

Comment and Discussion

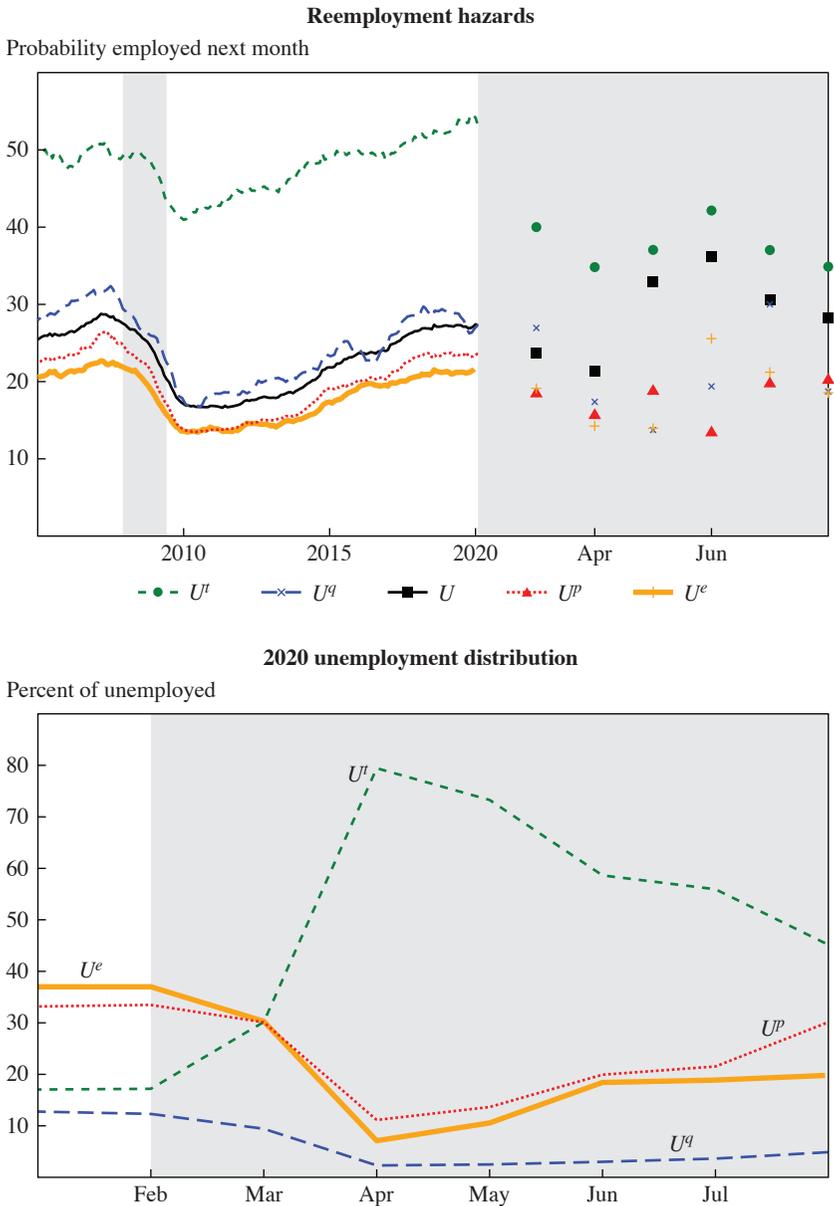
COMMENT BY

GABRIEL CHODOROW-REICH Jessica Gallant, Kory Kroft, Fabian Lange, and Matthew J. Notowidigdo provide a very nice summary of the COVID-19 labor market to date and an optimistic forecast of the path forward. In this discussion, I will play the skeptic's role and elucidate the forces that may temper their optimism. To get there, I will start with a brief overview of the COVID-19 labor market, then review the authors' exercise, and finally present three key questions about the future of the recovery and highlight where their forecast omits potentially adverse forces.

LABOR MARKET OVERVIEW Gallant and her colleagues provide a comprehensive overview of the labor market in the early months of the COVID-19 recession. Four features merit special emphasis. First, despite the unprecedented magnitude of the flows across labor market states, the matching process has remained relatively stable once one conditions on the type of unemployment. That is a key result for the authors. Second, there has been a historically high share of unemployed on temporary layoff who traditionally have high reemployment rates. Third, separation rates into unemployment have remained high even as the labor market has recovered. The fourth is an implication of the previous: there is a lot of churn.

Figure 1, adapted from Chodorow-Reich and Coglianese (2020), summarizes the unusual nature of transitions from unemployment into employment. The top panel shows the historical average reemployment hazard rates by type of unemployment and the hazard rates during the COVID-19 recession, computed from the basic monthly Current Population Survey (CPS) micro data files. After falling in March and April, the overall reemployment hazard from unemployment rose to a historically high level, as shown by the black squares. At the same time, the reemployment hazard for those on temporary layoff, shown in the round dots, and permanent

Figure 1. Reemployment Heterogeneity



Source: Current Population Survey and author's calculations.

Notes: The top panel plots the reemployment probabilities from unemployment overall (U) and the subcategories unemployed-temporary layoff (U^t), unemployed-permanent layoff (U^p), unemployed-quit (U^q), and unemployed-entrant (U^e) as twelve-month moving averages through February 2020 and the monthly values thereafter. The bottom panel plots the distribution of unemployment by status in 2020.

layoff, shown in the triangles, fell relative to their historical average. The rise in the overall reemployment hazard despite the decline in hazards within unemployment type must reflect changes in composition, shown in the bottom panel. Temporary layoffs have been a historically high share of the unemployed, as high as 80 percent in April, and those on temporary layoff have much higher reemployment rates. Put simply, the fast labor market recovery to date is entirely driven by the historically high share of temporarily laid off individuals.

GALLANT, KROFT, LANGE, AND NOTOWIDIGDO EXERCISE The authors' exercise is easily summarized. They extend a standard search-and-matching framework to account for heterogeneity among the unemployed. In particular, they allow for different job-finding rates for those on temporary layoff and not searching, who account for about three-quarters of temporary layoffs, those on temporary layoff and actively searching, by duration, and other unemployed by duration. The exogenous driving forces are the number of vacancies, the separation rate out of employment, transitions among unemployment states and out of the labor force, and the reemployment rate for those on temporary layoff and not actively searching. The endogenous outcome is the job-finding rate of searching unemployed, which varies with duration. So another way to view the exercise is as an assessment of the stability of a properly specified matching function. The model fits the data very well overall. The goodness of fit partly reflects the importance of the contribution of the temporary layoff not actively searching category, whose job-finding rates are fit exogenously. To put it more generously, the exercise makes clear the importance of temporary layoffs in accounting for flows so far during the COVID-19 recession, formalizing the compositional point made by figure 1.

Gallant and her colleagues use their model to draw two stark implications for the future. First, they project a much more rapid labor market recovery than most government or professional forecasters. Assumed continued high rates of reemployment of those on temporary layoff and declines in new separations underlie this optimism. Recent downward revisions of the unemployment rate by professional forecasters lend some credence to their conclusion. For example, the median forecast of Federal Reserve Board members and bank presidents in September anticipated an unemployment rate of 7.6 percent in 2020:Q4, down from a median forecast of 9.3 percent in June.¹ Second, they foresee relatively little

1. Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2020; <https://www.federalreserve.gov/monetarypolicy/files/fomcprojt120200916.pdf>.

long-term unemployment, given how high the unemployment rate went. This conclusion comports well with Chodorow-Reich and Coglianesi (2020), which takes the very different approach of a factor structure of flows to project unemployment durations during the COVID-19 recession.

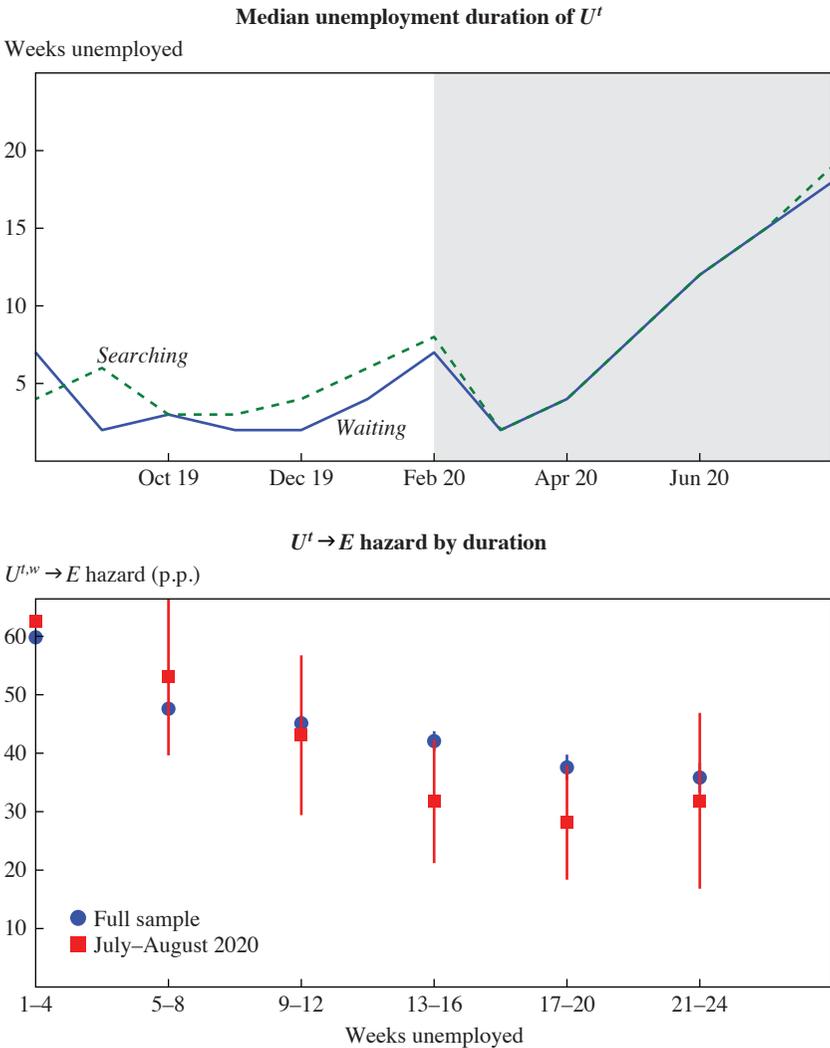
I now raise three key questions, the answers to which will determine whether the authors' optimistic forecast proves correct. The first concerns the reemployment hazards of the temporary unemployed, the second the separation rate going forward, and the third the general level of labor demand.

REEMPLOYMENT FROM TEMPORARY LAYOFF As of August there were 6.2 million individuals on temporary layoff, which comes to 3.8 percent of the labor force. With an overall unemployment rate of 8.4 percent, rapid reemployment of these individuals would generate a fast labor market recovery. Figure 1 of this comment already showed that the reemployment hazard rate from temporary layoff during COVID-19 has been below its historical average. The authors' baseline forecast assumes the recall rate *rises* back to its pre-COVID-19 level (which was at a historical high) over the next twenty-four months, and their alternative scenario assumes it flatlines. In either case, individuals on temporary layoff are reemployed relatively quickly.

I will now suggest the possibility that the reemployment rate from temporary layoff could actually *fall* further instead. Why might this occur? As the share of the unemployed on temporary layoff declined after April, the average duration of unemployment for those still on temporary layoff rose. The top panel of figure 2 shows the median unemployment duration for those on temporary layoff, separately for those actively searching and waiting. For both categories, the median duration rose from less than four weeks in normal times to eighteen weeks in August. In other words, the median person on temporary layoff in August first became unemployed as part of the huge separation surge in April.

The authors' model accounts for duration dependence among those who are on temporary layoff and searching but not those on temporary layoff and waiting. The bottom panel of figure 2 shows the declining hazard rate among those on temporary layoff and waiting, the counterpart to the paper's figure 8 which shows the declining hazard among those on temporary layoff and actively searching. The round dots plot the duration coefficients from a pooled regression over 1994–2020 of an indicator for returning to employment from temporary layoff on bins of unemployment duration and month fixed effects. The square dots plot the duration relationship using only the most recent CPS survey in August. The pattern is, if anything, more

Figure 2. Duration Dependence of Temporary Unemployed and Waiting



Source: Current Population Survey and author’s calculations.

Notes: The top panel plots the median self-reported unemployment duration for individuals on temporary layoff and searching (dashed line) or not (solid line). The bottom panel plots the coefficients $\{\beta_j\}$ from the regression: $\mathbb{I}\{E_{i,t} | U_{i,t}^{j,w} = 1\} = \delta_t + \sum_j \beta_j \mathbb{I}\{\text{Duration} = j\} + \epsilon_{i,j,t}$, where $E_{i,t+1} = 1$ if individual i is employed in month $t + 1$ and 0 otherwise, and the sample includes individuals on temporary layoff and not searching in month t .

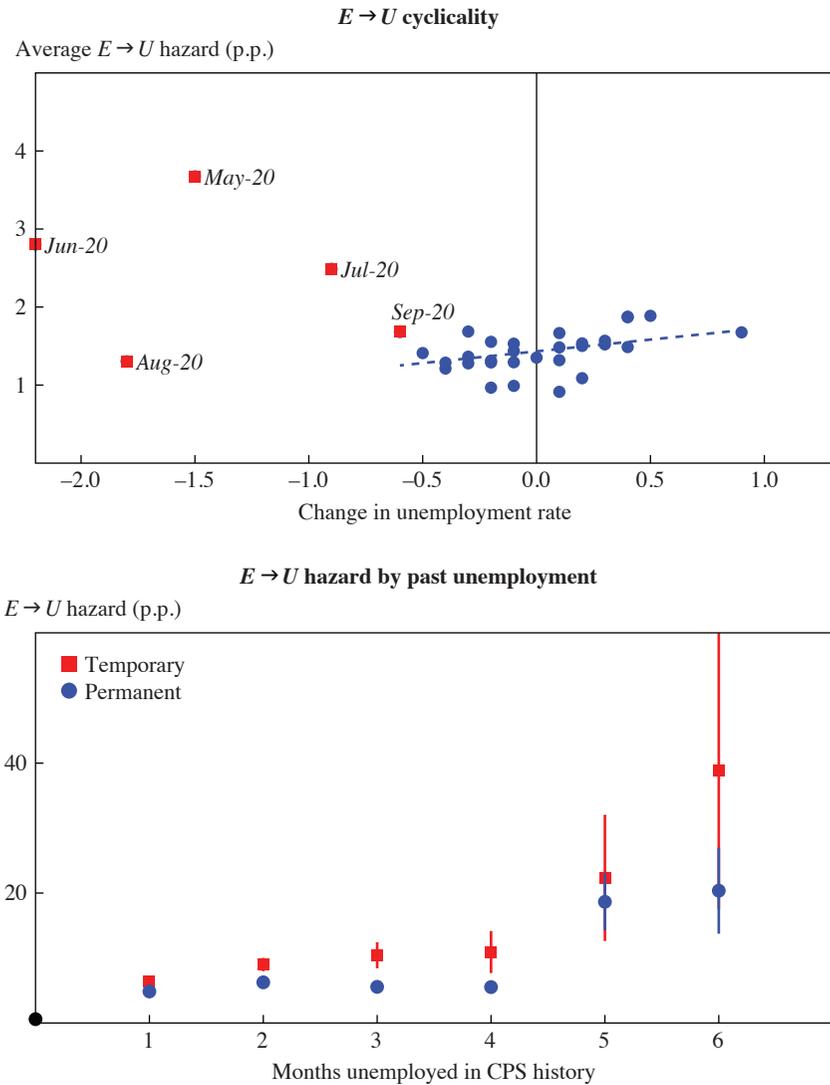
pronounced in the current episode. For a paper that otherwise shines in its attention to duration dependence among the unemployed, the absence of duration dependence for the temporary laid off not searching, who account for about three-quarters of all temporary layoffs, is an important lacuna.² Accounting for it would suggest that the overall reemployment rate from temporary layoff may decline rather than rise in the coming months, eventually resulting in a concomitant increase in the stock of unemployed not on temporary layoff. This scenario more closely resembles a counterfactual that Gallant and her colleagues relegate to the online appendix, where the recall rate of temporary unemployed not searching falls exogenously over the next several months, generating a substantial increase in unemployment relative to their baseline scenario in the paper.

SEPARATIONS INTO UNEMPLOYMENT An extremely unusual feature of the COVID-19 labor market has been the continued high rate of separations from employment into unemployment despite an overall falling unemployment rate, as shown in the top panel of figure 3. The round dots show that typically the $E \rightarrow U$ hazard is lower when the unemployment rate is falling. The square dots show May–August 2020. Separations have remained well above the historical norm despite unprecedented declines in unemployment. This finding echoes the historically high levels of new unemployment insurance claims that have persisted despite the fall in the unemployment rate.

Forecasts of the overall unemployment rate more pessimistic than the authors' implicitly assume these high separations continue. This could come from aggregate forces, as I discuss next. History dependence may also contribute. Gallant and her colleagues do not model history dependence among the employed. However, a recent literature on exactly this topic finds that those with recent spells of unemployment return to unemployment more quickly (Hall and Kudlyak 2019; Jarosch 2021). A key question concerns whether this history dependence reflects true causality or instead selection, which might be less important in the current episode. (The same question applies with equal force to the previous discussion of exit hazards from unemployment by duration.) The literature has not reached consensus on this question. One obvious dimension of heterogeneity concerns history dependence for those previously on temporary versus permanent layoff. Chodorow-Reich and Coglianese (2020) explore this dimension by analyzing

2. There is substantial scope to further condition these hazard rates on observable characteristics such as age, sex, industry, and geography of the worker, which might shed additional light on the recall hazards going forward.

Figure 3. Separation Hazards and History Dependence



Source: Current Population Survey and author's calculations.

Notes: The top panel plots the hazard rate for separating from employment into unemployment, by month. For readability, the scatter plot excludes the month of April 2020, which had a 10.3 percentage point increase in the unemployment rate and 11.2 percent $U \rightarrow E$ hazard rate. The bottom panel plots the coefficients $\{\beta_j^t\}$ from the regression: $\mathbb{I}\{U_{i,t}|E_{i,t} = 1\} = \delta_t + \sum_{j \in \{1,2,3,4,5,6\}} \beta_j^t \mathbb{I}\{U_{i,j}^t = 1\} + \sum_{j \in \{1,2,3,4,5,6\}} \beta_j^p \mathbb{I}\{U_{i,j}^p = 1\} + \epsilon_{i,t}$, where U^t and U^p index whether individual i was on temporary or permanent layoff, respectively, in the CPS month-in-sample j .

separation hazards of respondents who are employed in their seventh CPS interview month, conditional on their employment status in the previous six interviews. The bottom panel of figure 3 follows that analysis and plots the separation hazard by past months of unemployment, separately for temporary and permanent layoff. Perhaps surprisingly, if anything previous unemployment matters more if the spell was temporary, and this result does not appear driven by seasonality. Thus, incorporating heterogeneity in separation hazards of the employed would suggest that high separation rates may continue as the recovery progresses.

OVERALL LABOR DEMAND Third, probably the most important driver of the labor market recovery is overall demand. The path of overall labor demand is not a question this paper is well suited to answer; the driving forces—recall rates, vacancies, new separations—all depend on the overall level of labor demand. Nonetheless, we can speculate. The optimistic scenario is simple: a fully functional vaccine arrives quickly, or there is dramatic improvement in testing capacity or treatment. A pessimistic scenario might involve a new wave of infections as flu season ramps up and diminished policy support due to political gridlock. Unfortunately, the pessimistic scenario appears highly plausible. For example, the September forecast of the Institute for Health Metrics and Evaluation had as its baseline outcome a new daily high of COVID-19 deaths in December, stemmed only by the reimposition of social distancing measures.

CONCLUSION Gallant and her colleagues provide what should become a touchstone overview of the early months of the COVID-19 labor market as well as a useful forecasting exercise. I fully agree with their emphasis on temporary layoffs. However, I have offered reasons for caution in adopting their optimistic view of the path forward. Already their forecast provides grounds for concern. In both simulations shown in the paper, the stock of unemployed individuals not on temporary layoff peaks in July 2020 (see figure 14). In fact, this stock rose in August and September. If this trend continues, the labor market will recover more slowly than the authors' forecast.

REFERENCES FOR THE CHODOROW-REICH COMMENT

- Chodorow-Reich, Gabriel, and John Coglianesi. 2020. "Projecting Unemployment Durations: A Factor-Flows Simulation Approach with Application to the COVID-19 Recession." Working Paper 27566. Cambridge, Mass.: National Bureau of Economic Research. <https://www.nber.org/papers/w27566>.
- Hall, Robert E., and Marianna Kudlyak. 2019. "Job-Finding and Job-Losing: A Comprehensive Model of Heterogeneous Individual Labor-Market Dynamics."

Working Paper 25625. Cambridge, Mass.: National Bureau of Economic Research.

Jarosch, Gregor. 2021. "Searching for Job Security and the Consequences of Job Loss." Working Paper 28481. Cambridge, Mass.: National Bureau of Economic Research.

GENERAL DISCUSSION Bob Hall noted that the paper could have supported its case with key evidence from the employer side. He suggested that the authors consider the Job Openings and Labor Turnover Survey (JOLTS) because it reports the duration of vacancies (one good measure of labor market tightness) and supplies the numerator of the standard measure of tightness, the vacancy/unemployment ratio. Hall said that labor market tightness took an initial hit (after the COVID-19 pandemic-induced recession) and has settled (as of December 2020) well above recession levels though below the high level prevailing just before the pandemic began.

Hall suggested that the vocabulary in the paper is inapt. He said that the terms "temporary" and "permanent" unemployment are inappropriate, because essentially all unemployment is temporary. He suggested instead using "recall-unemployment" and "jobless-unemployment," as in his work with Kudlyak.¹

In response to Hall, Jim Stock offered the designations "short-term" and "long-term" unemployment.

Steven Davis agreed with Hall that the labor market is, indeed, much tighter than headline unemployment numbers suggest and that vacancy-filling rates warrant greater attention. He also pointed out that an important omission from the discussion is the roughly 6 million people who removed themselves from the labor force in April and May. Davis noted that, in this recession, the number of workers who have removed themselves from the labor force is five times the number of workers who are counted as unemployed by reason of permanent job loss in the Current Population Survey. Furthermore, Davis continued, in no other postwar recession has the number of workers who abruptly left the labor force so greatly outnumbered the people who became unemployed by reason of permanent job loss.

Jason Furman asked if COVID-19 pandemic-induced recession has induced companies to automate, and if so, what effect would that have on

1. Robert E. Hall and Marianna Kudlyak, "Unemployed with Jobs and without Jobs," working paper 27886 (Cambridge, Mass.: National Bureau of Economic Research, 2020), <https://www.nber.org/papers/w27886>.

the model. He then asked for some predictions about whether policymakers should continue or cease the Federal Pandemic Unemployment Compensation (FPUC) program.

In response to Gabriel Chodorow-Reich's discussion, Matthew Notowidigdo agreed that duration dependence in the recall rate ought to be incorporated into the model. Notowidigdo pointed out, however, that their online appendix figures A42 and A43 display a scenario that is similar to allowing for duration dependence in the recall rate, and the alternative forecasts are very similar to the baseline scenario. This implies that allowing for duration dependence in the recall rate is unlikely to substantially change the baseline forecasts. He said job separations rather than vacancies and the recall rate have more of an impact on the forecasts.

Addressing audience questions, Notowidigdo said that he agrees with Hall that the authors do not like the "temporary" and "permanent" unemployment terminological dichotomy and that they will consider other options. Replying to Davis's comment, he remarked that the model does allow for movement between employment and nonparticipation. Addressing Furman's comment on policy, Notowidigdo stated that the authors do not have very much to say about policy relating to automation, but in regard to unemployment insurance, they are interested in the decision of temporary unemployed workers to wait instead of actively searching for work.

Chodorow-Reich responded that because the labels "temporary" and "permanent" layoff come directly from the Current Population Survey, it would be better not to change them.

Replying to Furman's comment, Chodorow-Reich reflected that there has always been some churn in the supply shock. Lastly, he said, one way to think about this declining hazard rate for those on temporary layoff is partly a selection of the people who are in industries that are not going to come back.