

A background image showing a group of people in a meeting, with their hands and arms visible as they work at a table. The image is overlaid with a blue tint.

The Crisis as an Opportunity: Employment and Human Capital Policy

Tali Larom*



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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>.

* Dr. Tali Larom is a senior researcher at the Aaron Institute for Economic Policy, Interdisciplinary Center Herzliya.

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→ **Contact details:**

The Interdisciplinary Center Herzliya - IDC, P.O. Box 167, Herzliya, ISRAEL 4610101

Phone: 972-9-9602431

Email: aaron.economics@idc.ac.il

Website: <https://www.idc.ac.il/en/research/aiep/pages/main.aspx>

The Crisis as an Opportunity: Employment and Human Capital Policy

The COVID-19 pandemic and the ensuing economic crisis have pushed the labor market in Israel back by about a decade, with the effective employment rate (number of employees excluding those temporary absent from their workplace for the whole week due to COVID-related reasons) among the 25-64 age group reaching around 73% in April 2021, similar to the 2011 rate. The blow to employment, as well as the recovery following the eventual lifting of restrictions and reopening of the economy, have been disproportionate, concentrated mainly among low-skilled, low-income workers, many of whom are young adults making their first steps in the labor market, or workers from Arab and Haredi (ultra-Orthodox) societies. The safety nets which were provided until June 2021 did not include any incentives for employment, vocational training, or retraining. This policy, along with the absence of a state budget or an economic plan which supports growth and demands, have caused unemployment to be prolonged even after the resolution of the health crisis; many younger people, particularly those belonging to population groups characterized by low skills and educational attainment, might be ejected out of the workforce in the long run as well.

On the eve of the crisis, the labor market in Israel had been characterized by high employment and low unemployment. However, the Israeli economy had already been facing two major challenges: (1) population groups still characterized by low employment rates – Haredi men, Arab women, and people with disabilities, and in recent years also Arab men whose employment rate began declining in 2017; (2) low levels of productivity and wages, in part due to insufficient human capital and skills, particularly among individuals who do not pursue academic studies. In light of these challenges, the Employment 2030 Committee recommended setting ambitious targets for both the rate and the quality of employment, along with a set of tools designed to achieve these targets, primarily a reform in the vocational training system and dedicated employment schemes for target populations.

The COVID-19 crisis has accentuated and exacerbated these challenges even further, hence the Israeli economy urgently needs a comprehensive policy which would address employment and human capital. It should be noted that the processes which had taken place in the labor market during the decade and a half prior to the crisis demonstrate that a government policy which is focused on boosting incentives to work, and targeted primarily at low income earners, is effective in increasing actual employment rates. This policy, which had been enacted in Israel since 2003, included a cutback in income support benefits and child allowance; an increase of retirement age; a reduction in unemployment benefit payments; reduced taxation for low income earners, including the introduction of the Employment Grant (AKA “negative income tax”); a decrease in the number of foreign workers; an increase in minimum wage; introduction of Welfare to Work schemes; and infrastructures which support integration in employment. Economic research indicates that this policy was the primary cause of the dramatic rise in employment, which had been more significant among populations with low income capacity. Furthermore, the increase in employment during that period had been accompanied by a substantial increase in households’ labor income as well as net (disposable) income, along with a decline in the rates of poverty and inequality.

We argue that the adoption of similar or even more aggressive policy today could once again be effective, and stimulate both an increase in employment rates in the short to medium term and a long-term increase in employment quality (wages and productivity), which would contribute to enhanced growth and reduced poverty. The government should present a plan which focuses at raising employment rate and quality, supported by a budget framework for implementation, which would comprise the following elements:

(1) **Setting employment rate targets for the short to medium term**, aiming to regain the 2019 employment rate (78% at ages 25 to 64) by the end of 2022. In addition, this broad target should be broken down into sub-targets according to population groups (non-Haredi Jews, Haredi, and Arab) and gender. We would stress that this is not a projection of the expected employment rate by the end of 2022, but an ambitious goal meant to guide and focus policy decisions, and its realization requires enactment of the other measures detailed below.

(2) Adopting the Employment 2030 targets for rate and quality of employment in the long term, and getting back on course towards realization of these targets. In regard to the employment rate at ages 25 to 66, the emphasis is on ambitious targets for increasing employment among groups whose employment rates are still low – 65/70% for Haredi men, 53% for Arab women, and 51% for people with disabilities.¹ Furthermore, in view of recent study findings, the employment rate of Arab men should be reexamined today, in order to achieve the target set for them towards 2030. In regard to the quality of employment at ages 25 to 39, the emphasis is on ambitious targets for increasing the wages of groups which are characterized by low income levels even though their employment rates are relatively high – an annual increase of 3.3% in the nominal monthly wages of Haredi women, and 3% in the wages of Arab men.² These quality targets imply that it is necessary to adapt the employability skills and occupations of these groups to match demands, contrary to the actual situation at the present.

(3) Establishing large-scale employment schemes according to the outline proposed by the Employment 2030 Committee. These schemes should include a significant element of vocational diagnosis and guidance – towards employment, vocational and technological training, and academic studies – to ensure an optimal match between the capabilities and preferences of the individual on the one hand, and market demands on the other. In addition, these schemes should provide ongoing guidance and support during active job search and placement, which requires ensuring that employers are involved in their operation. It should be stressed that while these elements should be incorporated in all the various schemes, each one of them should be adapted to a specific population out of the main groups whose rate and quality of employment are low – Arab and Haredi societies, people with disabilities, young adults, and those receiving income support. In particular, there is a significant drop in the number of people who either work or study among younger Arab men (aged 18-24), and it is imperative to devise a dedicated scheme which would tackle this serious problem.

¹ On the eve of the crisis, employment rates were 52.2% among Haredi men and 37.4% among Arab women.

² These rates are higher than those predicted, just before the crisis, for the corresponding population groups – non-Haredi Jewish women and non-Haredi Jewish men – hence they represent reduction of the wage gaps between the groups.

(4) Implementing a comprehensive reform in the vocational training system, according to the outline proposed by the Employment 2030 Committee, and expanding the numbers of participants in vocational training courses. Development of new training courses and adaptation of existing ones should be concentrated on occupations with high demand in current market conditions, with an emphasis on training workers for the commerce and services sectors, and each training course should be assessed against the criterion set by the committee – a return of 6% in terms of wages of training graduates. It is essential to incorporate acquisition of general human capital (Hebrew, English, and digital skills) in the framework of all training courses, in order to bridge the gaps in these proficiencies which exist among a large proportion of the target populations. Another key principle is involvement of employers from all economic sectors in course design as well as apprenticeships, in order to ensure an optimal match to the skills which are actually required in the labor market. The main target groups of this reform are unemployed individuals or job seekers within target populations who are yet to enter the labor market, young adults entering the labor market who do not seek academic education, and workers facing danger of losing their jobs because their professions may become obsolete. Therefore, improving and strengthening the system according to the precepts of the reform, while reaching out to these target groups, would contribute both to crisis recovery in the medium term and to enhanced growth in the longer run.

(5) Termination of the furlough mechanism and the ad-hoc safety nets provided during the crisis, in order to retain and reinforce the incentives for employment and training. Unemployment benefit payments should return to their pre-crisis framework, in terms of amounts as well as durations, including the obligation for in-person attendance in employment centers and participation in employment schemes, with the exception of unemployed heads of families for whom it may be possible to devise tailored employment and training schemes, which would provide support to ensure that their standard of living is maintained during the transition period over the next few months. In addition, treatment of the unemployed and of income support recipients should return to its pre-crisis administrative structure, but with a stronger emphasis on government funding for high-quality vocational training and other schemes which support integration into high-quality employment.

(6) Establishing an Employment Ministry as exists in most developed countries, for integral management of all issues involving the unemployed and individuals out of employment, including all employment schemes and vocational training courses. This ministry will consolidate and integrate the various government efforts which are currently dispersed among several government agencies, including The Labor Division, Employment Service, Ministry of Finance, Ministry of Economy, Innovation Authority, Ministry for Social Equality, and others. This ministry will be tasked with policy formulation, supervision, and budget allocation, whereas implementation on the ground will be done in nationwide distribution and in collaboration with local authorities, differentiating population groups according to their characteristics and labor market status. Such a structure would ensure optimal, higher-quality response to the needs of both workers and employers.