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Is there a jobs vaccine?

Policies for Covid-19 recovery should be targeted at creating new employment through start-up businesses

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National lockdowns, a drop in consumer spending and closed borders due to Covid-19 all add up to a particularly hostile business environment. This is painfully apparent from statistics on new business registrations, which saw huge slumps across many countries at the onset of the pandemic. For instance, the number of business registrations in the first half of 2020 dropped by about 10% in Germany, 20% in the UK, 30% in Italy, 40% in Portugal and 50% in Denmark, relative to the same period in 2019.

Research shows that start-ups are crucial for job creation and productivity growth. Large, mature businesses employ most of the labour force but destroy jobs on average because they shrink and fire people. By contrast, start-ups on average employ fewer workers but are responsible for the vast majority of newly-created jobs. Any disruptions to start-ups and young businesses can, therefore, slow down recoveries and make them fragile. A drop in the number of new firms creates a persistent dent in employment as fewer young firms grow to employ workers in the future. Moreover, businesses that start in tough economic times tend to remain small even when the economy recovers, our research has found. These effects combine to create long-lasting scars on the macro economy.

Our findings have led us to develop a simple policy tool, adopted by the European Commission, for gauging the employment effects of a disruption in start-ups and young businesses, the Start-up Calculator. Results from the calculator paint a bleak picture: even short-lived disruptions to start-ups can have large and persistent negative effects on the macroeconomy. For example, our calculator suggests that Germany, which has seen a relatively modest decline in business registrations, may not recover fully until about 2030 and the cumulative employment loss may amount to as much as three quarters of a million jobs.

To understand this better, it may be useful to compare the economy to a full kitchen sink. The water in the sink represents mature, large, businesses. That's where most workers are employed. The tap are start-ups and young businesses which create new jobs. The pandemic has unplugged the sink and turned the tap off. Without the furlough scheme and support to existing businesses employment would have plunged. However, now that the drain has been plugged, it's important to get the tap going again. Without a boost to start-up and new firms, the recovery will be painfully slow and costly.

These findings suggest that policymakers may wish to pay special attention to start-ups and new businesses. Most existing pandemic-related policies to support businesses require firms to have actually existed in the past year to be eligible. This automatically excludes young firms and pays no attention to potential new businesses which have not yet come to existence. Governments should create policies that directly target start-ups and young firms. While some of these policies will surely go to businesses that fail, it will incentivise others that may not have started up and created jobs without such support. Better incentives to start-up businesses have the potential to inject the economy with the much-needed jobs vaccine and speed up the recovery that we are all waiting for.

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