

A background image showing a group of people in business attire sitting around a table, with their hands and pens visible, suggesting a meeting or collaborative work environment. The image is overlaid with a blue tint.

# Economic Response

# To COVID-19 Crisis

# In Selected Countries

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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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## **Economic Response to COVID-19 Crisis in Selected Countries: Government Support for Businesses and Job Seekers**

At the time of writing this paper, nearly all countries around the world are struggling with an outbreak of the novel Coronavirus, which has already caused the death of tens of thousands of people, infected over a million people, and had devastating effects on economic activity worldwide. While all countries share the effort to contain the virus, they differ in their policy tools and response time. These factors affect the virus spread rate and the capacity of healthcare systems to handle widespread morbidity of severe cases requiring medical care. Lack of appropriate medical care for severe cases increases the likelihood of mortality in this population group.

This paper is written at the beginning of April, a month after the worldwide outbreak which inflicted significant damage on economic activity. Israel is currently under near-full lockdown, with nearly a million new job seekers (dismissed or furloughed) in wake of the crisis. **This paper aims to survey government support for the business sector and for job seekers in selected countries and in Israel.** The first part of this paper provides a brief review of the efforts to curb the pandemic in different countries, and the outcomes of these policies so far as reflected in morbidity and mortality rates. This part also touches briefly on the pandemic's impact on economic activity in Israel and worldwide. The second and main part of the paper looks at the extent and characteristics of government support measures enacted in Israel and other countries, and reviews government support plans for businesses and job seekers in selected countries.

In Israel, since the onset of COVID-19 crisis at the beginning of March, around a million new job seekers have registered in the Employment Bureau, of whom 89% have been furloughed. Unemployment rate at the end of March surged to around 25%, and a second wave of unemployment may ensue towards the end of April. Considering this data, Bank of Israel forecasts have been updated to predict a GDP contraction of 5.3% in 2020. At the end of March, Israel introduced a government support package addressing the COVID-19 crisis, with a headline amount of NIS 80 billion (5.7% of the GDP).

Examination of government support measures across different countries shows that they consist of three main policy measures:

1. Benefits for employees and self-employed individuals suffering loss of income, and paid sick leave for positive COVID-19 patients in quarantine.
2. Deferral of tax payments and social security deductions for workers, in order to alleviate the cash flow concerns of the business sector.
3. Increasing solvency of businesses and households.

The first step – unemployment benefits for workers and sick pay for COVID-19 patients – has been immediate, since every country has experienced a significant decline in economic activity, a drop in employment rates, and an increase in the numbers of workers on sick leave. In the framework of the other two measures, support extends over longer periods, ranging from several months up to several years. **An international comparison of government support plans across various countries shows that a large portion of the support is not delivered directly, but through deferral of payments and improving solvency. The direct, immediate support provided in Israel is about 3% of the GDP, which is relatively high in global standards. However, support for the longer term in the form of tax deferral and improved solvency – which is what businesses need to increase their confidence in their ability to survive the crisis – is significantly lower in Israel.**

As for the support programs for job seekers in different countries, we found that support programs in many countries are suitable for a crisis situation involving a decline in employment rates, such as programs which offer "guaranteed minimal income". Advantages of crisis-appropriate programs over the furlough arrangement utilized in Israel include the flexibility they offer to businesses in managing employment volumes and workforce numbers, as well as the capacity for swifter, smoother return to normal business activity. Moreover, the extent of economic aid in these countries is lower than it is in Israel, since it is not indiscriminate but targeted at businesses badly hit by the outbreak. However, it warrants mentioning that those countries have had these policies in place for many years, and we believe they cannot be implemented quickly in Israel.

Aaron Institute asserts that along with the ongoing efforts to contain the pandemic and flatten the contagion curve, and given the existence of certain prerequisites, a combined medical and economic policy should be enacted which focuses on a transition from full lockdown to a "smart lockdown" based on as much information as possible regarding high morbidity areas, in order to enable economic activity and minimize the damage to the economy. We would like to highlight that morbidity in Israel is currently centered in cities with predominantly Haredi

(ultra-Orthodox) population. These cities are not business hubs ("economic production areas"), and the participation rate of this population group in the workforce is relatively low. Therefore, these areas require a separate economic-medical policy, to minimize the extent of economic decline in areas where contagion is minimal or has been stopped. The prerequisites for a gradual lifting of lockdown measures and a cautious return to economic activity are primarily an efficient system for mass testing of civilians, deployment of medical and technological capabilities to attain clear intelligence on the contagion rates in the general population as well as specific targeted groups, and sufficient medical infrastructure providing reasonable safety margin for ongoing treatment of COVID-19 patients and for critical preparedness in case of a recurring outbreak due to prospective lockdown lifting measures. Meeting these prerequisites will enable containment of the contagion curve alongside economic activity, making it possible to ease or tighten social distancing requirements as the situation unfolds.