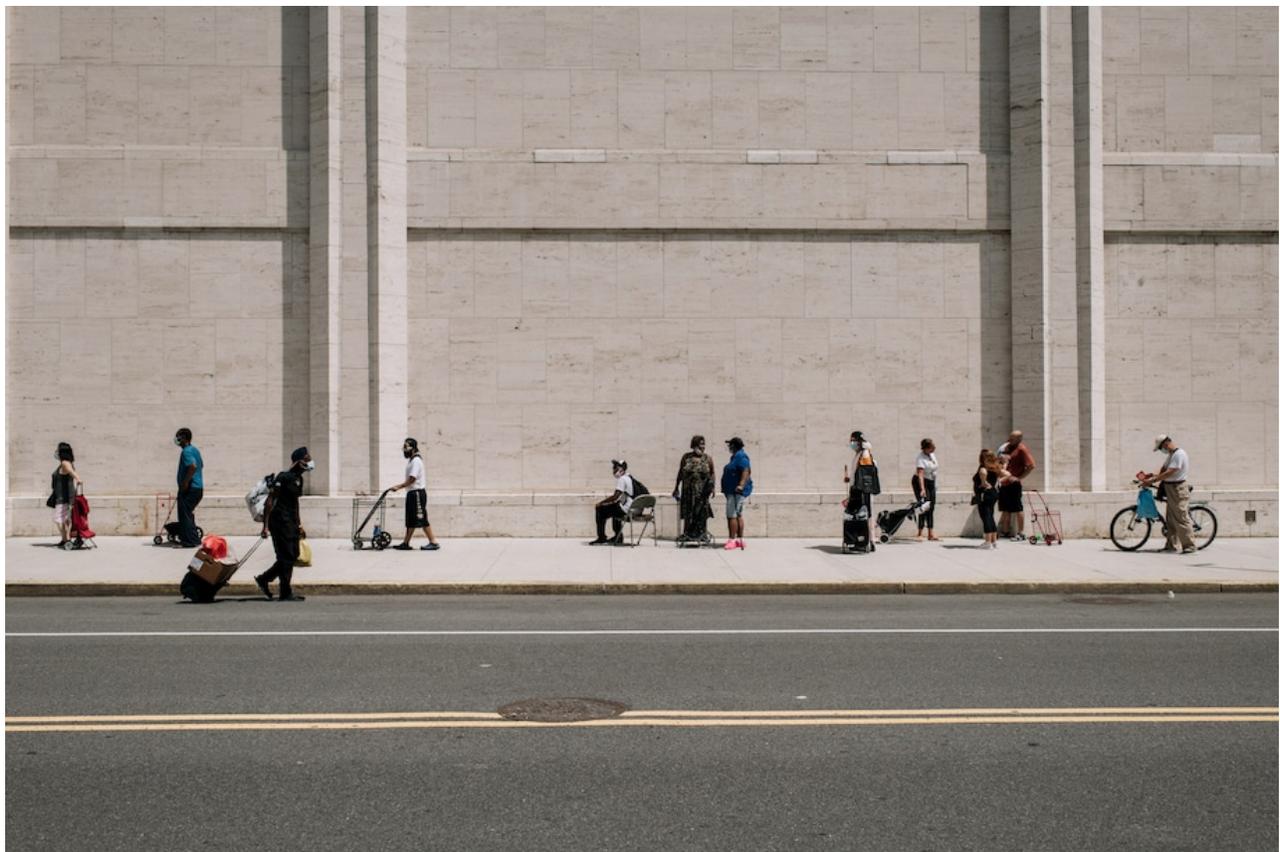


As permanent economic damage piles up, the Covid Crisis is looking more like the Great Recession

How permanent job losses threaten to transform temporary covid closures into a lasting recession

[Andrew Van Dam](#)



People wait in a long line to receive free produce, dry goods and meat at a Food Bank For New York City distribution event at Lincoln Center. (Scott Heins/Getty Images)

Long-term unemployment helped define the Great Recession. Countless networks, relationships and skills that bound employee to employer were ripped apart in the global financial crisis. It took about eight years for the unemployment rate to recover

from that brutal dislocation.

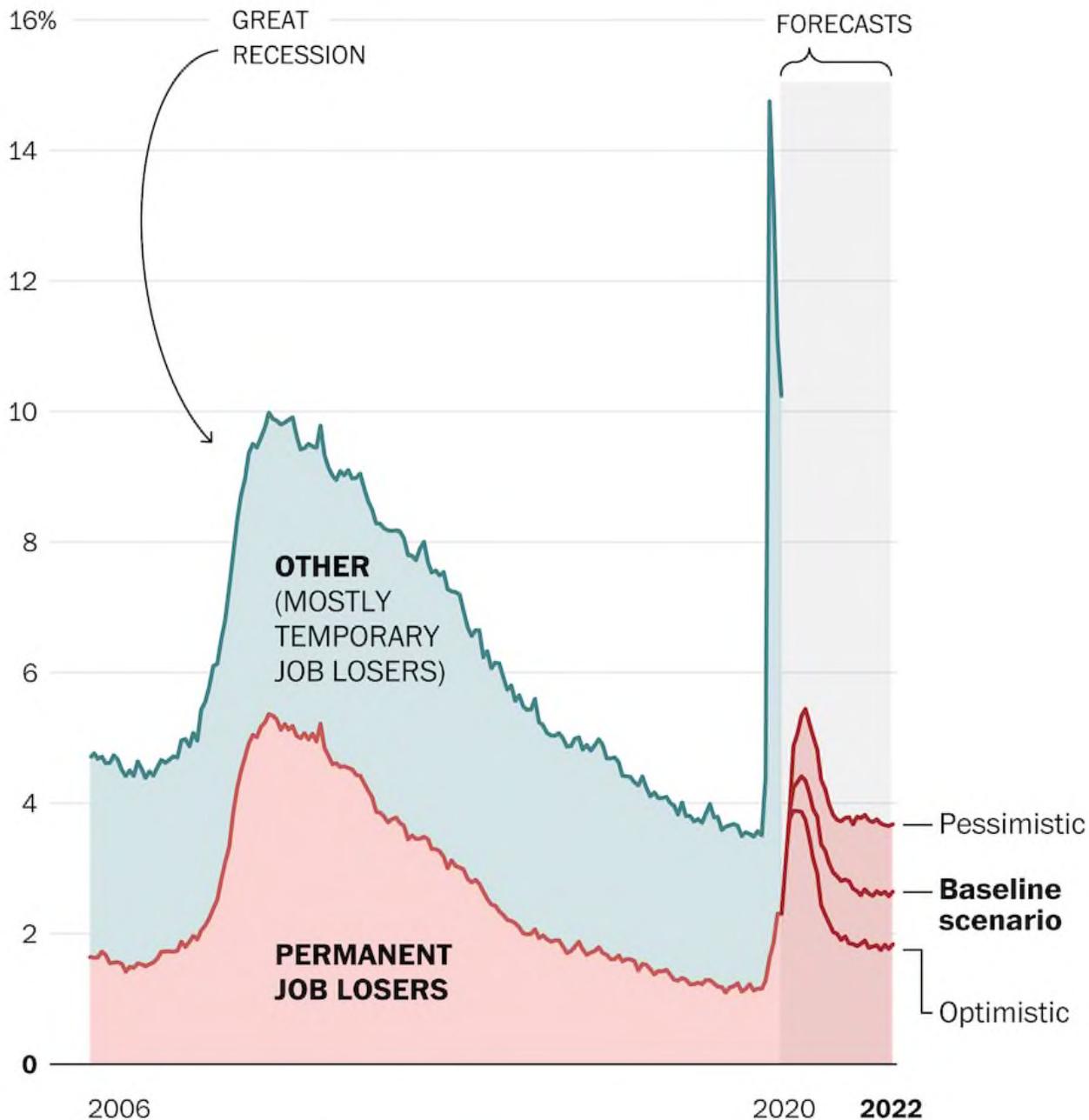
Now economists fear it's happening all over again. The devastating surge in unemployment in March and April was supposed to be temporary, as businesses shuttered to avert the greatest public health crisis in more than a century. Most workers reported they expected to be called back soon.

But nearly half a year later, many of the jobs that were stuck in purgatory are being lost forever. About 33 percent of the employees put on furlough in March were laid off for good by July, [according to Gusto](#), a payroll and benefits firm whose clients include small businesses in all 50 states and D.C. Only 37 percent have been called back to their previous employer.

There were [3.7 million](#) U.S. unemployed who had permanently lost their previous job as of July, according to the Labor Department. That figure doubled from February to June, held steady in July, and is expected to hit between 6.2 million and 8.7 million by late this year, according to a [new analysis](#) from economists Gabriel Chodorow-Reich of Harvard University and John Coglianesse of the Federal Reserve Board.

Permanent job losses may hit Great Recession levels

U.S. unemployment rate



Note: "Permanent job losers" include those who completed a temporary job.
 Source: Analysis of Labor Department data obtained via IPUMS by Gabriel Chodorow-Reich (Harvard University) and John Coglianesse (Federal Reserve)
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The economists' most pessimistic estimate are uncomfortably close to the 8.6 million

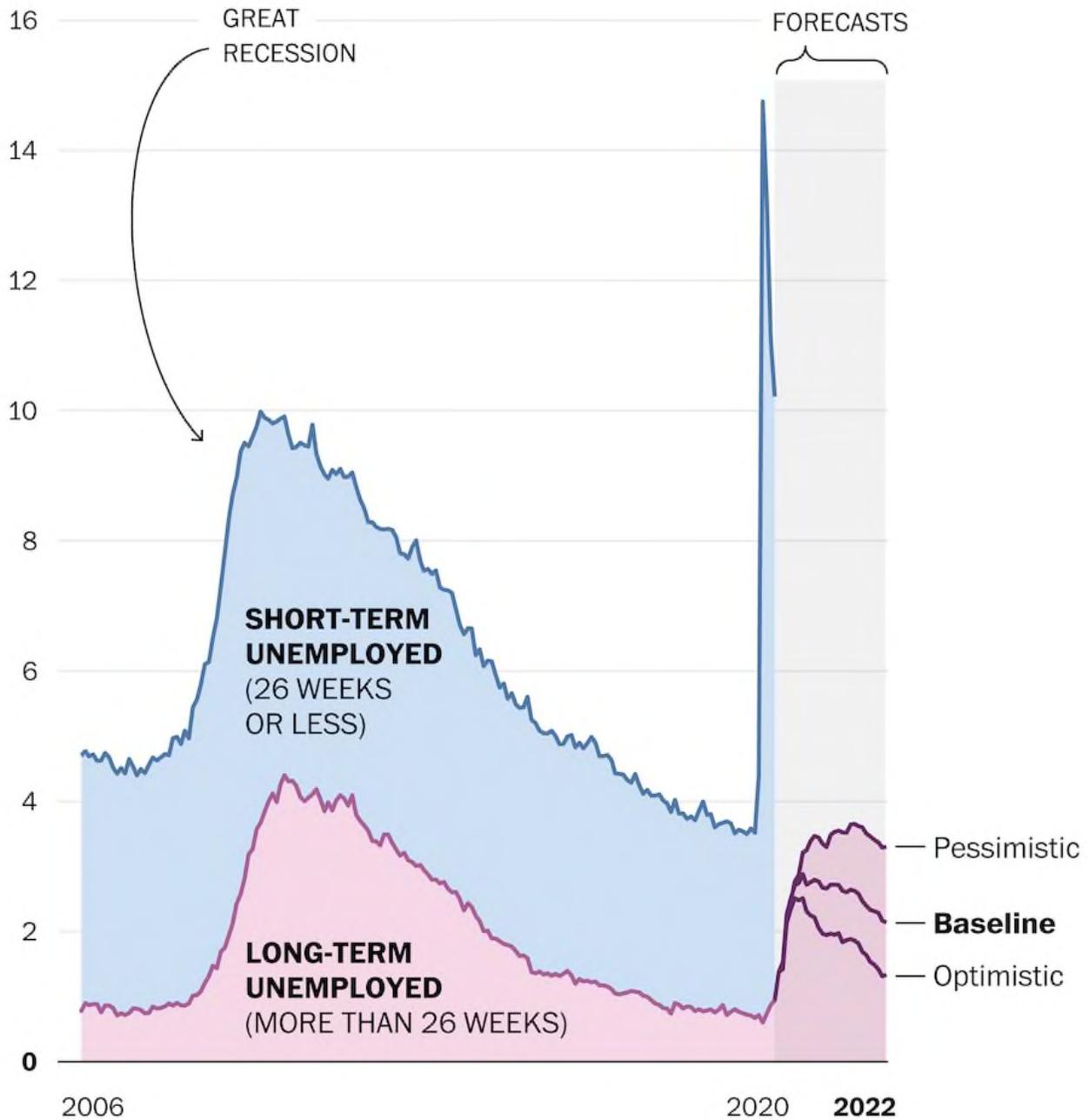
permanent unemployed seen after the Great Recession. Permanent unemployment and its cousin, long-term unemployment, are tremendous drags on an economic recovery.

“We know that as people spend more time unemployed, their labor market skills atrophy, their connections to the employers weaken and many start getting discouraged and ultimately leave the workforce,” said University of Chicago economist Marianne Bertrand, a leading expert on the pandemic’s labor market.

The first workers sidelined in the covid-19 crisis are now closing in on 26 weeks without work, a significant milestone after which the Labor Department considers them long-term unemployed. The ranks of the long-term unemployed could swell from 1.5 million now to between 4.0 million and 5.8 million by early next year, according to Chodorow-Reich and Coglianesse.

Long-term unemployment may near Great Recession

U.S. unemployment rate, by duration of unemployment



Source: Analysis of Labor Department data obtained via IPUMS by Gabriel Chodorow-Reich (Harvard University) and John Coglianesse (Federal Reserve)
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The gap between the optimistic and pessimistic scenarios is large, and the path we choose ultimately depends on whether the [coronavirus](#) can be contained. Over the

past several weeks, lawmakers have been debating how much economic support is needed to limit the economic damage until the public health crisis eases. Republicans and Democrats' differing views on how to limit the damage caused by long-term unemployment is undermining their ability to come up with a stimulus deal to replace the Cares Act.

Sheila Frees, 59, of Reading, Pa., thought her unemployment was temporary -- soon it will be both permanent and long-term. In March, Frees went on furlough as a part of the first wave of pandemic shutdown casualties. She waited patiently to be recalled to her job at a northeast department store until the end of June, when she was abruptly laid off.

"They drag this on for so long, and you think you're going back, and then you aren't," Frees said. "You weren't going to come back. And they knew it. If you're going to lay people off, do it quickly."

To be sure, the effects of long-term unemployment on the larger economy will be different compared with the last recession. This time, jobless benefits have been higher, at least from April through July, and public-health concerns around the novel coronavirus have effectively barred millions from working.

"What's clear about this particular crisis, compared to the Great Recession, is it's affecting the least advantaged in society -- people who don't have access to other safety nets or family resources," Bertrand said. "It's not clear how these people are going to be getting by."

She added that could, paradoxically, also speed the recovery. The less-skilled, less-educated service workers who have been laid off may have an easier time finding an equivalent job in a different industry than the highly specialized workers who spent years after the Great Recession searching fruitlessly for a fit for their skills and education.

The fate of the permanent unemployed is key to understanding the political debate that has prevented Congress and the White House from coming to a deal to extend more stimulus for the unemployed and small businesses.

House Democrats are concerned about the long-term prospects of the unemployed, and they passed a bill in May that would [extend](#) the \$600 in weekly enhanced unemployment benefits through January.

Claudia Sahm, who worked at the Federal Reserve from 2007 through 2019, said the current crisis had gone from “unprecedented” to frighteningly similar to the Great Recession.

“Initially, the layoffs were largely temporary,” said Sahm, who is now director of macroeconomic policy at the Washington Center for Equitable Growth, a progressive think tank. “In recent months, we have seen the rate of permanent layoffs rise. And we should expect more as the relief expires and more small businesses fail and more families can’t go out and spend and more communities have to cut essential services.”

Yet, Republicans in the Senate, as well as the White House, remain optimistic that most job losses have been and will continue to be temporary. A [White House Council of Economic Advisers report](#) out this month estimated 81 percent of layoffs from February to May were “likely to be temporary rather than permanent,” citing Labor Department data. That said, the White House report acknowledged the dangers long-term unemployment poses to the economic recovery.

“Before the covid-19 shutdown, the unemployment rate was below 4 percent, so we still have a long way to go in recovering lost ground. Therefore, it will be important to ensure that the decline in the unemployment rate continues over the next several months and that these temporary layoffs do not result in large permanent job losses,” the report said.

Yet there are increasing signs that unemployment is becoming permanent. With every week that the pandemic rages, distressed businesses are looking at their balance sheets, and either laying off employees or closing entirely.

Americans continue to avoid crowded entertainment, shopping and dining venues, and small-business revenue has slumped. Rent, utility and insurance payments loom, and revenue prospects remain uncertain.

About 4 million U.S. businesses are expected to close this year, according to Oxford Information Technology, which maintains a database of about 32 million businesses, nonprofits, government entities and farms. During that same period, only 1.3 million new businesses will be formed.

Both figures are worse than the Great Recession, said Raymond Greenhill, Oxford's president. In just three months from April to June, the country lost 1.85 million businesses, and Greenhill expects the losses to continue well into 2021 as businesses struggle to obtain financing and to cover expenses while operating at reduced capacity. He saw a similar pattern in the Great Recession, when businesses failures kept piling up well after the recovery had officially started.

In late May, a Census Bureau [survey](#) showed that only 38 percent of business owners thought it would take six months or more to recover normal business operations. By mid August, that number soared to 55 percent as most business owners lost hope in a speedy recovery.

According to Columbia Business School economist Laura Veldkamp, some of these behavioral changes will become permanent. The pandemic, like the Depression and the World Wars, is fundamentally altering people's tastes. Some businesses will be left behind, as consumers get accustomed to videoconferencing instead of commuting, and buying groceries online instead of braving stores, malls and restaurants.

“This is a period of rapid technological change,” Veldkamp said. “We are changing the way business is getting done, we’re changing the way we’re shopping and the way we’re eating — we’re changing the way we’re having meetings.”

[As more businesses throw in the towel](#), more workers lose their connections to the labor market. Those connections — the years of skills, trust and social networks built up at particular employer — are exceedingly expensive and time consuming to rebuild. That’s what economists are talking about when they talk about the dangers of “permanent” job loss.

“There’s going to be such anxiety and such fear. Their self-esteem is impacted,” said Jane Oates, president of nonprofit WorkingNation and former a Obama Labor Department official. “Obviously, some of them are going to have to retrain and learn new skills, and many of them are going to have to switch sectors.”

Frees, who had worked for five years as an administrative assistant, said she knows she’ll survive this recession, because she survived the last one —-- though it took a whole new set of skills to do so.

After being laid off from her bookkeeping job during the Great Recession and struggling to find new work, she finally went to school and earned an associate degree. It was enough to get her work as an administrative assistant. Her new job paid less than the one she was originally laid off from, but after years of unemployment she was grateful to have any job at all.

“You don’t realize that it’s comforting to get up every day and get dressed and go to work and come home and make dinner,” Frees said. “When you don’t have that? Wow! You feel like you’re out in the middle of the ocean waiting for somebody to throw you a raft.”

In this recession, Frees said she believes workers like her could be adrift for a very, very long time.

“I don’t think you can have a pandemic and think everything’s going to snap back to normal and we’ll be fine,” she said. “This will get worse before this gets better.”

Almost a century ago, Saul Shorr founded what would later become Harold’s Kosher Market in Northern New Jersey. His son Harold took over in the 1950s and focused on fresh meat. As the city of Paramus grew into one of the New York City metro area’s great retail hubs, Harold’s expanded into groceries and catered food, such as soups and pastrami sandwiches, that became fixtures at Super Bowl parties and brisses.

“People came from all over to shop here,” said Glen Shorr, the 66-year-old co-owner who grew up in the store. “I have customers that knew my grandfather ... I have some kids who used to work here that now come in with their kids.”

Harold’s closed temporarily in April, when coronavirus cases were rising throughout New Jersey’s suburbs. Just recently, Shorr realized it no longer made sense to keep paying insurance, rent and electric bills when the future looked so uncertain.

“It was kind of like the perfect storm,” Shorr said. “Everything just kept going wrong. After a while, you just say ‘I can’t do it.’”

They’ve since donated vanloads of groceries to a local food bank. His 12 employees, some of whom had been with the store for more than three decades, will now join the ranks of the permanently unemployed — those who say they no longer have a job to go back to.

Heather Long contributed to this report.