

# Occupational inequality and COVID-19: Modifying existing policy to avoid a second wave of economic hardship

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Total payroll employment fell by 14% between February and April 2020 during the global COVID-19 pandemic, representing more than 21 millions Americans.

Understanding how labor market disruptions are playing out across sectors is important to current debates about how to devise appropriate responses to reduce the unequal impacts of the pandemic. In addition to the well documented higher rates of infection and mortality that have been observed in low-income, and often racialized, communities, the loss of [income and unemployment are factors](#) that may create a 'poverty penalty' from COVID-19. While there has been [extensive commentary](#) on the design and delivery of short-term emergency economic measures, we argue here that it is also critical to consider how employment disruptions may impact existing social policies with the potential for an additional impact on health inequalities.

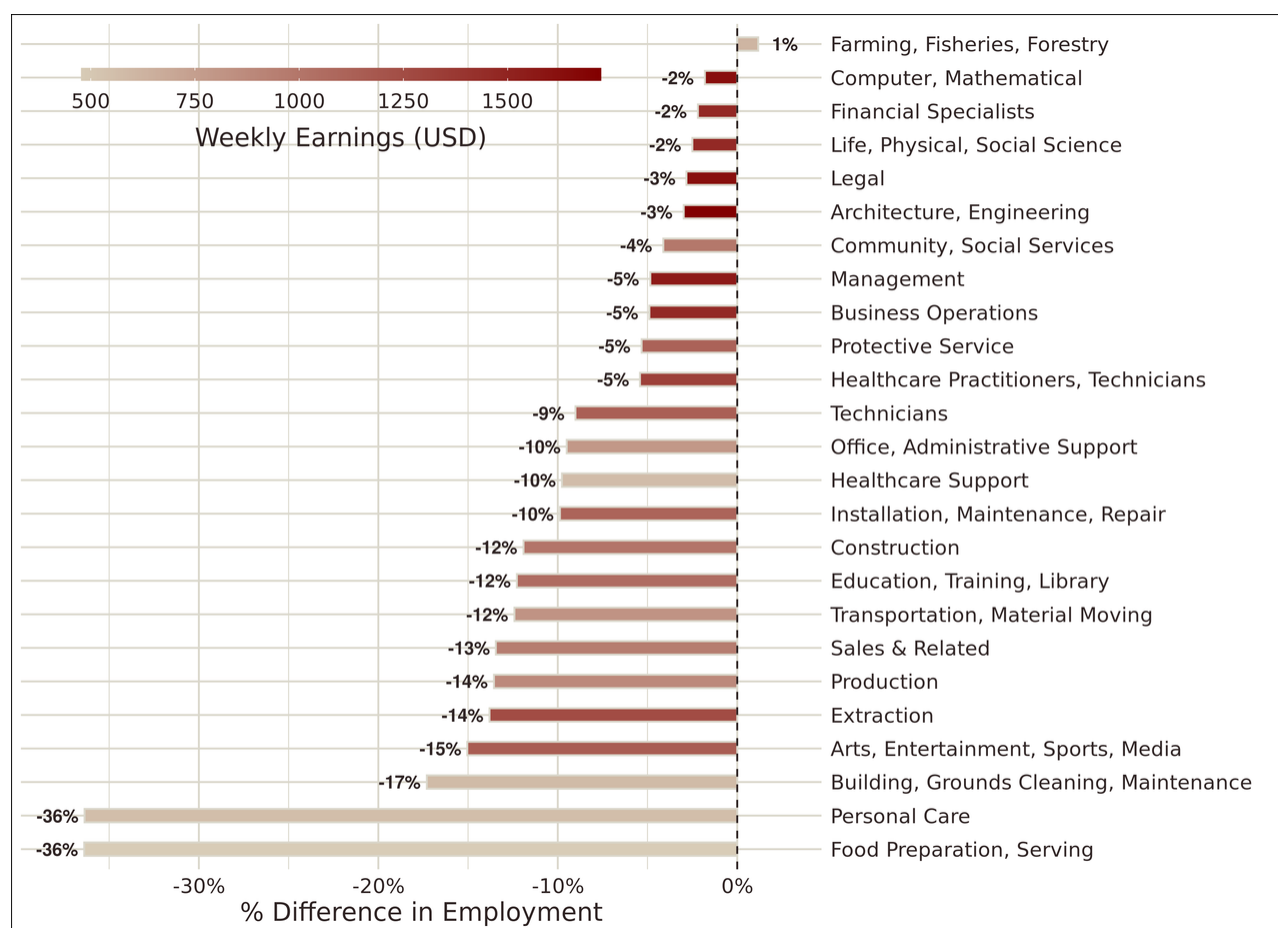
Many low- and moderate-income workers qualify for the Earned Income Tax Credit (EITC), an in-work tax credit that supplements earnings. In 2019, roughly \$70 billion dollars was spent through the EITC program, making it the largest transfer program for working families. In 2018 the EITC lifted [about 10.6 million people out of poverty, and reduced the severity of poverty for another 17.5 million](#). There is evidence that the EITC program results in improvements in child development and health behaviors among adults, as well as reductions in food insecurity. Yet, benefits from this program are only available to individuals who are able to find work. With the current unprecedented declines in employment, there are likely to be substantial reductions in EITC benefits in 2021, when benefits are disbursed as a tax refund. The resulting "second wave" of income reductions (lost work, then lost EITC benefits) has the potential to layer economic hardship on those who are already

made vulnerable through existing disparities in work that have been amplified by the pandemic.

## Who is out of work?

We examined changes to employment between February and April 2020 using the [Current Population Survey \(CPS\)](#). Job loss has varied widely between occupational groups, with the most dramatic losses in the food service and personal care sectors. There is a clear pattern in more job loss among job categories with an average lower wage.

### [INSERT EXHIBIT 1]

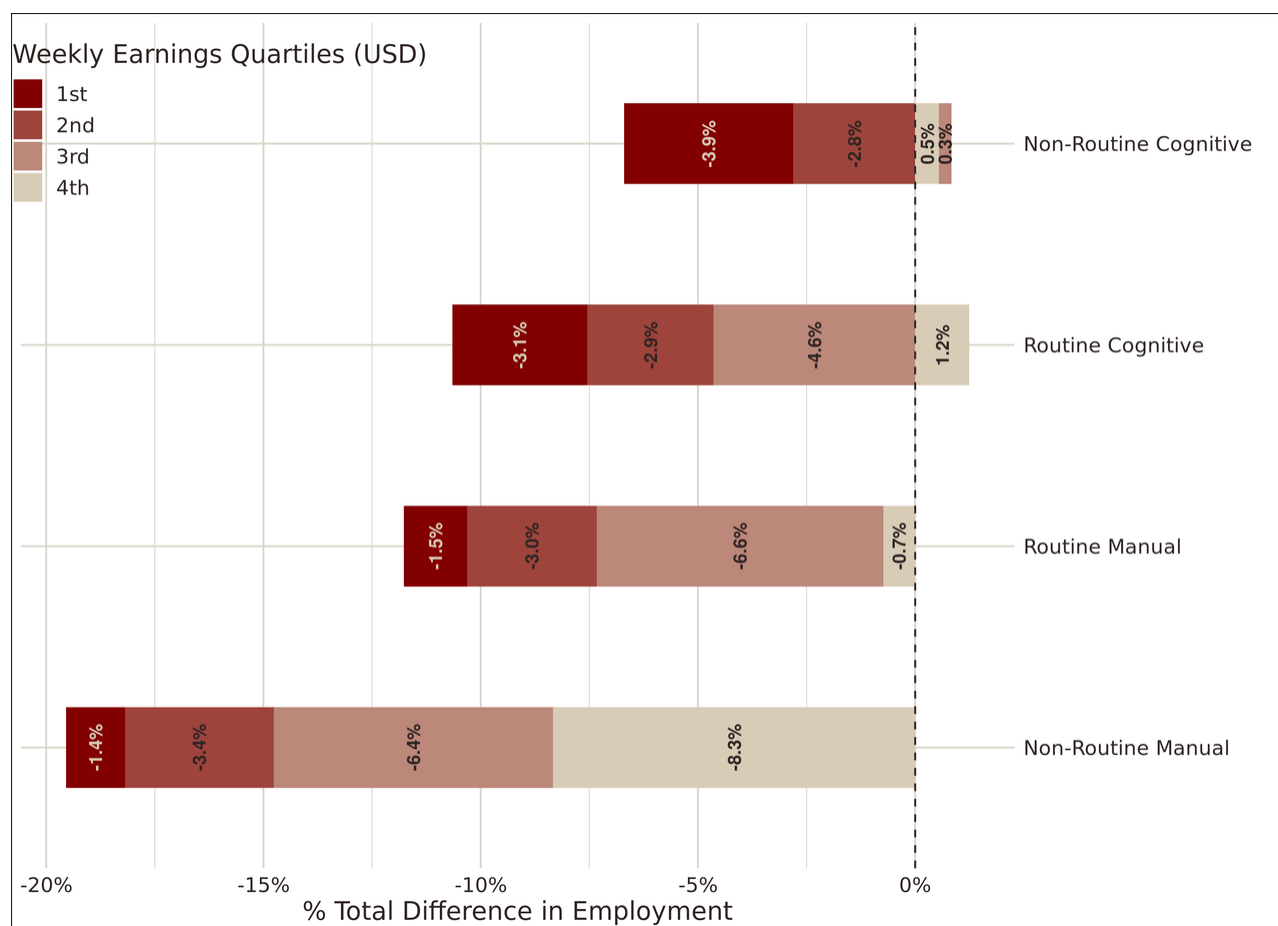


*% Difference in employment between February and April 2020 by occupational category. Source: Current Population Survey.*

We additionally analyzed changes in unemployment during COVID-19 according to four main occupational classes: [non-routine cognitive](#); [routine cognitive](#); [routine](#)

manual; and non-routine manual. Non-routine cognitive occupations include managerial, professional, and technical workers, while non-routine manual workers refer to jobs in the service sector. These classes are relevant as they highlight major changes to the structure of employment in the United States over the last 40 years. Employment has become concentrated in higher-paid non-routine cognitive and lower-paid non-routine manual occupations. These trends have been attributed to growing inequalities as the share of middle skill routine occupations has contracted. Our analysis using these occupational groups indicates that the greatest proportion of job losses have occurred in non-routine manual (i.e. service sector) jobs that make up the lowest end of the income distribution. Workers in non-routine cognitive jobs have experienced fewer impacts, largely due to the ability to [shift to home-based work](#). This tells an important story of how job losses in lower-paid occupations could accelerate and widen work and income disparities that were of growing growing policy concern preceding the pandemic. Targeted policy specific to these occupational groups should be considered to buffer economic impacts for these workers during the economic recovery from the pandemic.

**[INSERT EXHIBIT 2]**



*% Difference in employment between February and April 2020 by weekly earnings quartile. Source: Current Population Survey.*

## A second wave of economic hardship

Recent legislative efforts to mitigate the economic impacts of social distancing mandates may assist these workers in the immediate future, however, additional steps will surely be needed. The federal government acted swiftly to implement the Coronavirus Aid, Relief and Economic Security (CARES) Act, signed into law on March 27<sup>th</sup>. [The Act](#) increases unemployment benefits to \$600 weekly, expands unemployment eligibility to workers previously ineligible for unemployment insurance, provides aid to small businesses to preserve jobs and maintain employee wages, and includes a one-time cash payment to households of \$1,200 per adult and \$500 per child. With federal benefits set to expire July 31<sup>st</sup>, solutions are required to protect workers through this and future economic shocks.

The sectoral makeup and employment status of those who have lost work may be a harbinger of additional economic hardship. Occupations with the highest proportion of job loss are also the occupations where workers tend to benefit the most from the

EITC, and unemployment among EITC households was approximately three times higher in April 2020 compared to April 2019.

While we cannot fully predict how interactions between job losses and the tax and benefit system will play out, these trends should receive the attention of policymakers given the critical assistance that EITC benefits provide to low-income workers.

**Figure 3.**



*Average EITC perceived in 2019 vs % Difference in employment between February and April 2020 by occupational category. Source: Current Population Survey.*

## Opportunities to address longer-term economic impacts with the Earned Income Tax Credit (EITC)

There is **broad consensus** that substantial further spending will be required to avoid long term economic damage and to **promote a strong recovery** from the pandemic. Public support for more generous transfers

It is becoming economic crisis has brought about changes in public support for more generous social transfers. EITC reforms could be integrated in the next

COVID-19 relief package in order to buffer economic impacts by providing income security to those who have been made most vulnerable. These recommendations follow work by [policymakers](#) and [advocates](#) to reform the EITC more broadly, and as a response to the current crisis. First, the generosity of the phase-in region of the benefit structure, where workers would receive more benefits with fewer hours of work, could be modified. This modification would preserve the work incentives of the EITC, in particular for part-time work, but allow individuals only working part-time to receive a greater amount of EITC benefits. These changes may help to preserve EITC benefits for workers whose hours have been reduced due to the pandemic. Increasing benefit rates for low-income childless workers, and expanding the age cutoffs to younger workers who have yet to have a foothold in the economy and are likely to face a lagging job market will broaden the impact of these changes. Next, allowing for an alternative calculation of benefits based on the wages that a family received in 2019 would ensure families receive a past amount of credit, regardless of lost hours or employment in 2020. This will ensure some stability in year to year benefits amounts, and avoids penalizing workers for lost work given the COVID-19 causes of the current crisis.

Many analysts have expressed hope that employment-related social inequalities exposed by COVID-19 will lead to reforms to social benefits and insurance in the United States. Alongside other reforms, an expanded EITC can be an effective part of this effort, [and direct benefits to low- and moderate-income earners](#) who are likely to experience the greatest harms from the pandemic.