows an increase among the employed of about half a percentage point in the share who report being self-employed.

Administrative data on the number receiving unemployment insurance, which are published weekly, similarly depict a surge in unemployment during the crisis and return to pre-pandemic levels by late 2021. Figure 2 displays trends in the number of people previously in wage and salary jobs receiving regular state unemployment benefits from November 2019 to November 2021. That number started rising sharply in mid-March 2020 and peaked at 25.9 million in early May 2020. Analysis[2] of unemployment insurance claims from the state of California in the spring of 2020 revealed extraordinarily high rates of claims among young and low-educated workers. By May 2020, one-third of California's 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.

Figure 2 Number Receiving Regular State Unemployment Insurance Benefits in United States (millions), Dec. 2019 to Dec. 2021



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.

Since the early stage of the pandemic, the number receiving unemployment insurance has steadily fallen. By late November 2021 it was under 2 million and in line with pre-pandemic levels. 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 force, and those who have exhausted their regular unemployment benefits, the concept is different from the unemployment concept measured in the household survey.

In addition to job loss, many people experienced lower earnings because of reduced hours or a pay cut owing to the financial stress experienced by their employer or their business. Data[3] from the U.S. Census Bureau for October 2020 show that 45 percent of those surveyed reported that they or someone in their household had experienced a loss of employment income in the prior 7 months. 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.

Although labor markets have largely recovered, the pandemic affected, and continues to affect, the employment situation of some groups more seriously than others. Jobs in the hospitality sector and brick-and-mortar retail stores, where minorities and those with

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

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

low educational attainment are disproportionately employed, were among the hardest hit during the recession. Figures 3a and 3b display the seasonally unadjusted monthly employment rates from November 2019 through November 2021 for prime age men and women by educational attainment (high school degree or less, some college, and four-year college or post graduate degree). From November 2019 to April 2020 the employment rate fell by 14.5 percentage points among men with no more than a high school education and by 12.3 percentage points among men with some college, compared to 6.9 percentage points among men with a college education. Employment declines among women followed similar patterns but were somewhat more severe during this period, dropping by 15.1 percentage points for women with a high school degree or less, 12.4 percentage points for women with some college, and 8.4 percentage points for women with a college education. Although by November 2021, employment rates for college-educated men and women and women with some college were nearly back to their pre-pandemic levels, the employment rates among men and women with lower educational attainments were 2.0 to 2.5 percentage points lower than two years earlier. The employment rate among African Americans also remains more than 2 percentage points lower than its pre-pandemic levels and substantially lower than that of White Americans.

Figure 3a Percent of Men Age 25-54 who were Employed, by Educational Attainment, Nov 2019 to Nov 2021

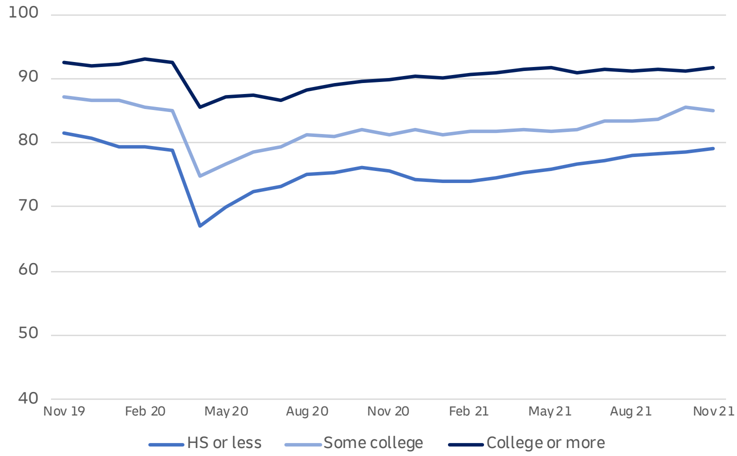
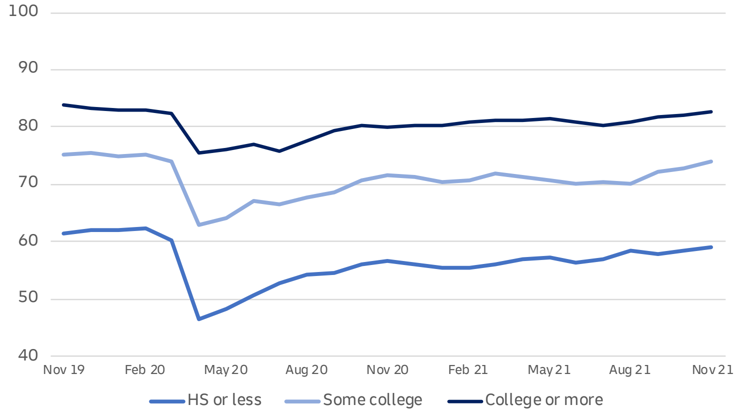


Figure 3b Percent of Women Age 25-54 who were Employed, by Educational Attainment, Nov 2019 to Nov 2021



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

Notwithstanding problems among these groups, the overall aggregate labor market in the United States was strong by the second half of 2021. In recent months, U.S. workers have quit their jobs at record rates in what has been dubbed the "Great Resignation," and U.S. employers have reported substantial difficulty finding qualified workers, leading to wage increases.

Orientation and targeting of adopted measures

Several major pieces of legislation designed to address the economic impact of the pandemic were passed in March and December 2020 and in March 2021. While the laws contained a wide range of measures, this review focuses on those targeting workers and businesses adversely affected by the pandemic.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act[4]) enacted at the end of March 2020 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 (the Employee Retention 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 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 reimbursed 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 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[5] 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[6], 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. The federal government reimbursed states for all STC benefits paid out. This meant that state UI trust funds, which were drained by the high level of regular unemployment insurance payments, were unaffected by STC use and employers did not face higher future unemployment taxes if they used work-sharing in lieu of layoffs. Importantly, given the already high level of unemployment, employers were permitted to use work-sharing to bring furloughed workers back to work and even to hire

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

5 https://www.cnbc.com/2020/08/12/trumps-executive-order-guarantees-300-dollars-per-week-enhanced-ui-payment.html

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

new employees. Those on work-share received the flat weekly federal supplement to their unemployment benefit, irrespective of the percentage cut in hours. These generous STC benefits 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 were large. In the week ending November 7, 2020, 45 percent of the 20.5 million people receiving some type of unemployment benefit in the United States were funded through the PUA[7].

Another law enacted by the U.S. Congress in March 2020 mandated that small and medium-sized businesses offer their employees paid leave under certain circumstances. The Families First Coronavirus Response Act[8] was a response to the fact that, even if workers are not laid 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 required 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 missed work for reasons related to the coronavirus outbreak. Although most large employers offer paid sick leave and family and medical leave, this act did not mandate coverage by employers with over 500 workers, and some argued this omission represented a major gap in coverage.[9]

With a presidential election looming in November, further relief packages to assist workers affected by the pandemic stalled in Congress in the fall of 2020. The Taxpayer Certainty and Disaster Tax Relief Act[10] was passed December 27. It modified and extended the Employee Retention Tax Credit for businesses, which had been enacted in the CARES Act.

In March of the new year, with the Democratic party controlling the presidency and both houses of the U.S. Congress, the American Rescue Plan[11] was enacted. That legislation extended the $300 supplementary unemployment insurance payments paid by the federal government through September 6, 2021 and waived federal income taxes on some unemployment insurance payments received by low- and middle-income workers. The legislation also provided relief to small businesses, which were deemed hardest hit by the recession, in the form of credit initiatives, tax breaks, and employee retention and paid leave credit programs.

Although the unemployment insurance system has been the primary vehicle for providing assistance to workers adversely impacted by the pandemic, there was widespread concern that the decentralized UI system in the United States, which is administered by the 50 states and whose rules and administrative capacity vary greatly across states, could handle the unprecedented volume of claims. Therefore, the CARES Act of March 2020, the Tax Relief Act of December 2020, and the American Rescue Plan of March 2021 also

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

8 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.

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

10 https://www.irs.gov/newsroom/new-law-extends-covid-tax-credit-for-employers-who-keep-workers-on-payroll

11 https://www.whitehouse.gov/american-rescue-plan/

authorized the U.S. Treasury to send "Economic Impact Payments"[12] directly to many low- and middle-income individuals and families. While this policy did not target those in need well, it quickly pumped money into the economy and avoided inefficient state UI bureaucracies, which were often slow to process claims. Legislation enacted during this period also allocated money to states and local governments whose revenues fell during the pandemic, created a fund for state infrastructure projects, provided assistance to homeowners and renters having difficulty making payments on their mortgages or rents, and expanded child tax credits in order to reduce child poverty.

Immediate liquidity support to businesses

One of the most important programs supporting employment during the pandemic was the Paycheck Protection Program. 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. There were concerns, however, 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, 2020. The Employee Retention Tax Credit, which also was designed to encourage businesses to keep workers on their payroll, ended for most employers on October 1, 2021 and for all employers on January 1, 2022.

Additionally, the federal government helped provide liquidity to medium and large businesses by purchasing loans on favorable terms. For large businesses, the federal government bought corporate bonds directly, and for medium-sized businesses purchased business loans from banks. In a controversial move in late 2020, the Secretary of the Treasury—over the objection of the chair of Federal Reserve Board—moved to end[13] rather than extend several programs to assist businesses, despite the pandemic's resurgence at the time. In the face of high inflation in 2021, however, the Federal Reserve Board[14] also has begun to phase out a policy of aggressive bond purchases during the pandemic that were designed to stimulate the economy.

Support of dependent workers

As outlined above, the primary policy for employees and other dependent workers 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 at first.

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12 https://home.treasury.gov/policy-issues/coronavirus/assistance-for-american-families-and-workers/economic-impact-payments#:~:text=Starting%20in%20March%202020%2C%20the,qualifying%20child%20under%20age%2017

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

14 https://www.wsj.com/articles/fed-dials-back-bond-purchases-plots-end-to-stimulus-by-june-11635962417

The federal supplement to the state benefit was set at a fixed amount ($600 per week through the end of July 2020) 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[15] 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[16] 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 it 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 could be hard to enforce during the economic crisis.

The size of the federal supplement was reduced to $300, and eligibility was tightened out of concern for work disincentives that the higher payment provided. Even then, many employers complained that generous UI payments were making it difficult to recruit workers. In response, several states declined the federal supplemental payments months before the payments were set to expire in September 2021. Studies[17], however, conclude that these payments had little effect[18] on job growth.

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. Reasons for the relatively low use likely reflect the fact that the program was not available in all states, employers had little prior experience using the program, and the program required a special application process. Additionally, the industries hardest hit during the recession were hospitality and retail, which are characterized by a low-wage, high- turnover workforce and where work-share use had been especially low in prior recessions.

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 2020, 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 2020, 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 13 percent and under 2 percent, respectively, by September 2021 (Figure 4).

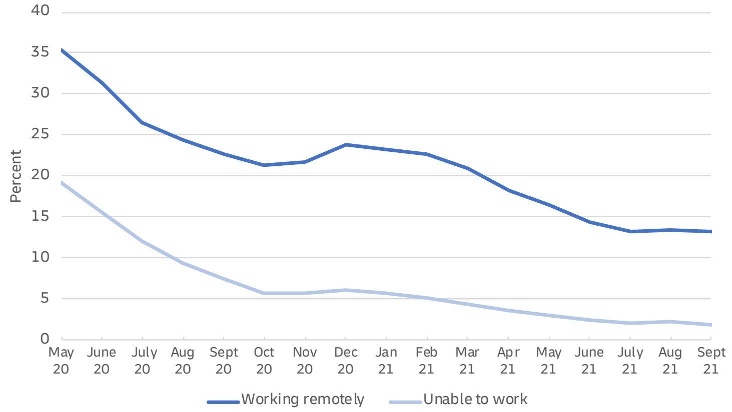
15 https://www.capolicylab.org/wp-content/uploads/2020/05/May-21st-Analysis-of-California-UI-Claims-During-the-COVID-19-Pandemic.pdf

16 https://www.nber.org/system/files/working_papers/w27216/w27216.pdf

17 http://www.marinescu.eu/publication/marinescu-impact-2021/

18 https://files.michaelstepner.com/pandemicUIexpiration-paper.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

Throughout the pandemic, the United States has lacked a coordinated 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, 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 redesigned their workplaces to make them safer for employees or decided to partially or fully close in response to high infection rates in the community or among employees. With the recent surge in the omicron variant, for example, airlines were forced to cancel many flights during the year-end holiday season and some colleges[19] have announced they are temporarily returning to remote learning.

Policy innovations and labor market trends

By the end of 2021, all economic indicators pointed to a tight labor market and major programs enacted during the pandemic to assist unemployed workers and help employers keep workers on their payrolls had expired. Yet, at the time of this writing, the new omicron variant was exploding in the United States, with new daily confirmed cases in the hundreds of thousands[20] and daily deaths exceeding a thousand. Even though the new variant appears less virulent than earlier ones, it is far more contagious and the surge in infections is threatening, once again, to overwhelm hospitals and disrupt businesses.

Federal and state policy responses to this wave of infections are likely to substantially differ from earlier ones, however. Mandatory business closures imposed in most states, although effective in stemming the spread of the virus, were unpopular among some segments of the population and led to widespread protests. Furthermore, in recent months, the rate of inflation has been higher than at any time since the early 1980s. Although many economists see the current high-inflation situation as temporary[21] and rooted in in global

19 https://www.insidehighered.com/news/2021/12/21/more-colleges-move-january-programs-online

20 https://www.npr.org/2022/01/04/1070218466/1-million-us-covid-cases-omicron-surge?t=1642019182077

21 https://www.wsj.com/articles/when-it-comes-to-inflation-im-still-on-team-transitory-price-index-pce-goods-supply-chain-logistics-federal-reserve-interest-rates-11640807029?mod=itp_wsj&mod=djemITP_h

supply chain disruptions[22], others question the transitory nature of the current inflation and argue that high government spending during the pandemic[23] in the form of generous unemployment benefits and stimulus checks is partly to blame.

Most important, vaccines against the Coronavirus are now widely available in the United States. Although breakthrough infections are common, those who are fully vaccinated and particularly those who have received a vaccine booster are highly protected against severe illness. The vast majority of hospitalizations and deaths are among the unvaccinated, but less than two-thirds of the U.S. population has been fully vaccinated and far fewer have received a vaccine booster. The policy response, therefore, is focused on increasing vaccination rates through a combination of public education and mandates.

22 https://www.brookings.edu/blog/up-front/2021/11/16/what-does-current-inflation-tell-us-about-the-future/

23 https://www.forbes.com/advisor/investing/why-is-inflation-rising-right-now/