

Will COVID-19 Erase Black Workers' Labor Market Gains?

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Summary:

Black workers experience what is known as a “high-beta” effect across the business cycle. They are hit harder during recessions but benefit more from the momentum of a recovery, especially during particularly strong economic periods. For three years preceding the COVID-19 recession, the United States was enjoying what has been referred to as a “hot” economy. During this time, Black workers regained some of the ground lost in labor market outcomes during the Great Recession, relative to white workers. The sudden onset of the COVID-19 recession reversed that progress. Even though the Congressional Budget Office projects the U.S. economy to regain its hot status as early as 2024, the negative impact of the COVID-19 recession could linger.

Key findings:

1. The unemployment rate gap between white and Black workers declined during the hot economy of 2017–19.
2. The positive influence of the hot economy is expected to continue into the COVID-19 recession.
3. The negative influence of the COVID-19 recession is expected to be felt by Black workers even once it concludes.

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Key words: labor market disparities, labor market gaps, unemployment, racism, hysteresis

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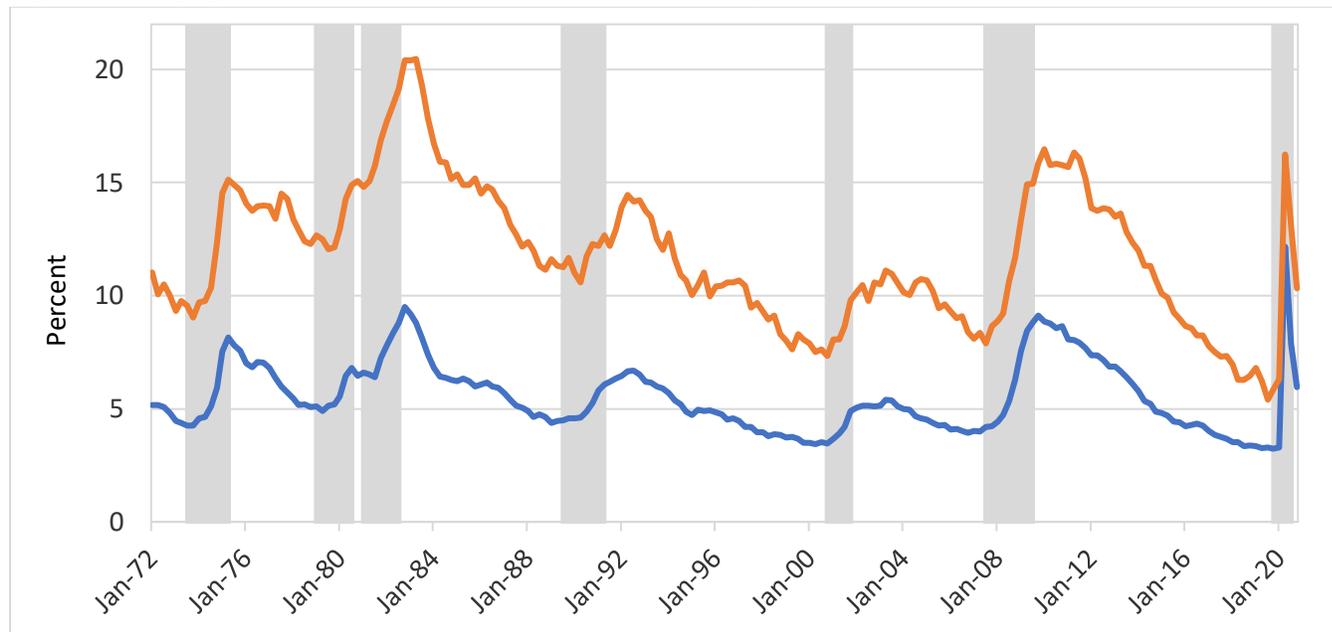
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Comments to the author are welcome at julie.l.hotchkiss@atl.frb.org.

Labor Market Gaps

The significant differences in labor market outcomes between Black and white workers in the United States have a long history. The most obvious of these differences is the unemployment rate. Figure 1 illustrates how the unemployment rate gap has persisted for at least half a century.

Figure 1: Unemployment Rate for Black Workers and White Workers, 1972–2020



Note: The gray bars denote recessionary periods.

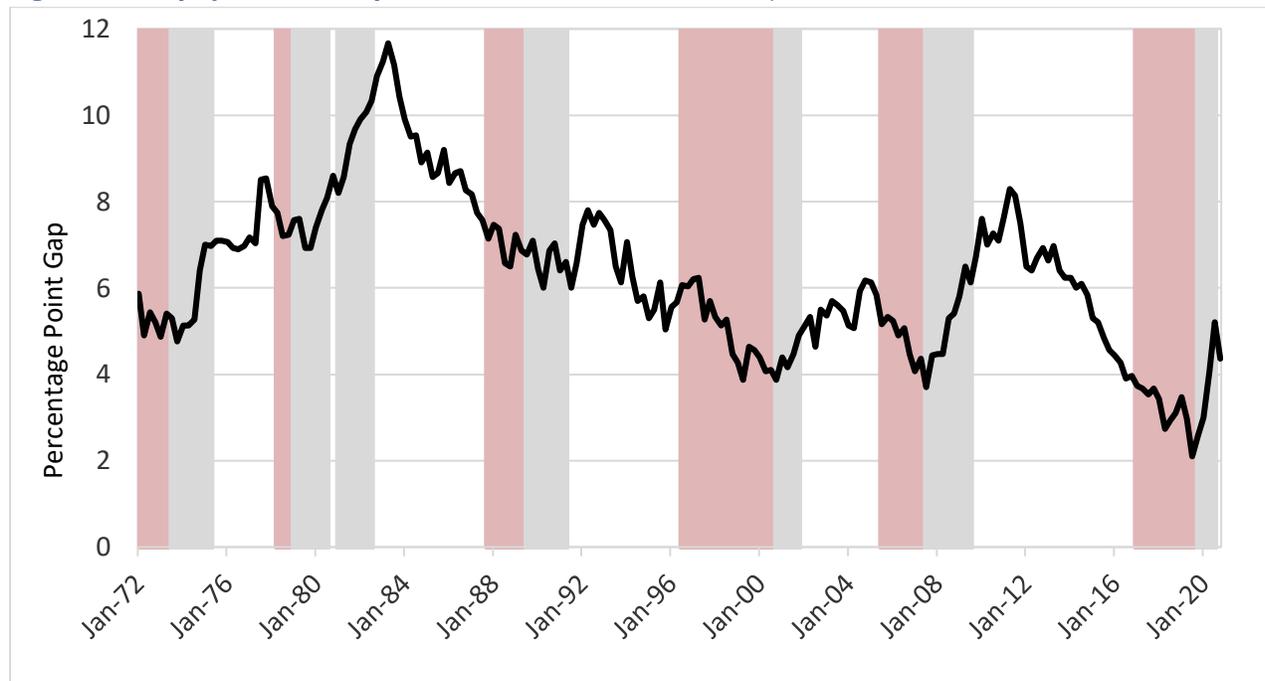
Source: U.S. Bureau of Labor Statistics, retrieved on February 2, 2021, from FRED, Federal Reserve Bank of St. Louis (<https://fred.stlouisfed.org/series/LNS14000006> and <https://fred.stlouisfed.org/series/LNS14000003>).

Figure 2 illustrates how this unemployment rate gap increases during recessions (depicted by the gray bars) and decreases during recoveries. Economists often refer to this phenomenon as the “high-beta” experience of disadvantaged workers, which basically means that Black workers suffer more than white workers during recessions but also benefit more from the momentum of a recovery.

Although the gap never disappears, the steepest declines typically appear during economic environments described as “hot” (depicted by the pink bars in figure 2). A hot economy is generally one in which the overall unemployment rate falls below what economists call the “natural,” or long-term, rate of unemployment—a nebulous concept at best, but a level of unemployment officially estimated by the Congressional Budget Office (CBO).¹ Traditionally, economists and policymakers worry that an unemployment rate below its natural level will spur inflation. More recently, during the current COVID-19 recession and the preceding recovery from the Great Recession, fears of disproportionate harm from a cool economy concentrated among disadvantaged workers have outweighed fears of inflation and the economic volatility it might portend.²

¹ See the CBO’s 10-year economic projections at <https://www.cbo.gov/data/budget-economic-data>.

² Read “Powell more worried about cool economy than hot markets” at <https://www.bloomberg.com/news/articles/2021-01-28/fed-s-powell-more-worried-by-cool-economy-than-hot->

Figure 2: Unemployment Rate Gap between Black and White Workers, 1972–2020

Note: Gray bars denote recessionary periods, and pink bars indicate hot economic environments.

Source: U.S. Bureau of Labor Statistics, retrieved on February 2, 2021, from FRED, Federal Reserve Bank of St. Louis (<https://fred.stlouisfed.org/>).

Quantifying the Reach of a High-beta Economic Experience

In a recent working paper with coauthor Robert E. Moore (Andrew Young School of Policy Studies, Georgia State University), we investigate the differential impact of hot and cold economies on labor market outcomes across different worker characteristics.³ This *Policy Hub* article uses the results of that research to illustrate how quickly the progress made among Black workers, relative to white workers, during the previous decade-long recovery can be halted by the current COVID-19 recession.

In that working paper, we estimate the relationship between the state of the economy (captured by the aggregate unemployment rate) and various individual labor market outcomes. We make use of the 1979 and 1997 National Longitudinal Surveys of Youth (NLSY), which allow us to see individuals over many years to assess how a changing economic environment affects the labor market experience of each individual. One of the strongest relationships we estimate is how movements in aggregate unemployment affect the share of time that someone in the labor force spends unemployed—akin to a personal unemployment rate. Unsurprisingly, the higher the unemployment rate, which indicates a weaker, or cooler, economy, the higher a person's share of time is spent unemployed. As the economy heats up, the share of time an individual spends unemployed decreases as job-finding prospects improve.

[markets?cmpid=BBD012821_CORONAVIRUS&utm_medium=email&utm_source=newsletter&utm_term=210128&utm_campaign=coronavirus](https://www.frbatlanta.org/research/publications/wp/2018/01c-assessing-longer-term-labor-market-benefits-from-a-high-pressure-economy-2020-12-03.aspx) and Torres and Condon (2016).

³ Read the working paper at <https://www.frbatlanta.org/research/publications/wp/2018/01c-assessing-longer-term-labor-market-benefits-from-a-high-pressure-economy-2020-12-03.aspx>.

We also investigate how a particular economic environment can affect labor market outcomes two and four years later, and these estimates reflect Black workers' high-beta experience. For example, we find that a 1 percentage point rise in the aggregate unemployment rate (holding everything else constant) is associated with an increase in the time spent unemployed among Black workers two years later that is 1.7 times higher than for comparable white workers. However, a 1 percentage point drop in the unemployment rate during a hot economic environment reduces the time spent unemployed among Black workers two years later that is 2.3 times higher than what white workers experience. In other words, a weak economic environment hurts the long-term labor market experiences of Black workers more than those of their white counterparts, but they benefit even more from particularly strong economic environments.

From that analysis, we expect that the dramatic rise in aggregate unemployment in 2020 as a result of the COVID-19 recession would hit Black workers harder than white workers, but we also expect that their experiences would be somewhat offset by the benefits enjoyed during the preceding hot economic environment. These expectations lead to the question that this article seeks to answer: Will the recession's damage to the job market overtake the positive lingering impact of the preceding hot economy? And if it does, when?

It's important to note up front that the COVID-19 recession differs from past recessions in many ways. For example, women are being hit harder than men during this recession (Heggeness 2020), both because of the industries affected and home-life responsibilities that have fallen disproportionately on women with the closure of many schools. The greater impact on people of color, especially Latinx workers, has also been well documented (for example, see Fairlie et al. 2020; Gezici and Ozay 2020), again partly because of the outsized impact on industries in which people of color are concentrated. As a result—apart from the general “high-beta” impact on Black workers predicted based on past recessions—the sheer volume of disadvantaged workers affected might exacerbate the impact of the COVID-19 recession. Since the COVID-19 recession does not appear to have fundamentally altered the structure of the labor market (that is, it has not altered the presence of systematic racism or the returns to education, for example), we might expect cyclical forces affecting labor market outcomes to be similar to those in play during previous recessions. However, both fiscal and monetary policymakers have implemented dramatic responses to ease the economic impact on workers, although these policies are not likely to undo the potentially lingering effects of lost employment.

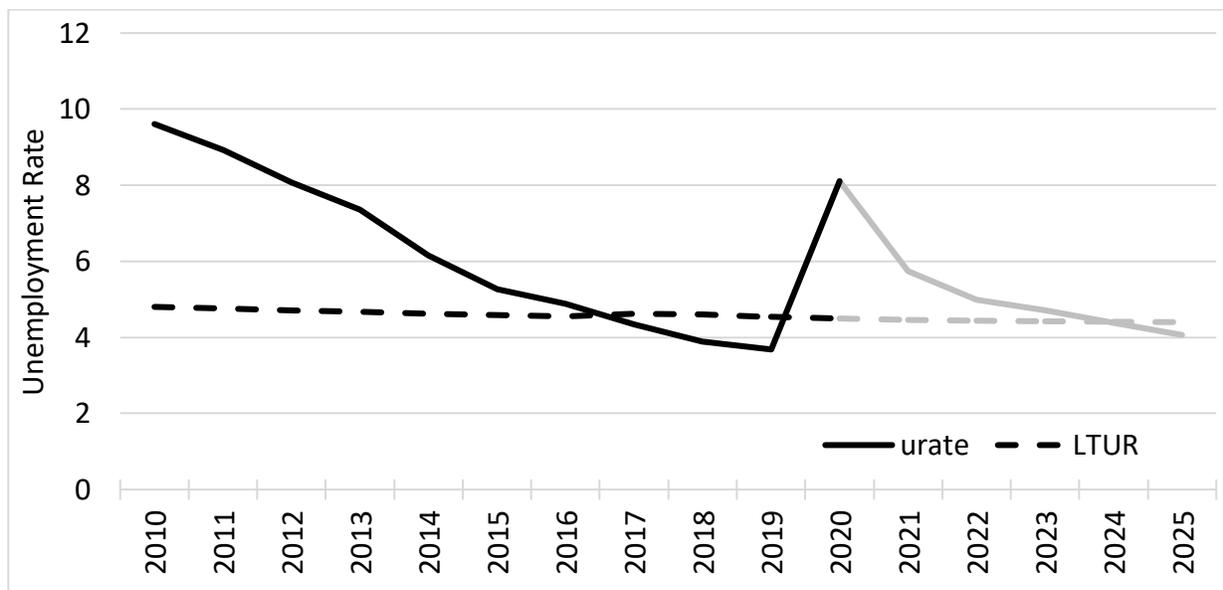
Impact of the COVID-19 Recession

Figure 3 illustrates the relationship between the aggregate unemployment rate and what the CBO estimates to be the long-term, or natural, rate of unemployment for the U.S. economy. Following the Great Recession of 2008–09, the unemployment rate declined steadily after hitting a high of 10 percent in October 2009. Although the economy was officially in recovery, it didn't achieve “hot” status until 2017, when the unemployment rate moved below the CBO's estimated natural unemployment rate of 4.5 percent.

The hot economic environment lasted only three years before the COVID-19 pandemic forced the U.S. economy into one of the most dramatic about-faces ever seen, with the unemployment rate rising in 2020 from 3.5 percent in February to 14.8 percent in April. In January 2021, the unemployment rate was still 1.8 times higher than it was 12 months ago. The light gray portion of the series in Figure 3

represents the CBO's predictions for the aggregate unemployment rate (the gray solid line) and the natural rate of unemployment (the gray dashed line). In spite of the dramatic rise in the unemployment rate in 2020, the CBO has not materially adjusted the path of the long-term unemployment rate and projects the economy once again achieving "hot" status by 2024, likely reflecting the expectation that, while a very large hurdle, the COVID-19 pandemic is a bump in the economic road rather than a fundamental change in direction.

Figure 3: Historical and Projected Unemployment Rate and Natural Rate of Unemployment



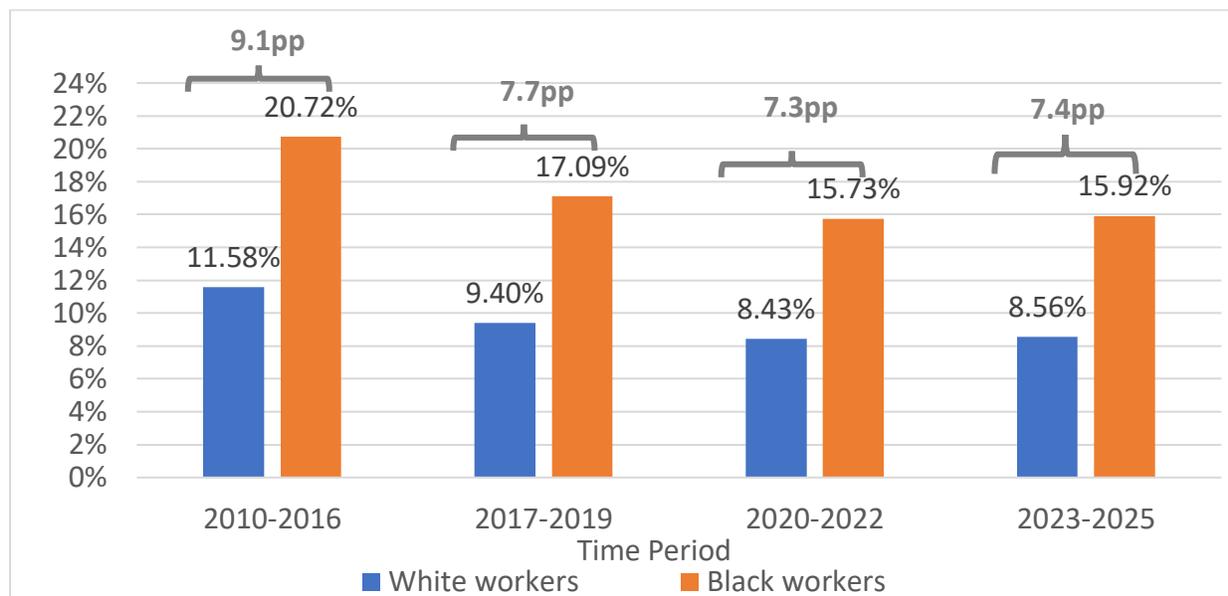
Source: U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis (<https://fred.stlouisfed.org/series/UNRATE>) accessed on February 2, 2021 (2010–20). CBO 10-year economic projections for 2021–25 (<https://www.cbo.gov/data/budget-economic-data>) were accessed in January 2021.

Figure 4 illustrates, however, that even a short-lived bump in the road can have a lasting impact on workers' labor market experiences. The figure shows, for a number of time periods, the estimated average share of time during the year spent unemployed for both white and Black labor force participants (comparing people 25 to 34 years old and with only a high school degree). During the 2010–16 cold economic period, the unemployment gap between these white and Black workers averaged 9.1 percentage points.⁴ The high-beta experience of Black workers during the following hot economic period of 2017–19 helped reduce that gap to 7.7 percentage points, reflecting an unemployment rate that declined more for Black workers than for white workers.

With the onset of the COVID-19 pandemic in 2020, the unemployment gap again slightly narrowed to 7.3 percentage points. The smaller unemployment gap during the weak economy of 2020 (and projected through 2022) illustrates the lingering benefits of exposure to the preceding hot economic environment. Although weak economic environments hit Black workers harder, they also benefit more from hot periods, and that greater benefit lasts up to four years, according to estimates from my work with Robert Moore.

⁴ This gap reflects the difference in average share of time in the labor force each racial group spent unemployed during the year (calculated using the NLSY), not the unemployment rate gap depicted in figure 1.

Figure 4: Predicted Share of Time during the Year Spent Unemployed Averaged over Time Periods, by Race (25 to 34 Years Old High School Graduates Only)



Source: Author's calculations using NLSY, BLS, and CBO data; see Hotchkiss and Moore (2020)

Also based on those estimates, however, by 2025, the unemployment gap between Black and white workers will once again widen to 7.4 percentage points. Even though the CBO projects a return to a hot economic environment, the impact of the weak labor market on unemployment starting in 2020 lingers into the hot economy of 2024 and 2025. The question then becomes whether the U.S. economy can sustain the hot economic environment long enough to continue the progress of the last hot period and thus make a real dent in the unemployment rate gap between Black and white workers.

Is a Hot Economy Enough?

Figure 4 illustrates over the period of a few years the realities generating the persistent gap in unemployment rates between Black and white workers seen in figure 1. Time will tell whether the CBO's projected rapid return to a hot economic environment will reverse the damage done to labor market outcomes among workers disadvantaged by the COVID-19 recession. But historical evidence suggests that merely returning to a hot economy will not be enough to make a significant long-term dent in labor market disparities. The expectation that hot economic environments can reduce labor market gaps originates with Okun's (1973) notion of cyclical upgrading. His theory of cyclical upgrading during strong economies is supported by empirical evidence of disadvantaged groups' high-beta experience during particularly strong economic environments, and the narrowing of the gap between racial groups in the share of time spent unemployed between 2017 and 2019 as seen in figure 4.⁵

However, even Okun acknowledged the limits of a "high-pressure policy," *by itself*, to permanently reduce labor market gaps between groups of affected workers. In his 1973 remarks, he explicitly called for "manpower programs" to take advantage of hot economic environments to

⁵ Okun's original analysis concerned itself with labor market gaps between men and women and between age groups, but the principle also applies to persistent gaps seen across race.

“incorporate a major effort to instill training and the basis for upgrading [skills], rather than merely create more [good] jobs” (Okun 1973, p. 245). The identification of the need for coordinated effort between training programs and fiscal or monetary policies directed at creating good jobs is consistent with Chetty et al. (2018), who present evidence of deep roots for ongoing racial disparities, particularly among men—indicating disparities more structural in nature than cyclical.

Additionally, policies that can reduce the volatility of the economy (for example, fewer and shallower recessions) will likely benefit disadvantaged workers more than only attempting to prolong a high-pressure economic environment. Understanding why every high-pressure economic period since 1960 has ended in recession (see figure 2) would be useful in addressing what seems like an inevitability, and perhaps such an understanding would have a chance of making a dent in observed labor market disparities (Bostic 2018). However, successfully reducing cyclical volatility is complicated by an environment in which monetary policy is bounded from below, an environment the United States has been in since the Great Recession. As Coibion et al. (2017) point out, interest rates bounded by zero effectively become contractionary if economic conditions (perhaps brought on by a pandemic) suggest they should be lower. Consequently, appealing to nontraditional monetary policy strategies may be required to avoid the consequences of a contraction in such an environment (for example, see Feiveson et al. 2020).

Disparate labor market outcomes between various groups of workers across the business cycle appear persistent and inevitable. However, creative economic policy during weak economic environments—and employers’ incentives to meaningfully upgrade workforce skills in their need to have skilled workers during hot economic environments—just might be able to begin to alter this dynamic.

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