

COVID-19 and Productivity: Some Early Observations

Chad Syverson

University of Chicago Booth School of Business

CompNet ProdTalk

February 2, 2021

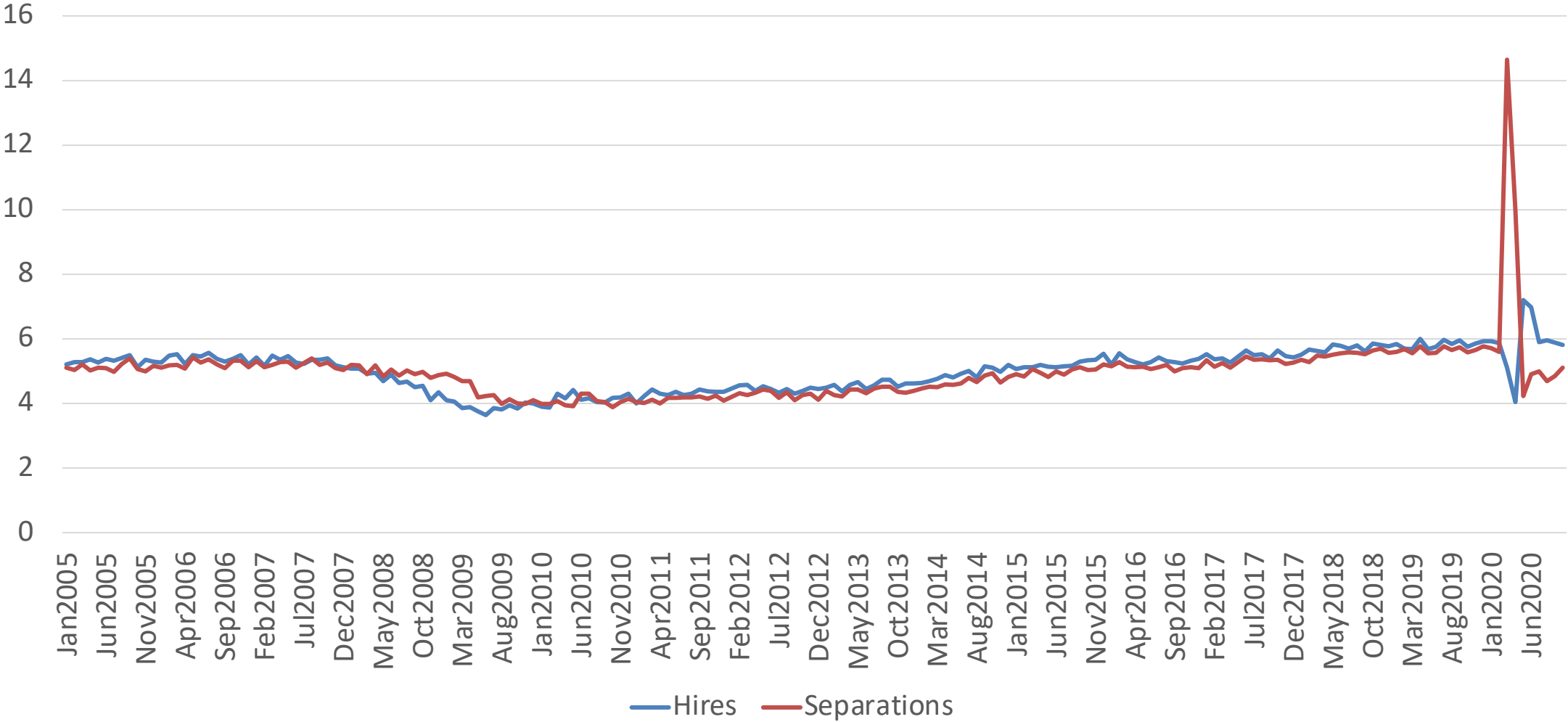
Resource Reallocation within Industries

COVID-19 pandemic raises important questions about churn-productivity interaction

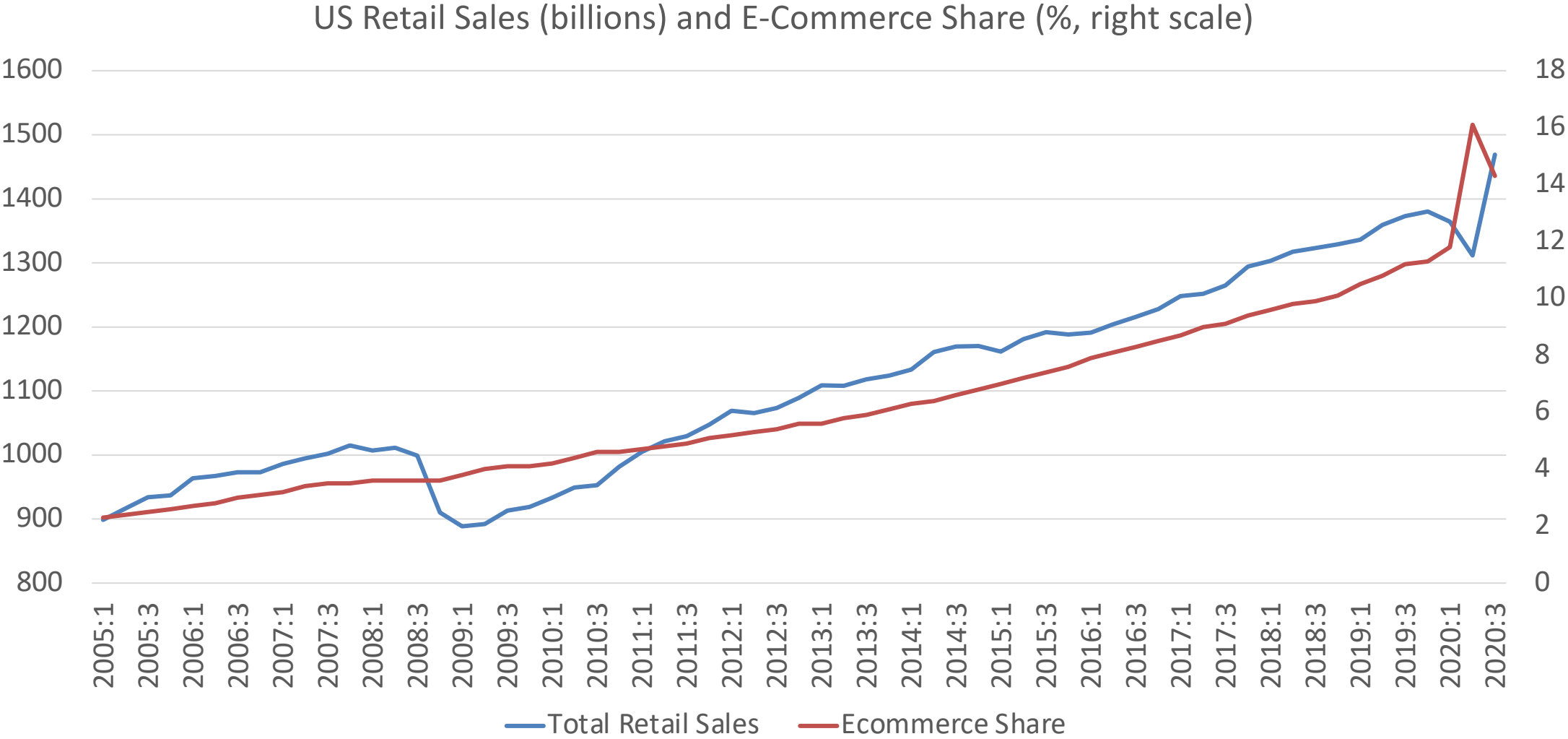
- Has churn slowed with the level of economic activity?
- Has the productivity-enhancing effect of churn (productivity \Rightarrow growth) continued during the pandemic?
 - Or has shock been so large or arbitrary as to break the usual connection?
- Will new businesses replace supply lost due to bankruptcies
 - Especially important given decades-long downward trend in business formation
- Is there a tradeoff in job-saving policies?
 - Save intangible capital otherwise lost to bankruptcy
 - Reduce productivity-enhancing churn and create zombie firms

Churn Does Not Seem to Have Slowed

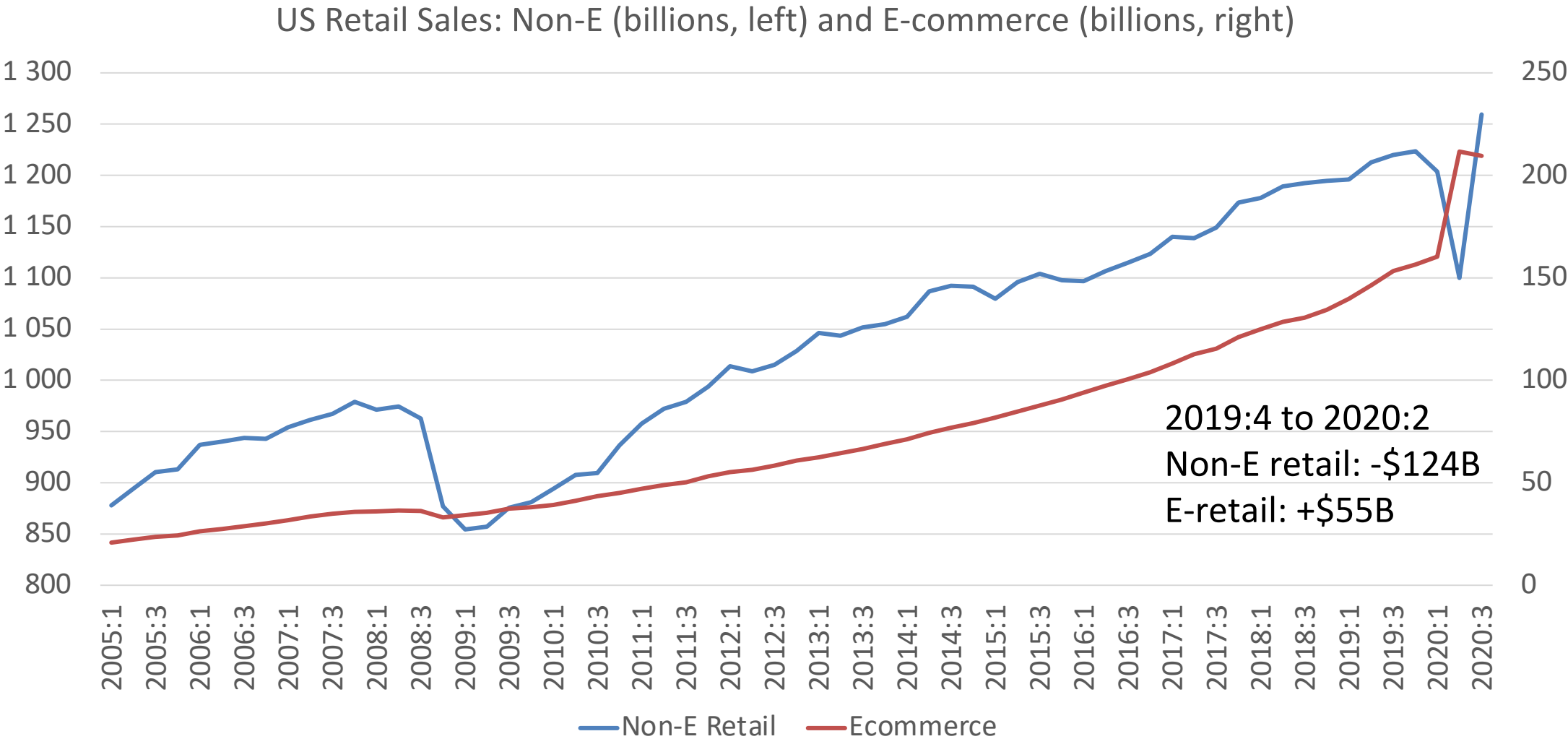
US Monthly Job Hires and Separations (millions)



COVID-19 Accelerated Churn in Some Areas



COVID-19 Accelerated Churn in Some Areas



Has the Churn-Productivity Interaction Changed?

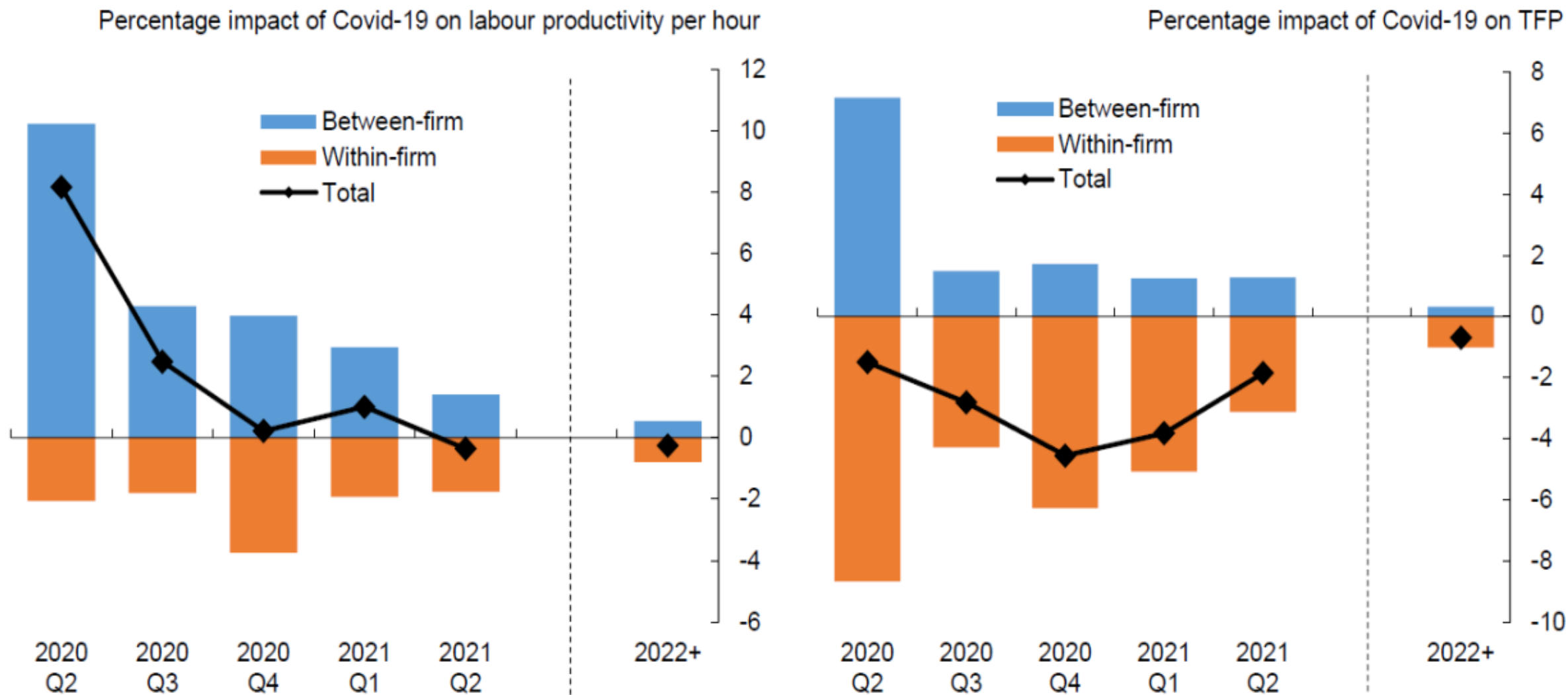
One of the most important productivity-related empirical questions about COVID

Most data used to measure churn-productivity interaction becomes available with substantial lags, so limited contemporaneous evidence

Decision Maker Panel data—broad-based survey of 48,000 UK businesses with 10+ employees—offers a early, high-frequency, albeit partially prospective, look

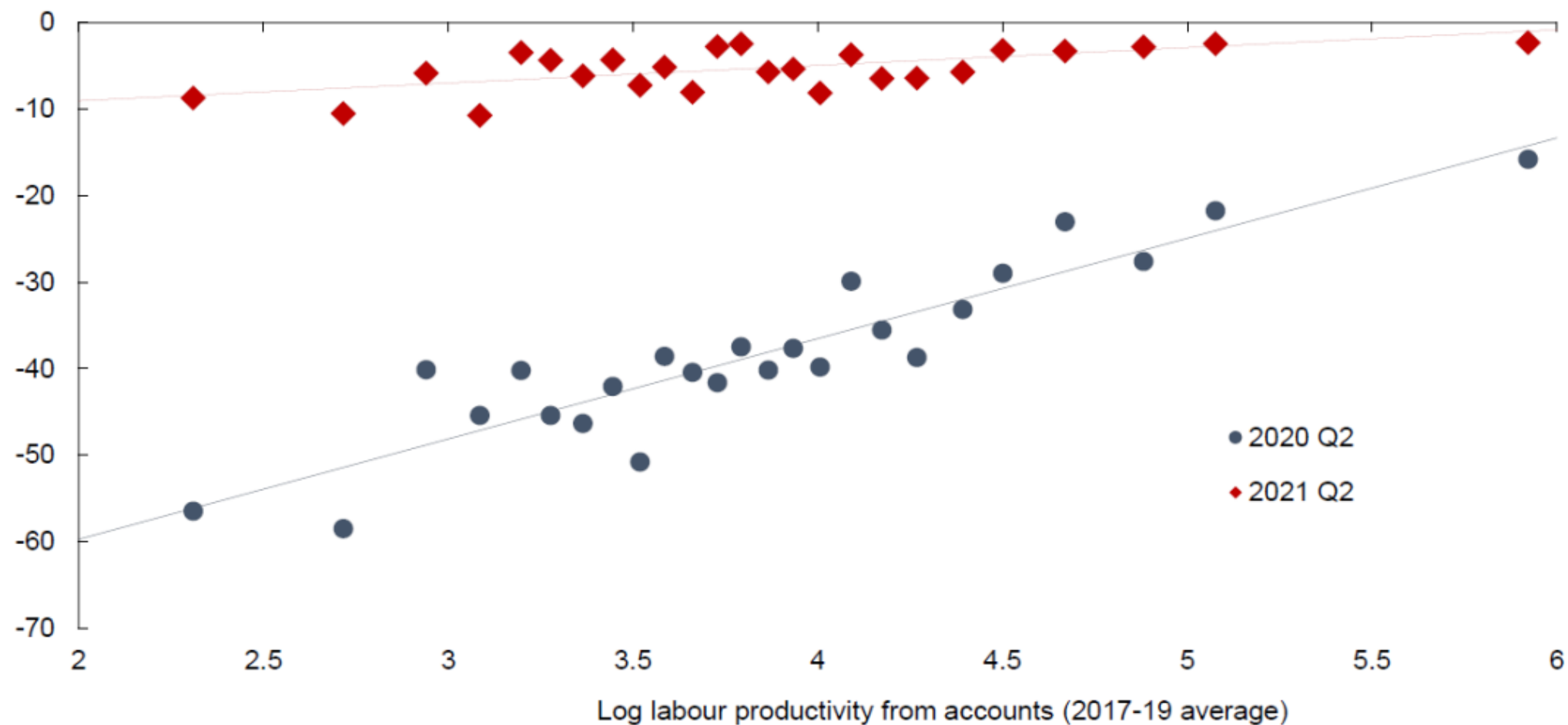
Some evidence that so far (and in coming months), reallocation process has and will continue to increase average industry productivity levels

Churn-Productivity Interaction Still “Works”



Churn-Productivity Interaction Still “Works”

Impact of Covid-19 on hours worked (%)



Will New Businesses Replace Bankruptcies?

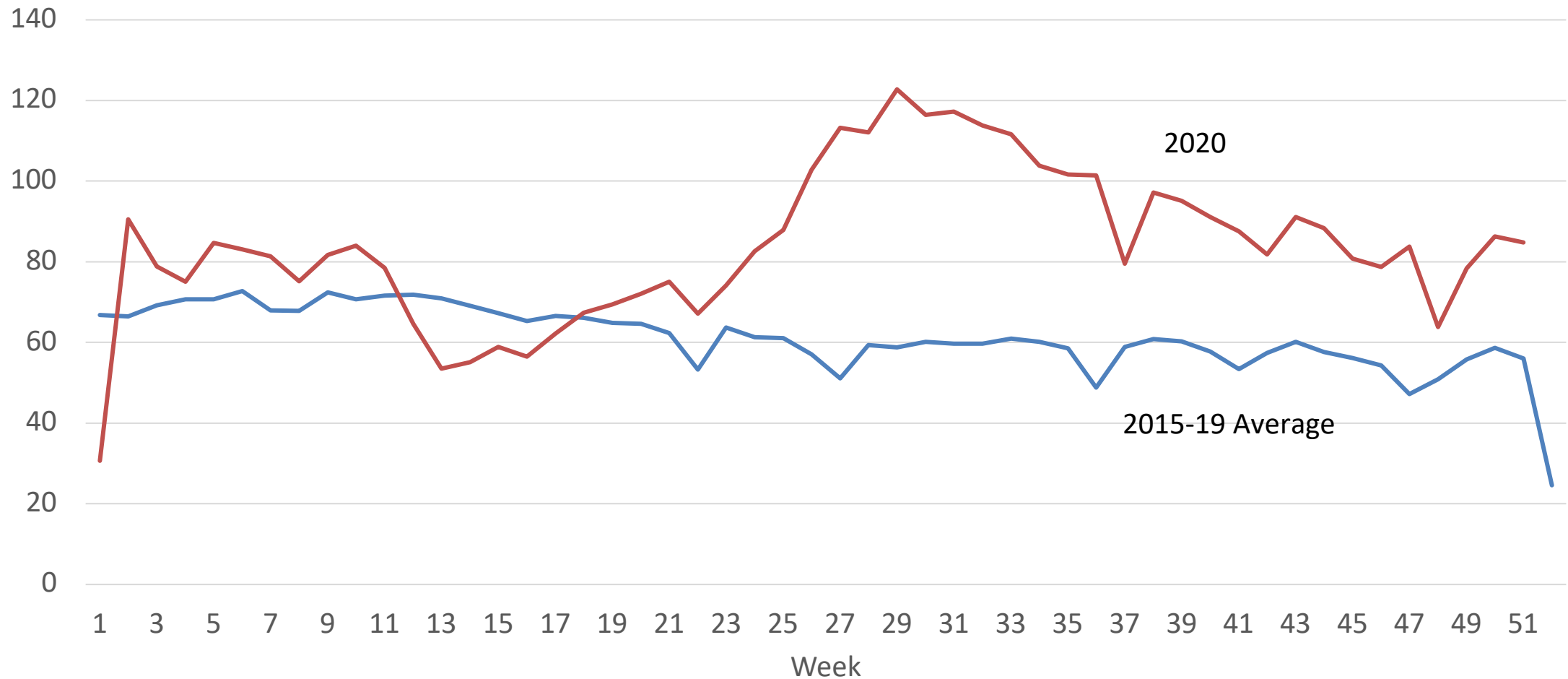
Replacing exiting businesses with new firms may still result in lost intangible capital, but it will save consumers the value of the goods and services produced

Needed for entry: entrepreneurs, financing, low market power of incumbents, limited regulatory entry barriers

A concern in this regard: business formation rates have been on decades-long downward trend

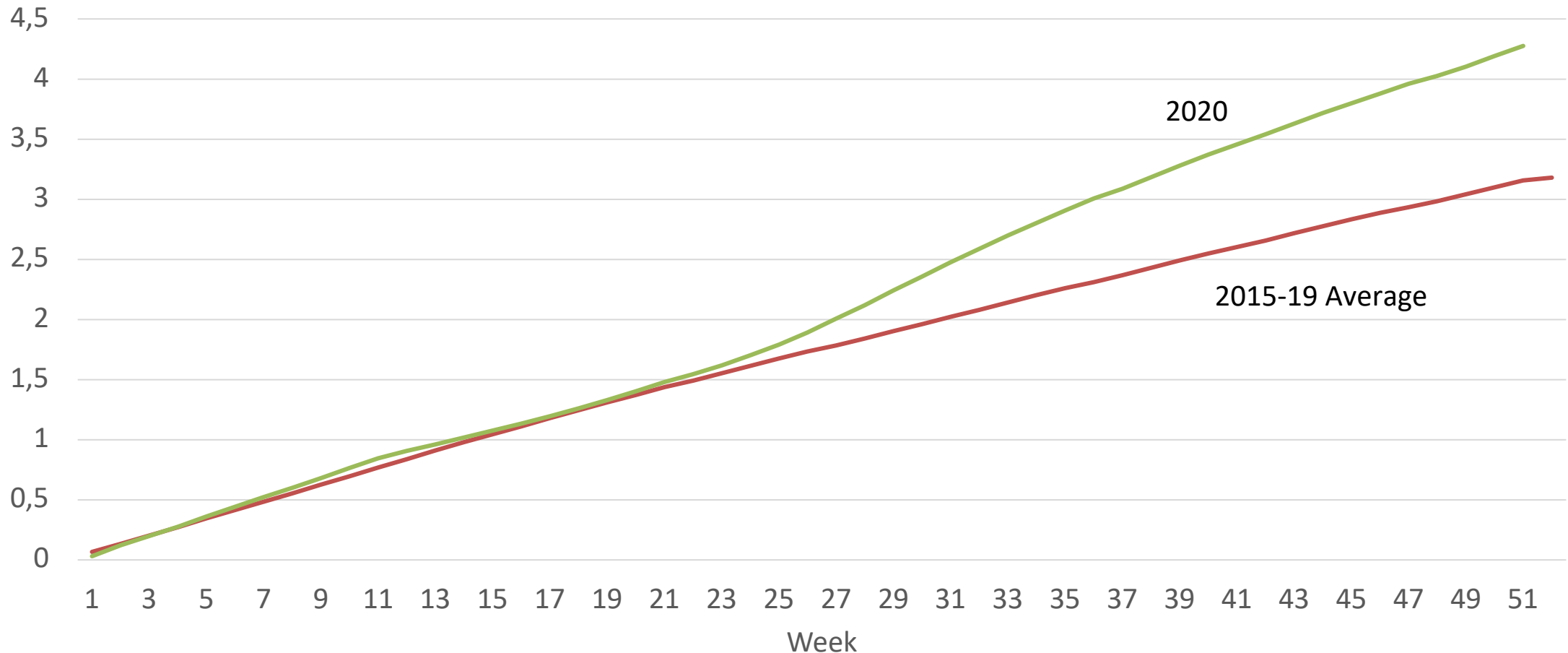
Encouragingly Strong Business Formation

U.S. Weekly New Business Applications (thousands)



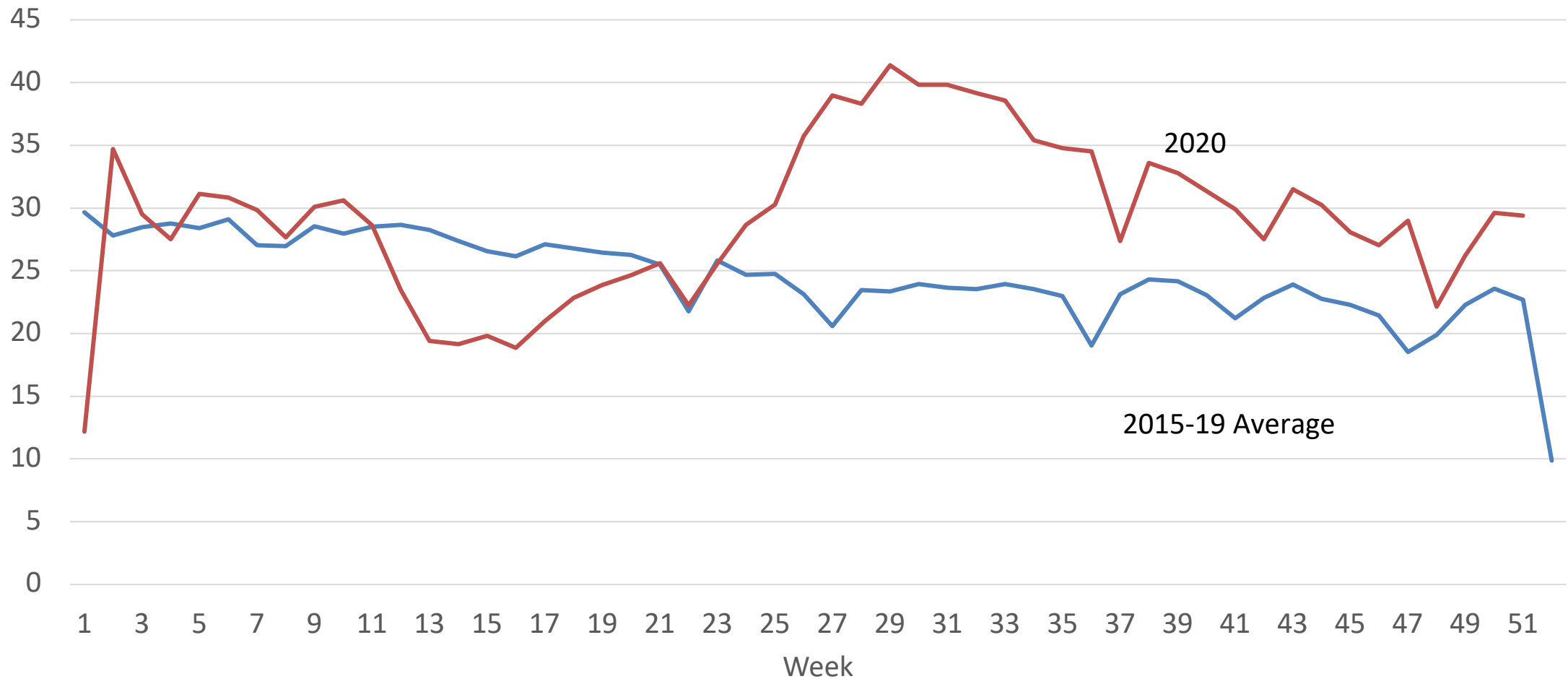
Encouragingly Strong Business Formation

U.S. Cumulative New Business Applications (millions)



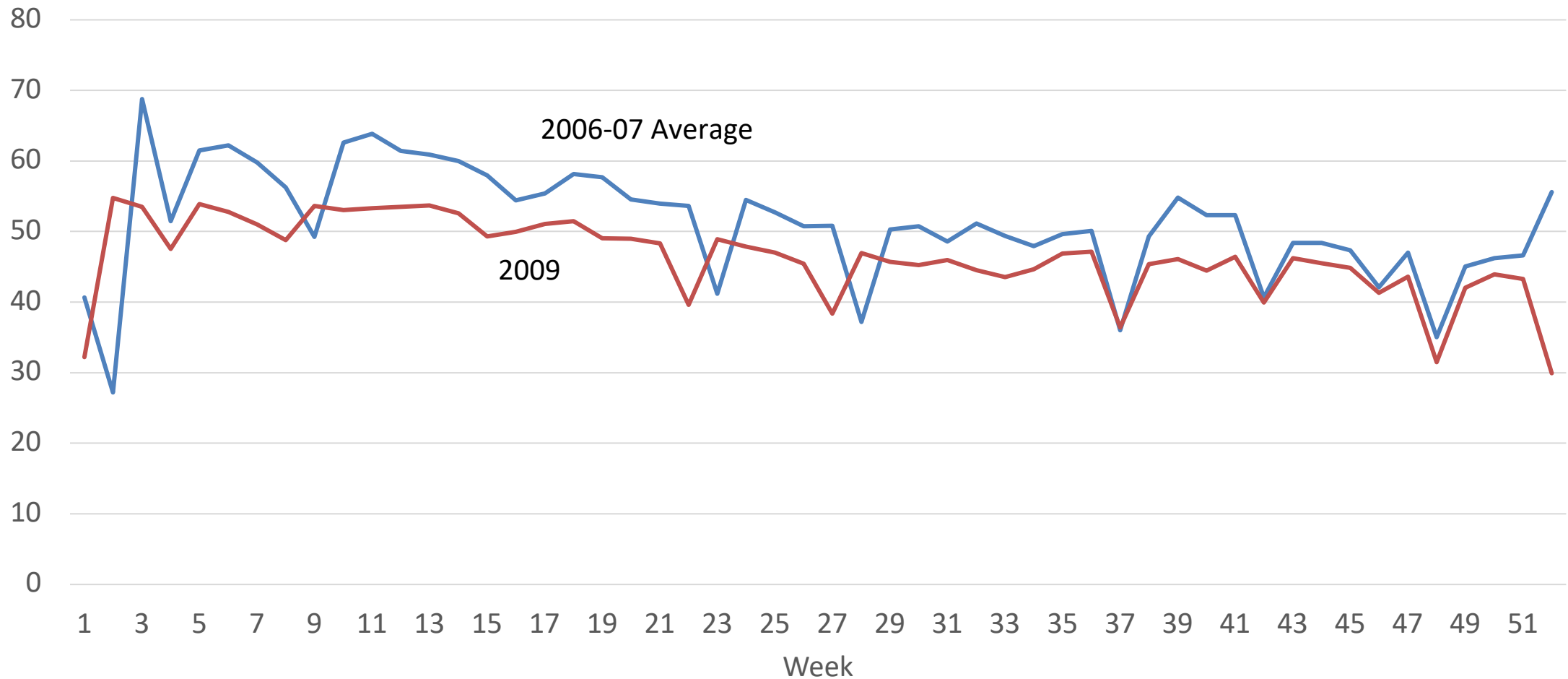
Encouragingly Strong Business Formation

U.S. Weekly "High-Propensity" Business Applications (thousands)



Encouragingly Strong Business Formation

U.S. Weekly New Business Applications (thousands)



Saving What Is Valuable vs. Benefits of Churn

Tradeoff surely exists; one of the trickiest economic-policy-related COVID-19 issues

Hard to quantify both sides of the scale

- One side: productivity growth through churn (early evidence more qualitative than quantitative), proficiency levels of new firms, etc.
- Other side: value of lost intangible capital, adjustment costs of workers and their families, etc.

Nevertheless, getting the policy answer right requires a notion of these magnitudes