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

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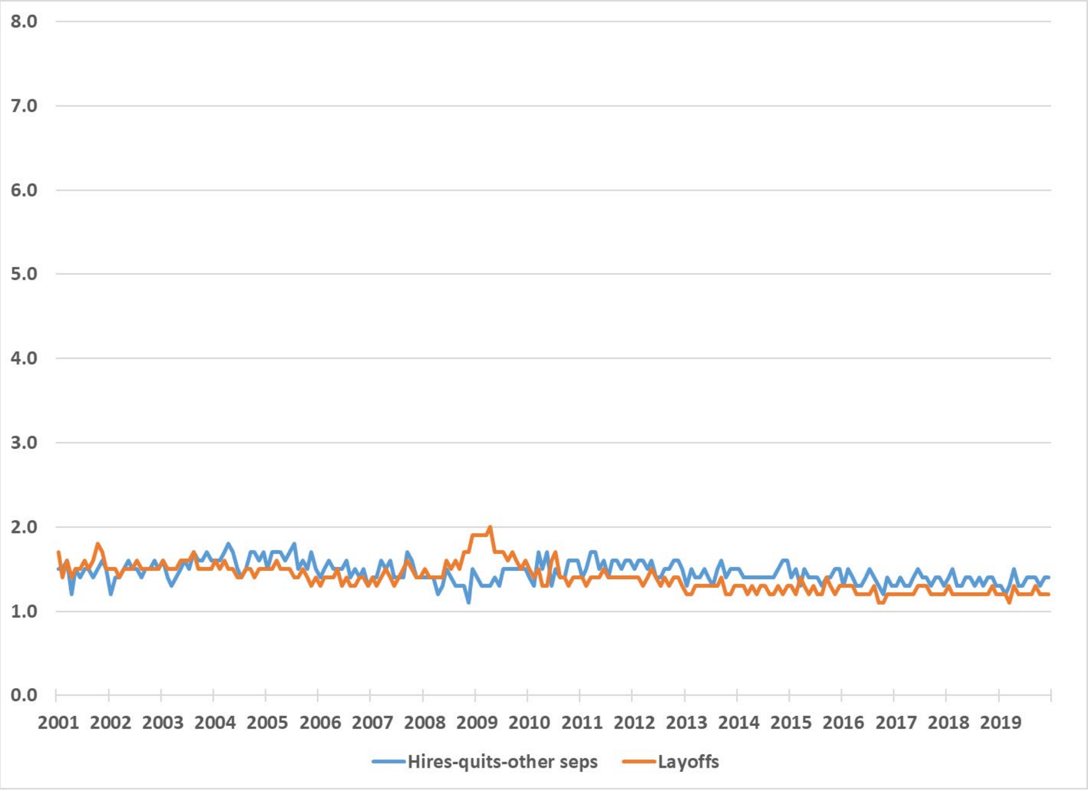
Layoffs and non-replacement hiring rates, JOLTS, 2001-2019



- 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

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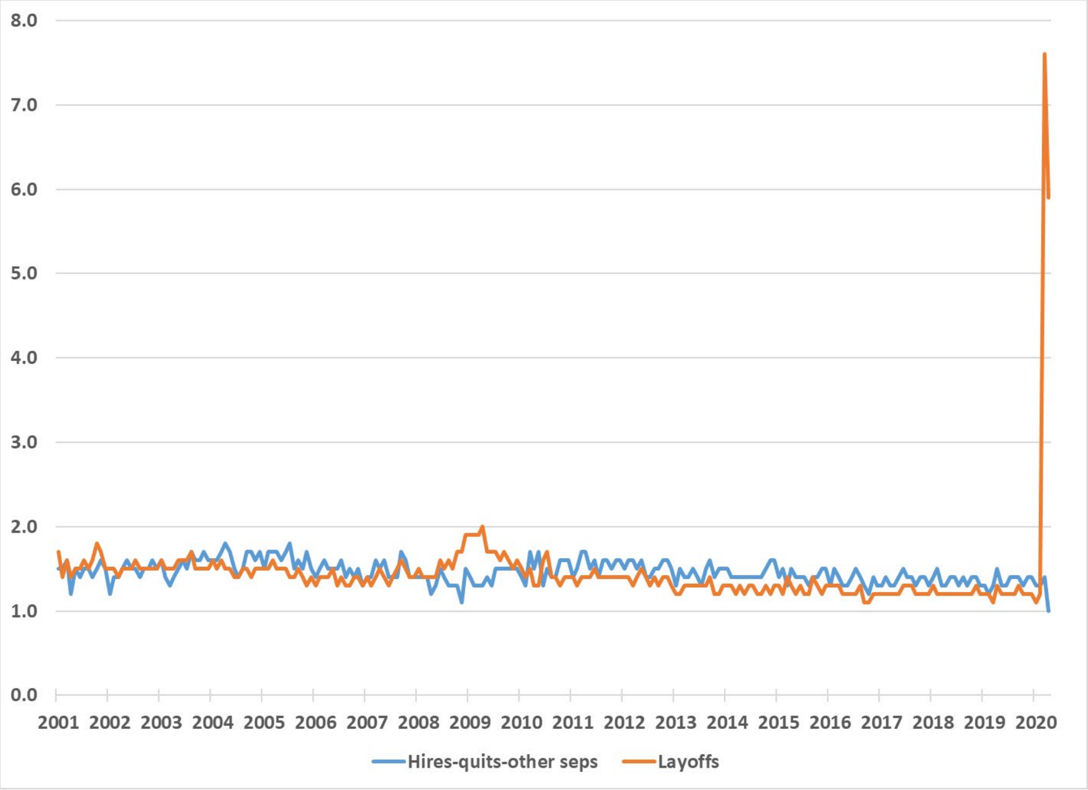
Layoffs and non-replacement hiring rates, JOLTS, 2001-2020



- 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

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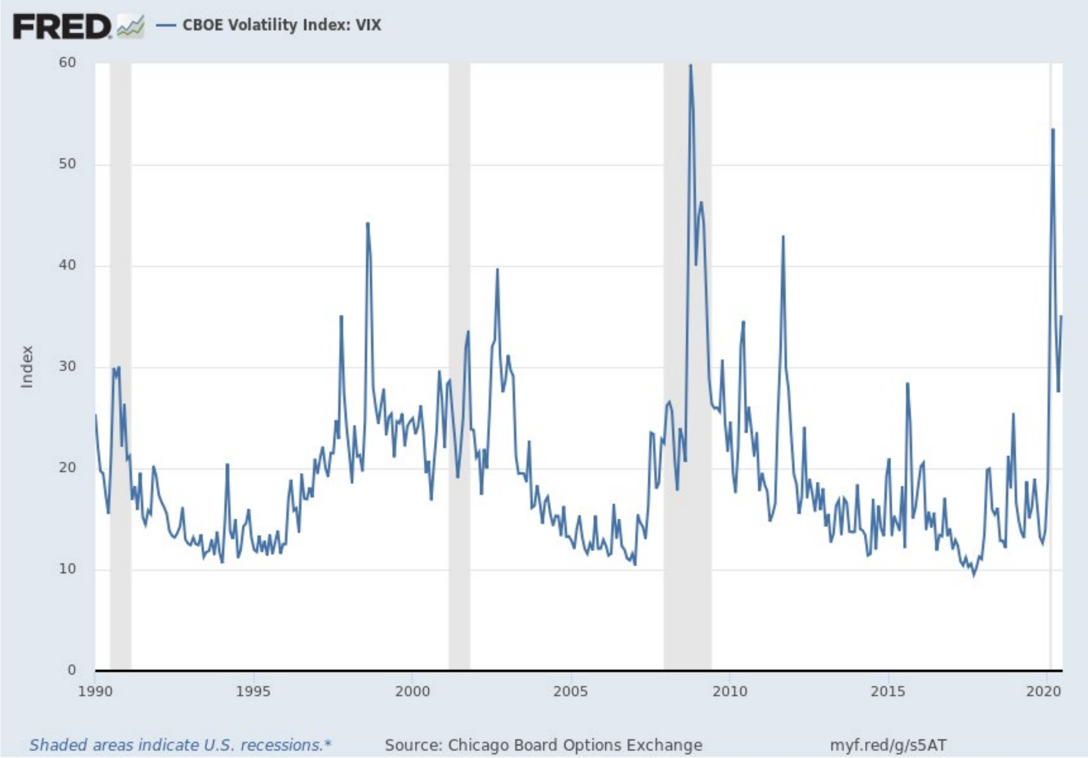
Paper makes case for expecting significant permanent restructuring as result of crisis

- 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)

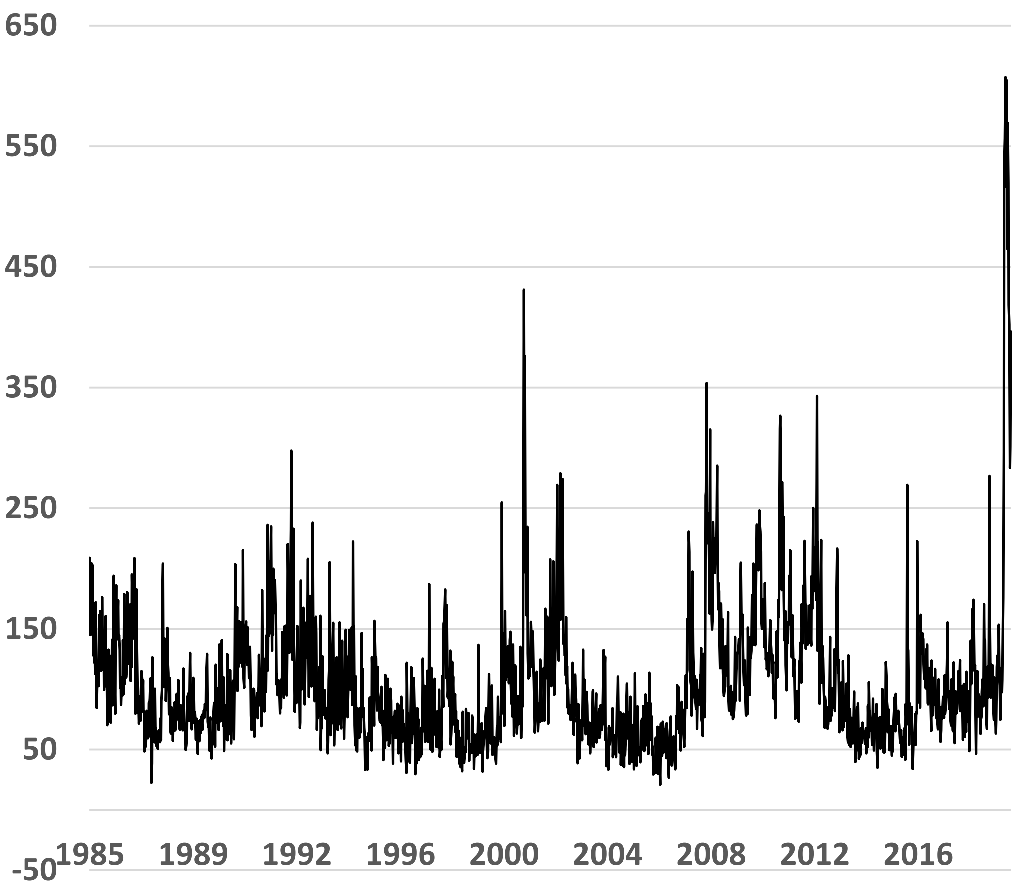
VIX volatility index, 1990-2020



- 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

Source: Baker, Bloom and Davis, https://www.policyuncertainty.com/index.html (accessed June 22, 2020)

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)

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

Activity	Employed	Unemployed	Difference
Sleep	494	550	56
Personal care	46	43	(3)
Eating	66	55	(11)
Work	323	11	(312)
Job search	1	32	31
Education	10	21	11
Home production, care for others	129	220	91
Of which childcare	27	42	15
Shopping and services	28	36	8
Volunteer, civic, religious activities	13	20	7
Sport	17	19	2
Leisure and socializing	222	352	130
Of which TV	124	203	79
Travel	84	70	(14)
Other	7	11	4

- 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 child care)
  - ½ hour more in job search

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