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How the post-pandemic labour market will look like

The pandemic has exacerbated racial, gender and educational inequality in the labour market. We need to fundamentally reimagine work after Covid-19

Thanks to the rapid deployment of vaccines, Covid-19 infections, hospitalisations, and deaths in the United States are declining, and pandemic restrictions on economic activity are being eased. But even with labour markets gradually improving, the economic recovery has been slow and uneven, and there is a long way to go.

According to the latest official figures, overall US employment is still down by about 9.5 million jobs from when the recession hit, and by nearly 12 million from its pre-pandemic trend. Unemployment, adjusted for the sharp drop in labour-force participation, is around 10 per cent, and the rate is even higher for African-Americans, Hispanics, women, and the less educated, reflecting both the dual nature of the pandemic and longer-running labour-market disparities.

Another trend that predates Covid-19 is the transformation of work through automation and digitalisation – processes accelerated by how businesses and consumers have responded to the pandemic. This trend, too, threatens to deepen pre-existing inequalities, because black and Hispanic workers are overrepresented in the jobs that are at the greatest risk from automation.

A sustained recovery to an economy with full employment and ample 'good jobs' will require a significant reallocation of workers from the low-wage, low-skill positions that have disappeared as a result of the pandemic to new ones requiring higher skills and more training. A recent study by the McKinsey Global Institute (MGI) finds that up to 25 per cent 'more workers than previously estimated' may need 'to switch occupations.'

Remote work: the new normal

The pandemic has had a particularly severe impact on jobs requiring high levels of physical proximity and face-to-face contact, including waiters, shop clerks, hotel receptionists, stadium workers, stylists, and other low-wage positions. Again, women, minorities, and the less educated are overrepresented among these frontline workers.

Many of the physical-distancing practices adopted by consumers and businesses during the pandemic will likely persist. In 2020, e-commerce sales increased more than 32 per cent, growing 2-5 times faster than their average rate over the previous five years. And now, many consumers say they will continue to shop online even after the pandemic is over.

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Likewise, many companies' survival now depends on their ability to shift to remote work, a practice they had long resisted. With emerging evidence indicating that remote-working employees are sometimes working longer hours and are more productive, many businesses are planning to allow for various types of hybrid arrangements after the pandemic.

According to MGI's analysis of more than 2,000 activities across some 800 occupations, as many as one-quarter of workers in advanced economies could perform their jobs remotely 3-5 days per week without losing effectiveness. That would translate into 4-5 times more people regularly working from home.

The job loss inequality

Remote work, however, is concentrated in higher-wage jobs. According to a survey conducted in the US last April, approximately 60 per cent of high-earning workers could do their jobs effectively from home, compared to 34 per cent of low-earning workers. Not surprisingly, high-wage occupations in the US have suffered much smaller declines in employment than low-wage categories.

A large permanent shift to remote work would have far-reaching implications for urban centres and the workers who provide services in office buildings, restaurants, hotels, and shops. Before the pandemic, such services accounted for an estimated one in four US jobs, as well as a large and rising share of employment among workers without a post-secondary education. Now, recent research confirms that as pandemic-related remote work has increased, the demand for local services in cities has

begun to fall.

More telecommuting and remote work could permanently change the geography of work, spurring a longer-term migration of talent from large, high-cost cities that had been the engines of job creation. There is already evidence from residential rents and office vacancy rates in both the US and Europe that some workers and companies are moving from the highest-cost areas to smaller cities. Moreover, entire countries are now competing to attract footloose remote workers. For example, Estonia and Georgia have relaxed their requirements for short-term visas, and Greece is offering special tax incentives.

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Businesses are also investing in digital technologies and automation to enable more physical distance between their employees, and to create flexibility to cope with changes in demand. Robots and artificial-intelligence applications have helped workers on assembly lines maintain safe social distancing; expedited e-commerce warehouse operations; allowed for more self-checkout in stores; helped banks process the surge in stimulus loans; and even filled in as cooks, flipping burgers and preparing French fries.

Reimagining post-pandemic work

These forms of pandemic-driven automation are likely to displace workers on a larger scale than economists had previously expected. The largest impact will be in food services, retail, hospitality, customer service, and office support, which accounted for a significant share of pre-pandemic employment and comprise mainly low-wage jobs.

In the US, there could be 4.3 million fewer food- and customer-service jobs, and nearly one million fewer office support jobs in 2030 than would have been the case without the pandemic. All eight countries studied – China, France, Germany, India, Japan, Spain, the United Kingdom, and the US – exhibit the same pattern of reduced demand for low-wage occupations and jobs. In these countries, an estimated 12 per cent more workers will need to change occupations than we predicted before the pandemic.

Finally, jobs paying in the top 30 per cent of wages – such as those in health care and the STEM (science, technology, engineering, and math) professions – are set to grow. But these require a very different mix of

skills and credentials than the low-wage jobs that are disappearing. Training displaced workers thus will become a major priority.

The potential mismatch between future skill requirements and available jobs presents an opportunity to reimagine work, the workforce, and the workplace for employers of all sizes. But it also increases the urgency of funding and implementing effective training and income-support programs for workers who are forced to move to other occupations, industries, and locations. Building a 'good jobs' future is possible. But, as the California Future of Work Commission points out in a new report, getting there will require both public and private investment in workers' skills.

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