

Impact of Covid-19 on Productivity of Human Capital

Impact du Covid-19 sur la productivité du Capital Humain

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Abstract

The purpose of this research is to study how the pandemic will affect technology, allocating resources, including human capital accumulation, and how policies may be structured to boost the productivity of human capital and inclusion.

The severity of the COVID-19 pandemic will drastically change the way humans work and how they spend with widely disparate effects across individuals around the globe. The movement of resources to much more productive businesses usually boost overall production. In this regard, significant resource reallocation further towards digital companies may occur. However, a protracted crisis requiring continued policy assistance to safeguard employment and livelihoods may cause resources to be diverted to less productive companies, stifling determinants of economic development. The pandemic also prompted increased investment in intangibles, mainly digital technology, due to the necessity to decrease in-person connections, which has probably helped alleviate productivity losses caused by virus-fighting efforts.

Keywords : Economic development ; Human Capital ; Impact of Covid-19 ; Productivity; digitalisation.

Résumé

L'objectif de cet article est d'examiner comment la pandémie affectera la technologie, l'allocation des ressources, y compris l'accumulation de capital humain, et comment les politiques peuvent être structurées pour stimuler la productivité du capital humain et l'inclusion. La gravité de la pandémie de COVID-19 changera radicalement la façon dont les humains travaillent et dépensent et aura des effets très disparates selon les individus du monde entier. Le mouvement des ressources vers des entreprises plus productives stimule généralement la production globale. À cet égard, une réallocation importante des ressources vers les entreprises numériques peut se produire. Cependant, une crise prolongée nécessitant une assistance politique continue pour préserver l'emploi et les moyens de subsistance. Elle peut aussi entraîner le détournement de ressources vers des entreprises moins productives, étouffant les déterminants du développement économique. La pandémie a également entraîné une augmentation des investissements dans les actifs incorporels, principalement la technologie numérique, en raison de la nécessité de réduire les connexions en personne, ce qui a probablement contribué à atténuer les pertes de productivité causées par les efforts de lutte contre les virus.

Mots clés : Croissance économique ; Capital humain ; Impact du Covid-19 ; Productivité ; Numérisation.

Introduction

The rising prevalence of COVID-19 and its gravity has had significant repercussions for most professions and organisations, particularly in the realm of productivity of human capital. The productivity within the firms has badly been impacted due to the digitalisation of work. The world does have a great deal to learn about the consequences that pandemic has put forth on us, such as how pandemic-induced changes and how individuals perform the tasks have reduced productivity losses and maybe increased productivity (Ambrocio, 2020). However, historical testimonies coupled with what has been witnessed thus far in the disaster might offer policymakers valuable knowledge for boosting productivity and strengthening growth and inclusiveness. In today's changing climate, numerous organisational problems related to human resource management and human capital substantially influence an organisation's ability to function strategically and achieve long-term success. Many managers are working hard to help staff adjust to and cope with substantial changes in the workplace and social environment, dubbed the "new normal" (Atkeson, 2020). For example, before the coronavirus pandemic, some individuals were accustomed to investing a significant amount of money at work or inside the physical boundaries of their organisations. However, they now have no option but to adjust to remote work situations quickly. On the alternative hand, working remotely has its drawbacks in view that maximum people cannot discover exchange locations of snug work mainly because they may be unable to carry out efficiently at home.

These problems enable an organisation to be very flexible and, as a result, adaptable to efficiently organise, manage, and control its workforce by posing a substantial threat to its long-term existence (Baldwin, 2020).

On this basis, the main question to which this literature review attempts to answer is as follows: What is the impact of the Covid 19 pandemic on capital human and how will it affect technology? And what are the practical solutions to mitigate the consequences that will ultimately improve the productivity of the organization and boost the productivity of human capital?

To do this, we will first shed light on the impacts of the COVID-19 pandemic on human capital productivity, followed by the presentation of practical solutions to mitigate the consequences that will ultimately improve the productivity of the organization and how policies can be structured to boost human capital productivity and inclusion.

1. Literature review

This paper uses secondary research and derives the results from already existing data that included reports and surveys.

1.1. Would Human Capital be Impacted Forever?

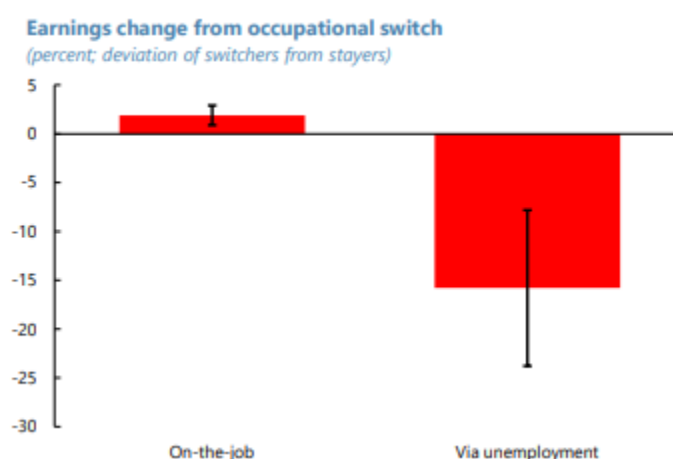
The shock of COVID-19 has rattled the globe and resulted in a significant drop in the employment rate in occupations and industries that are likely to be automated. If such jobs do not reappear, employees will have to seek new employment and learn new skills. When paired with lengthy interruptions in education for the next class of workers, a long-term unemployed workforce can significantly impact human capital and productivity for the longer term.

1.1.1 Suffering from workers due to negative impact on earnings and outbursts unemployment:

According to the "IMF's April 2021 World Economic Outlook", if a person enters a new profession after quite a period of inactivity and unemployment, their wages drop compared to employees who continue in the same occupation, but an on-the-job transfer results in a profit.

It has been found that unemployment cycles are more prevalent among lower-skilled individuals, and they raise the probability of having to change professions may also need additional knowledge. Overall, the data points to a shortage of job-related skills after periods of unemployment (Fund, 2016).

Figure N°1 : Earnings Loss from Job Change

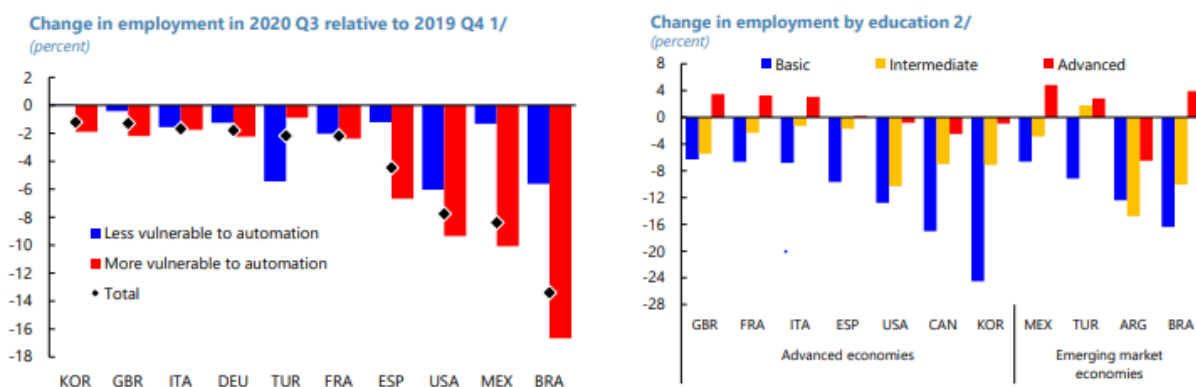


Source : Chapter 3 of IMF, April 2021 World Economic Outlook.

1.1.2 Acceleration of automation amidst crisis

During previous recessions, the loss of jobs in middle-skill routine jobs increased. For example, in prior US downturns, so-called "jobless recoveries" were fueled by job losses in routine professions which make up roughly half of total production and are never fully recovered (Fund., 2018). Even subsequently, the COVID-19 surprise has disproportionately impacted industries that might be extra vulnerable to automation, lowering the proportion of low-skilled and low-wage employees in the workforce. When policymakers think forward, the productivity and wages of low-skilled employees who have abandoned their employment in automation-prone industries become vulnerable. Since avoiding further division of the labour market and heading off in addition department of the exertions marketplace is vital. Consequences might, for that reason, take decided and complete measures to reskill and reemploy the affected workers. The results are presented below.

Figure N°2 : Employment Loss by Vulnerability to Automation and Skill Level



Source: OECD; ILOSTAT; Chapter 3 of IMF, April 2021 World Economic Outlook; UNESCO; and IMF staff calculations.

1.1.3 Present crisis' negative impact on vulnerable employees, affected the future workforce:

At the height of the pandemic outbreak, school cancellations impacted 1.6 billion students worldwide while millions more were still missing out on education. Such disturbances severely negatively impact education in economies with infrastructural deficiencies (including power and internet service), limiting their capacity to adopt remote teaching. Women and students from low-income families are particularly vulnerable to adverse educational losses because they missed out on the benefits of social pressure at school and were less apt to have support from parents for online learning (Agostinelli, 2020). While still at home, females would have had to

bring in additional caring and teaching obligations, placing them at a handicap in the job market. These disturbances to learning and employment are predicted to impede the accumulation of human capital with varied effects across generations, genders, and income levels, as well as dire ramifications for long-term productivity (Chernoff, 2020).

1.2. Would Robust Digitalization Lift Productivity of Human Capital?

Even during the past couple of decades, "intangible capital investment" has been a driving factor in product development. If technological advances, a crucial component of capital investment, continue to accelerate throughout the crisis, they may improve productivity. Nevertheless, because intangible investment is susceptible to credit circumstances, the strength and breadth of such a recovery can be influenced by post-crisis financial statement personal and economic conditions.

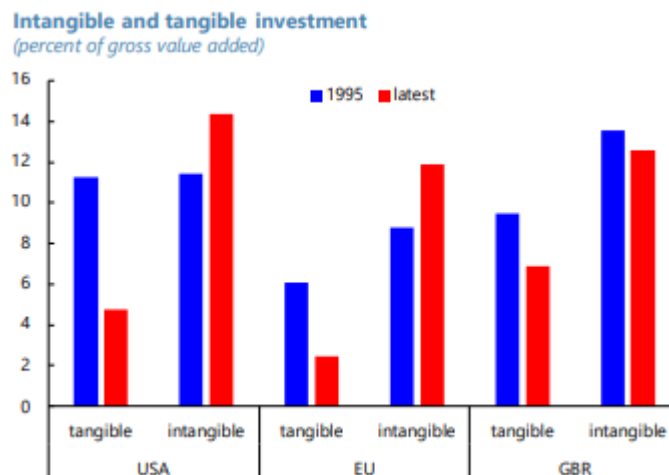
1.2.1. Rise of Intangible Capital Investment:

"Intangible capital assets" include (i) brand, organisational capital, as well as training ("economic competencies"); (ii) R&D, configuration, arts as well as mineral investigation, and investment in innovation ("innovative property"); and (iii) software as well as databases ("computerised information," including digitalisation). Because innovative tools are included in the classification of intangible assets inside the public finance statistics, this note analyses intangible assets as a whole. Some kinds of intangible capital may implicitly promote more efficient usage of tangible capital, including worker skill improvements in addition to becoming directly helpful to performance.

Organisational transformation and education are frequently required to obtain productivity advantages from factual information and communications technology (ICT) investments. As a result, the value of intangible assets has continuously increased.

In several G-20 developed economies, an intangible capital investment currently accounts for more than 10% of additional value, which is a higher proportion than physical capital investment (Crouzet, 2018).

Figure N°3 : Trends in Intangible Capital

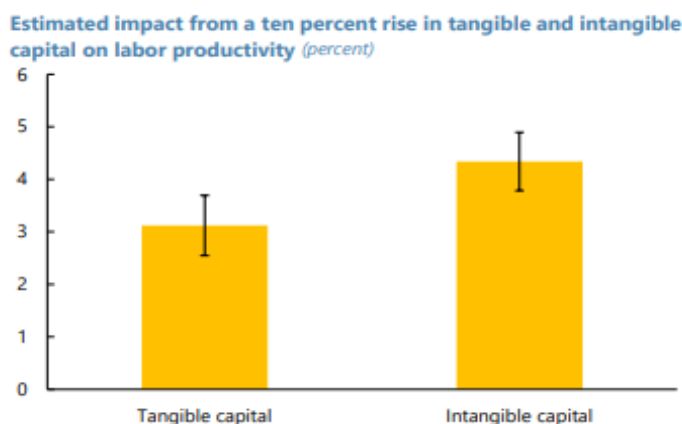


Source : EU KLEMS; Corrado and others (2016); IMF staff calc.

1.2.2. Intangibles – Indispensable Productivity Boosters:

"Intangible capital investment" is strongly linked to increased worker productivity. According to regression analysis from a population of 15 nations from 1995 to 2016, a 10% increase in intangible investment is linked with a 41/2 % increase in labour productivity. In contrast, intangible growth capital is connected with a 31/2 % increase in productivity. The primary benefit of intangible investments on productivity is most likely due to intangible capital's function in boosting efficiency in competencies and other qualities that improve businesses' production or valuation without requiring additional physical capital expenditure (Ahn, 2020).

Figure N°4 : Investment and Productivity



Source : EU KLEMS; Corrado and others (2016); IMF staff calc.

1.2.3. Highly Sensitive Financial Conditions amid Recessions:

Financing circumstances are crucial for a firm's intangible expenditure since intangible capital is currently inactive as security, making it more expensive to finance than physical capital (Aghion, 2015). Furthermore, during downturns marked by tighter monetary circumstances, this gap widens as creditors become more risk cautious. As a result, investments in intellectual assets fall previous corresponding period levels—especially for more fiscally limited companies.

1.2.4. Factors that Cause Increment in Intangible Assets:

Higher corporation tax rates may deter certain intangible investments by increasing the cost of capital. Because many firms may be restricted in their ability to invest, the consequences might include increased market domination, negatively affecting the economy. As a result, while digitisation has the power to enhance productivity well after the pandemic, it also is conceivable that its ultimate influence on overall productivity may be muted due to constraints impeding a broad-based ongoing growth in intangible capital investment.

2. Discussion

2.1. Policy Actions to Boost Productivity

Policies that encourage digitalisation, allow resource redistribution to some of the most constructive things and assist workers in transitioning to a post-pandemic environment are all needed to boost productivity.

2.2. Crisis enhanced opportunities to boost productivity

The inflicted crisis has created conditions for improved productivity. It has also created colossal difficulties associated with increased inequality and poverty; policies should indeed be designed to aid businesses in taking advantage of these opportunities while also addressing any adverse effects on low-income workers. The pandemic of COVID-19 can maximise the productivity of human capital by speeding rapid change, such as digitisation and changes to how we work and live. In this regard, any advantages are likely to be most excellent to the degree that labour and capital are efficiently reallocated among businesses and industries. There are, however, dangers, stumbling blocks, and tasks to overcome. Temporary safety nets to companies even during the crisis, for instance, are expected just to have slowed the redistribution process. While economies recover from the outbreak, it will be critical to shifting to help stable structures with powerful and green operations progressively. Lack of competition could be a hindrance to development and innovation. Thus any possible rise in market power will need to be carefully monitored. In addition, the plague has already had catastrophic consequences for the cheap, the

poor, and the training of another new workforce, putting quality human resources at risk. All of these possibilities, problems, and dangers must be addressed to set the world on a stage of inclusiveness.

2.2.1. Encourage the development of intangible assets

Because finance limitations may substantially impede "intangible capital investment," counter-cyclical measures may benefit recessions. Macroeconomic policy can therefore aid in the buildup of intangible assets, hence boosting productivity. In particular, In the face of asynchronous and unequal recoveries, policymakers should exercise caution, particularly in emerging market nations where the risk of a fast tightening of economic conditions is high. To the degree policy space permits, continued monetary and fiscal assistance will be crucial in supporting intangible investments and safeguarding productivity gains in the coming years.

When focused on feasible companies, policy support to businesses in danger of bankruptcy due to this situation will also have the most significant impact on total output. In truth, there is a great deal of diversity among bankrupt businesses. According to estimations, small and medium-sized companies (SMEs) that went bankrupt purely due to the recession are all on average 25% more productive than those who would be bankrupt even though the recession had not occurred. A selection tree structure, such as the one recommended in the latest "Global Financial Stability Report," can help choose which businesses to target. However, one concept component is that financial markets may guarantee capital is distributed to viable companies. In particular, viability has to be installed for a massive variety of corporations in a brief period if bankruptcy methods are lacking.

Employment rights for ordinary employees have resulted in a tough labour market, relax safeguards while retaining appropriate safety nets to allow for more effective adaptation to technology advancements. A gradual loosening of restrictions would enable companies to respond more rapidly to technological changes or customer needs that need employee reallocation or downsizing when adequate social programs exist, such as well-designed unemployment benefits. It might help remove obstacles to new (intangible) investment capital, and it should be combined with labour market improvements like workforce development and other individual development, if necessary.

2.2.2. Reallocation to Increase Productivity

Even when the outbreak was inflicted, the redistribution procedure may have slowed the need for emergency safety nets. Policies should guarantee that capital in failing businesses is swiftly put to more effective use and that dislocated employees are assisted as they transition from

decreasing to increasing firms and sectors to promote a robust recovery. Then it will be critical to keeping a close eye on mergers and dominating positions.

- Encourage competition to allow companies to quit and enter while reducing tax system inefficiencies that might lead to misappropriation. Competitive pressure can promote the admission of new businesses and the departure of unproductive firms by lowering entry barriers, operational limitations, and administrative costs, allowing capital and labour to be reallocated more quickly for much more practical purposes. Furthermore, in light of the potential for increasing market consolidation due to the present crisis, regulatory agencies will need to keep a close eye on acquisitions and mergers to guarantee that they do not stifle competition.
- For businesses and people, we are bridging the digital gap. It is essential to guarantee universal broadband access connection, particularly in rural regions, for companies to obtain fair access to foreign customers and, as a result of this access and investments made, to benefit from reallocation. In so many economies, individuals' accessibility to broadband internet and digital capabilities has become necessary for education, social services, work, and health care. Internet investment and a digitally favourable changing regulatory atmosphere for the private sector should emphasise policies.
- Just like money and labour, it has become a significant input in contemporary manufacturing, and data is at the heart of many of the world's top companies' business models. Availability of information, on the other hand, is a specialised corporate market power source. As a result, a variety of policy interventions are required to reduce adverse effects on concentrations. These might include enforcing current rules against abuse of power and advocating for government information that permits customers to move their data across providers. Furthermore, an integrated strategy is required to capitalise on data-driven development possibilities while balancing complicated trade-offs between privacy, competitiveness, and stability.

2.2.3. Reduce the impact of job displacement as well as restructuring on employees

COVID-19 affected the poorest people disproportionately, increasing inequality and posing a danger to personal wealth creation. In terms of general redistribution strategies, interventions are required to soften the income loss due to unemployment and assist the jobless in gaining the essential skills for post-pandemic job needs.

- Unemployment benefits, rather than more significant productivity safeguards, may be essential during the pandemic and is a much more rigorous device for ensuring safety

facing a shift in work composition. However, caution should prevent a surge in reservation rates, which might hamper the revival.

Conclusion

In conclusion, COVID-19's long-term effects are unknown at this time, although there is little reason to believe that its impact on organisational life will be limited. Not only are the effects of the current outbreak far from over, but the likelihood of long-term health catastrophes of this scale, as medical professionals have warned, is almost probable. As a result, we must be forward-thinking, believing that the primary issue we are currently confronted with is a "new reality" that provides new prospects to which organisational academics and researchers will need and want to pay attention.

People have followed with caution and responsibility a set of decisions taken by governments in order to limit the spread of the virus, in the absence of any treatment and remedy, pushing countries to review their strategies, determine their priorities, their potentials and their willingness to face an enemy invisible to the naked eye, let's say if this epidemic will be a lesson for the future, an alert to turn to the human factor and invest in it.

Thus, an important question arises: "If another disease or disaster of this magnitude were to occur again, humanity would know how to react and which algorithms to follow? Moreover, our economic response will be adequate and balanced so as not to harm our economies and not to have effects on the productivity of human capital?"

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