

Gary Officer, CWI Labs founder and CEO:

Hello. My name is Gary Officer, founder and CEO of CWI Labs and the CWI Labs Equitable Recovery series. My guest today is Julia Pollak, a labor economist at ZipRecruiter. Our special guest moderator is my good friend, Ramona Schindelheim, editor in chief of WorkingNation. Ramona.

Ramona Schindelheim, WorkingNation editor-in-chief:

Thank you, Gary. Joining me today is Julia Pollak, labor economist for ZipRecruiter. Today our conversation is going to focus on the impact of COVID-19 on small businesses, especially minority and immigrant-owned small business. Julia, thank you for joining me.

Julia Pollak, ZipRecruiter labor economist:

Thank you so much for having me, Ramona.

Ramona Schindelheim, WorkingNation editor-in-chief:

So, before COVID-19 there was a lot of talk about how small businesses were the economic engine for our country. Tell me a little bit about where we were right before COVID-19 and where we are today.

Julia Pollak, ZipRecruiter labor economist:

Well, right before COVID-19 we had seen 10 years of steady employment growth, and we had seen the benefits of a tightening labor market for workers. Many economists had thought that we were at full employment three, four, five years earlier, and yet we continued to see people come off the sidelines into the labor market to get jobs and to see wage increases that were raising their household incomes and their well-being. One problem though, is the decline in lending to small businesses. Part of that was the consequence of the steps we took to prevent another Great Recession. So, big banks in particular are much more risk-averse now, and various laws that we've passed are forcing them to be more conservative in their lending. But the result has been that the capital has dried up for some small businesses, particularly those in lower cost areas.

Ramona Schindelheim, WorkingNation editor-in-chief:

How's that impacting these businesses? Is there a larger number of minority businesses that are shutting down?

Julia Pollak, ZipRecruiter labor economist:

Nine to 10% of businesses are no longer in operation. Of minority-owned businesses it's almost twice as many. So, there's definitely been a disproportionate effect here. Part of that is because of the industries that have been affected by the pandemic. The service sector has many minority-owned businesses, laundromats and dry cleaners, shuttle bus services, many businesses in the office economy. The facilities rental companies are minority-owned. So, part of this has just been the luck of the draw. This has been the first service sector-led recession ever, and many people in those businesses are minorities. They're heavily concentrated in some of those key industries.

Ramona Schindelheim, WorkingNation editor-in-chief:

So, we're seeing a lot of minority-owned businesses struggling during this economic crisis caused by the pandemic. We saw it once before in Hurricane Katrina, where minority-owned businesses in New

Orleans and Louisiana suffered. How did they come back? Are there lessons there that we can look to today and maybe help these businesses?

Julia Pollak, ZipRecruiter labor economist:

Well, it was a long, slow process, but one thing we saw happen after Hurricane Katrina is that people who were having trouble finding work, in many cases, branched out and started their own businesses. So, business creation and startup formation can be an exit path out of the jobs hole that we find ourselves in, and that's why we really need to focus now on making it as easy as possible for people to start new businesses.

Ramona Schindelheim, WorkingNation editor-in-chief:

Yeah, I think that issue of capital, again, becomes a problem. So, it feels like you need to get the whole financial community behind this.

Julia Pollak, ZipRecruiter labor economist:

You really do. There are many wonderful efforts that are underway. There are individual entrepreneurs who have pledged large amounts of funding towards this effort. The kinds of revenue losses that businesses are suffering right now are just so catastrophic. They're so enormous that nobody could have anticipated them.

Ramona Schindelheim, WorkingNation editor-in-chief:

I know the labor market is always kind of an ebb and flow. Jobs added, jobs lost. But the numbers of, every week, this high number of new jobs lost, it's concerning.

Julia Pollak, ZipRecruiter labor economist:

It's extremely concerning. There are so many businesses that really can't possibly recover right now. Let's take the airline industry, for example. 9/11 was considered a big crisis for airlines and it pushed two of the biggest airlines into bankruptcy. During that crisis, passenger throughput levels fell 30% in the first month, and then were still down 7% about a year later. This time, the number of air travelers has fallen 97% in the first month and it's still down 70% seven months later. There are many, many businesses that expected to recover much more quickly, that posted lots of jobs at restaurants and hotels over the summer, that thought in June and July that this would be over in a couple of months and that are now looking at sales and foot traffic and saying, "How on earth are we possibly going to survive through the end of the year?" The businesses that stayed in business over the summer and that we're able to adapt by offering outdoor services, outdoor dining, outdoor gym classes, are now facing the prospect of winter in which that emergency lifeline is not available anymore.

Julia Pollak, ZipRecruiter labor economist:

And so yes, many companies are now facing the reality that they may have to close. On the plus side, the businesses that have been the big winners in the COVID economy, the warehouses, the superstores, the home building supply stores, those kinds of industries were initially pretty slow to respond by expanding capacity. Now those firms, confident that this pandemic is here to stay for a while, are actually making those investments and expanding the hiring plans. So, there is some opportunity in the labor market to move from one industry to another one. One difficulty is that the kinds of industries that the restaurant workers or hotel workers would transition into, typically if they lost their jobs, those are

also suffering in the crisis. It's difficult for people to find careers that they can transition into at the moment with their skills, and it's costly for people to make those switches. So, this is all going to take time. It's going to be somewhat messy. Let's hope that there's another deal that can help businesses just weather this downturn so that they can return strong after the pandemic.

Ramona Schindelheim, WorkingNation editor-in-chief:

So, in the past, a lot of the people who may have been losing their jobs in some of these lower-paying jobs in the service industry, they could transition into other jobs. But now there's this skills gap that we talk about a lot. So, people can work remotely. They have access to computers. They have access to broadband. How important is that into making this an equitable recovery where it's broad across all sectors and all demographics?

Julia Pollak, ZipRecruiter labor economist:

So, one feature of this crisis... Imagine had this crisis happened 20 years ago when there wasn't cloud computing and broadband internet access. The service economy would have had to stop completely and we would have seen a much, much, much larger downturn in economic activity. This time, thanks to remote work and video conferencing technologies, much of the activity in the economy has been able to continue. The problem is 27% of Americans do not have high speed broadband internet at home. Only 65% of workers have fast enough internet to conduct video conferencing. And then just generally only about 20% of workers are working from home at the moment. It's still a very small share of the economy where it can be done that way. So, there are many people who are cut out of that shift to remote work and are not able to participate in the new remote economy.

Ramona Schindelheim, WorkingNation editor-in-chief:

So, you mentioned, again, government helped to come in and maybe put an infusion of cash into the business community again. How important is that and what happens if it doesn't happen?

Julia Pollak, ZipRecruiter labor economist:

So, the Paycheck Protection Plan, the expanded Unemployment benefits, all of the unprecedented measures that the government took to provide assistance to companies had a huge effect in maintaining spending in the economy, actually increasing spending in some areas and preventing a wider systemic breakdown in the market. Far more people than were initially expected to were able to pay their rent in May and June. As a result, we didn't see this crisis of defaults and mortgage defaults and foreclosures. So, it's been very, very important that the businesses receive that kind of assistance. There's broad bipartisan support for providing that assistance. It's really the additional desires of each party that have kept a deal from going through. The Republican wishlist includes liability protections for businesses and a payroll tax cut and the Democrat wishlist involves measures related to mail-in voting and a much larger bailout for the states than Republicans are prepared to agree to.

Julia Pollak, ZipRecruiter labor economist:

Those are the sticking points that are holding up what almost everyone agrees should happen, which is that there should be additional assistance for businesses and for workers who've lost their jobs. As a recruiter, we conducted a survey of workers and asked them what would happen to them if those federal unemployment benefits supplements were reduced. Large percentages said that they would no longer be able to afford their rent, that they would have to move home, that they would cut back on

spending on groceries and other essentials. We are already starting to see that now, and that could cause this crisis to have a cascade of second order effects throughout the economy.

Ramona Schindelheim, WorkingNation editor-in-chief:

So, Julia, are there any specific programs out there, any efforts to help minority-owned businesses stay in business?

Julia Pollak, ZipRecruiter labor economist:

Well, all of the programs that were in the CARES Act, of course, are designed to help businesses weather this crisis. And those could, if minorities are informed of them and if those barriers to access are addressed, if there's greater oversight ensuring that the criteria are fair, those programs should provide a huge boost. One issue we've just seen, though, is that a major barrier to getting support where it's needed is the terribly low bureaucratic quality of our government that we've seen. In California, for example, only one in a thousand people who called their state unemployment insurance agency got through on the phone. In Florida, it's the same. This is not just a red state problem, not just a blue state problem. Across the country, the safety net didn't work. It was just totally not adequately funded.

Julia Pollak, ZipRecruiter labor economist:

It was technologically outdated. When you read articles about the backlogs of applications in each of these programs, you don't realize how enormous those backlogs have been and how desperate many of the people applying for these lifelines have been calling and calling and calling, waiting, applying, finding their applications didn't go through, finding websites and online applications repeatedly time out. This has really been a shocking discovery for many Americans, that the programs designed to help in emergencies are just completely not up to the task. So, the first thing I would suggest that the government do is make a huge investment in overhauling these programs, reevaluate eligibility criteria to make sure that they do not exclude very large shares of the workforce, particularly older women in domestic work and minorities and immigrants and farm work, and that they are more fair, equitable and modern, and up to the times.

Ramona Schindelheim, WorkingNation editor-in-chief:

I guess we didn't really anticipate this kind of a national pandemic or health issue that we'd create this kind of crisis. I guess this is unprecedented.

Julia Pollak, ZipRecruiter labor economist:

That's true, but even in the Great Recession we found many of these programs were strained and it's not difficult as a government to realize that one of the most important functions you can possibly serve is to do things for people that they cannot do for themselves, and to respond in disasters and emergencies. Developing that kind of surge capacity, running war games, testing systems, those are really, really important functions of government. If you have a labor market like ours where the vast majority of employees are at-will employees who can be terminated at any time with no notice, for no cause, who bear the full risk of any kind of downturn in the economy, then the only cushion that we have, which is the unemployment insurance system, needs to be really, really resilient and strong and able to surge when needed.

Julia Pollak, ZipRecruiter labor economist:

The US also has workshare programs. It's part of the unemployment insurance program. Employers can reduce hours of employees and apply for the government to pay the difference rather than laying them off. That is somehow the chosen approach in places like Germany, which have seen much smaller declines in employment. Somehow here, although it is an option, many, many businesses chose layoffs instead. I think something that we all need to do is study why that is. Why exactly is it? What system, what incentives, what features of the US economy encourage employers to choose layoffs rather than workshare programs that can help stabilize the labor force?

Ramona Schindelheim, WorkingNation editor-in-chief:

That's fascinating. I don't think I've ever heard of that, and I wonder how many employers don't know about it themselves.

Julia Pollak, ZipRecruiter labor economist:

It's a very small share of the unemployment insurance recipients. So, if you look at the number of unemployment insurance recipients across all programs, it's something like 26 million at the moment. It's just a couple of a hundred thousand who are receiving it through the STC program.

Ramona Schindelheim, WorkingNation editor-in-chief:

You said earlier that this would be a long slog. This is going to take a while for the labor market to work itself out. Where do you see us in six and 12 months?

Julia Pollak, ZipRecruiter labor economist:

Well, the pace of job gains has now slowed down quite substantially. Early on in this crisis when we were recovering jobs at a pace of more than 4 million a month, and then later two and a half million, one and a half million, we could have expected to return to pre-COVID employment levels within about a year and a half, two years. Now, it's looking much more likely that this is going to turn into a traditional recession on the heels of the unprecedented COVID recession, and that we'll see a slow return of those jobs. So, after the last recession, I think it took about six or seven years for employment to return to pre-recession levels. This time I expect that it'll also be counted in years, not in months.

Ramona Schindelheim, WorkingNation editor-in-chief:

So, Julia, are there any reasons to be optimistic about the recovery?

Julia Pollak, ZipRecruiter labor economist:

Yes. So, one huge hurdle to the recovery is school closures and the restrictions that are still in place, particularly in large states. But once the pandemic wanes and those big states relax their business restrictions, we could see a huge boost to the labor markets overnight. Once schools reopen, we could also see people freed up and able to return to work again. So, we could expect the recovery to accelerate again pretty soon once there's an improvement in therapeutics or in the vaccine, or even once states perhaps change the way they view the trade-offs between shutting businesses and controlling cases. So, there are many reasons to think that the labor market could come surging back quickly if the pandemic goes away.

Ramona Schindelheim, WorkingNation editor-in-chief:

Technology is always changing the way we work. Crises like this, like the Great Recession, 9/1, that also changed the way we work. So, coming out of the pandemic, is there going to be a different type of skills or different expectations from employers for workers?

Julia Pollak, ZipRecruiter labor economist:

Absolutely. The pandemic has accelerated the adoption of e-commerce about five years. It has accelerated the shift to remote work by about 10 years. Those changes require different skills. Store owners have very different jobs from people who run online stores and websites and design social media marketing campaigns. So, yes, there is a shift in the skills that are valued in the economy and tech-savvy workers who are able to develop skills that are needed now in a far more digital economy will be at a huge advantage.

Ramona Schindelheim, WorkingNation editor-in-chief:

How can the shift to online learning be an advantage for job seekers?

Julia Pollak, ZipRecruiter labor economist:

Oh, I think it's going to be a huge advantage. It's one real silver lining in this crisis. So many people in America go to college and then drop out before getting a degree and leave with no real benefit in the labor market, but with massive debt. Now, the proliferation of these online courses that are relevant, that are convenient, are just so much better for many people, especially for minorities and for poor people who need to support themselves and cannot become full-time students realistically. So, that's one positive outcome I see from this crisis, that with everyone, even Harvard students going to school remotely now, the stigma against online universities could go away and the quality of online training could massively improve, offering people a convenient, realistic path to new jobs and to higher paying jobs.

Ramona Schindelheim, WorkingNation editor-in-chief:

Julia, thank you for joining us.

Julia Pollak, ZipRecruiter labor economist:

Thank you for having me.

Gary Officer:

Thank you, Ramona and Julia, and thank you for joining our discussion today. I invite you to view our other episodes of An Equitable Recovery, and to browse the compelling library of articles, podcasts, and commentaries at both CWIlabs.org and workingnation.com. Thank you.