

8 Dislocation of labor markets: What policies to mitigate the shock?

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The issue

The COVID-19 pandemic hit the Americas harder than any other region, accounting for about 50 percent of all global cases—with the United States alone contributing more than 20 percent of the global total. Unsurprisingly then, the Americas suffered devastating economic effects, plunging instantly into recession. Less obvious is how preexisting regional differences within the Americas and their labor market structures—differences in inequality, informality, and technological adoption—may determine COVID-19’s lasting impact: income divergence between regions and within them.

These labor dynamics and differences are critical to understanding the asymmetric consequences of COVID-19 on poverty, inequality, and well-being. Indeed, as we argue in this essay, unlike differences in the fiscal space, the nature of the labor market channel correlates closely with the degree of development of individual countries and is an essential, albeit often overlooked lens to characterize the differential impact of COVID across the globe. Below, we shed light on how COVID-19 is affecting labor markets in the Americas to highlight the contrast between developed and developing economies, and how this should translate into more calibrated policy responses to put people



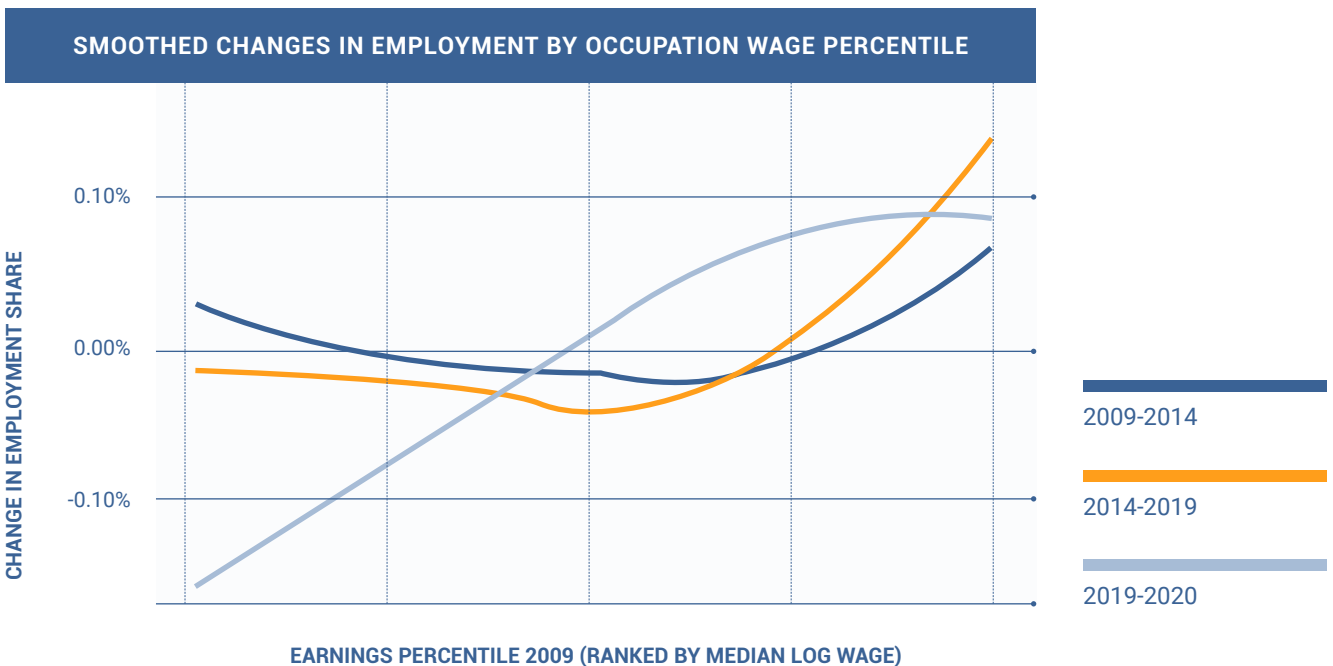
back to work, protect workers from further harm, and prepare for a post-pandemic future.

The ideas

From the 1980s through the early 2000s, labor markets in developed economies experienced the influence of two main global drivers of the new millennium: China’s integration into global value chains and technological change. Globalization and, more recently, technological substitution, led to a decline in the demand for routine, middle-skill workers and labor market polarization,¹ as well as a growing share of (gig and freelance) independent work.

Over the years, however, trends shifted in favor of higher-wage occupations. Polarization (2009-2014 in Figure 8.1) gave way to growing job inequality (2014-2019). COVID-19 drastically altered this pattern. New data suggest a dramatic shift in U.S. employment trends, disproportionately disrupting low-wage occupations—as the inverted-U curve in Figure 8.1 illustrates. The shift reflects abrupt employment declines in low-wage, high-contact jobs (e.g., cleaning, hospitality, or health care activities) and the fact that many “remotable” jobs require skills or hardware that low-wage workers may not have.

Figure 8.1.
Recent US employment trends show low-wage workers hit hard



Source: Author’s calculations using the CPS and ACS.

The COVID-19 shift seen in the U.S does not bode well for Latin America where, as in many developing economies over recent decades, the adoption of new technologies has been slower due in part to the relative abundance of unskilled labor, resulting in much less labor market polarization² and even declining inequality³ (albeit from very high levels and for varied reasons). At the same time, Latin America's relatively unskilled labor force partly explains why the region has likely seen higher job losses from COVID-19 than the U.S. has.

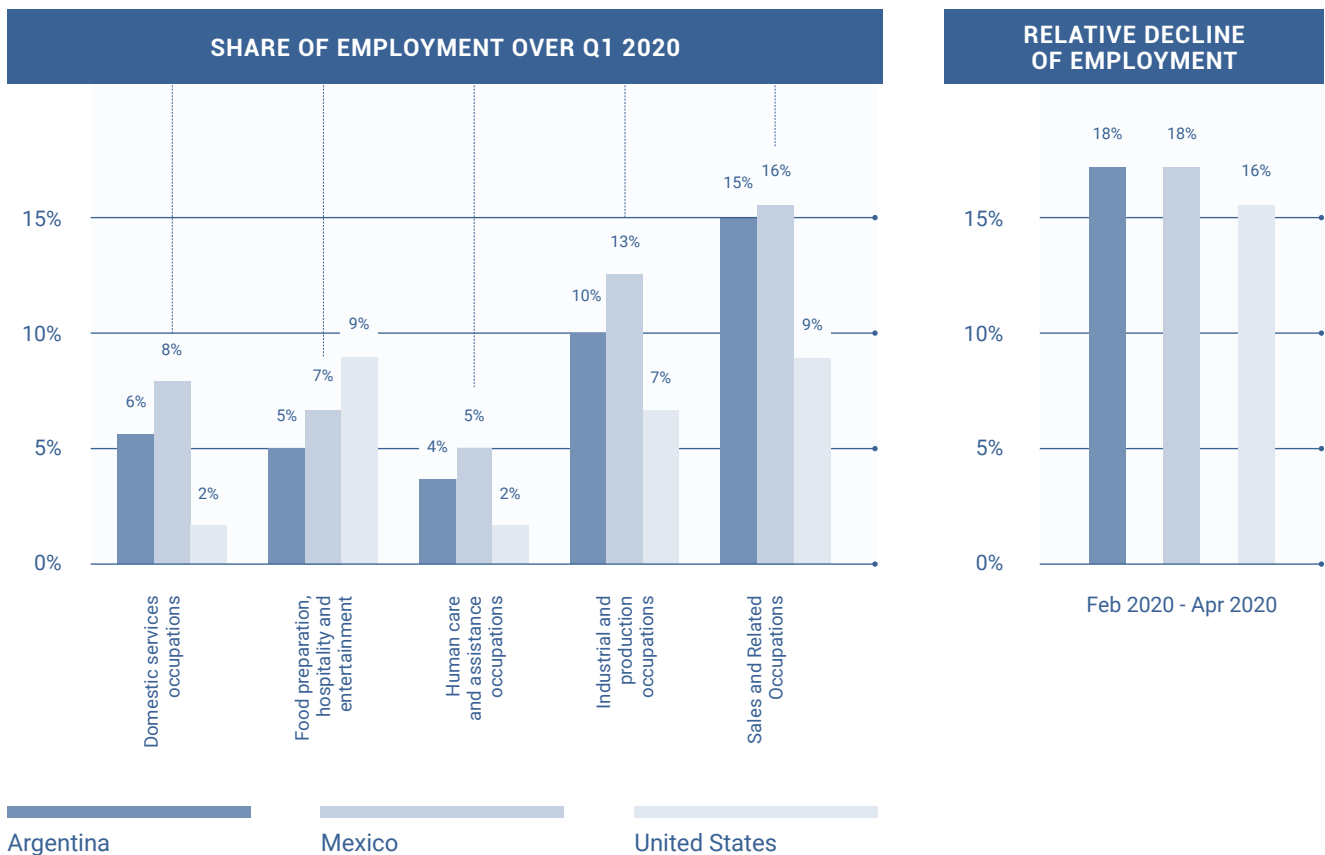
Compared to the U.S., employment in Latin American countries is more heavily concentrated in the high-contact, non-remotable occupations⁴ hit hardest by COVID-19 (see Figure 8.2). Consider sales jobs for example. Between February and April, jobs in sales and related occupations contracted by 20 percent in the United States—but sales jobs represented only 9 percent of the U.S. labor market before the pandemic. In Argentina and Mexico, sales jobs represented approximately 15 percent of workers (not including a likely high number of informal workers).

The pattern is repeated across occupations. In the United States, the five hardest-hit represent 29 percent of the U.S. labor market; in Argentina and Mexico, these jobs represent 40 and 47 percent of formal employment, respectively. If the U.S. had the same occupational structure as Argentina or Mexico, U.S. job losses would have been approximately two percentage points higher, equivalent to 3 million additional workers (Figure 8.2b).

“The future of work calls for a new regime for non-salaried workers, halfway between the precarity of self-employment and the—often highly protected—salaried work, where benefits are portable and tied not to the job but to the hours worked.”

Figure 8.2

Argentina and Mexico have more workers in the hardest-hit occupations



Source: Author's analysis of the CPS, Argentina's Permanent Household Survey (EPH) and Mexico's National Survey of Occupation and Employment (ENOE).

Note: The comparison of participation rates by occupation was accomplished by collapsing occupation-detailed employment data into 34 comparable occupational groups based on Argentina's National Occupation Classification. Figure 8.2b estimates the counterfactual employment changes in the US by applying the U.S.'s percentage change in occupational employment to Argentina's and Mexico's occupational structure.

Furthermore, the estimates given in Figure 8.2 should be taken as conservative because they do not account for a second, distinctive feature of the labor market channel in developing economies: the precariousness of their labor markets, which disproportionately exposes low-income workers to income shocks.

In the particular case of Latin America, about half of the workers are⁵ informal wage-earners or self-employed without a college degree; in Bolivia, Nicaragua, Paraguay, and Perú, more than two-thirds of workers are informal. Consequently, many of these workers live beyond the reach of traditional government support programs (e.g., wage subsidies and furlough schemes.)

And while many Latin American countries offer generous labor protections to high-wage salaried workers (such as in Argentina,⁶ where severance payments were doubled prior to the pandemic, before they were followed by outright layoff bans), most informal and independent workers lack labor protections altogether. As a result, Latin America's high-wage salaried workers may be more protected than U.S. workers, while low-wage Latin American workers face far greater risks.

Thus, while fiscal responses have been small in many Latin American countries (for instance, Mexico's response has amounted to 1.2 percent of GDP compared to 14 percent in the U.S.), simply increasing spending, without efforts at formalization, may prove inadequate. Even in countries with significant fiscal resources like Perú, high degrees of informality and self-employment limit governments' ability to reach workers.⁷

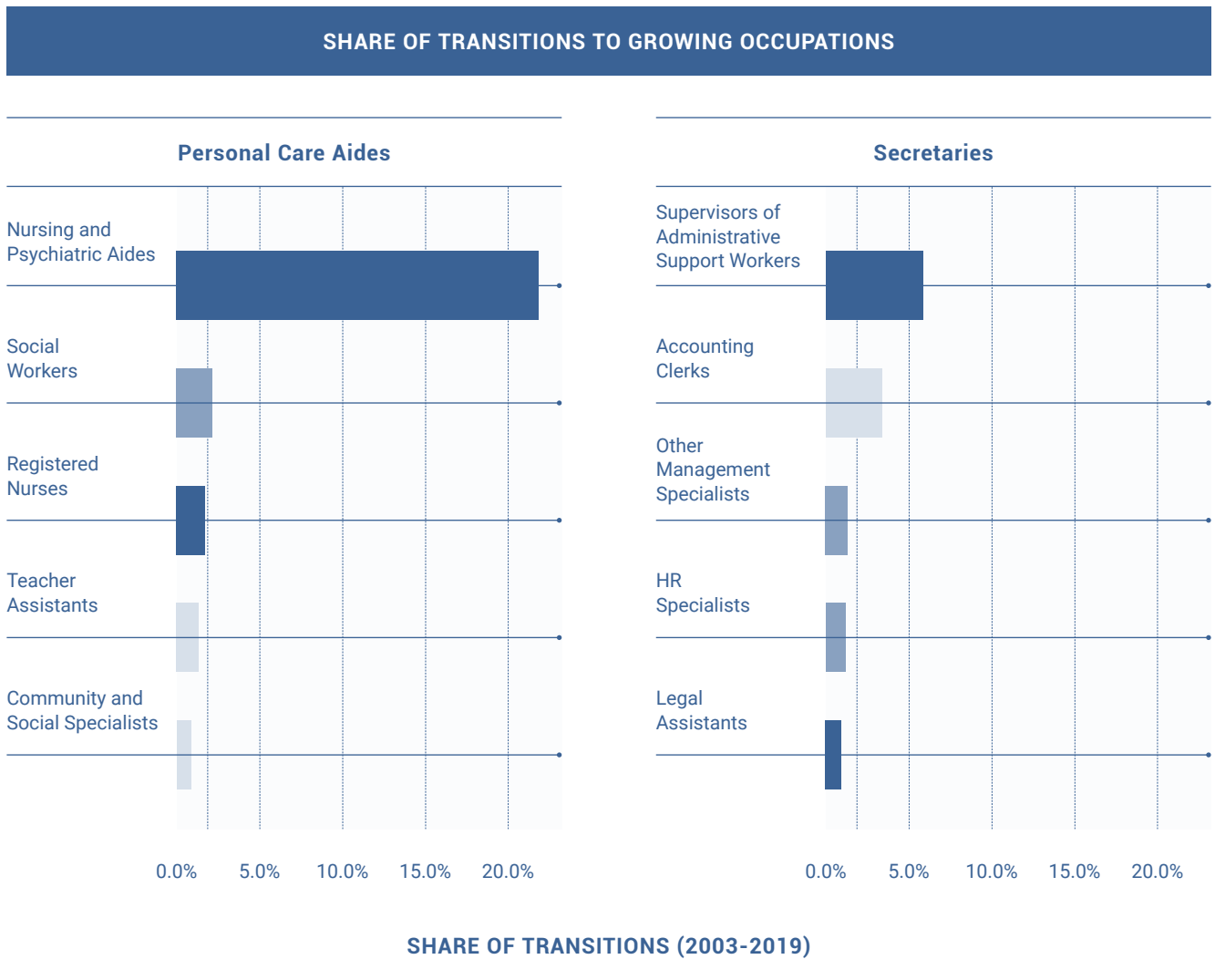
WORKER MOBILITY DURING AND AFTER THE PANDEMIC

To be sure, it is not all doom and gloom. Amid dramatic job losses throughout the Americas, some occupations are still growing and will likely see increased demand in the future. During and after the pandemic, active labor market policies⁸ (such as wage subsidies and vocational training or adult education) will be critical to help workers navigate labor markets and transition through periods of unemployment. A network of the labor market built from historical data of U.S. workers' job-to-job transitions⁹ can assist policymakers to go further by targeting these active labor market policies specifically to help workers transition from declining to growing occupations.

For example, as shown in Figure 8.3, Personal Care Aides, an occupation recently in decline, is nearby to Nursing and Psychiatric Aides, an occupation more resilient to the current economic climate. This proximity indicates that personal care aides, often with targeted training and support, may easily make the transition to nursing and psychiatric care. Similarly, a declining occupation like Secretary has promising transition prospects to growing occupations, such as Administrative Supervisors, Accounting Clerks, or HR Specialists.¹⁰ Using Argentina's job-to-job transitions network shows that workers in Administrative and Management occupations are relatively more adaptable than others to transition into other occupations, while Transportation and Construction workers are among the groups with the lowest reallocation prospects. Similar analyses¹¹ using Argentina's job-to-job transitions network show that workers in Administrative and Management occupations are relatively more adaptable than others to transition into other occupations, while Transportation and Construction workers are among the groups with the lowest reallocation prospects.

Figure 8.3

Job transition data show viable opportunity for workers in hard-hit occupations.



Change in employment

2019 - 2020



Source: Author's analysis of the CPS.

Note: Historical job transition data show viable opportunity for workers in declining occupations to move into growing occupations, given the frequency with which those transitions occurred in the past.

The way forward

The extent to which current trends will become permanent changes remains uncertain. Now that companies have learned to operate with fewer active workers, they are unlikely to unlearn. While some workers who were temporarily unemployed in the U.S. (similar to furloughed workers in European countries) are returning, there is an emerging undercurrent of permanent layoffs associated with the more persistent impact of social distancing that will shape the impact of COVID-19 in labor markets. The significance of these changes will likely vary across the world.

In developed economies, pandemic-induced automation and digitalization can be expected to create jobs in mostly high-skill occupations, whereas less travel and more remote work will likely dampen demand for less-skilled service work,¹² like hospitality, food, or janitorial services, and further suppress wages at lower-income levels even¹³ as the pandemic wanes. (Hence, the calls for more labor-friendly R&D and the argument¹⁴ that the tax system, by taxing labor heavily while subsidizing capital through tax breaks and other benefits, induces labor-replacing automation.)

In Latin America, by contrast, the COVID-19 shock is less likely to accelerate automation due to the same factors that made the region more vulnerable to COVID-related job losses in the first place: informality and abundance of unskilled labor, as well as rather flat education premiums, high costs of capital investment, and barriers to the diffusion of technology. Instead, the pandemic will likely depress wages and increase the number of low-skill workers looking for jobs, further reducing firm incentives to invest in automation.

THE POLICY IMPERATIVES

As mentioned, in the current dynamic context, a more informed and targeted training system is essential to mitigate the COVID shock on employment and labor income. More precisely, an effort to orient training towards occupations with high mobility and wage upside, based on the characteristics of displaced workers and on informed projections of the demand for specific skills. This requires the direct involvement of private employers both as sources of information and as providers of training, alongside education institutions—a three-way, state-labor-business collaboration, the norm in most other advanced economies.


But a standard vocational training program, even a granular, forward-looking one as we propose, may not be enough: it will need to adapt and expand to address the needs of independent workers—particularly in the developing world where they are a growing and relatively unskilled majority. To be sure, any training effort has to start from the premise

that not all precarious workers will access formal jobs. There is simply not sufficient demand in the private sector for all of them. Instead, the training tool will need the flexibility to include occupations for freelancers and microentrepreneurs to improve their productivity and labor income.

Moreover, the future of work calls for a new regime for non-salaried workers,¹⁵ halfway between the precarity of self-employment and the—often highly protected—salaried work, where benefits are portable and tied not to the job but to the hours worked. This transitional regime is essential in developing economies both to stabilize the labor income of the precarious labor force and to expedite labor inclusion, as the new regime may work as a bridge to job formalization in developing countries where economic volatility and large severance and litigation costs reduce the demand for formal workers.

Policymakers should act now. Formalizing, broadening labor protection with portable benefits, investing in lifelong workforce development programs, partnering with the private sector to orient smart active labor policies to the creation of jobs with genuine upside and productivity: this is the labor inclusion agenda opened by the pandemic. The labor market channel was a critical driver of the differential welfare impact of COVID around the globe; it should also be the door to rebuild a better, more inclusive economy.

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*In the current dynamic context, a more informed and targeted training system is essential to mitigate the COVID shock on employment and labor income.*

Endnotes

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