Comments on
“COVID-19 Is Also a Reallocation Shock,”
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Introduction

• Main points of paper can be summarized in three sentences:
  – The large negative shock to many businesses caused by the COVID-19 crisis has been accompanied by significant hiring at other businesses
  – The COVID-19 crisis can be expected to cause significant permanent restructuring
  – Policy should support needed reallocation rather than emphasizing the preservation of existing employment relationships

• Comments organized around these three main points
Paper cites evidence on hiring since onset of crisis

• News stories about hiring by companies including Amazon, Dollar General, Lowes, Instacart, Dominos and Papa John’s, among others

• April Survey of Business Uncertainty (SBU) responses
  – Layoffs and hires between March 1 and mid-April
  – Anticipated layoffs and hires from mid-April through mid-May
  – Responses suggest roughly 3 new hires (most anticipated) for every 10 layoffs (most already occurred)

• JOLTS data on separations and hires from February through April
  – Data for March and April show 4.3 hires for every 10 layoffs
What can be concluded from hiring evidence?

• News stories show clearly that, while overall demand fell sharply, some firms experienced surging demand

• SBU results interesting but not definitive on their own
  – Small sample size (N=335 with complete responses)
  – Dun and Bradstreet sample frame underrepresents small firms
  – Significant nonresponse at survey recruitment stage (Altig et al. 2020), though responses weighted to match broad industry distribution of economic activity

• Hires include both net additions to employment (reallocation) and replacement hiring (no reallocation)
  – Even in a downturn, expect replacement hiring
Layoffs and non-replacement hiring rates, JOLTS, 2001-2019

- Have approximated non-replacement hiring as hires minus quits minus other separations
  - Equals true non-replacement hiring if employers replace all quits and other separations
- Layoffs rose during Great Recession
- Non-replacement hiring fell slightly during the Great Recession, but relatively stable over time
Layoffs and non-replacement hiring rates, JOLTS, 2001-2020

• Layoffs rose to unprecedented levels in March and April of 2020
• Non-replacement hiring (approximated as on previous slide) has remained relatively stable
• Most obvious feature of data is enormous negative shock to overall employment showing up as layoffs
  – No evidence through April of increased non-replacement hiring
Paper makes case for expecting significant permanent restructuring as result of crisis

• Offers plausible reasons to anticipate fundamental shifts in locus of demand (e.g., from in-person to online shopping, cities to suburbs)

• Reports responses to May SBU suggesting there may be permanent increases in working from home
  – Implied restructuring not direct but related to shifts in worker spending

• Baseline estimate that 42% of recently laid off workers will not be recalled
  – Data from April SBU on share of layoffs that are temporary versus permanent
  – Administrative data from Missouri and Pennsylvania for 1979-1981 on share of workers on temporary and permanent layoff who return to employer (Katz and Meyer 1990)

• SBU responses show significant jump in March and April in forward-looking excess job reallocation
Many questions about extent and nature of permanent restructuring

• Leery of drawing strong conclusions from SBU data
  – Small sample, small firms underrepresented, significant nonresponse
  – Under-representation of small firms may cause relative growth in forward-looking excess reallocation to be overstated, not understated
    • Baseline level of reallocation much higher among smaller firms
    • If shock causes similar amounts of additional reallocation for large and small firms, *proportional* change due to shock will be greater among large firms than overall

• Enormous uncertainty about where economy is headed

• Extent of eventual reallocation will depend in part on policy choices
  – As paper notes, much reallocation typically occurs within industry and region
  – Liquidity an important factor in individual businesses’ projected survival
    (Bartik, Bertrand, Cullen, Glaeser, Luca and Stanton 2020)
VIX volatility index, 1990-2020

- VIX index of near-term volatility conveyed by stock index option prices
- Nearly as high as during the Great Recession

Source: Chicago Board Options Exchange
News-based Economic Policy Uncertainty Index, weekly averages, 1985-2020

• Index tracks number of articles in U.S. newspapers containing terms from each of three lists
  – Economic, economy
  – Uncertain, uncertainty
  – Legislation, deficit, regulation, congress, federal reserve, white house

• Recent high in index well above any time in its previous history

Paper’s messages for policy

• CARES Act provisions discourage needed reallocation and should not be extended
  – $600/week federal unemployment benefit creates undesirable situation in which replacement rates for many recipients over 100%
  – Linking firm aid to employee retention discourages worker reallocation to more productive activities

• Legacy features of the U.S. policy landscape also will inhibit the economy’s ability to reallocate in response to the crisis
  – Land use policies
  – Occupational licensing
  – Business regulation
Agree continuing flat $600/week top-up to unemployment benefits would be bad policy

• Less concerned than authors about job search effects of unemployment benefits in a weak labor market
  – Evidence from Great Recession suggested benefit extensions had little effect on overall job-finding rates (e.g., Rothstein 2011, Farber and Valletta 2015)
  – Little evidence from current crisis that higher benefits have raised unemployment thus far (Bartik, Bertrand, Lin, Rothstein and Unrath 2020)

• Replacement rates calculated by Ganong, Noel and Vavra (2020) do not account for possible loss of health insurance

• Still, as economy begins to recover, would not want large numbers of UI recipients to have larger incomes when unemployed than in a job
  – Raising UI replacement rates up to some income threshold would be better policy than giving everyone $600/week
Argument can be made for subsidizing employee retention (adapted from Blanchard, Philippon and Pisani-Ferry 2020)

- Pre-crisis all firms produced output using labor with $W = MP_{L}^{PRE-C}$
- Crisis lowered $MP_L$ at many firms but wages sticky
- For some firms, when crisis ends, $MP_L$ will return to pre-crisis level
  - Private calculation leads to layoffs during crisis if $MP_{L(1)}^C < W$
  - Socially efficient to have layoffs during crisis only if $MP_{L(1)}^C < B - C$
    where B is shadow value of time and C is cost of setting up a new firm post-crisis
  - Implies socially efficient wage subsidy during crisis of $W - B + C$
- For other firms, $MP_L$ will not return to pre-crisis levels
  - Private calculation leads to layoffs during crisis if $MP_{L(2)}^C < W$
  - Socially efficient to have layoffs during crisis only if $MP_{L(2)}^C < B$
  - Implies socially efficient wage subsidy during crisis of $W - B$
Suggests could be desirable to continue linking firm aid to employee retention for some period

• Low shadow value of time for laid off workers during crisis period
  – Unemployed workers do not typically reallocate majority of freed-up time to productive home activities
  – Creation of new jobs will lag the destruction of old jobs, so immediate job finding prospects likely to be poor

• Many firms that would shut down without subsidies will be viable after crisis and starting new firms to replace them would be costly (though firm subsidies could take other forms)

• Additional consideration: Effects of losing a job on workers
  – Unemployment has adverse effects on well-being beyond loss of income (e.g., Stutzer and Frey 2010)
  – Especially during a recession, displacement has serious long-term consequences for affected workers (e.g., Sullivan and Von Wachter 2009, Davis and Von Wachter 2011)
On an average day, unemployed spend about:
- 5 hours less working
- 1 hour more sleeping
- 2 hours more in leisure (majority watching TV)
- 1 ½ hours more in home production (very little childcare)
- ½ hour more in job search

### Time use by employed and unemployed persons, age 20-65, 2003-2006, minutes per day

<table>
<thead>
<tr>
<th>Activity</th>
<th>Employed</th>
<th>Unemployed</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sleep</td>
<td>494</td>
<td>550</td>
<td>56</td>
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<tr>
<td>Personal care</td>
<td>46</td>
<td>43</td>
<td>(3)</td>
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<tr>
<td>Eating</td>
<td>66</td>
<td>55</td>
<td>(11)</td>
</tr>
<tr>
<td>Work</td>
<td>323</td>
<td>11</td>
<td>(312)</td>
</tr>
<tr>
<td>Job search</td>
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<td>32</td>
<td>31</td>
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<tr>
<td>Education</td>
<td>10</td>
<td>21</td>
<td>11</td>
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<tr>
<td>Home production, care for others</td>
<td>129</td>
<td>220</td>
<td>91</td>
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<td>Of which childcare</td>
<td>27</td>
<td>42</td>
<td>15</td>
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<tr>
<td>Shopping and services</td>
<td>28</td>
<td>36</td>
<td>8</td>
</tr>
<tr>
<td>Volunteer, civic, religious activities</td>
<td>13</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Sport</td>
<td>17</td>
<td>19</td>
<td>2</td>
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<tr>
<td>Leisure and socializing</td>
<td>222</td>
<td>352</td>
<td>130</td>
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<tr>
<td>Of which TV</td>
<td>124</td>
<td>203</td>
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<tr>
<td>Travel</td>
<td>84</td>
<td>70</td>
<td>(14)</td>
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<tr>
<td>Other</td>
<td>7</td>
<td>11</td>
<td>4</td>
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</tbody>
</table>

Source: Krueger and Mueller (2012)
Conclusion

• Authors undoubtedly right that COVID-19 crisis will lead to some notable amount of economic restructuring
  – Considerable uncertainty about extent and nature of needed resource reallocation

• Multiple goals for policy during the crisis
  – Protecting adversely affected individuals
  – Preserving otherwise viable employment relationships temporarily affected by the crisis
  – Creating an environment in which needed reallocation occurs in the medium to long run

• No one goal—including the goal of encouraging the allocation of resources to their most effective use—should dominate