Skill Loss during Unemployment and the Scarring Effects of the COVID-19 Pandemic

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Overview

• Motivation
  ▶ Large amount of job losses associated with the pandemic
  ▶ Long-term unemployment reached historic levels
  ▶ Empirical evidence, workers lose skills while unemployed

• What we do
  ▶ Integrate canonical SIR framework into a search and matching model
  ▶ Key ingredient: workers lose skills while unemployed
  ▶ Calibrate to quantify the effects of COVID on unemployment and TFP
  ▶ Three month lockdown
  ▶ Social planner’s problem: tradeoff between infections/deaths and TFP
Findings

- Quantitative results

<table>
<thead>
<tr>
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<th>Baseline</th>
<th>Lockdown</th>
<th>Efficient</th>
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</thead>
<tbody>
<tr>
<td>Increase in unemployment (PP)</td>
<td>3.8</td>
<td>7.6</td>
<td>2.5</td>
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<tr>
<td>Decline in TFP</td>
<td>0.44%</td>
<td>0.56%</td>
<td>0.88%</td>
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<td>TFP loss rel. to typical recession</td>
<td>39%</td>
<td>50%</td>
<td>78%</td>
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- Planner limits job creation, not to the extent caused by a lockdown

- Skill composition externality is sizeable