The COVID-19 crisis and the US labour market: Rising inequality and precariousness in perspective

By Christophe Blot

In the United States as in France, the COVID-19 crisis has led to numerous measures restricting economic activities intended to limit the spread of the virus. The result will be a fall in GDP, which is already showing up in figures for the first quarter of 2020, and which will be much steeper in the second quarter. In a country noted for its weak employment protection, this unprecedented recession is quickly having repercussions on the labour market, as reflected in the rise in the unemployment rate from a low point of 3.5% in February to 14.7% in April, a level not seen since 1948. As Bruno Ducoudré and Pierre Madec have recently demonstrated in the case of France, the current crisis in the United States should also result in heightened inequalities and insecurity. And the shock will be all the greater in the US since the social safety net is less extensive there.

In the United States, the Covid-19 restrictions were set not at the Federal level but by the various States at differing times. The vast majority of States did decide however to close schools and non-essential businesses and to encourage people to stay home. The lockdown was thus imposed by California on March 19, followed by Illinois on March 21 and New York State on March 22, but South Carolina didn't follow until April 6. North Dakota, South Dakota, Arkansas, Iowa and Nebraska have taken no action, and three other States – Oklahoma, Utah and Wyoming – applied measures only in certain counties, and not State-wide. However, by early April a large part of the country had been locked down, with a varying degree of strictness, affecting between 92% and 97% of the population[1].

Which employees have been hit hardest by the crisis?

According to a survey by the US Bureau of Labor Statistics, almost 25% of employees worked from home in 2017-2018. However, some employees said they could have stayed at home to work but did not necessarily do so during the reporting period. With the COVID-19 crisis and the incentives to modify the organization of work, we can therefore consider that almost 29% of employees could stay at home during the lockdown [2]. Furthermore, as the survey carried out for France highlights, the implementation of teleworking is more widespread among employees in management jobs and commercial or financial activities. In 2017-2018, 60% of these people could have managed to work from home. In contrast, fewer than 10% of workers in agriculture, construction, manufacturing or transport services would have been able to telework during the crisis. Not surprisingly, the survey also shows that the employees able to telework are also those at the top of the wage distribution. For the top quartile, 61.5% of employees could work at home compared with fewer than 10% for employees in the bottom quartile.

Mirroring these elements, a more recent study analyzed which jobs would be most affected by the lockdowns and in particular by the closure of non-essential businesses [3]. Six sectors are particularly exposed. Logically enough, these include bars and restaurants, transport and travel, entertainment, personal services, the retail trade and some manufacturing industries. Based on employment data for the year 2019, these sectors represent 20.4% of total employment. With more than 12 million jobs, the bar and restaurant sector is being hit hardest. This survey also shows that the most exposed employees generally receive below-average pay. They are particularly concentrated in the two lowest wage deciles. For example, the wage bill for bar and restaurant workers represents barely 3% of the total wage bill but more than 8% of employment. These people usually work in companies with fewer than 10 employees. This dimension is all the greater in the United States since access to health insurance is often linked to the employer, whose obligations for insurance provision depend on how many employees they have. Finally, by crossing the distribution by sector and geography, it appears that Nevada, Hawaii and to a lesser extent Florida (23.7%) concentrate a larger share of these sectors, and therefore of the exposed jobs [4]. Conversely, Nebraska, Iowa and Arkansas are among the States where these sectors account for a smaller share of employment [5]. These three States have also not adopted lockdown measures and should therefore be relatively spared from the rise in unemployment.

Unemployment statistics for the months of March and April confirm this outlook. In one year, the unemployment rate increased by 4.8 points for those in management jobs or commercial or financial activities, while, over the same period, the rate rose by 23 points for service jobs and almost 15 points for employees in production. The geographic disparities are also significant. In California and Illinois, the first States to implement a lockdown, the unemployment rate rose 11.3 and 12.2 points, respectively, in one year. Conversely, the States that have not enacted lockdown measures are among those where the unemployment rate has risen the least over the year. The increase reached 5.2 points for Nebraska, 6.7 points for Arkansas and 7.5 points for Iowa, for example.

The structure of employment is, however, a key factor determining the variation in unemployment. Despite fairly close starting dates for the lockdowns in Connecticut and Michigan, the unemployment rate rose only 4.2 points in the former versus over 18 points in industrial Michigan. The statistics also confirm the exposure to the shock of Nevada and Hawaii, which recorded the two largest increases: 24.2 and 19.6 points respectively, while Minnesota, with a very low exposure, saw its unemployment rate rise by only 4.9 points, one of the smallest variations since April 2019. Likewise, the impact has been relatively softer in the District of Columbia, where the unemployment rate rose by 5.5 points.

Health under threat?

The deteriorating state of the labour market will be accompanied by a deterioration in living conditions for millions of Americans, especially if the end of the lockdowns is not synonymous with a rapid rebound in activity, as Jerome Powell, Chairman of the Federal Reserve, now fears. This would result in increased poverty for households that have lost their jobs. Previous analyses indicate that workers at the bottom of the distribution will be the most exposed, especially since, despite the measures taken to extend unemployment insurance, the duration of benefits remains overall shorter in the United States. To deal with the crisis, the Federal government has spent USD 268 billion (or 1.3 percentage points of GDP) on unemployment insurance to extend the duration and amount of compensation. This is in addition to the tax credit of up to USD 1,200 for households without children [6]. The government has thus chosen to support incomes temporarily, but unlike the partial unemployment schemes in force in France and in many other European countries, it has not protected jobs [7]. The flexibility of the US labour market could, however, prove more advantageous in so far as the recovery is rapid and differs depending on the sector. Employees actually do not lose much of their skills and can more easily find a job in another business sector. But a protracted crisis associated with persistently higher unemployment would greatly increase poverty.

In addition, access to health insurance is also often linked to employment. Indeed, 66% of insured Americans are covered by their employer, who is obliged to offer health insurance in companies with more than 50 employees. The corollary is that many workers risk losing their health coverage at the same time as their jobs if they cannot pay the portion of the insurance costs previously borne by their employer. As for employees of small businesses exposed to the risk of closure and unemployment, it is very likely that they will no longer have the means to take out a private insurance policy on their own. Already, in early 2019, just over 9% of the population had no health coverage. While this rate had dropped sharply since 2010 and the "Obamacare" reform, the annual report of the US Census Bureau published in November 2019 estimated that more than 29 million people had no coverage in 2019, a figure that has risen somewhat since 2017. The coverage rates also show strong regional disparities, which is due to the demographic structure of the States.

Although part of the economic support plan is devoted to food aid [8] and some health expenses, the COVID-19 crisis will once again hit the most vulnerable populations and widen inequalities that are already significant and being deepened by the recent tax reforms of the Trump administration.

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[1]
In terms of GDP, the share of States that have imposed lockdowns is in much the same proportions.

[2]
Note that this survey does not show a significant difference between men and women, even if women have a slightly fewer opportunities for teleworking: 28.4%

against 29.2% for men.

[3]
See Matthew Dey and Mark A. Loewenstein, "How many workers are employed in sectors directly affected by COVID-19 shutdowns, where do they work, and how much do they earn?", *Monthly Labor Review*, U.S. Bureau of Labor Statistics, April 2020.

[4]
In Nevada, the exposed sectors represent 34.3% of jobs. This figure also exceeds 30% in Hawaiï and is 23.7 % in Florida.

[5]
This is also the case of the District of Columbia due to the large presence of Federal employees.

[6]
This amount is granted to households receiving less than USD 75,000 (150,000 for a couple) per year. USD 500 is awarded per child. The amount of the tax credit is regressive and falls to zero for households with an income above USD 99,000.

[7]
See here for our analysis of European and American strategies to deal with the crisis.

[8]
The plan approved on 18 March (Families First Coronavirus Response Act) actually provides for over 20 billion dollars in assistance for poor people.