

# The Initial Impact of COVID-19 on Labor Market Outcomes Across Groups and the Potential for Permanent Scarring

Betsey Stevenson



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This policy essay is an essay from the author(s). As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The author(s) are invited to express their own ideas in policy papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This policy paper is offered in that spirit. The author(s) did not receive financial support from any firm or person with a financial or political interest in this article. They are currently not an officer, director, or board member of any organization with an interest in this article.

BROOKINGS

## Introduction

The arrival of the novel coronavirus in the United States brought with it a public health crisis that meant that previously advantageous ways of organizing work and home life carried new costs. As COVID-19 (the disease caused by the novel coronavirus; hereafter COVID) began to spread in early March, schools closed and businesses sent workers home as all but essential services temporarily shuttered. More than 31 million applications for unemployment insurance were filed during March and April, a period during which the economy was essentially put on pause and many jobs were temporarily suspended.<sup>1</sup> The official unemployment rate peaked at 14.7 percent, but the logistical challenges with measuring a surge in people who were suddenly laid off means that, more realistically, the unemployment rate might have been over 20 percent at its peak.<sup>2</sup> The need to stay home in order to stay safe caused many people who were not currently in the labor force, but who would have started looking for a job in March and April, to put job-finding plans on pause. The data show that new entrants and reentrants to the labor force plummeted both in absolute numbers and as a share of the unemployed. Labor force participation fell to 60.2 percent in April 2020, a low last seen in the early 1970s.

The sharp declines in spending and work were guided by state stay-at-home orders, although research has shown that the driving force was voluntary as many people stayed away from crowds and businesses began to implement work-from-home policies prior to state policies being enacted.<sup>3</sup> Those who could do so worked from the safety of their homes, while others were temporarily laid off waiting to find out when and if they would be called back to work. Many of the self-employed found that they were no longer able to provide their services and were left, along with other business owners, to reexamine their business models to assess how likely it is that they will be able to resume pre-pandemic operations in the medium term.

Parents faced an added challenge as those who had previously relied on schools and child-care centers were forced to take on new roles as educators and round-the-clock child-care providers as schools and child-care centers closed. The pandemic also interrupted alternative forms of child care, including relying on older family members such as grandparents. Many working parents were left scrambling to find a way to simultaneously do their job and care for their children.

The job loss and unemployment witnessed early on was unlike a normal recession. In a normal recession, it takes time for employers to realize that demand for their product has declined or that their business model is not robust enough to be sustainable in a weak economy. Only once employers arrive

at this realization do they shed workers. Across the economy the process of businesses reducing hiring or closing up shop altogether, as well as fewer businesses being created, can often last for years, with job losses accumulating over time. The labor market becomes like a game of musical chairs in which more chairs are removed each month and those sitting in chairs increasingly refuse to stand up and potentially free a chair for someone else. As a result, long-term unemployment grows over time, and labor force participation falls slowly as unemployed workers give up and leave the labor force and those considering whether to enter or reenter the labor market become discouraged about the prospect of finding work.

During the last recession, job growth slowed in 2007, before consistent job loss began in February 2008, a month when the economy lost 79,000 jobs. Monthly job loss accelerated over the next year, hitting a peak monthly loss of 800,000 jobs in March 2009. Job losses continued through mid-2010, by which point 8 million jobs had been lost. Even after job growth slowly resumed, long-term unemployment and declines in labor force participation continued for years. The prime-age labor force participation rate only began to consistently improve at the end of 2015 (Breitwieser, Nunn, and Shambaugh 2018).

In contrast, over the two months of March and April 2020, both the overall labor force participation rate and the prime-age participation rate fell far below the low rate that the previous recession took 5 years to hit. And yet, nearly half of the decline had been reversed by June as labor force participation rose in both May and June. Similarly, the unemployment rate hit a high not seen since the Great Depression just two months into the recession, and has since reversed about 40 percent of its climb.

However, the traditional benchmarks measured in April had captured neither the damage to the labor market nor the permanent changes in workers' attachment to the labor force. Both unemployment and the decline in labor force participation reflected many truly temporary layoffs since some workers who were sent home would be needed back in their jobs as soon as the economy could reopen. But even as millions have returned to work, both the employers who did and those who did not originally do temporary layoffs continue to grapple with how to adjust to a changing economic and public health situation. Permanent job loss and worker detachment from the labor force is occurring slowly, with each day bringing new layoffs that no longer represent a business pausing, but rather are increasingly likely to reflect a business reorganizing or closing.

Demand in the economy, and therefore labor demand, was lowered both directly and indirectly from the pandemic. The direct effect is a suppression—people are staying home or avoiding certain types of spending to avoid being infected

by the virus (or because state stay-at-home policies and other restrictions have constrained them). But labor demand is also being affected by overall concerns about current and future income and the economy. Only once the labor market is no longer being suppressed by both stay-at-home measures and people's actions to directly avoid viral infection will we learn the unemployment and labor force participation exit rates from which we must slowly recover.

A closer look at how job loss unfolded and recovered across different groups provides some insight into what the future may hold for the labor market. Equally, it is important to realize that no one is able to assess the long-term scarring that will occur in the labor market until the pandemic is closer to being resolved. Major sectoral shifts in the workforce will likely be necessary, and while many of those who were hurt initially during the shutdown will bear the brunt of this reallocation, its permanent impact will likely be more narrowly targeted.<sup>4</sup>

## A Gendered Shut Down

In December 2019, women achieved a milestone in the labor market: they held more nonfarm payroll jobs than men. While it was not the first time that women had outnumbered men in the labor market, it was the first time that women had overtaken men during a period of job growth.<sup>5</sup> January and February 2020 continued this trend as women's slight edge in terms of nonfarm payrolls continued, and at the start of the year it seemed likely that women would continue in this dominant position far into the future. But women's advantage was rapidly undone by pandemic job loss, and by May 2020 women held only 49.2 percent of nonfarm payroll jobs.

Men typically lose work early in a recession because they tend to be employed in industries that are more cyclical.<sup>6</sup> However, the early stage of the pandemic saw rapid declines in female-dominated industries. For example, the most rapid declines in March were in employment in leisure and hospitality, an industry in which 53 percent of workers were female in February. Cuts in this sector made up more than half of the decline in March 2020 nonfarm payrolls, and women held 57 percent of the jobs cut. Job loss in leisure and hospitality was 10 times larger in April, and once again women made up a disproportionate share of the jobs cut. By April, nearly half the jobs in this sector had disappeared from payrolls.

A similar pattern played out to a lesser extreme in education and health services, although this is an industry in which 78 percent of the workers in February were women. These

jobs have accounted for more than half of the growth in nonfarm payroll jobs held by women in the 21st century. Jobs in education and health services have grown nearly continuously over time including through past recessions. Job loss began in March, but primarily occurred in April, at which point employment had declined by 11 percent. Women made up 82 percent of the lost jobs in that industry.

While these two sectors help explain why women got hit hardest as the pandemic began, they also explain why the gender gap in unemployment and labor force participation rates narrowed substantially in June as many of these jobs recovered. By June, employment in leisure and hospitality had partially rebounded, closing one third of the gap. Similarly, roughly one quarter of the lost jobs in education and health services recovered as medical and dental practices began to resume seeing patients for more than just urgent care.

While the initial rebound has helped narrow the gender gap in unemployment and labor force participation, women's dominance as the majority holder of nonfarm payroll jobs is unlikely to recover any time soon.

The pandemic has also hit women harder than men by the increased burden of care since children's schools, daycare providers, and camps have closed, and many remain closed. Additionally, many families have had to consider how to best provide elder care and how to ensure the safety of those more vulnerable to the worst effects of COVID. Women's traditional caregiving role and the crisis of care that many families are facing in the United States could have long-term repercussions for women's labor force attachment and success, although we have yet to see this impact in the data. Women with children under age 18 at home were no more likely than other women to leave employment this spring. However, with so few people having already returned to work, it is unclear whether child-care issues will prevent women from returning to employment as the economy recovers.

More generally, the way in which increased caregiving typically affects women's labor market outcomes occurs slowly over time. Caregiving needs lead women to choose jobs with more flexibility and shorter commutes.<sup>7</sup> They may switch to part-time work or step out of the labor market for a period. The repercussions of these choices are that women's wages tend to grow more slowly because women take and are given fewer opportunities for promotions and higher wages. The impact of the difficult choices that women have made and will continue to make because of the lack of child care due to the pandemic will likely affect these women's labor market outcomes for decades.

## New and Reinforced Labor Market Inequalities

Low-wage workers have borne the brunt of the economic pain of the pandemic. Because low-wage work is more likely to involve in-person tasks, those workers faced a double hit from the pandemic. Many low-wage workers were laid off as in-person work slowed and then stopped for nearly all but essential employees. Those who were kept on the job—often as essential employees—faced new health risks for which there was little additional compensation.

Similar to the patterns for women, low-wage workers are concentrated in leisure and hospitality, which is the sector with the lowest hourly earnings. Low-wage workers are also concentrated in retail trade, which contracted by 15 percent overall. As a result, unemployment among workers with less education and among Black and Hispanic workers skyrocketed. The unemployment rate of those with only a high school diploma rose from 3.6 percent in February to 17.3 percent in April, while the rate for those with at least a four-year college degree went from 1.9 percent to 8.4 percent. The unemployment rate among Hispanic workers rose to 18.9 percent, and for the first time exceeded that of Black workers, whose unemployment rate hit 16.7 percent.

Similar trends were seen in labor force participation, which fell more for those with less education. Looking along racial lines, the labor force participation rate among Hispanic workers fell the most, followed by that of Black workers. In each case, labor force participation fell by substantially more than it fell during the Great Recession, and hit modern lows,

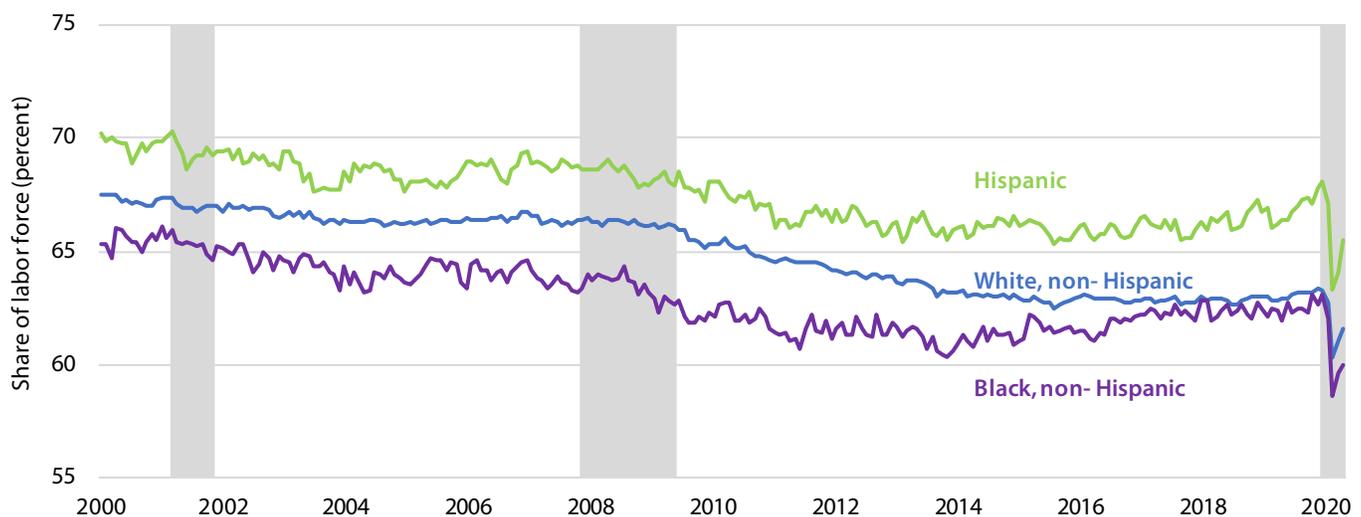
as seen in figure 1. These declines come after a period of rising labor force participation among Hispanic and Black workers. The historic gap in which White workers tended to have higher labor force participation than Black workers has reemerged after having been nearly eliminated at the start of the pandemic.

## A Snapshot of Those Employed Prior to the Pandemic

A more complete picture of what has happened to workers who were employed prior to the pandemic and of the disparities in the labor market emerges by following the labor market path of those who were employed in February.<sup>8</sup> As people left jobs they held in February, some transitioned to unemployment, others exited the labor force, and still others were employed but absent from work. The many different paths out of employment that workers took in March, April, and May highlights the incomplete nature of measured unemployment.

Overall, more than one in four of those employed in February had a spell of *non*employment by May, meaning that they had either been officially counted as unemployed, not in the labor force, or employed but absent from work for other reasons (Bureau of Labor Statistics [BLS] 2020b; author's calculations). It is not clear how we should code people who were employed but absent from work. Some of these workers were on vacation or family-related leave that was not influenced by COVID. But the large spike in people who told interviewers that they still

FIGURE 1.  
Labor Force Participation Rates by Race and Ethnicity, 2000–20



Source: Bureau of Labor Statistics (BLS) 2000–20.  
Note: Shaded bars refer to recessions.

had a job but could not go to work has suggested that many of these people are perhaps more accurately described as “laid off.” More generally, it is clear that COVID-related causes led to an increase in workers being absent from work.<sup>9</sup> Similarly, some workers who were counted as not in the labor force, because they were not available to take a job or because they had not looked for work, would have been either employed or officially unemployed had the pandemic not hit. As such, a more complete picture of how the pandemic affected the labor market should include at least some of those who have a spell out of the labor force. Taking all these forms of nonemployment together, roughly twice as many people who were employed just before the pandemic hit experienced a spell of nonemployment (30 percent) compared to measuring only spells of unemployment (16 percent).<sup>10</sup>

Workers without an undergraduate degree experienced some of the highest rates of nonemployment, just as they experienced a greater increase in unemployment and a steeper fall in labor force participation; they were also more likely to be coded as employed but absent from work for other reasons. Table 1 shows that 35 percent of workers without at least a

bachelor’s degree experienced a spell of nonemployment in March, April, or May, compared to 18 percent of those with at least a college degree. The biggest disparity occurred in April when nearly 3 in 10 workers without a bachelor’s degree who had been employed in February were not employed.

Hispanic and Black workers were more likely to experience a spell of nonemployment, with about one in three who were employed in February experiencing a month or more of nonemployment. Nonemployment among those who had been employed in February peaked in April, when 29 percent, 27 percent, and 20 percent of Hispanic, Black, and White workers, respectively, were not employed.

Looking across all groups of workers, the statistics in table 1 show that the nonemployment rate among those employed in February remained near April rates in May. Table 1 shows that the nonemployment rate among Black workers who had been employed in February remained just below 27 percent—the April high point—in May (26 percent), while the unemployment rate among White and Hispanic workers who were employed in February declined slightly. Turning

TABLE 1.

## Labor Market Outcomes for Those Employed in February by Selected Demographic Characteristics

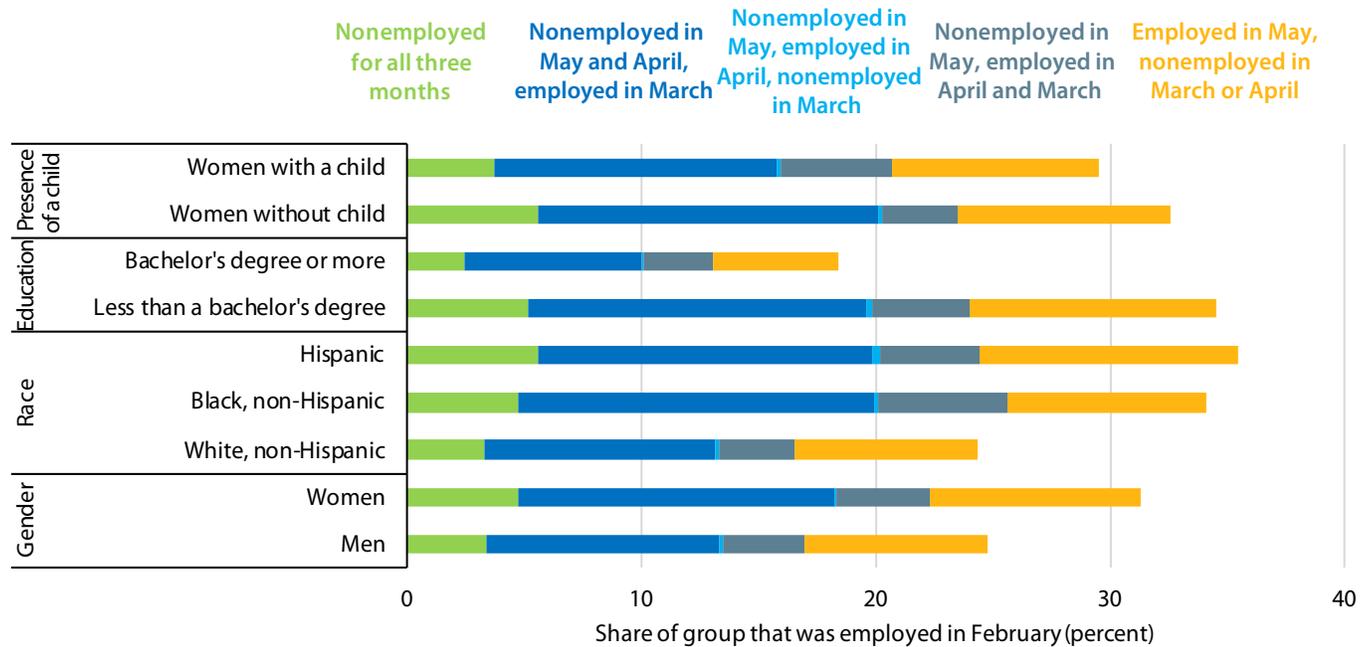
	Continuously employed February through May	At least one month of unemployment	At least one month not in the labor force	At least one month employed but absent from work	Nonemployment		
					March	April	May
	Percent						
<b>Gender</b>							
Men	75.2	14.5	9.3	6.4	5.3	20.1	17.0
Women	68.8	17.8	12.4	8.1	7.2	25.5	22.2
<b>Race and ethnicity</b>							
White, non-Hispanic	75.7	13.6	9.3	6.4	5.2	19.8	16.6
Black, non-Hispanic	65.9	19.8	14.1	8.6	7.3	26.8	25.7
Hispanic	64.5	22.3	13.3	8.3	8.5	29.2	24.4
<b>Educational attainment</b>							
Less than a bachelor’s degree	65.5	20.6	13.6	8.4	7.7	28.8	24.0
Bachelor’s degree or more	81.6	9.7	6.8	5.5	4.2	14.0	13.1
<b>Presence of a child</b>							
Women without a child	67.4	18.7	13.6	7.7	7.9	27.7	23.5
Women with a child	70.4	16.8	10.9	8.6	6.4	22.9	20.7

Source: Bureau of Labor Statistics (BLS) 2020b; author’s calculations.

Note: Data are for 2020. The author analyzes the one-quarter of observations that can be successfully linked through each of the 4 months (February, March, April, and May) in the Current Population Survey. “Nonemployment” refers to those who are employed but absent from work for other reasons, unemployed, and not in the labor force. The share experiencing some level of nonemployment in the 3 months is the difference between “Continuously employed February through May” and 100%.

FIGURE 2.

## Labor Market Transitions for Those Employed in February, Selected Demographic Characteristics



Source: Bureau of Labor Statistics (BLS) 2020b; author's calculations.

Note: Data are for 2020. The author analyzes the one-quarter of observations that can be successfully linked through each of the 4 months (February, March, April, and May) in the Current Population Survey. "Not employed" refers to those who are employed but absent from work for other reasons, unemployed, and not in the labor force.



back to differences by educational attainment, there was a nonemployment rate among those with a bachelor's degree in May that was similar to the rate in April, whereas the nonemployment rate had improved slightly among those with less education.

Figure 2 shows that this reflects a large share of workers who had not been brought back to work by May: the light orange bars represent the share that were reemployed in May. The gray bars show those whose first spell of unemployment was in May, partially offsetting those who had been brought back to work.

These data highlight that the short-term challenges that workers have faced were greatest among the most vulnerable workers. Few of those who lost work have returned to employment, and new workers continue to experience job loss. The sheer magnitude of the gaps—nonemployment rates that remain nearly 10 percentage points higher both for minorities than for White, non-Hispanic workers and for those workers with less education compared to those with a bachelor's degree or more—suggest that it is minorities and workers with less education who are most at risk of being left behind as the economy recovers.

## Conclusion

The job loss that we have witnessed so far has largely been temporary, but permanent job loss is rising. In June, although net job growth reflected nearly 5 million people returning to jobs, permanent job losers rose to 2.9 million. While it will likely be years before we can excavate from the data we are now observing the permanent damage the pandemic has done to the economy, the acceleration in permanent job loss is an indicator that the damage to workers' connections to their jobs and the labor market may continue to occur for many more months.

Even those who continued working have found that their jobs have changed.<sup>11</sup> New technology was thrust upon workers who had to learn how to do virtually what they once did in person. This unprecedented surge in the use of technology to accomplish tasks that used to be done in person has permanently changed people's knowledge of, and comfort with, these substitutes. As a result, it will likely cause permanent changes in how people work and the technology that they use. These changes have yet to fully percolate through the labor market to affect staffing decisions. Will medical practices continue with virtual appointments long after COVID has passed? Will business meetings that once required travel become Zoom meetings? These changes will ultimately lead to a group of workers who will need assistance

in transitioning to new jobs, such as through expanded job training and job search assistance programs.

While Congress has scrambled to save airlines on the belief that air travel is essential for a well-functioning modern economy, they have overlooked what is perhaps the most important industry in a modern economy: our child-care providers and schools. Parents will continue to struggle with child-care issues, particularly with the potential of children out of school and without child care this coming fall and the risk to grandparents of relying on them for child care. The pandemic has highlighted the fact that child care is not a women's issue, it is not a personal issue, it is an economic issue; parents cannot fully return to work until they are able to ensure that their children can safely return to child-care and educational arrangements. The child-care crisis spurred by the pandemic could force families to make difficult decisions that will lead to lower labor force participation and lower earnings for decades to come.

The solution to preventing large-scale permanent scarring, particularly among women, is to prioritize safely opening schools, to ensure that child-care centers do not go bankrupt and that the centers have the resources to adapt their buildings and practices to new protocols like improved air flow and increased surface disinfecting, and to encourage workplace flexibility. In addition, job-protected paid sick leave as well as medical and family leave are more important than ever. People will continue to get COVID, and will need to quarantine themselves and care for others. Keeping parents, caregivers, and those who get sick integrated with the labor force will be key to minimizing the scarring effects of

the pandemic. In the long run, the American economy must build better on-ramps to employment for those who take a period out of the labor market if the economy is to reach its full potential.

Finally, as we approach the middle of the summer with each day bringing a record high of new COVID cases, it is clear that millions of workers will need to continue to rely on income support. The CARES Act expanded both the number of people covered by unemployment insurance and the amount of income they receive. Yet, at the end of July, unemployment insurance payment amounts will fall by more than half as they return to state-determined payment amounts. Expanded benefits provided so far have clearly helped bolster the economy: household incomes rose in April and, in response, retail sales rose strongly in May. However, consumer spending has yet to return to pre-pandemic levels, and many fear a wave of evictions as landlords expect out-of-work individuals to resume paying rent. In order to foster a return to work, we need to support a continued return to spending.

The lifting of state shut-down orders ended the initial widespread suppression of the labor market. The question now is how the labor market will be rebuilt. In its wake, there is likely to be a massive reallocation in who works, how they work, and what kinds of jobs they do. Since April, we have seen the official unemployment rate fall to around 11 percent, but that rate is still higher than during any previous recession since the Great Depression. While many workers have been able to return to work, millions of workers and businesses are still trying to assess whether or how they can recover.

# Author

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Betsey Stevenson is a professor of public policy and economics at the University of Michigan. She is also a faculty research associate at the National Bureau of Economic Research, a visiting associate professor of economics at the University of Sydney, a research fellow of the Centre for Economic Policy Research, a fellow of the Ifo Institute for Economic Research in Munich, and serves on the executive committee of the American Economic Association. She served as a member of the Council of Economic Advisers from 2013 to 2015 where she advised President Obama on social policy, labor market, and trade issues. She served as the chief economist of the U.S. Department of Labor from 2010 to 2011, advising the Secretary of Labor on labor policy and participating as the secretary's deputy to the White House economic team. She

has held previous positions at Princeton University and at the University of Pennsylvania's Wharton School.

Dr. Stevenson is a labor economist who has published widely in leading economics journals about the labor market and the impact of public policies on outcomes both in the labor market and for families as they adjust to changing labor market opportunities. Her research explores women's labor market experiences, the economic forces shaping the modern family, and how these labor market experiences and economic forces on the family influence each other. She is a columnist for Bloomberg View, and her analysis of economic data and the economy are frequently covered in both print and television media.

Dr. Stevenson earned a B.A. in economics and mathematics from Wellesley College and an M.A. and Ph.D. in economics from Harvard University.

## Endnotes

1. There were 31.2 million initial claims for unemployment insurance filed between March 1 and May 2, not seasonally adjusted. In comparison, 1.8 million claims were filed over a similar period in 2019. Bartik et al. (2020) find that nearly all of the decline in hours worked occurred between March 14 and March 28. Cajner et al. (2020) find that aggregate employment fell by 21 percent through late April before beginning to rebound.
2. The Bureau of Labor Statistics (BLS) reported that the unemployment rate was 19.2 percent if a correction is made for workers misclassified as employed but who were absent from work for other reasons (BLS 2020a). Additionally, Jason Furman and Wilson Powell III calculated a realistic unemployment rate that peaked at 20.5 percent. They adjust both for the misclassification and for some of the reduction in labor force participation (Furman and Powell 2020).
3. Goolsbee and Syverson (2020) find that legal restrictions account for only 7 percentage points of the 60-percentage-point decline in consumer traffic. Kahn, Lange, and Wiczer (2020) find that job postings deteriorated substantially across the board, rather than more in states with shutdown orders. Similarly, Rojas et al. (2020) find that unemployment insurance claims rose across the board.
4. Barrero, Bloom, and Davis (2020) examine the potential for sectoral shifts and estimate that the pandemic will result in wide-scale labor market reallocation.
5. Women surpassed men on payrolls by 96,000 jobs in December 2019. Women first outnumbered men in nonfarm payrolls jobs in the second half of 2009. During this period, women held the majority of nonfarm payroll jobs because men lost jobs faster than women did in the 2008 recession. However, employment among men recovered faster than employment among women; men once again held the majority of nonfarm payroll jobs by May 2010.
6. Between December 2007 and June 2009, men lost 2.6 jobs for every job lost by women (Wood 2014).
7. See Petrongolo and Ronchi (2020) for a discussion of the ways in which both the structure of the labor market and the choices women make contribute to the gender wage gap. See Goldin and Katz (2011) for discussion about the choices women make regarding workplace flexibility.
8. This approach follows those respondents in waves 1 and 5 of the monthly Current Population Survey (CPS) in February; each respondent was interviewed for four consecutive months from February to May.
9. For a complete discussion of the misclassification of unemployed workers into the category, “employed but absent from work due to other reasons,” see Bauer et al. (2020).
10. Those other measures of nonemployment help explain the discrepancy between the larger number of people receiving unemployment insurance benefits and those measured as unemployed in the labor force statistics. For example, in the week including May 12—the survey reference week for the CPS—a total of 30 million people were receiving unemployment insurance, but the CPS counted 21 million unemployed using the official unemployment rate. Accounting for some of those not in the labor force and employed but absent from work, as in Furman and Powell’s (2020) more realistic unemployment rate, yields 27 million unemployed. Alternatively, applying rates of nonemployment in May among those employed in February to the entire labor force would yield 33 million.
11. For more on how technological change is impacting the labor market, see Autor and Reynolds (2020).

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## Summary

The economic damages of the COVID-19 pandemic are not being well captured by current labor market statistics that show both permanent damage to employment relationships and labor force attachment and the surge of workers who have experienced a temporary loss of work and income. The challenge is assessing the permanent damage that will persist well after the pandemic is behind us as a country. While the unemployment rate declined in May and June, permanent job loss accelerated over this period. Reversing this trend and getting these folks back to work is the difficult task that lies ahead of us. Just as the Great Recession disrupted the labor market attachment of millions of workers, a similar phenomenon will likely occur as a result of this recession. In this essay, Betsey Stevenson of the University of Michigan explores the many ways the COVID-19 recession has affected the labor market. Stevenson shows that the labor market effects have not been evenly borne across workers of different genders, races, and educational attainment. The scarring effects of the recession will likely lead to high long-term unemployment and weakened labor market attachment for years to come.

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