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The Labor Market Crisis in the United States and Mexico

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The onset of the coronavirus pandemic set in motion the worst jobs crisis since the Great Depression. In the United States, the unemployment rate skyrocketed from a 50-year low of 3.5 percent to a post-World War II high of 14.7 percent between February and April 2020.[1] In Mexico, more than 12 million jobs were lost between April and May.[2] While most indicators made pathways toward a recovery in the months that followed, as of the third quarter of 2020 the U.S. and Mexico are still very much in a recession.

In addition to the speed with which this crisis has disrupted labor markets and the sheer number of jobs lost, one of the most striking features of the downturn is that it has been especially unequal. While recessions are always harder on those who have fewer private savings to withstand shortfalls in income, that some of the lowest-paying sectors are experiencing the greatest effects of the economic shock has made already precarious jobs even more insecure. In addition, as many schools closed and the health system became overburdened, many of the workers who do the lion's share of unpaid care work in their households have had to drop out of the labor force and risk entrenching gender disparities. Why have some economic sectors and groups of workers fared worse than others?

Exposure to Job Loss in the United States

First, the interplay between the health and economic crises have made the ability to work from home an initial buffer against job loss, not to mention a first line of defense against the risk of getting sick.[3] Starting in March 2020, shelter-in-place orders, voluntary business closures, and large drops in consumer demand for in-person services (childcare, haircuts, fitness classes, cleaning services) have left some workers in a particularly fragile position. The opportunity to work remotely is not available to most workers, and tracks some longstanding disparities in the U.S. labor market. According to data from the Bureau of Labor Statistics (BLS), as of October 2020 just 1 in 5 workers was working from home because of the pandemic. On the one hand, white and Asian-American workers, with greater levels of educational attainment, and those working in high-wage industries and occupations have been much more likely to work from home since the onset of the crisis.[4] On the other, as workers without a college degree, black and Hispanic workers, and those in low-wage industries have been less likely to be able to work remotely; they have also been especially exposed to unemployment.[5]

Second, some of the worst-paying industries have been hit first and hardest by the economic shock. Unlike the 12 recessions the U.S. economy experienced between the mid-1940s and the late-2010s, the service sector, rather than goods-producing industries such as construction

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and manufacturing, has experienced the deepest employment losses.[6] Within the service sector, the leisure and hospitality industry has seen the greatest decline both in absolute number of jobs and as a share of its prepandemic employment. Encompassing businesses such as hotels, restaurants, and amusement parks, as of October 2020, leisure and hospitality had a 3.8-million job deficit with respect to the previous year, a net drop of 20 percent. Leisure and hospitality also has the lowest average wages of any major U.S. industry, and its workers are among the least likely to have access to employer-provided health insurance and retirement benefits.[7]

Third, as disruptions to the health, education, and childcare systems have translated into greater caregiving responsibilities, many workers have left their jobs. The work of caring for children and sick family members continues to fall disproportionately to women in general and low-income women in particular, and many analysts have pointed to this as one of the main explanations why the current economic crisis has hit women hardest. Thus, not only have women become unemployed at faster rates than men but, as of the third quarter of 2020, women's labor force participation rate (the share of adults who are either employed or actively looking for work) has come to its lowest level since 1987.[8]

It is also important to note that because the U.S. industrial and occupational structures are segregated along the lines of gender, race, and ethnicity, some groups of workers are more likely to hold the jobs most affected by the crisis. For example, BLS data show that while Hispanic workers made up less than 18 percent of the total U. S. workforce in 2019, they represented almost 24 percent of all workers in leisure and hospitality. What explains that some groups of workers are more likely to hold certain types of jobs? A part of the answer lies in what economists call "human capital" variables: years of work experience or levels of educational attainment, for example. Yet, economists have found that occupational sorting persists even among workers with the same level of education, labor market experience, preferences for certain kinds of work, and even people skills, which suggests that social norms and outright labor market discrimination play an important role in determining who has the opportunity to do what job.[9]

The Crisis in the Mexican Labor Market Has Also Been Unequal

Former Mexican Central Bank Governor Agustín Carstens famously said that if the United States economy catches a cold, Mexico gets pneumonia. Existing fragilities in the Mexican labor market (low average wages even when compared to the rest of Latin America, high rates of informality, and lack of access to social insurance benefits, for example) make already vulnerable workers even more exposed to the consequences of the economic shock. Analyses of data from the National Occupation and Employment Survey (ENOE) show that between the first and the third trimester of 2020, those in the lowest 70 percent of the labor-income distribution lost a much greater share of their pre-crisis earnings than their higher-income counterparts, a trend markedly different from that of 2008-2009, when losses were spread much more evenly.[10] As such, the share of the population whose earnings are not enough to buy the basic food basket climbed from 35.7 percent in the third trimester of 2019 to 44.5 percent in the third trimester of 2020.[11]

Here, too, that lower-income workers have felt the brunt of the economic shock is the result of disparities in workers' ability to work remotely and of an even more unequal distribution of caregiving responsibilities between men and women. An analysis published by the Espinosa Yglesias Studies Center estimated that about 20 percent of workers hold jobs that could be done from home. As in the U.S., telework is disproportionately available to high-income earners and workers in richer states. As for gender disparities in the burden of unpaid domestic and care work, in April 2020, women were spending more than 25 hours per week on such tasks, while men spent 12 on average.[12] The uneven distribution of unpaid care work not only helps explain why women workers have fared worse during this crisis, but is part of the reason why they are crowded out of higher-paying occupations in general, since high-wage jobs tend to require longer work weeks.

In addition, the onset of the coronavirus pandemic also translated into an unusually large shock to the informal sector, affecting some of the Mexican economy's most vulnerable workers. Generally, employment in the informal sector is what economists call "counter-cyclical": its size relative to the formal sector expands during economic downturns and contracts during booms.[13] The reason is that as recessions lead to job losses in registered businesses, many workers transition to informal jobs, usually through self-employment. In downturns, informality therefore tends to act as a kind of cushion: a cook who loses her position in a registered restaurant and goes on to sell meals independently loses her employer-provided benefits and labor protections (the right to a minimum wage, for example), but not all of her income. As the pandemic hit, however, confinement measures and lack of demand translated to particularly big blow for informal employment, particularly for workers in restaurants and hospitality services.[14]

Conclusion

Projections by the Federal Reserve Bank estimate that in the United States, the unemployment rate could be back to its pre-pandemic level by 2023. In Mexico, the International Monetary Fund (IMF) estimates that the jobless rate will continue to climb in 2021, and only start recovering in 2022. Even if both labor markets follow the most optimistic scenarios, evidence from previous recessions show high levels of joblessness have long-term implications for both individual workers and the economy as a whole. Research shows, for instance, that losing a job during a recession and experiencing long bouts of unemployment have long-term consequences for peoples' future labor market outcomes. Studies following the career and earnings trajectories of people who have been displaced from their jobs have found that workers tend to be re-employed at much lower wages, as well as have lower earnings than otherwise similar workers, even decades after they were first displaced.[15] More broadly, the fact that this crisis is disproportionately affecting workers who already had an especially fragile labor market standing prior to the crisis not only reflects long-standing inequities, but risks reversing some of the economic progress made in the last few decades and entrenching pre-existing inequalities. VM

Notes

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