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The COVID-19 Pandemic and Small Business Employment

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18M jobs at small businesses are at risk

The now-certain economic recession that is unfolding in the wake of the unprecedented COVID-19 global heath shock has monumental implications for our nation's labor force. As an early indication of the severity of the situation, initial jobless claims for the week ending March 21 soared to nearly 3.3 million, the highest number of initial claims since the U.S. Department of Labor began tracking such data in 1967. Fortunately, Congress responded with an equally unprecedented $2.2 trillion emergency spending bill; this move (along with complementary policy efforts by the Federal Reserve) reflects the government's growing understanding that intervention is imperative to keep the country from falling into a black hole. While some aspects of this crisis are, thankfully, temporary, this boldness reflects acknowledgement of the deeper vulnerabilities of certain businesses and households and the need to mitigate the degree to which they suffer irreversible negative trajectories.

While there has been plenty of conversation about airlines and other large corporations, it is critical to remember that small businesses, the often-heralded backbone of our economy, are quite vulnerable to dislocation. The congressional spending bill allocates $350 billion to ensure that the hundreds of thousands of restaurants, retail shops, repair outlets, small manufacturers, beauty salons and other small businesses in the U.S. can keep their existing workforce in place as we navigate COVID-19.

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Businesses with fewer than 500 employees account for more than 60 million jobs in the U.S., about one-half of the overall labor force. To better understand the implications for unemployment, a survey of Small Business Investment Company-backed portfolio firms was released March 21, 2020, by the Small Business Investor Alliance (SBIA), with data analysis provided by the Kenan Institute of Private Enterprise. The survey reflects responses from 726 small businesses spanning various industries and geographic regions, each of which provided information about layoffs from the past week, as well as layoffs they anticipate having to make if the crisis continues. To give a sense of the dire nature of their situation, 80 percent of respondents identified serious cash flow concerns, with many highlighting inadequate cash reserves or access to capital to sustain the business for the next 60 days. More critically, 21 percent of respondents had already initiated significant layoffs, with 64 percent anticipating significant layoffs going forward if the crisis were to persist without government assistance. View the results of the entire survey.

With this information, we then estimate layoffs for the entire U.S. small business landscape that have recently occurred or could occur soon in the absence of government support. Specifically, by hypothesizing that broader small business layoffs will mirror the propensities identified in the survey responses, we extrapolate from the SBIA survey responses to national statistics, using employment data from the U.S. Census Bureau's Quarterly Workforce Indicators (QWI). As these layoff propensities do not reflect the desired mitigation effects of the recent spending bill, these estimates can be seen as a "worst-case" scenario.

We expect that these firms have engaged in a series of immediate layoffs, affecting up to 6.6 million Americans. While we anticipate layoffs across all sectors, some industries are being hit harder than others. For example, our extrapolation indicates that small businesses in the hospitality and recreation industry have immediately laid off more than 40 percent of their workforce. Given current employment at small businesses in the hospitality and recreation sector of more than 10 million, this translates to 4.3 million displaced workers and accounts for the majority of the first wave of layoffs.

Without effective governmental support, we expect this spate of layoffs to continue and even accelerate. Our survey results suggest that jobs for up to 12 million more Americans working at small businesses are vulnerable in the near term. We expect this second round of layoffs to be more evenly spread across industries as the economic slowdown is felt across all parts of the economy. For small firms in the hospitality and recreation industry, we anticipate the loss of an additional 2.7 million jobs. We also could foresee large employment losses from small firms in the private education, professional services, information, and wholesale and retail trade sectors. If we assume the worst-case scenario that none of these employees subsequently find alternative employment, then layoffs at small businesses could contribute an additional 11.5 percentage points to the unemployment rate—roughly quadrupling the current national rate.

Looking at North Carolina specifically, our extrapolation implies that immediate layoffs have affected nearly 200,000 of the state's residents who used to be employed at small firms. Furthermore, absent effective government intervention, we could anticipate 345,000 additional near-term layoffs from small North Carolina firms. Collectively, layoffs at the state's small businesses could contribute an additional 10.6 percentage points to the unemployment rate.

The vast majority of these layoffs reflect hourly workers who simply do not have the ability to go without a paycheck. An extended quarantine risks fueling personal bankruptcies and food insecurities, thereby semi-permanently dislocating large components of our society. We know layoffs have long-term negative effects on careers that are felt long after any initial bout of unemployment. By definition, layoffs have an impact on earnings, as wages go to zero. But this is just the start. Past studies have shown that workers laid off during a recession, on average, suffer persistent earnings losses. To put some numbers to this point, one recent study finds that middle-aged workers who lost their employment during the double-dip recessions of the early 1980s received 30 percent lower wages, on average, when they returned to gainful employment, as compared to their wages prior to the layoff.[1] And this effect was persistent. Even 20 years after the layoff, workers who were laid off were earning 20 percent less at their current employment compared to their peers

[1] Von Wachter, T., Song, J., & Manchester, J. (2011). *Long-Term Earnings Losses Due to Mass-Layoffs during the 1982 Recession: An Analysis Using Longitudinal Administrative Data from 1974 to 2008* (Columbia University Working Paper). New York, NY: Columbia University.

Sector	Total U.S. employment in small businesses	Percentage of firms that have already laid off workers	Percentage of workers laid off	Percentage of firms anticipating layoffs	Expected percentage of workers to be laid off	Immediate layoffs (as of March 21)	Anticipated layoffs (from March 21 and beyond)
Agriculture & Mining	1,348,984	38.9%	18.6%	88.9%	45.0%	97,656	500,538
Construction	5,689,542	20.7%	13.2%	58.6%	28.6%	155,748	927,873
Education & Health Care	10,652,006	22.8%	27.9%	71.9%	33.9%	678,886	2,429,835
Finance & Real Estate	3,813,661	22.2%	20.1%	64.7%	20.7%	170,738	487,413
Hospitality & Recreation	10,142,863	50.0%	85.6%	77.3%	60.6%	4,342,985	2,717,197
Manufacturing	5,392,453	20.3%	22.3%	64.4%	26.5%	244,552	878,439
Professional Services & Information	9,807,895	19.5%	17.5%	55.5%	29.9%	334,824	1,570,645
Transportation & Warehousing	1,750,646	17.9%	25.7%	71.4%	34.5%	80,488	411,896
Utilities & Waste Management	3,897,145	20.0%	34.4%	54.3%	34.8%	267,831	685,999
Wholesale & Retail Trade	8,830,181	14.7%	18.0%	65.4%	30.1%	233,281	1,693,263
All sectors	**61,325,375**					**6,606,989**	**12,303,098**

who did not suffer a layoff. In present value terms, this is the equivalent of losing 2.8 years of pre-layoff earnings.[2] To make matters worse, these workers also experience greater income instability.

Further, these costs are not evenly borne by all wage earners. Lower-skilled workers, such as those more likely to be employed at small firms, suffer more. These employees typically see more pronounced earnings declines. A large portion of these losses can be explained by the fact that workers have limited bargaining power when looking for employment in a recession. Consequently, we need to do what we can to preserve the economy during the current crisis. The more employment opportunities there are for displaced workers as we come out of this period of quarantine, the lower the economic costs borne by individual workers.

The negative impact of a job loss during a recession is not limited to lower earnings, however. There are also significant non-economic effects. Losing a job, particularly during a period of high anxiety such as we are facing today, will undoubtedly lead to higher levels of stress. Past studies have associated job loss with a whole host of negative psychological consequences, including an increase in incidences of depression and anxiety of 15 to 30 percent.[3] Job loss has also been linked to decreases in physical health – an obvious concern at a time when our health care system is already overloaded. One study documents a 50 to 100 percent increase in mortality in the years immediately following the layoff. While this effect diminishes over time, there is a persistent increase in mortality of 10 to15 percent even 25 years after the event.[4] The cumulative effect is a decrease of 1 to 1.5 years in life expectancy.

[2] Davis, S. J. & Von Wachter, T. (2011). Recessions and the costs of job loss. *Brookings Papers on Economic Activity*, 2011(2), 1-72. doi:10.1353/eca.2011.0016
[3] Burgard, S. A., Brand, J. E., & House, J. S. (2007). *Toward a better estimation of the effect of job loss on health. Journal of Health and Social Behavior*, 48(4), 369-384. doi:10.1177/002214650704800403
[4] Sullivan, D., & Von Wachter, T. (2009). Job displacement and mortality: An analysis using administrative data. *The Quarterly Journal of Economics,* 124(3), 1265-1306. doi:10.1162/qjec.2009.124.3.1265

These non-economic costs also spill over into families. Following a layoff, rates of divorce increase.[5] Children also suffer; a number of studies show lower rates of educational attainment for children in households that suffer a layoff.[6] Job loss can also be associated with residential mobility, which can disrupt schooling and social networks for affected children.

We need to continue to target the components of our society that are most vulnerable to significant hardship. U.S. small businesses employ tens of millions of workers for whom a dislocation is potentially catastrophic – both economically and psychologically. At the macroeconomic level, the aggregate effects of such a large fraction of the U.S. labor force being pushed into financial distress endangers turning what should be a painful but temporary shock into a long-lasting recession. Second, at the individual business level, the loss of company-specific human capital significantly imperils the pursuit of the healthy growth opportunities that will surely exist on the back end of this episode. Finally, individual economic dislocation only compounds an already terrifying time by exacting a terrible psychological cost. It is already difficult to envision the human cost of this virus on American optimism and cohesiveness. While small business distress is an important vector through which economic hardship transmits to the vulnerable hourly worker, so too is significant targeted assistance an important mechanism by which our government can help vulnerable households – and $350 billion will be just the beginning of what is necessary.

More at kenaninstitute.unc.edu/insights

[5] Charles, K., & Melvin Stephens, J. (2004). Job displacement, disability, and divorce. *Journal of Labor Economics*, 22(2), 489-522. doi:10.1086/381258
[6] Johnson, R. C., Kalil, A., & Dunifon, R. E. (2012). Employment patterns of less-skilled workers: Links to children's behavior and academic progress. *Demography*, 49(2), 747-772. doi:10.1007/s13524-011-0086-4

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