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Why temporary layoffs may become permanent

Eleanor Mueller

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The White House is downplaying the bulk of coronavirus-related layoffs as temporary. But as the worsening recession forces companies to downsize or shut their doors, economists warn that many of these departures will turn permanent.

The unemployment rate for May is expected to hit about 20 percent, coming on top of April's 14.7 percent. Those statistics — likely underestimates because workers must be “actively looking” for jobs to be counted — would be the highest since the Great Depression.

But President Donald Trump’s advisers have found a different number to seize on: a Federal Reserve estimate, released earlier this month, that 91 percent of people who lost their jobs or were furloughed reported that they expect to return to the same employer eventually. This statistic, the administration officials say, is part of the reason the U.S. should reopen its economy.

“Besides the stock market, there are little glimmers,” Trump’s economic adviser, Larry Kudlow, said last week. “I don't want to downplay the heartbreak because the numbers are not good for this quarter — bad, bad pandemic contraction — but there are little glimmers. A lot of the unemployed are temporary.”

But economists say shifting demands and the sheer breadth of the business closures mean that many of the lost jobs will never return — and to lean on the statistic as a sign of economic well-being is politically risky.

“That’s a high number, and that’s good,” said the Economic Policy Institute’s Heidi Shierholz, former chief economist at the U.S. Department of Labor, of the workers' optimism about returning to their jobs. “But I think we absolutely have to think of that as an upper-bound on how many will be called back.”

“And what we don’t know is how much lower than that ... will it ultimately be. The concern is that it’s going to be a lot lower.”

Forty-two percent, or 11.6 million, of all jobs lost through April 25 due to Covid-19 will become permanent, according to research from the University of Chicago’s Becker Friedman Institute. The study places these in three buckets: jobs lost to coronavirus-induced demand shifts, jobs at firms that don’t survive the pandemic and jobs lost due to post-pandemic concerns, such as social distancing.

"I understand that the administration and other folks are optimistic," the conservative Heritage Foundation's Paul Winfree, a former Trump aide, said of the temporary layoff numbers. But "I don't think I can get behind those estimates."

"We're going to be dealing with this unemployment problem for quite some time," Winfree said. "And ultimately, it's going to plague the economy for months, if not years."

Businesses in some of the hardest-hit industries have already announced thousands of closures. As of April, about 3 percent of restaurants in the country, once temporarily shuttered, have permanently closed, according to the National Restaurant Association. And manufacturing giants like Caterpillar, Polaris and Goodyear Tire and Rubber Co. are shutting down their once-furloughed factories for good, [The Wall Street Journal reports](#).

"You probably had a lot of businesses in absolute good faith say 'we're going to call you back' totally thinking they were going to, but will never do it," Shierholz said. "Many may go out of business. And two, it's very probable that in many cases [when they do reopen] they won't need everyone."

Even if businesses make it through the pandemic, continued social distancing and other altered consumer behavior mean that many of them are unlikely to be able to rehire their temporarily laid-off or furloughed workers, economists say.

"If it's the case that for the next two, three years, far fewer people are going to go out and eat at restaurants, if cinemas and movie theaters are going to have to have semi-permanent social distancing reducing their capacity, then a lot of these businesses will become nonviable and these jobs will be permanently lost," said Ryan Bourne, an economist with the libertarian Cato Institute.

By touting the majority of layoffs as impermanent, Bourne said, the White House is creating a dangerous precedent given the large degree of uncertainty.

"There's a political danger to implying that things will just go back to normal, which is that you create the expectation that you're willing to do what it takes to ensure that happens," Bourne said. "If I was somebody in the Trump administration, I would not be wanting to create the expectation that 90 percent of existing work relationships ... were highly likely to return because I think there's still a huge degree of uncertainty as to whether that will happen."