

# The Impact of Covid-19 on Labor Market: A Global Analysis

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# Introduction

- What makes Covid-19 economic crisis unique?
  - Negative aggregate supply shock, whereas 2008 financial crisis was aggregate demand shock
    - Global in nature, disrupts labor market activities rather than destroys capital, and harms the social and physical well being of individuals
  - Major public health implications – close to 3 million affected and almost 200,000 dead
  - Pandemic – brought down the World economy to grinding halt.
  - No foreseeable solution to the problem – imperfect knowledge and uncertainties.

## Major Questions?



What's the extent of economic crisis?



Nature of recovery?



What is the impact on labor market?



What are effective policy responses ?

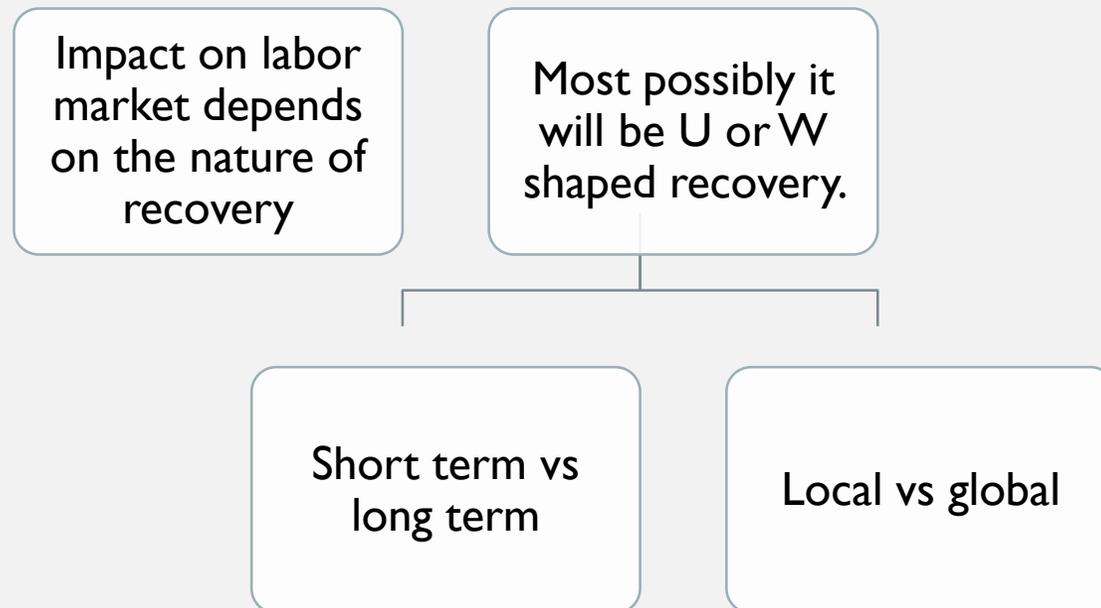
# Extent of the Economic Crisis

- Possible channels of Covid-19 impact on economy
  - Increased cost of doing business and hence resulting unemployment
  - Change in consumer preference
  - Re-evaluation of country risks
- Full extent of the crisis is still unknown
- Initial data shows steep decline in economic activities
  - U.S. jobless claims increased to 26 million in six weeks. Estimates show U.S. unemployment rate up to 20 %
  - Up to 32% decline in world merchandise trade
  - Steep decline in demand – almost 80% decline in car sales in China
- Most probably world economy is in historic recession comparable to the Great Depression

# Recovery

- Challenge is to predict the nature of economic recovery
  - Best case scenario -V shaped recovery – quick recovery in labor market
  - More likely scenarios – either U or W shaped recovery – slower recovery in labor market
  - Let's hope recovery is not L shaped – extended period of slack labor market

# Impact on Labor Market



## Short Term vs Long Term Impact on Labor Market

### Short term impacts

- Dramatic rise in unemployment – up to 30-35% unemployment rate
- Negative aggregate supply shock may turn in to negative aggregate demand shock which makes quick recovery extremely difficult
- High short term job separations due to unemployment may make recovery difficult due to labor market frictions

### Long term impacts

- Long spells of unemployment may make part of labor force obsolete
- Greater incentive for firms to invest in automation – result in persistent unemployment
- Increase in relative demand for gig economy workers such as Uber drivers, DoorDashers
- Negative impact on labor morale and productivity
- Rise in income inequality – led to deterioration of institutional framework of a country – undermining of democratic values and rise of authoritarianism

## Local vs Global Impact on Labor Market

### Local Impact

- Specific industries such as tourism, hotel & restaurant, airline, retail sales will be more adversely impacted. Some of these impacts may remain local
- Attractiveness of living and working in big and crowded cities may decline

### Global impact

- Promotion of remote work culture may promote more outsourcing
- Reduction in domestic and international migration
- Disruption of supply chain may promote more geographic diversification of production processes
- Relative increase in demand for certain kind of services such as home delivery,

## Possible Policy Responses

### Short term policy responses

- Stabilize aggregate demand by providing steady income – generous unemployment benefits, direct cash transfers, guaranteed employment programs (NREGA)
- Provide low cost credit lines to businesses to avoid bankruptcies
- Balancing the risk of possible infection with gradual opening of the economy

### Long term policy responses

- Create cross-national institutions to tackle such pandemics
- Institute policies such as universal basic income (UBI) to better absorb such shocks

# Conclusions

- World haven't seen pandemic of this scale for almost 100 years
- This is not a normal recession. We closed the economy deliberately.
- However, historically pandemics such as Covid-19 may lead to new normal which may drastically shift the way we interact in modern societies
- We need to recognize the unknown part – encourage more informed policy decisions