

A Long Time Until the New Economic Normal

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A long time until the economic new normal

MIT Sloan Management Review



<https://sloanreview.mit.edu/article/a-long-time-until-the-economic-new-normal/>

Five major headwinds

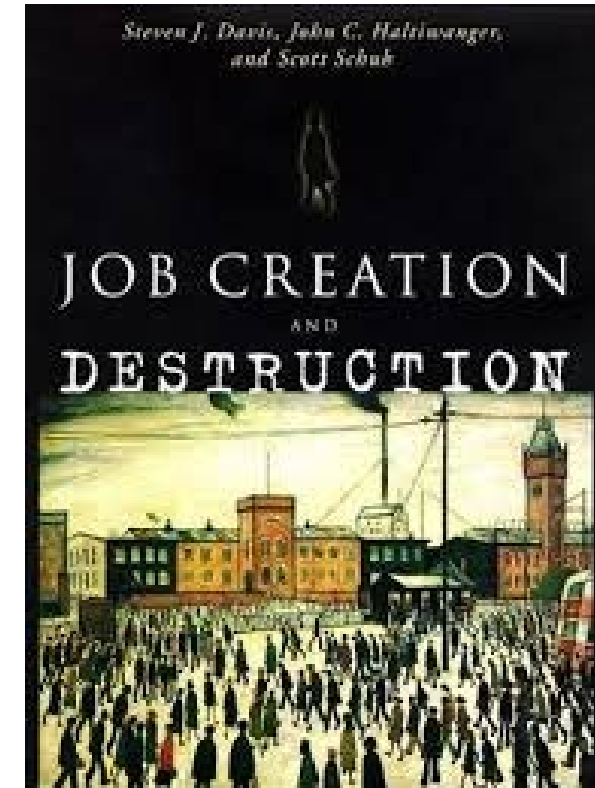
1. Replacing old business models with new
2. Consumer sentiment: Spending and savings
3. Labor market regulation
4. Face-to-face work disrupted
5. Building resilience before the next pandemic

Replacing old business models with new

Creative Destruction

- Joseph Shumpeter (1883-1950)

- *“This process of creative destruction is the essential fact about capitalism”*
- The kind of competition that counts: *“...the new commodity, the new technology, the new source of supply, the new type of organization...which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives”*



- Net job changes obscure **very high rates of job creation and destruction** (Davis, Haltiwanger & Schuh)
- When an industry contracts permanently, **long time for people to find good jobs again**
- **Adjustment is hardest for mid- and late-career people:** their accumulated human capital isn't worth as much in other work; they hold out the longest before giving up – the rational thing to do

Why this time is different

- **Never before in modern economic history have we suddenly stopped such a large part of most economies**
- **The world is much more interdependent today than ever before**
 - Global supply chains, just in time production, etc.
- **Unemployment almost certainly will be 20%+ (US + other countries)**
 - Highest since Great Depression
 - We will be lucky if it falls below 10% by the end of the year
- **Very high levels of corporate debt mean greater business failure**
 - Many small and medium-sized businesses will never reopen
 - Many jobs lost at surviving companies will not come back for a long time, if ever

Consumer sentiment: Spending & savings



- Pressures on consumers have been building for many years
- COVID-19 could be the straw that breaks the camel's back
- Depressed spending, increased savings could persist for many years

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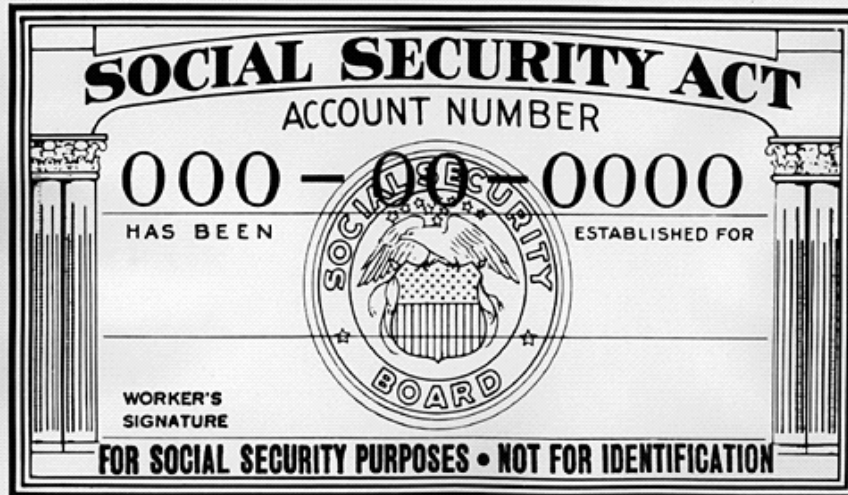
- **Big financial overhang from the Great Recession in 2007-08**
 - Housing is still out of reach for too many young people
 - Student debt at all time highs
- **Erosion of traditional careers and middle class living standards continues**
 - Starting in 1980s, more winners and losers among “safe” occupations that used to be sure ticket to the middle class (law, accounting, medicine, etc.)
 - Much economic and political instability in past 10+ years in US and Western Europe due in part to this – rise of economic nationalism and xenophobia
- **Labor market instability**
 - Rise of temp jobs, independent contracting, gig work
 - Employment on demand: hours destabilized for shift work (restaurants, call centers, etc.)

Economic crises spur safety net and labor regulations



National Labor Relations Act

- **Prohibited** such unfair labor practices as **intimidating workers**, **attempting to keep workers from organizing unions**, and **firing union members**.



The Fair Labor Standards Act

was signed by President Franklin D. Roosevelt on June 25, 1938.



A message from the 1.6 million members of the American Federation of State, County and Municipal Employees, AFL-CIO



Regulating gig work and independent contracting

“Non-regular” work growth timeline

- 1980s – 1990s: temp jobs
- 1990s – 2000s: independent contractors
- 2010s: gig work

US benefits rules and labor laws assume a “regular” full-time job,
but fewer and fewer people fit that category: growing insecurity

Recent innovation: regulate how companies can use independent contractor classifications

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Creates **unintended consequences** that can make it harder for people to work, and for companies to employ them

... but **politically much easier** than setting up and running entirely new social safety net programs, so we should see more states regulate gig work & independent contracting



Labor market regulation: Current innovations

Recent temporary new worker benefits very likely to be expanded and made permanent

- Temporary mandatory sick leave: currently limited only to mid-sized companies
- Unemployment benefits for non-regular workers

BLOG POST

Coronavirus: Federal Government Passes Emergency Paid Sick Leave, Family and Medical Leave

The bill goes into effect April 2 and expires Dec. 31, 2020.

Pandemic Unemployment Assistance (PUA) Program

The new program provides up to 39 weeks of benefits for the self-employed, 1099 tax filers and many other individuals previously not eligible for unemployment benefits. It is retroactive to 1/27/20 and available through 12/31/20.

Federal guidance was recently handed down and we are working as quickly as we can to build this program. While you may experience some delays as a result, please know that all benefits will be retroactive.

Ohio | Department of
Job and Family Services

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TOGETHER
Ohio

Face-to-face work disrupted

- **Social distancing at work is here to stay until there is a vaccine or very successful therapeutics – most likely a year or longer**
 - **Businesses will self-regulate even if government stops mandating stay at home rules, with huge negative impacts on capacity utilization, margins and productivity**
 - **President Trump's executive order for meat processing plants to remain open likely to create unintended ripple effects: business leaders everywhere want to avoid risk of shutdowns**

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- **We all benefit from being together FTF as much as possible when working**
 - Informal “hallway” interactions, team member bonding & check-ins, so much harder now
 - It only takes a few hours on video to become a Zoombie

Building resilience before the next pandemic

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- **Building resilience means planning for**
 - **Large surges in demand:** 3M's N95 mask capacity following 2002-03 SARS epidemic
 - **Disruptions within teams:** increase cross-training, staff not-so-leanly
 - **Disruptions to entire site & vendor operations:** create redundant capacity across sites internally (manufacturing, sales, etc.), and with approved vendors and distribution channels

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- **Investors are going to balk at the permanently increased expenses, lower margins**
 - **ROI will not be realized until the next pandemic or large unexpected disruption hits**