



Transcript of IMF podcast:

## [Ippei Shibata and Carlo Pizzinelli on the Puzzling Labor Market](#)

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Ippei Shibata:

We were particularly interested in two questions, has the COVID-19 recession caused more structural change in labor market, and why is the employment rate still lagging behind?

Bruce Edwards:

So when the pandemic hit, millions of people found themselves unable to work because of the nature of their jobs or because of the recession that ensued. But now, as economies are picking up, why are companies having such a hard time hiring workers?

Carlo Pizzinelli:

The pandemic brought so many changes to the way we live and work. And two years after the pandemic started, we were interested in seeing what of that comes out through the data in the labor market. Can we see a structural change in the way the labor market functions, where vacancies are compared to where workers are, and what is that telling us about where the economy is going.

Carlo Pizzinelli:

My name is Carlo Pizzinelli, and I'm an economist in the Structural Reforms Unit of the Research Department at the IMF.

Ippei Shibata:

My name is Ippei Shibata, and I'm also an economist in the same Structural Reforms Unit.

Bruce Edwards:

Another legacy of the pandemic is remote working, of course. And so, journalist, Rhoda Metcalfe, connected with Ippei, from his current workspace in Japan, and Carlo, from a closet somewhere in Washington, D.C., to talk about the research on the labor market.

Rhoda Metcalfe:

So, I mean, what did you think going in, did you have sort of expectations of what you thought would be sort of the most salient explanations for all of this?

Carlo Pizzinelli:

would be sort of the most salient explanations for all of this?

Carlo Pizzinelli:

Yes. We were expecting to see something similar to what we saw in previous economic downturns, but perhaps even more pronounced. That is that after the downturn, you have a persistent mismatch between the sectors in which vacancies have grown the most since the beginning of the downturn and those sectors to which unemployed workers previously belonged to. So given the debate about how significant the changes that the pandemic has brought to the way we live and work, we were expecting this dynamic to be present in the data and to be particularly salient in terms of sectors where telework is more common or more feasible, and sectors where it is not, so sales and restaurants and accommodations. And this would've been similar to what we saw in the Global Financial Crisis, where specific sectors that were booming before the crisis and had a sharp contraction during the crisis, like manufacturing and construction kept shrinking year after year in the years following the downturn.

Rhoda Metcalfe:

Right. So, were you surprised at all about what you found out? I mean, in terms of the data that you actually looked at, did it line up with what you were expecting?

Ippei Shibata:

So, regarding mismatch that Carl mentioned, we first observed that in both countries, the degree of mismatch jumped up sharply during the very first month of the lockdown. This was very intuitive because workers were displaced in large numbers from industries like accommodation or in person sales services. However, the rising mismatch was extremely short-lived. So within a few quarters, we observed that these same industries started hiring again so that during recovery, by and large COVID-19, has not unleashed a wave of structural transformation in the economy as we previously expected, at least not yet.

Carlo Pizzinelli:

Yeah. And if I can add to that, even though we don't find so much structural transformations in terms of sectors of the economy that are growing, that doesn't mean that the labor market isn't changing in other ways. There are studies, for instance, the recent study from The Organization of Economic Co-operation and Development, that finds that the number of job postings advertising the ability to work remotely has increased significantly since COVID. However, that is coming primarily from industries that ex-ante already had the potential to telework.

Carlo Pizzinelli:

So it's not really a shift in the demand for labor across sectors, but simply the modality of work, the demands of workers in different sectors are shifting towards more telework ability. The countries are not hiring more software engineers and lawyers than they did before, but they're allowing the lawyers and software engineers to telework more than they did before. So that change is happening, but not in a way that results in a structural transformation of the economy.

Rhoda Metcalfe:

Right. Okay. So if the labor market hasn't changed structurally during the pandemic, what does account for the labor shortages we're seeing?

Carlo Pizzinelli:

We started looking at specific demographic characteristics and whether different demographic groups saw a more persistent fall in employment compared to other demographics. And for instance, early on in the pandemic, several studies had pointed out how in the U.S., mothers of young children had experienced the more severe contraction in employment compared to both fathers of young children and women without children. So that was one point where we started looking and also given how similar the U.S. economy and the British economies are, we were certainly expected to see that trend in the UK as well.

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Rhoda Metcalfe:

Right. But was it the same in both countries?

Ippei Shibata:

No, it actually was not. So in the UK actually, the women, we didn't see this, what we call "she-cession".

Rhoda Metcalfe:

The "she-cession", right?

Ippei Shibata:

Yeah. Mothers with young children, didn't see much decline in employment rate relative to the counter, women without children or men. So this is a little bit surprising.

Rhoda Metcalfe:

Do we have any sense as to why there was sort of a divide between the countries?

Ippei Shibata:

Yeah, I think we think one potential reason for this difference in "she-cession" is that the UK nurseries and early childcare facilities remained open throughout the pandemic. And this was an explicit move by the government to allow with young children to be able to continue working. On the other hand, in the U.S., decision on school closures were made in a way that most likely did not take into account the effects that it would have on the labor markets. So these are potential reasons why we saw difference in the "she-cession".

Rhoda Metcalfe:

Right. So the impact of woman with children leaving the labor market was bigger in the U.S. than the UK. But, were there other factors or trends that you found in the data that both countries experienced?

Carlo Pizzinelli:

One common trend that we saw in both countries was a drop in the labor market participation of workers aged 55 and above. So a substantial fraction of workers in this age group left employment and is not currently looking for new work.

Rhoda Metcalfe:

Right. So, these are people going into retirement, perhaps early retirement.

Carlo Pizzinelli:

Yes, exactly. So this could be because older workers tend to have more health related concerns in terms of going back to work when the pandemic is still ongoing, but also they may have benefited the most from the sharp rise in the value of financial assets and real estate, which obviously would decrease their need for income from labor.

Rhoda Metcalfe:

Right. So their houses were worth more essentially.

Carlo Pizzinelli:

Exactly. Their houses or their pension funds. Also, in many cases, dropping out of the labor force due to the pandemic may merely be an anticipation of a decision that it would've taken a few years later on. On the other hand, this choice is still reversible, so-

due to the pandemic may merely be an anticipation of a decision that it would've taken a few years later on. On the other hand, this choice is still reversible, so-

Rhoda Metcalfe:

They might come back.

Carlo Pizzinelli:

Yeah, exactly. Retirement is not as permanent a state as we conceive to be. So they might come back once the risks from COVID might decrease further.

Rhoda Metcalfe:

Right. One other thing I think is really interesting is there are certainly a lot of leaders, political leaders, have argued that so many people have been getting unemployment benefits, this has been hindering the recovery. And so there's been a lot of pressure to cut them off in order to bring people back into the workforce. What did you find in terms of the impact that the benefits have had on this labor shortage?

Carlo Pizzinelli:

So we don't look at this directly because there have been a lot of other studies looking at this recently. So, in the paper we summarized the evidence from these other studies and they find that they, at best, had a small impact and a temporary impact in delaying people return to employment.

Rhoda Metcalfe:

Right. So it wasn't a big factor?

Carlo Pizzinelli:

No, it was not a big factor in terms of slowing down the employment recovery. So they were very important for households' finances, but they did not seem to be that important for the speed of the employment recovery.

Rhoda Metcalfe:

Right. So, I mean, which of these factors was really the most important in causing this labor shortage? What did you find?

Carlo Pizzinelli:

In both countries, the exit from the labor force of older workers accounted for significant portions, about 20-30%. And as we said, in the U.S. and the UK, mismatch counted for a little bit, but not that much, so about one-tenth to one-fifth. And then, in the U.S, the so-called "she-cession" story accounted for about 20% by late 2021.

Rhoda Metcalfe:

Right. It's interesting, your study focuses on the U.S. and the UK, but it makes me wonder how the same question is playing out in other parts of the world. Ippei, you're in Japan right now, which is a country with a very aging labor force. Just wondering, do you have any sense of how COVID has been affecting the labor situation in Japan?

Ippei Shibata:

Yeah, I think first of all, in Japan, similar to the UK, partly due to the Japanese government large financial support to firms and workers and households, the official unemployment rate did not increase sharply like in the U.S. And then, so majority of labor market adjustments were happening, such as through reduced hours worked per employee or pay cut rather than hiring or firing workers. But having said that, some papers also found significant "she-cession" impact, as in the U.S., not to the same degree, but it-

firing workers. But having said that, some papers also found significant "she-cession" impact, as in the U.S., not to the same degree, but it-

Rhoda Metcalfe:

Women have been pulling out of the labor force also.

Ippei Shibata:

Yeah, like mother with young children have experienced much sharper job unemployment rate than women without children or men.

Rhoda Metcalfe:

Was there also support to ensure that there was still childcare as there was in the UK?

Ippei Shibata:

Yes. So I think there has been more like a pre-COVID trend that the Japanese government has been trying to really help female labor force participation in Japan. And then, so there has been a lot of more like childcare facilities and then also financial support to the parents with young children. So I think this system is really promoting the female labor force participation in Japan.

Rhoda Metcalfe:

How about Italy? Carlo, are you from Italy?

Carlo Pizzinelli:

Yes. I'm from Milan, Italy.

Rhoda Metcalfe:

You're from Milan. So, do you have any sense as to how this is played out in Italy at all?

Carlo Pizzinelli:

Sure. I would say, on the spectrum of countries, Italy was similar to the UK. Childcare facilities and preschool facilities remained open. And then Italy, similar to continental Europe as a whole, had an approach to the pandemic, in terms of labor market policies that was closer to that of the UK compared to the one that the U.S. had. And we can broadly separate these two approaches into protecting workers, as the U.S. did, versus protecting jobs, as continental Europe and the UK did. So in the U.S. case, the protecting workers approach meant extending UI benefits to cushion the loss in income for workers who lost their jobs. While in Europe, as in the UK, the approach was to help firms pay the salary of workers who could not work, either because of the lockdown or because the demand for the firm's products had fallen sharply. And that meant trying to preserve that bond between the worker and the firm.

Carlo Pizzinelli:

So that has also a lot of implications for how households react, in the sense that while in the U.S, they might have generous income support from the UI benefits, they might also face a lot of uncertainty. While in Europe, you would think that having the preservation of the bond between the firm and the workers might create more security, it also means that workers can go back to their jobs immediately, once the pandemic is over. On the other hand, in the approach of protecting workers, once the pandemic finishes, workers have to find jobs again, but that means that they might also find more productive matches with new firms and allow the economy to adjust and find perhaps even more productive matches and allow these dynamics to play out in a faster way.

Rhoda Metcalfe:

Do you think that there are policy implications that we could draw from your study?

Carlo Pizzinelli:

Do you think that there are policy implications that we could draw from your study?

Carlo Pizzinelli:

At this stage, it's too early to say which policies worked best during the months of the employment contractions and during the toughest times of lockdown. But going forward, the fact that we see specific demographic groups still being out of the labor force in larger numbers, such as older workers and women who are mothers of young children, means that we could focus more on policies that could help to incentivize participation in the labor market. For instance, flexible work arrangements that might help older workers who might not want to work a full week, or might find it hard to work with, say more erratic schedules in certain services sectors, or policies that can help particularly young families, such as the provision of childcare.

Rhoda Metcalfe:

Right. Interesting. So Carlo Pizzinelli and Ippei Shibata, thank you so much for coming on the podcast and speaking with me today. I really appreciate it.

Carlo Pizzinelli:

Thank you for having us.

Ippei Shibata:

Yeah, thank you so much.

Bruce Edwards:

Look for Carlo and Ippei's blog on the puzzling labor market these days at [blogs.imf.org](https://blogs.imf.org). And you can listen to hundreds of other episodes of this podcast, wherever you listen, just search for IMF podcasts. You can also follow us on Twitter @IMF\_podcast. I'm Bruce Edwards...

Rhoda Metcalfe:

And I'm Rhoda Metcalfe. Thanks for listening. I.

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