

ESRI International Roundtable December 2022

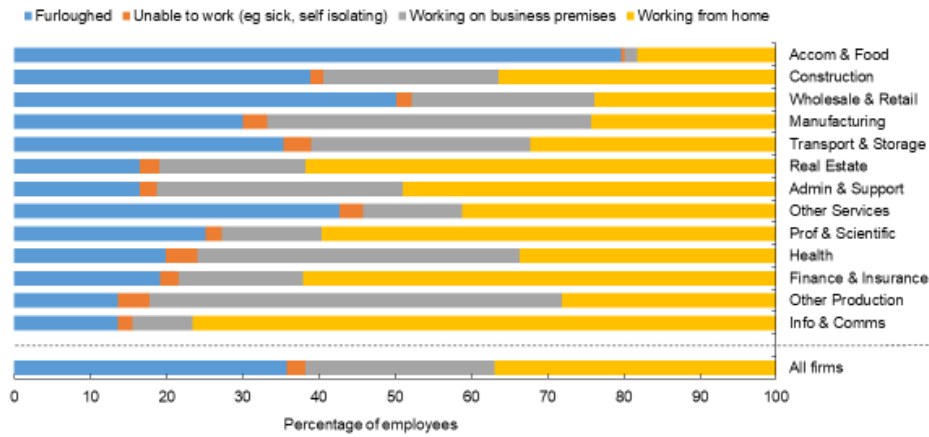
Janice Eberly, James R. and Helen D. Russell Professor of Finance
Kellogg School of Management, Northwestern University

Topic 2: Dealing with Employment Shocks

- Policy responses to employment shocks vary widely
 - Goal to provide insurance against job and income loss
 - Range from unemployment benefits to furlough payments
 - Provide payments conditional on unemployment or try to preserve match capital?
- COVID-19 challenged all of these approaches
 - Generated large scale job loss perceived to be temporary
 - Generated large scale reallocations, as well as departures from the labor market
- The most productive industries ex post were the most resilient
 - These industries preserved match capital
 - Also maintained production and reduced disruption
 - Relied on availability and applicability of technology, intangibles, human capital
- “Excess separations” and reallocation
 - Historical labor productivity was depressed when reversing “excess separations” (Gordon 2022).
 - This argues for greater preservation of match capital
 - Pandemic impact outlasted its most severe quarters
 - Reallocation persisted, along with labor force departures
- Early evidence of returning dynamism in new business formation in the US
- Caveat: Take care with over-generalizing from aggregate averages or specific industries and the special conditions of COVID-19

Impact of COVID-19 on Employment Type by Industry, May 2020, UK

Impact of Covid-19 on employees, May 2020



- Working from home more concentrated in higher productivity service industries

Source: Decision Maker Panel survey, Bank of England