

Comments and Discussion

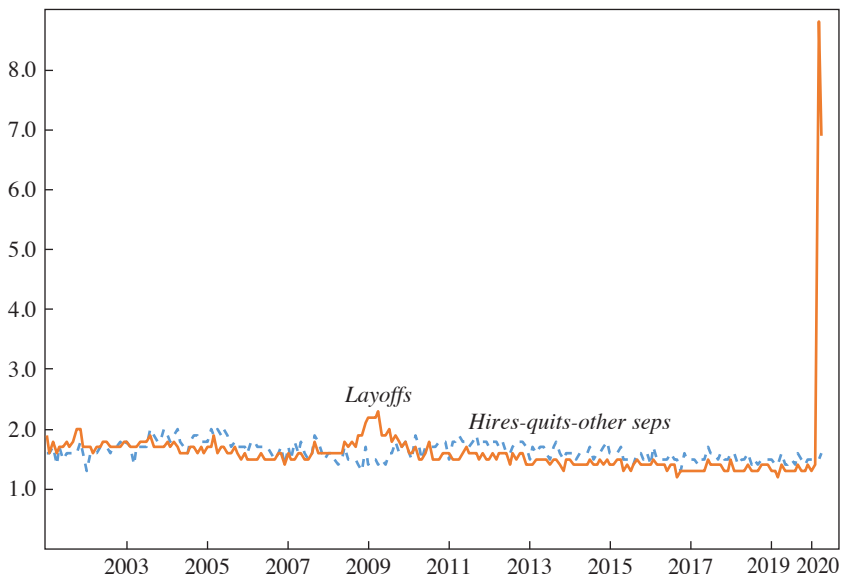
COMMENT BY

KATHARINE ABRAHAM Barrero, Bloom, and Davis raise an issue that is central to setting and evaluating the labor market policy response to the COVID-19 crisis. At the risk of stating things somewhat more baldly than the authors actually do, the paper's argument can be summarized as follows: (1) the large negative shock to demand initially experienced by many businesses as a result of the COVID-19 crisis was accompanied by significant positive shocks to demand at other businesses; (2) the COVID-19 crisis can be expected to cause significant permanent restructuring; and (3) policy should support needed reallocation rather than emphasizing the preservation of existing employment relationships. My comments are organized around these three main parts of the paper's argument.

GROSS HIRING IN THE IMMEDIATE WAKE OF THE COVID-19 CRISIS In the face of health concerns related to the COVID-19 crisis, US employment fell sharply between mid-February and mid-April. Over that period, statistics published by the Bureau of Labor Statistics show a drop in total payroll employment of more than 22 million jobs, almost all in the private sector and with the bulk of the drop occurring between mid-March and mid-April. Although the news about employment during this period was grim, even as employment plummeted, many companies continued to hire.

The paper reports data on hiring from a special module on the Survey of Business Uncertainty (SBU) and from the ongoing Job Openings and Labor Turnover Survey (JOLTS). In the SBU, counting both actual staffing changes from the beginning of March through mid-April and further changes anticipated over the following four weeks, respondents expected three hires for every ten layoffs. The JOLTS data (as revised with the release of May data) show 4.6 private sector hires for every ten private

Figure 1. Private Sector Layoffs and Estimated Hiring to Fill New Positions, January 2001–April 2020



Source: Bureau of Labor Statistics, Series Report tool.

Note: Data are seasonally adjusted rates.

sector layoffs during March and April. While there was substantial gross hiring during these months, this does not establish that the economy was experiencing a surge of reallocation.

Reallocation occurs when employment declines at some businesses while increasing at others. In a dynamic economy, reallocation is an ongoing process. Because many hires replace workers who quit or left for reasons such as retirement, a firm may be hiring but not growing. In addition, to assess the effect that the COVID-19 crisis may have had on reallocation during March and April, hiring to fill new positions should be compared to its historical level.

The JOLTS provides historical information on hires but does not separately identify hires to fill new positions. To the extent that employers typically replace workers who leave voluntarily, however, hires minus quits minus other non-layoff separations may give a reasonable approximation. Using JOLTS data for the private sector, figure 1 plots both the layoff rate and hires minus quits minus other separations, also expressed as a rate. As can be seen in the figure, the layoff rate and this rough approximation

for hiring to fill new positions generally are of similar magnitude. During the 2001 and 2007–2009 recessions, layoffs exceeded estimated hiring for new positions, but in most months estimated hiring to fill new positions has exceeded layoffs. The initial impact of the COVID-19 crisis was an enormous increase in layoffs during March and April; the rough estimate of hiring to fill new positions changed very little during those months. Put differently, although COVID-19 clearly caused an enormous negative shock to aggregate demand, the available data, albeit imperfect, do not suggest any *immediate* pickup in the pace of reallocation.

EXPECTED PERMANENT RESTRUCTURING AS A RESULT OF THE COVID-19 CRISIS
Even if the crisis did not lead immediately to significant shifts of employment to growing businesses, the more important question is whether and to what extent it will cause such restructuring to occur in subsequent months. The paper argues that COVID-19-related health concerns together with the positive experiences many businesses now have had with remote working can be expected to lead to sizable and persistent shifts in consumer demand and the organization of work activity. These changes, the argument continues, imply significant reallocation of employment across businesses over and above the sort of reallocation that normally occurs during and after recessions as weaker businesses fail and are replaced.

The authors, in the paper and its online appendix, present a collage of anecdotal evidence in support of this hypothesis. They make particular note of the responses to an SBU module in which respondents were asked, “What percentage of your full-time employees worked from home in 2019?” and “What percentage of your employees will work from home after the coronavirus pandemic?” Taken at face value, the answers suggest a tripling in days worked from home, from 5.5 percent of workdays in 2019 (consistent with data from other sources) to 16.6 percent of workdays following the pandemic. Based on these estimates, the authors speculate that significant permanent shifts in the locus of demand away from large central cities to other locations are likely, with correspondingly significant reallocations across businesses.

While this is a possible scenario, there is enormous uncertainty about how work arrangements will change in the post-pandemic world. In the weeks immediately following the crisis, many businesses were pleasantly surprised by how productive their employees were able to be while working from home. History provides good reasons to suspect, however, that for many enterprises working from home will not prove to be a sustainable model and at least some businesses with employees currently working remotely have found that productivity suffers without in-person contact

(Streitfeld 2020; Cutter 2020). Interestingly, the authors cite reports that Facebook plans to move to a substantially remote workforce over the coming decade, but the company also just leased all of the office space in a large, midtown Manhattan building, “cementing New York City as a growing global technology hub and reaffirming a major corporation’s commitment to an office-centric urban culture despite the pandemic” (Haag 2020). I would add that increases in days worked at home do not necessarily imply a corresponding need to reallocate labor across businesses. For example, if workers never come into city offices, nearby shops and restaurants clearly will suffer, but if workers cut back from five days a week to four days a week in the office, it is less obvious what the impact will be.

To quantify the amount of reallocation that can be anticipated in the aftermath of the crisis, the authors turn again to the SBU. Each month, SBU respondents are asked to forecast their firm’s employment and sales one year out. These forecasts can be used to construct measures of anticipated excess reallocation over the following year. Compared to the values for the period from January 2016 through January 2020, anticipated year-ahead excess reallocation jumped up sharply in the three months from April through June 2020.

Should we believe these numbers? The authors note that estimates of anticipated excess reallocation from past SBU responses, first collected in the fall of 2016, have been predictive of actual reallocation, but respondents’ forecasts of their companies’ future employment and sales seem likely to have been more accurate during years of steady economic growth than in the current unsettled situation. There also are reasons to be cautious in general about placing too much confidence in the SBU. Only about 350 sample responses are obtained each month and, based on available survey documentation, the typical effective monthly response rate appears to be in the vicinity of 10 percent.¹ Further, although the survey sample is constructed so that its industry and geographic distributions broadly match those of the US economy, small businesses are underrepresented. With respect specifically to growth in the pace of anticipated excess reallocation, because small firms have a higher baseline level of reallocation in normal times (Davis and Haltiwanger 1992), this could make the post-pandemic

1. According to Altig and others (2020), about 42 percent of businesses contacted to participate in the SBU agree to participate. Of those, about 62 percent complete at least one survey, and responses are obtained each month from about 43 percent of active panel members. Taking the product of the response rates at each stage yields an estimated overall response rate of about 11 percent.

jump in projected reallocation look proportionally larger than would be the case had small firms been represented in proportion to their share of employment.

A final point about respondents' expectations regarding future employment and sales is that it is difficult to disentangle effects that are specific to COVID-19 and its longer-term impacts on the structure of economic activity from the effects of the sharp decline in aggregate demand that has occurred. Respondents' expectations regarding the policy response to the crisis also may have affected their responses. There has been considerable uncertainty on this score; the index of economic policy uncertainty based on text analyses of US newspaper articles produced by Scott R. Baker, Nick Bloom, and Steven J. Davis, for example, spiked to unprecedented levels in March and April.² If variation in respondents' expectations about the government's policy response contributed to variation in forecasts regarding future employment, that in itself could have raised the measure of anticipated excess reallocation.

POLICY RESPONSE TO THE COVID-19 CRISIS The government's response will have an important effect on the evolution of employment over the coming year and beyond. The authors argue both against what they view as overly generous unemployment benefits and against existing policies that subsidize employment, on the grounds that such policies will impede needed reallocation.

CARES Act Unemployment Benefit Provisions. In addition to expanding unemployment insurance coverage to the self-employed and others who ordinarily would not qualify for benefits, the CARES Act, passed at the end of March, added \$600 per week to all claimants' benefits. Ganong, Noel, and Vavra (2020) have estimated that two-thirds of unemployment insurance beneficiaries are receiving payments that exceed their lost earnings, though they acknowledge that these calculations do not account for health insurance and other benefits lost when a person is out of work. Barrero, Bloom, and Davis express concern about these more generous unemployment payments, arguing that they encourage layoffs, discourage work, and delay productive reallocation.

In the present context, I am much less concerned about unemployment benefits being too generous than the authors seem to be. A body of research from the 2007–2009 recession suggests that, when unemployment is high, unemployment benefits have relatively little effect on job finding rates

2. Economic Policy Uncertainty, <https://www.policyuncertainty.com/about.html>, accessed June 22, 2020.

(Rothstein 2011; Farber and Valletta 2015). With unemployment currently in the double digits, there are far more job seekers than available jobs. Even if unemployment benefits are generous, workers who are offered a job will know that, if they turn it down, they may have a hard time obtaining a comparable offer in the future. There undoubtedly are people who, for health reasons, are reluctant to return to work under current conditions, but early analyses have found no evidence that the higher benefits payable under the CARES Act have raised unemployment (Altonji and others 2020; Bartik and others 2020; Dube 2020; Marinescu, Skandalis, and Zhao 2020). The more serious problem, in my view, is that without federal action too many adversely affected workers will be unable to sustain themselves and their families.

Still, I find it uncomfortable to defend paying unemployment recipients more while out of work than they had been earning before they became unemployed. The very low wages earned by a substantial share of the workforce are a serious problem, but this is not something that sensibly can be addressed through the unemployment insurance system. Indeed, continuing to pay benefits that so easily can be criticized as unfair to those who have continued to work could be counterproductive, leading to an erosion of support for needed benefits in any form. If it could be implemented, increasing replacement rates would be far preferable to adding a flat \$600 per week (or other amount) to everyone's benefits. Unfortunately, given the limitations of many of the state computer systems used to administer unemployment insurance benefits, this does not appear to be a feasible option.

CARES Act Paycheck Protection Program. The second set of CARES Act provisions that the authors criticize are those that make support for struggling businesses contingent on their maintaining employment. The original Paycheck Protection Program (PPP) provided loans to cover operating expenses that could be fully forgiven if employment as of June 30, 2020 was as large as employment in a defined earlier base period. That date was later changed to December 31, 2020.

The authors are concerned that the PPP subsidies encourage firms to remain in business even when they otherwise would be losing money. In the current crisis, however, at least some of the business closures that would occur absent employment subsidies will be inefficient. In a simplified world in which labor is the only input, employment separations due to business closures are *privately* efficient when workers' marginal products are less than their compensation. They are *socially* efficient only when workers' marginal products are less than the shadow value of their time minus an

adjustment to account for the cost of setting up a similar firm post-crisis in cases where that is likely to occur (Blanchard, Philippon, and Pisani-Ferry 2020). Things are more complicated when firms' production technologies include inputs in addition to labor, but the basic logic continues to hold.

The question, of course, is whether the businesses that would fail without government assistance have positive social value (i.e., worker marginal products that exceed the shadow value of the workers' time minus the adjustment reflecting the cost of later restarting the firm). There are reasons to think both that the shadow value of time for unemployed workers generally is low and that, in many cases, there will be significant costs associated with allowing businesses to fail, only to restart similar businesses at a later point in time.

With regard to the shadow value of time, the authors point to the productive things that unemployed individuals could do with the extra time they have at home. Past research suggests, however, that the unemployed spend twice as much of their extra time sleeping or watching television as they spend in productive home activities (Krueger and Mueller 2012). Further, focusing just on the potential value of home production ignores the serious adverse effects that becoming unemployed all too often has on mental health (Stutzer and Frey 2010) and long-term well-being (Davis and von Wachter 2011). And because the creation of new jobs will lag the destruction of old jobs, adding to an already large pool of unemployed may simply lead to unproductive job search.

In addition, although there undoubtedly will be some reallocation due to patterns of consumption that have permanently changed, if large numbers of businesses are allowed to fail because their current revenues fall short of their current expenses, costs later will be incurred to replace many of them with similar businesses. All of this suggests that, in many cases, the social value of continued operations may be positive even though the private value is not.

The authors do not argue entirely against extending assistance to businesses. Rather, they argue that employee retention should not be subsidized irrespective of the employer's longer-term outlook. Put that way, it is hard to disagree with the authors' position. The problem is that, given the considerable uncertainty about where we are headed, at this point it is hard to assess the longer-term outlook for many businesses. The paper does suggest that "assistance in the form of low-interest loans without forgiveness provisions would discourage firms with poor prospects from applying for assistance," but that approach also would mean firms that are losing money today and do not expect to make excess profits in the future

would have an incentive to close, even in cases where their social value is positive.

CONCLUDING THOUGHTS The authors of this provocative paper undoubtedly are correct that the COVID-19 crisis will lead to economic restructuring. At this point, though, there is considerable uncertainty about the extent and nature of the resource reallocation this will involve.

There are multiple goals for policy in response to the crisis—protecting adversely affected individuals who find themselves out of work through no fault of their own; preserving otherwise viable employment relationships temporarily affected by the crisis; and creating an environment in which needed reallocation occurs in the medium to long run. Although they are careful with their language, the emphasis in the paper is strongly on the need to facilitate reallocation. In my view, that is not in fact the dominant concern at the present time.

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GENERAL DISCUSSION Olivier Blanchard emphasized the need to differentiate between temporary and permanent shocks. Temporary shocks warrant different consideration than permanent shocks. Blanchard speculated that since it seems that most elements of this current crisis are temporary in nature (i.e., can be fully resolved once a vaccine is made available), then why would policymakers let workers become unemployed and firms go bankrupt, especially if the goal is for most of these workers and firms to go back to normal after the shock. Blanchard argued that a reallocation argument seems weak in the context of a temporary shock. And even though it is a stronger argument in the context of a permanent shock, Blanchard still had doubts about the idea of allowing for high unemployment for the sake of reallocation.

Şebnem Kalemli-Özcan raised the issue of the potential for a liquidity shortfall and the bankruptcies that may result. Kalemli-Özcan pointed out that this is a significant issue in nearly twenty European countries, even among firms in those countries that, at the end of 2019, were deemed financially viable firms but may go bankrupt because of the liquidity shortfall. Kalemli-Özcan wondered what the authors' thoughts were on this issue of liquidity, especially as it becomes harder to disentangle from solvency

issues. Kalemli-Özcan concluded by asking what role recent US policies, especially those targeted to small firms (e.g., the Paycheck Protection Program), will play in this area.

Daron Acemoglu wanted to draw a distinction between efficient and inefficient reallocation. He raised the possibility that we could witness a significant amount of reallocation that is actually quite inefficient: for example, jobs could be permanently destroyed because of a demand shortage, in which case the efficient thing would be for that reallocation not to happen. Acemoglu encouraged the authors not only to document the reallocation shock as it appears in the data but also to explore whether it is an efficient or inefficient (i.e., due to inefficient business closings and separations) reallocation.

John Van Reenen, building on Acemoglu's point about efficient versus inefficient reallocation, stated that policymakers need to balance protection and reallocation. Acknowledging economists' support for and belief in reallocation, Van Reenen pointed out that the last decade or so of research has highlighted that reallocation is a long-term, costly process, and it sometimes has the effect of reallocating certain workers to long periods of inactivity. In light of this research, Van Reenen suggested that it is crucial for policymakers to find the right balance between reallocation in the medium and long run, with some degree of protection for workers in the shorter run. Van Reenen said that his sense was that the authors were perhaps putting too much emphasis on reallocation as we emerge from the lockdown period and encouraged them to think more about the optimal degree of protection.

Gerald Cohen asked if the authors had tried to leverage the SBU panel data to explore the impact on productivity from these efficiency gains. In particular, Cohen was interested in learning why SBU capital spending plans have not meaningfully dropped below historic levels.

Steven Davis thanked all of the participants for their helpful comments. Davis began by claiming he believes that despite how it may appear on the surface, the views expressed in the paper are much closer to those of Katharine Abraham than some may think. One area in which he does acknowledge disagreement is when it comes to subsidizing employee retention irrespective of the employer's long-term commercial outlook.

Responding to Kalemli-Özcan's point on liquidity, Davis explained that the paper explicitly comes down in favor of liquidity support for businesses.

Regarding Daron Acemoglu's comment about efficient versus inefficient reallocation, Davis acknowledges that point and suggested that their section on economic persistence mechanisms precisely speaks to that issue.

Davis continued that the United States has, for better or worse, undertaken a massive social and economic experiment where millions of households have moved much of their consumption online (e.g., trying online delivery shopping for almost all goods) for the past three months. As a result, Davis argued that there has been a lot of learning by doing, on both the customer and the business sides, which reflects associated investments and complementary inputs; importantly, those investments alter what is efficient going forward.

Davis pointed out that a similar phenomenon has been going on with working from home, speculating that there may be even larger changes in this area because of the extent of learning by doing and experimentation. Davis highlighted that while there is more evidence coming out about working from home, preliminary results suggest that most businesses have been positively surprised by how well it has worked now that it has actually been tried at scale.¹ Davis claimed that both of these trends (i.e., the shift to online consumption and working from home) have provided information that we didn't have back in February, and this new information has implications for what efficient resource allocation is as well.

Davis claimed that yet another example can be found with business travel. Due to the decline in travel, many businesses have been forced to shift what previously would be in-person meetings to virtual meetings with customers and clients out of necessity. According to Davis, some of them have learned that this works very well; this experience will also change whether it is efficient for them to do otherwise.

Davis also pointed out that in the paper they briefly summarize several recent studies that look at the heterogeneity in stock returns among individual firms in the wake of the pandemic. An important result from these studies is how favorably the pandemic shock has affected many firms that are well positioned to take advantage of the shift to working from home—either because they are suppliers of complementary services or because they are now relatively more efficient than other firms in conducting their business. For example, Davis highlighted Zoom Video, which has seen a nearly \$50 billion gain in market cap.² Davis speculates that these sorts of effects suggest there is an expectation of a lot more virtual meetings going

1. See Jose Maria Barrero, Nicholas Bloom, and Steven J. Davis, “Why Working from Home Will Stick” (Chicago: Becker Friedman Institute, University of Chicago, December 2020), <https://bfi.uchicago.edu/working-paper/why-working-from-home-will-stick/>.

2. “Prospering in the Pandemic: The Top 100 Companies,” *Financial Times*, June 18, 2020, <https://www.ft.com/content/844ed28c-8074-4856-bde0-20f3bf4cd8f0>.

forward. With all of this preliminary experience and evidence, Davis concludes that, in terms of efficiency, we do have some pretty suggestive evidence that much of the reallocation that the paper talks about is, in fact, efficient, and not only probably will happen but probably should happen.

Regarding the sample size, Davis admitted that it is a small sample and suggested that they obviously would love to be able to use sampling frames like the Bureau of Labor Statistics (BLS) or US Census Bureau. However, Davis did not believe their sample size is as concerning as others have suggested. One reason for this is because they routinely adjust recruitment contact rates to achieve a balanced sample. As a result, Davis believes they have a sample that meets their desires with respect to firm size, firm industry, and state. Davis also pointed out that they do *ex post* sample reweighting to match the industry distribution of activity in data sources that cover the universe of employer businesses.

Davis also mentioned that he and his coauthors are taking other steps to address sampling concerns. For example, Davis pointed out that, among other projects, he works with a team at the Census Bureau on a survey that has an SBU-like design but would be fielded by the Census Bureau and will hopefully be rolled out soon with large-scale repeated samples, drawing on the census sampling frame and utilizing other benefits that the census has to offer when it comes to survey design and administration.³ So, Davis wanted people to think of the SBU as a pilot. Davis also said that he would be more than happy if BLS wanted to get involved in this type of survey as well. And he remarked that the SBU design has already been imitated in other countries around the world, most notably in the United Kingdom.⁴ Davis concluded by mentioning that we also want to take the SBU micro data inside the Census Bureau, where they can then take the standard approach to *ex post* construction of sampling weights and get better versions of the sample statistics that come out of the SBU.

Jose Maria Barrero responded to Olivier Blanchard's inquiry about the existence of firms that are hiring some workers and laying off others at the same time by stating that this rarely occurs in the data, with the overwhelming majority of firms exhibiting either gross hires or gross layoffs.

3. See also Nicholas Bloom and others, "Business-Level Expectations and Uncertainty," working paper 28259 (Cambridge, Mass.: National Bureau of Economic Research, 2020), which analyzes data based on SBU-like questions fielded to US manufacturing plants.

4. See the UK Decision Maker Panel, <https://decisionmakerpanel.co.uk>; and Nicholas Bloom and others, "The Impact of COVID-19 on Businesses' Expectations: Evidence from the Decision Maker Panel," *Bank of England Quarterly Bulletin*, 2020:Q3.

