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“The Two Unemployment Crises and Social Equity”

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Thank you, Chair James Clyburn and Ranking Member Steve Scalise, for this invitation to give testimony before your committee today on the issue of our nation’s unemployment crisis. I am happy to offer this testimony on behalf of the AFL-CIO, America’s house of labor, representing the working people of the United States; and based on my expertise as a professor in Howard University’s Department of Economics.

My testimony today will discuss the immediate challenge our nation faces of the highest unemployment rates on record. Despite a slight improvement in May from the records reported in April, we remain in the worst crisis the American labor market has faced on record.\(^1\) We face this dilemma, because the United States chose to lay-off workers and use the unemployment service as its labor policy when companies were closed to practice social distancing. Most other industrialized nations chose instead to subsidized employers to keep their workers on payroll while they shut down, or reduced hours to comply with social distancing orders.\(^2\)

The Coronavirus is a highly contagious and deadly disease, and it is a global Pandemic.\(^3\) From February 2020 through the week ending June 13, the Center for Disease Control reported over 100,000 deaths in the United States involving COVID-19.\(^4\) Given the huge numbers of Americans killed by the virus, extraordinary steps and policies are in order.

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\(^1\) (Dunn, Haugen and Kang 2018)

\(^2\) (International Labour Organization 2020) (Organization for Economic Cooperation and Development 2020)

\(^3\) (Cucinotta and Vanelli 2020)

\(^4\) (Centers for Disease Control and Prevention. National Center for Health Statistics 2020)
Many studies are emerging showing the huge benefits social distancing has made in containing the virus, limiting hospitalizations and deaths.\textsuperscript{5} And in an early attempt at the beginning of March estimated a value of $8 trillion saved because of the projected lives saved through to October by practicing social distancing from March through May or June.\textsuperscript{6} These clear benefits mean we have large latitude in implementing economic policies to mitigate their costs, and still come out ahead as a society. And, we have the room to properly account for and address the racial and gender inequalities that are becoming apparent, and that will slow the recovery is not corrected.

My testimony will focus on the aspect of unemployment insurance, as one of those economic costs. I will show that the incidence of unemployment has not fallen evenly, and so while we all benefit because our social distancing measures significantly slowed the progress of the virus, the economic costs have not been shared evenly. The unique nature of the virus and the economic costs to fight the virus has twisted the labor market in many ways. Those workers who can tele-work, or those whose work allows for safe practice of social distancing face greatly reduced risks of catching the virus; while those workers who continue to work because their jobs are deemed too vital despite the risks to them of contracting the disease because they cannot tele-work, or their jobs must be done in close proximity to others and so cannot social distance at work, or those who must encounter the public, or give aid to the ill or those who are incarcerated or assist those in long term care bear the cost of risking illness. These too have built-in racial disparities policy makers should acknowledge and address. In a situation where these economic costs have been placed by policy, and not by market action, it becomes vital for policy makers to understand the consequences of their actions and to take responsibility for any resulting inequalities.

Further, the imbalances created by these policies alter relationships in the market place. Closing businesses that employ large numbers of people, and limiting economic activity, makes clear losers, but opens many opportunities for those who are not limited. Having large numbers of workers unemployed with limited hiring prospects clearly shifts bargaining in favor of employers. And, is prime to create monopsony power in most employers who are looking to hire

\textsuperscript{5} (Matrajt and Leung 2020) (Flaxman, et al. 2020) (Hsiang, et al. 2020)
\textsuperscript{6} (Greenstone and Nigam 2020)
workers. Further, because working today exposes workers to the risk of catching COVID, in a normally functioning market, economists typically assume the labor market would compensate workers for the higher risk. The theory of compensating differential for doing riskier jobs is used to explain why coal miners or construction workers earn more than similar workers. But, in this case, workers do not have a full range of job opportunities and the market is not likely with such high unemployment to give them leverage to bargain for compensating differentials.

At the same time, the economy is facing the pressures of a “normal” recession. The loss of income and therefore demand from a large set of workers, extreme pressures on state and local budgets from increased costs to contain the virus and loss of revenue from lower economic activity threaten an additional drag on the economy when those public sector budgets are slashed to come into balance, policy uncertainty and economic uncertainty on the extent of damage the virus may inflict, a collapse in global trade, and a rise in the dollar are huge weights on the economy. Recognizing who is losing income and how that can affect drops in consumption is important. Simply re-opening restaurants and bars, will not undo those factors. And, as we have seen, so many states are now seeing their cases of the virus spiking as they have tried to “re-open,” only adding to uncertainty and therefore exacerbating the problems the virus is causing the economy. Congress must keep in mind the need to keep up strong countercyclical programs to combat the “normal” recession part of the unemployment crisis.

To all these ends, Congress passed the CARES Act, March 27, that boosted the provisions of unemployment insurance. This was vital to addressing one dimension of fairness of closing down or curtailing some business activity to save the economy over $8 trillion from lost lives. That huge benefit, allowed for a big down payment to cover the costs borne by those workers who would be displaced. At the time the social distancing policy was put in place, a little under 17 million American workers were employed in leisure and hospitality, the industry most affected by those policies and which includes food and drinking establishments, hotels and amusement parks. Yet, in 2018, a typical labor market, and the most recent data from the Bureau of Labor Statistics, shows only 7.8 percent of unemployed workers in the Leisure and Hospitality Industry received unemployment benefits. Further, the average weekly benefit for

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7 (Purse 2004)
unemployment insurance in the U.S. compared to average weekly wages is a little less than 40 percent, so a typical unemployment check would leave workers far from whole. So, without great modification to normal state unemployment insurance laws, the largest bulk of workers asked to bear the costs of lower earnings would not have had access to any compensation, and the few who would get benefits would have been far from whole.

Two key modifications were made to address the shortcomings of regular state unemployment insurance systems. One was to create Pandemic Unemployment Assistance that would help workers whose work records might fall short of regular state requirements, including because of low earnings. The second was an attempt to raise the replacement value of a weekly unemployment benefit check to reach the average wage of workers. This was done crudely, by adding $600 to each beneficiary, since that would be the case for the average benefit check and the worker earning the average weekly wage. And, that “short cut” was necessary because state unemployment insurance offices use antiquated computer systems that would make calculating replacement rates different from the benefits already built into their systems very difficult and time consuming to accomplish. This means that the replacement rate will be over 100 percent for those workers earning less than average, and lower for those higher earners.

- Why continuing the $600 Pandemic Unemployment Compensation is important
  1. Maintaining aggregate demand

The huge drop in aggregate payroll that hit the U.S. economy in March, April and May was helped when Congress sought the highest replacement rate for this unprecedented fall. And, because the impetus from the virus to order social distancing was a necessary policy choice, some policy certainty is needed by Americans about their future incomes. This is especially true as workers look at the worse labor market prospects ever recorded, despite a small recovery of some jobs in May.

Figure 1 shows the estimate from the Bureau of Economic Analysis of the loss in the personal income accounts from the drop in wages that took place in March. Ahead of Congressional action to fix problems that may have hampered workers in the leisure and hospitality industries from accessing unemployment insurance benefits, that industry lost over

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9 (U.S. Department of Labor. Employment & Training Administration 2019)
700,000 jobs. Private sector wages fell in March at an annualized rate of $332.2 billion. With only regular state unemployment insurance in place, and with record millions of people applying each week for benefits, unemployment insurance only made up $43.5 billion of that loss.

But, in April, with Pandemic Unemployment Assistance in place in most states, the unemployment insurance system did a far greater job of replacing lost wages, though the drop in wages was much greater than in March. By mitigating the loss of wages, the economy was able to stabilize. This was a much bigger impact on the part of unemployment insurance than from September 2008 to October 2009 when private sector wages fell during the Great Recession. So, this was vital to the economy. The biggest part of the Pandemic Unemployment aid came from the boost of $600 in the weekly unemployment checks of those who were able to get unemployment benefits. Because states were slow to implement the procedures for the Pandemic Unemployment Assistance and the Pandemic Emergency Unemployment Compensation, large numbers of workers did not get access to those benefits. This means that millions of unemployed workers will not have received the full help that Congress intended. So, if the extra $600 is cut off, many will have been left out. That will make the recovery uneven, and sputter as those communities left behind will face greater challenges.
However imperfect the $600 Pandemic Unemployment Compensation Payment may be, it must be viewed from its role as a macro-economic stabilizer.\textsuperscript{10} And, in the context of the greatest recorded loss of jobs in American economic history, the policy response needs to be equally as large to offset such a dramatic income loss shock.

In assessing extending the $600 until January 2021, the Congressional Budget Office notes the additional benefits will help those workers who are facing a distorted labor market because of the need to social distance to contribute so much more to aggregate demand, they will help 2021 be a more robust recovery, with higher income and employment for everyone than if the benefits end at the end of July.\textsuperscript{11} For a number of reasons, their estimate of the positive effects are understated. If workers do not receive certainty soon that the benefits will be extended, they are likely to dramatically cut back on consumption in July to try and build some

\textsuperscript{10} (U.S. Bureau of Economic Analysis 2020)
\textsuperscript{11} (Swagel 2020)
liquidity against the dramatic fall in income ahead. This will shrink the economy and undo the
good done by the Pandemic Unemployment relief in April.

2. Maintaining Equity

A consideration raised by several observers, is a concern about the workers earning below average wages, because they believe the replacement rate for them from receiving $600 is too high. Of course, it is an odd concern to be worried that something helps those at the bottom too much, since normal equity issues are that income inequality in the United States has exploded because too much of the gains in income have gone to the top. So, normally, in discussions of equity, the question is what policies can be put in place so that incomes at the bottom can rise relative to those at the top.

A more careful analysis however, would explain the additional equity concerns brought about by the unusual policy decisions that had to be made to insure the safety of the nation, which is saving the American economy $8 trillion by saving lives. A reasonable attempt to differentiate those industries directly affected by social distancing orders, is that roughly 20 percent, or one-in-five workers were in those industries most highly affected. Workers in those industries tended to be younger, under age 25, and were more likely to be young women, and a higher share were Hispanic. These industries also tended to have a higher share of part-time workers, and single-parent households. The workers at greater risk of being in the affected industries were less likely to have a college degree. They were more likely to be in the bottom 60 percent of the family income distribution, living in families making less than $75,000. For those families in the poorest 20 percent of American families, about 46 percent, almost one-in-two, of households depend on all family earned income coming from a job in one of the most affected industries. And, among those families with a little more income, in the lower-middle income fifth, a little more than one-in-four families depends on all earned income coming from a job in one of the most affected industries. So, these workers are vulnerable workers. While the unemployment rate for the overall economy is staggering, the unemployment rate in April for the workers in the most affected industries was a towering 34.1 percent, which is above the levels we
believe were seen during the Great Depression. For Black, Hispanic and for women workers in these industries, their unemployment rates in April were roughly 38 percent.\textsuperscript{12}

An analysis of job search choices by workers, and the effect of the high unemployment insurance replacement rate on accepting a job offer must also include the likelihood a worker has of landing a job. If the chances of finding a job are otherwise astronomical, the worse chances any American worker has seen, then modelling the effect of the replacement rate of insurance benefits rates has to be adjusted. Further, a refined model would have workers factor in the experience of the Great Recession, which was that if their unemployment spell lasts too long, they are very unlikely to land another job. Given that these workers are younger, the prospect of waiting out the labor market and retiring is too remote. Further, as these workers are disproportionately from groups who routinely face discrimination, they are all too aware that a difficult labor market for other workers than for them it is going to be more arduous. So, a fair modelling of their situation would greatly discount the unemployment insurance replacement rate. Therefore, it was little surprise that in May, the labor force flow data revealed a dramatic reversal from the 17.5 million workers who went from employed in March to unemployed in April, to in May when 7.7 million workers went back from unemployed in April to being employed.\textsuperscript{13} Most of the small advance in employment that took place was in the most affected industries. Clearly, these workers understand the dire position they are in, and choose work over being cast into the worse labor market any American has seen.

From an equity perspective, the shutdown of their industries, is far more akin to what is observed during plant closings. The economic research is clear. Workers who experience plant closures suffer permanent income loss.\textsuperscript{14} It is unlikely that the almost 12 million workers who lost their jobs from February to April in the industries affected by social distancing policy will all find their way back to their previous employers. So large numbers of workers, who were already earning low wages, will likely suffer long scars from this policy choice. A different way to look at their replacement rate, is to look at the loss to their permanent incomes they are likely to suffer and how much is being replaced by unemployment insurance. To build a robust recovery, it is

\textsuperscript{12} (Dey, et al. 2020)
\textsuperscript{13} (U.S. Bureau of Labor Statistics 2020)
\textsuperscript{14} (Couch and Placzek 2010)
necessary to build in that calculation because it will not be a quick return to work for these Americans.

Those who are worried about work disincentives should instead note that a disproportionate share of the workers who were negatively affected were women. And, if adequate funding does not flow to state and local governments very soon, there will be too much uncertainty around school openings. The result will be, with insufficient support, women will find it difficult to handle schools being partially closed and getting to work. The HEROES Act, which the House of Representatives has passed, is a vital and necessary step to help workers return to the labor market. And, without it, the recovery will be complicated by further layoffs that will make it harder for some of these same workers to find jobs, as school cafeteria, school bus driver, teacher aide and school crossing guard jobs remain as part of the job losses experienced in April.

3. Racial equity

While Black workers were not as likely as Hispanic workers to be in the affected industries, those Black workers in the affected industries made Black family income as negatively affected as was the case for Hispanic families. So, while income losses were reported across all income ranges, because the losses were more severe among those families with incomes below $75,000, a higher share of Black and Hispanic families suffered income drops. Figure 3 shows this disparate outcome.
For Black families, the loss of income is compounded by the problem of living disproportionately in states that were the slowest to implement the Pandemic Unemployment Assistance benefits. In a normal economy, unemployed Black and Hispanic workers are less likely than White workers to receive unemployment benefits. Part of this is because of the higher share of Black workers who live in the South, and in those states with lower unemployment recipiency rates. For the week ending May 23, about 35 percent of those receiving any unemployment benefits were receiving benefits because of the Pandemic Unemployment insurance programs of the CARES Act. Yet, there were still 9 states that were reporting zero PUA claims; including Arkansas, Florida, Kentucky, Georgia and West Virginia. These failures among states with higher shares of Black workers, make the access to the program lower for Black families. Based on data from the Minneapolis Federal Reserve Bank’s Opportunity & Inclusive Growth Institute’s COVID survey, Black workers show a

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16 (U.S. Department of Labor. Employment & Training Administration 2020)
17 Author’s calculations with Nyanna Browne, using (Wozniak, et al. 2020)
distinct disadvantage in getting unemployment insurance benefits during this unemployment crisis. Figures 4 and 5 show this is true, despite unemployed Black workers applying at similar rates. And, the persistent issue of difficulty for women to access unemployment benefits also shows.

![Figure 4](image)

Similar to other research, the data show that workers’ have had difficulty applying for the benefits, with a slightly higher share of difficulty for Black men, than others. This is also the case for women, shown in Figure 5. So, it is likely it will take some time for Black workers and women to get the benefits that Congress intended for unemployed workers to receive.
Figure 5

Withdrawing the additional $600 will end up having a disparate impact on Black and on women because by July 31, a much smaller share of unemployed Black workers and women will have received any unemployment benefits.

Black and Hispanic workers combine to be about 30 percent of the American workforce. Their plight from the loss of income is compounded because of their low levels of wealth and specifically their low levels of liquid wealth (assets that can easily and quickly be turned into cash). A study of Black and Hispanic households has found that a drop in income from the loss of a job leads to a 50 percent larger drop in consumption for Black households, and a 20 percent larger drop in consumption for Hispanic households for each dollar of income lost compared to White households.\(^\text{18}\) Because of the lack of liquidity for this large segment of the workforce, job losses get magnified in the economy through larger reductions in consumption. So, disparate job

\(^\text{18}\) (Ganong, et al. 2020)
losses in these communities have outsized outcomes on the macro-economy because they are now 30 percent of American workers.

Further, as Black and Hispanic families face greater housing vulnerability, losses of incomes can add stress on rental markets as arrears in rents can mount. Unemployment insurance, and the generosity of the benefits do help alleviate pressures on foreclosures. And, for these two communities hit hard by foreclosures during the Great Recession this is important. We have no room for mounting bad debts in the banking sector, given issues of corporate and business debt already growing on the banks’ books. Keeping the household sector as liquid as possible is the best way to avoid compounding what is, so far, a crisis in the real economy.

### 4. Exacerbating Labor Market Power Imbalances

There are two key issues at risk in thinking of the $600 Pandemic Unemployment Compensation as a work deterrent beyond issues of equity. First, and primary, is a misguided belief that simply re-opening businesses will solve the current unemployment crisis. This is wrong because while about 12 million of the jobs lost from February to April likely trace to the closing businesses to achieve social distancing, that leaves more than 8 million jobs in other industries lost because our economy is super fragile because of its high level of inequality. As a result, aggregate demand collapses quickly. Some because of the wealth inequality, that makes the loss of jobs in the Black and Hispanic communities get magnified when they lose jobs. And, some because workers’ wages have not been keeping up with productivity, and that gap always means that when the economy slows and workers cannot borrow, they cannot consume at a pace to keep aggregate demand high. The other 8 million jobs are roughly the size of the job loss from the Great Recession.

Simply re-opening restaurants and bars will not solve the underlying issue, which is finding an effective set of policies to contain and stop the virus from killing. Without an effective strategy to fight the virus, increasing the number of workers who cannot shelter in place puts them, and their families at risk. This is not trivial.

For Black and Hispanic households, COVID is a disease of working age people. It is the result of the over-representation of Black and Hispanic workers among those who cannot tele-

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19 (Hsu, Matsa and Melzer 2018)
work and who are over represented in front line jobs exposed to the virus. There is scant evidence that shows disparities in pre-existing health conditions explains higher morbidity among Blacks in the United States.

The Center for Disease Control did a study of a convenience sample (choosing the first set of patients, rather than select them randomly) of 305 patients in 7 hospitals in metropolitan Atlanta and one community hospital in southern Georgia of patients over 18 with laboratory-confirmed cases of COVID-19, between March 1 and March 30 of this year. They found 83.2 percent of the patients were Black, though Black patients in the hospitals studied made up only 47 percent of all patients. And, they did find that 73.8 percent of the COVID positive cases did have conditions that are considered high risk for COVID patients. But, very importantly, they did not find significant differences between Black patients and others in incidences of diabetes, obesity, cardiovascular disease, or chronic lung diseases. Most importantly, the Black patients were not more likely to end up on invasive mechanical ventilation or to die. Blacks were over represented among the dead, because they were over represented among the COVID patients.20

The Centers for Disease Control and Prevention also looked at health care professionals to understand the incidence of COVID among them. Looking at data from February 12 to April 9 of this year, for data where they could identify health care occupations and race of the patient, they found 21 percent of the cases were of Black health care professionals. That number is out of proportion to the Black presence in the general work force, but among health care workers, Blacks are close to 20 per cent.21 So, Black health care workers are not more likely to catch the disease than non-Black health professionals, but the over representation of Blacks in this frontline occupation means a higher share of all Black workers would show up with the disease.

Black workers are over-represented in a number of front-line occupations, including childcare and social services, health care, building and cleaning services, trucking, warehouse and postal services, public transit and grocery, convenience and drug stores. They work as essential workers, and in jobs that do not allow for tele-work. Hispanics are over represented among child care and social service workers, building and cleaning services, health care services

20 (Gold, et al. 2020)
21 (Team 2020)
and in grocery, convenience and drug stores. Both are over represented among meat packing and animal slaughter. Black and Hispanic workers are much less likely to have jobs where they can tele-work, and this disparity coupled with the occupations where they are over represented means a higher share are not sheltering in place and face exposure to the disease.

The result is that when you look at the age distribution of hospitalizations for COVID-positive patients, the majority of Black and Hispanic patients are working age, while for whites, the majority (almost 65 percent) are over 65. Almost 47 percent of Hispanic patients are 18 to 49, and 55 percent of Black patients are 18 to 64. Figure 6 shows the age distributions by age and race.

![Figure 6](image)

It is essential to understand the risk workers face, as stories continue to mount of problems in meat packing and elder care facilities. Returning to work to face risks, means workers should expect to receive some compensating differential for the risk. But, that assumes

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22 (Rho, Brown and Fremstad 2020)
23 (Fremstad, Rho and Brown 2020)
24 (Gould and Shierholz 2020)
the workers have the bargaining power and choices to freely choose to accept the risk. Efforts by state governments to force unemployed workers to take job offers tips the scale radically in favor of companies that do not want to pay for the risks and wish merely to take advantage of high unemployment levels and the state government siding with the employer on how much bargaining power workers should have in this situation. Research has noted that workers constrained by discrimination in their job offers, are not able to command the same risk premia as other workers, Black males and immigrant workers exhibit lower risk premia in some studies.25

Workers already feel vulnerable in this labor market. Recent work shows a disturbing pattern of low wage workers, especially women, who report to work despite self-reporting a fever and other potential symptoms of the virus. This suggests workers are taking on great risks, just to stay employed.26

The other imbalance is in a job market with low levels of job hiring, firms that are hiring are likely to wield monopsony power, as among only a few firms hiring. Lowering the bargaining power of workers, already low because of the record level unemployment rate could lead to scarring in the labor market. If expanding firms are monopsonies, the recovery will see slower than needed wage growth coming out of this downturn. A weakness of the labor market up to February had been sluggish wage growth despite low levels of unemployment. Increasingly, economists were concerned that monopsony power was growing among employers.27

• Conclusions

Our economy faces two unemployment crises. One is because of our policy option to handle the necessary policy of social distancing through laying off workers and using our unemployment insurance system to handle idle workers, rather than to use wage subsidies to let them be idle while maintaining their relationship with their employer. This placed inordinate costs on those workers. And, policy uncertainty, along with delays that let the incomes collapse of these millions of low wage workers, also set in motion an aggregate demand collapse that was

25 (Viscusi 2003) (Hall and Greenman 2015)
26 (Wozniak, Disparities and Mitigation Behavior during COVID-19 2020)
exacerbated by limits both from social distancing and an ennui that built from the policy uncertainty on the containment of the virus.

This means we will face record levels of unemployment for some time. It is necessary we use the huge $8 trillion in savings accumulated through saving lives by using social distancing to provide the economic underpinnings to gain the confidence of Americans on the virus fighting front. If it becomes necessary to re-institute social distancing to regain control of the virus, we must have the confidence of the American people that this will not cause a repeat of the economic pain they have already endured. We should not be fooled into thinking that simply re-opening restaurants and bars will answer the challenges of a collapse in global markets, shrinking export market opportunities and a strong dollar, global over capacity in autos, and coming crisis with state and local government finance that all point to huge headwinds for the Fall.

The House of Representatives already acted swiftly to pass the HEROES Act. But, it needs to pass the Senate, too. Well before July comes, workers need to know how they will handle their bills in August. And, we will not be able to get labor force participation up without funding to state and local governments in hand to settle issues of school openings for the Fall. Waiting until July will damage an already fragile economy. Maintaining sufficient aggregate demand must be a priority for a healthy recovery.

Worker safety must be a higher priority. Workers will not send their families off to shop if workers do not feel safe at work. This is not stop the virus, or grow the economy, this is time we must be concentrating on safety so the uncertainty can fall and people feel they can plan.

Workers must have confidence, that having been asked to walk away from their jobs, there is a solid plan for a just transition for them, including income support to land safely. People are counting on Congress to not repeat previous crises, when large sums of money were given to save the economies, but racial and gender equity concerns were ignored. And, people are counting on Congress that there will not be a repeat of bail outs for the rich that go unquestioned, and unaccounted for, and griping being reserved for workers who are struggling.

None of this will happen by wishing this would all go away. We must plan to get out of this.
Works Cited


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