Aaron Institute for Economic Policy
In the name of Aaron Dovrat z"l

Employment Policy Response to COVID-19 Crisis

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This is a short summary, for the full paper (in Hebrew) see https://www.idc.ac.il/he/research/aiep/pages/policy-papers.aspx.

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The vision of the Aaron Institute for Economic Policy is to sustain economic growth and social strength in Israel, by researching, modelling and developing modern, innovative and up to date strategies and policy tools for the Israeli economy, based on up-to-date global knowledge.

All modern economies aim for economic growth, achieved through employment increase and a rise in workers' productivity. The Aaron Institute conducts economic research that yields proposals for innovative policy tools and reforms for promoting growth, employment and productivity. The goal of policy research is to influence monetary and fiscal policy, as well as to formulate long-term plans for economic and social issues and contribute to the narrowing of social gaps. The institute aims to affect professional discourse, spur discussion based on credible information and socio-economic research, which will ultimately provide tools that will support a growth path and create social resilience in Israel.

The main aim of the Aaron Institute for Economic Policy at the Tiomkin School of Economics is to develop policy strategies that eliminate weaknesses and empower the strengths of the Israeli economy. We propose broad reforms as well as policy changes to particular industry sectors. In this framework Israel's relative advantages in technologic innovation and advances in the public and services sectors can be maximized. At the Aaron Institute, we crucially define quantitative goals while involving some of the countries' best economists in research and policy paper discussion meetings.

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Employment Policy Response to COVID-19 Crisis

The outbreak of COVID-19 pandemic and the lockdown measures implemented to curb it triggered an unprecedented economic crisis, manifested primarily in a surge in the number of job seekers (unemployed and furloughed employees), which has exceeded one million. Many of them are young people who earned lower-than-average wages and workers from the Haredi (ultra-Orthodox) and Israeli-Arab sectors, where employment rates had only started to rise over the last few years. Now, with the easing of restrictions on economic activity in most sectors, there is a need for a policy which emphasizes **bringing back to work as many employees as possible,** in order to raise the GDP, reduce poverty rates, and prevent a situation where workers ousted from employment end up in long-term unemployment, which makes it extremely difficult to get back into work.

It is important to differentiate between three distinct policy objectives:

1. Cash flow relief for businesses and employees during lockdown, which is already in effect since March 2020 and includes provision of unemployment benefits to furloughed employees with a shortened qualification period, as well as tax deferrals and business loans.

2. Compensating businesses for forced closure, and specifically for fixed costs (this issue is discussed in a separate policy paper).

3. **Encouraging an increase in employment during emergence from lockdown and post-crisis period.**

Each one of these policy objectives requires setting separate goals, and establishing different criteria and policy tools.

The focus of this paper is the policy needed today for the purpose of bringing back to work as many employees as possible, given the policy implemented so far, as well as the policy which needs to be determined now for the possibility of a "second wave" or a future pandemic. The enduring market failures in the job market, and particularly the sharp increase in uncertainty regarding both health situation and expected demand volumes in the national economy following the COVID-19 pandemic, justify a government intervention directed at raising employment rates. The most important measure to be taken is **providing certainty regarding**

future policies, both when coming out of lockdown and in case of a second wave. For the avoidance of doubt, the bill determining stimulus bonuses for bringing back employees should make it clear that this stimulus is non-recurring and will not be provided again in case of a second wave. Delayed government decisions, and uncertainty concerning the tools and volumes of financial aid, impair the ability of businesses to make economic decisions, undermining economic growth and the efforts to increase employment rates.

The recommended policy for emerging out of lockdown includes:

1. Setting a measurable numerical objective: **an employment rate of 74% for people aged 25-64 by the end of 2020**, meaning some 530 thousand workers of this age group will be returned to work compared to the situation at the end of April.

2. **Temporary reduction of labor costs** and incentivizing the return of employees to work, whether with their previous employer or a different one, according to the preference of employees and employers, and regardless of the extent of damage suffered by the employer.

3. **Flexibility in the furloughing mechanism** to enable an optimal fit between number of employees and demand volume, while maintaining a real relationship between employees and employers until the economy recovers, as well as employee mobility.

4. **Substantial expansion of job training volumes**, particularly general human capital, for individuals who remain unemployed, in order to enhance their skills and expand their employment horizons once economic activity increases.

Regarding the policy for the possibility of a second wave or a future pandemic, our main recommendation is to improve the flexibility of the furloughing mechanism, in order to enable more adequate adjustment to demands along with employee mobility, unlike the furlough policy in place during the current crisis.

In the framework of the stimulus package currently offered by the Ministry of Finance, receiving the stimulus bonus by employers is predicated on an increase in the number of employees compared to the previous month, regardless of whether they are existing employees brought back or new hires. Additionally, the current package allows employees to choose their appointment percentage, although bonus size is independent of that percentage. Therefore, this package provides an incentive to increase employment rates for both employees and employers, and as such it **may contribute to an increase in GDP and reduce**

unemployment by 4-5 percentage points. We would like to reiterate our recommendation that this program should be non-recurring, and such bonuses should not be provided again in case of a second wave.