"Will Productivity and Growth Return After the COVID-19 Crisis?“

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How economic, health and social crisis from COVID-19 has reshaped economies around the world

- **UK (& US) Firm** subjective sales uncertainty doubled due to COVID
- **Covid-19 largest shock to hit the world economy for decades.**
- **Global effect, passed from East to West Jan 2020 – Mar 2020**
- **By second quarter it hit a peak.**

Source: Altig et al. (2020). Survey of Business Uncertainty, and Decision Maker Panel
How economic, health and social crisis from COVID-19 has reshaped economies around the world

This generated extensive downside tail-risk for UK & US firms
How economic, health and social crisis from COVID-19 has reshaped economies around the world

- Asymmetric effects across business sectors:
- Hardest hit sectors had most social contact in consumption
- Least hit sectors were essential services

Source: Decision Maker Panel. Percentage impact of Covid-19 on sales in 2020 Q2
How economic, health and social crisis from COVID-19 has reshaped economies around the world

Impact of Covid-19 on UK employees, May 2020

Source: Decision Maker Panel.
Firms in low productivity sectors recorded largest drop in hours worked

Source: Decision Maker Panel.

(GVA per job, £000, 2018)

Percentage impact of Covid-19

Source: Decision Maker Panel.
Impact on aggregate productivity growth

The within effect measures the contribution of changes in firm-level productivity for a given allocation of labour across firms, affected by new costs 7% – for PPE, screens etc., and the impact on costs from social distancing reducing capacity.

The between effect is the impact on total productivity of a reallocation of inputs towards firms with higher levels of productivity. Batting average effect.
Impact on costs, employment/hours and sales

Source: Decision Maker Panel.
Potential Capital and WFH

• Awful as it has been, the historic collapse in output would have been much worse, were it not for potential capital and WFH
  • Potential capital = capital not utilized but made available by digital technology
  • Residential/dwellings repurposed for work use (like Uber and Airbnb)
  • And connected through the internet

• Work from home has been much-reported
  • In the UK, the number of employees reporting working from home rose from 14% (Q4 2019 and steady previously) to 35% in Q2.
  • The pandemic solved the ‘collective action problem’ – we all had to work from home.
  • We learned how to work more productively as time went on.
Potential Capital and WFH has changed things

UK

USA

2020Q1 2020Q2 2020Q3 2020Q4

2020Q1 2020Q2 2020Q3 2020Q4
Losers - hardly any WFH - UK

Accommodation & Food

Wholesale & Retail

Total H

$\text{Accommodation & Food}$

2020Q1 2020Q2 2020Q3 2020Q4

Actual Output

Output from Work

Total W

dTFP

2020Q1 2020Q2 2020Q3 2020Q4

-17.7% -41.9% 69.4%

-6.4% 21.1%

-60.0% -40.0% -20.0% 0.0%

-111.9% -78.3% 49.0%

46.4% 0.9% 21.1%

46.4% 0.9% 21.1%

Accommodation & Food

Wholesale & Retail

Total H

$\text{Wholesale & Retail}$

2020Q1 2020Q2 2020Q3 2020Q4

Actual Output

Output from Work

Total W

dTFP

2020Q1 2020Q2 2020Q3 2020Q4

-13.5% -20.5% 36.2%

-70.5%

-111.9% -78.3% 49.0%

113.1% 70.9% 140.4%

-113.6% -78.3% 140.4%

-150.0% -100.0% -50.0% 0.0%

-111.9% -111.9% -78.3%
Forward look - working arrangements due to Covid-19

Source: DMP Monthly Data Release, May
WFH post-COVID? … persist or reverse?

Depends on why WFH grew in 2020

- **Relative prices**: work on premises was expensive
  - PPE, health risks => will at least partially reverse
  - DMP suggests average unit costs were 7% 2020Q2 and Q3, falling to 5% by 2021Q2 and to 2% by 2022+.

- **Collection action**: Work from home was not accommodated pre-Covid
  - Large shock forced, large scale WFH => solved the collective action problem and will persist

- **Learning**: Work from home was not understood
  - Learning over the pandemic improved its use => will persist
Potential Capital implications

• **Productivity**
  • Perhaps the internet is not a disappointment after all – resilience rather than ready growth
  • If the pandemic provoked 10+% of GDP in a crisis, what else may there be?
  • Contributions calculated for UK as ~3.5% from home capital alone, and 13% from labour.

• **Distributional implications**
  • More resilient on average
  • Not more resilience for everyone (restaurants, in-person services)
What should governments do to support and cushion?

- **Offer tax deductibility for employees to invest in ‘potential capital’**
  - Internet connections for work use
  - Work-related ICT, office equipment

- **Support ‘resilience’, boost productivity using potential capital**
  - Upgrade high speed internet infrastructure
  - Offer education and training in IT skills

- **Support the trend towards online retail** (UK: 35% of total sales, up from 20% in February 2020)
  - Facilitate transition from high street to online
  - Retraining for employees in negatively affected sectors