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THE LABOR MARKET IN THE CORONAVIRUS CRISIS

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Abstract

This review summarizes a paper given at the Israel Economic Association conference held in mid-June 2020. It presents an index for the severity of the lockdown and restrictions imposed immediately after the onset of the crisis by the Israeli government in comparison to other countries, and a snapshot of the labor market in Israel since the outbreak of the pandemic, based on various data sources. These include the unemployment rate and characteristics of the workers cut off from their work place and the patterns of employers' responses in various economic sectors. It was found that, in international comparison, Israel's lockdown and restrictions policy was stringent. The percentage of workers cut off from their work place in May ranged from 18 percent to 22 percent, based on the source of the data, with the adverse impact on the weaker segments of the labor market being all the more evident. The high-tech sectors reacted with greater flexibility and a more diverse mix: they had many employees working from home and, relative to other sectors, were less inclined to place employees on involuntary unpaid leave, but were more likely to reduce wages and even lay off workers. At the other end of the scale was the retail sector, especially the food and beverages industry, which was hard hit by the restrictions placed on the public sphere. These were highly likely to use unpaid leave as their almost exclusive response, though also layoffs, and they reduced pay for many of their employees.

Against the backdrop of the almost exclusive use of the unpaid leave mechanism by employers, a discussion is dedicated to the Israeli unpaid leave scheme and alternative employee retention schemes implemented by advanced economies, as well as of the role of unemployment insurance in the coronavirus crisis. The discussion underscores the advantages of an unpaid-leave scheme under which the government compensates all workers cut off from their work place as a uniform percentage of their pay rather than according to the eligibility conditions for unemployment benefits, through the employers, and the flexible unpaid-leave scheme, which allows the combination of part-time work with unemployment benefits.

Keywords: coronavirus crisis in Israel, job seekers, unpaid leave, employee retention schemes, unemployment insurance.

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1. INTRODUCTION

The coronavirus crisis is a systemic crisis that began in the health domain but led—almost simultaneously—to a crisis in the economic and social domain. The measures taken by governments around the world to curb the spread of the pandemic, including lockdowns, quarantines, mobility restrictions and other measures aimed at maintaining "social distancing", have led to the closure of many businesses, educational and government institutions and cut off millions of workers from their work routines. Since the beginning of the crisis, Israel has seen a sharp decline in its employment rate, a dramatic decline in household and business incomes and an anomalous drop in GDP. The coronavirus crisis is different, in both nature and severity, from previous economic crises that hit world countries, Israel included. Experience from previous crises teaches that the labor market usually reacts with some delay to a slump in economic activity, which is reflected in a sharp drop in demand for products and services. The strict policy implemented by the Israeli government in the current crisis in an effort to curb the pandemic dictated both the intensity of events in the labor market and the severity of the economic slump. The crisis occurred unexpectedly, and within a few days, escalated into almost full lockdown, without giving employers and employees time to prepare. It was reflected simultaneously both on the supply side—due to the scaling down of production and marketing, and on the demand side—due to the decline in households' income and purchasing power as well as their sense of job insecurity. Many employers were forced to completely shut down their businesses or organizations (for example, in the nonprofit sector) and to decide whether to lay off employees or only place them on unpaid leave with the hope that their businesses or organizations would return to economic activity within one or two months' time and rehire their employees.

To cope with the economic crisis, the government decided on an assistance package that involves an increase in the Ministry of Health's budget and several assistance programs designed to help corporations and small businesses as well as households of salaried employees and self-employed persons who have lost their source of livelihood. As of June 2020, the assistance package totaled approximately NIS 102 billion, which is around 7.2 percent of GDP. It includes budgetary components in the form of benefits and grants for businesses, self-employed persons and households, payment of unemployment benefits to employees and deferral of fees and taxes. It also includes credit components, mainly extending loans and loan guarantees to businesses.[1]

To date, the coronavirus crisis has been characterized—as will probably also be the case in the coming months—by an unprecedented level of uncertainty, not only in respect of the course of the disease and the subsequent surges that may be experienced by Israel and other

[1] An updated breakdown of the assistance amounts by these components and implementation rates appear in the monthly update of the 2020 budget implementation published by the Ministry of Finance. The last update was published in respect of May (Ministry of Finance, 2020a). The figure includes the NIS 14 billion supplemental budget approved in early June 2020.

world countries, but also in the manner in which the health risks are managed upon implementation of the outline for reopening the economy. From April 19, shortly after the Passover holiday, Israel's economy was gradually reopened, a process that gained momentum on April 26 and in the course of May after the government published its reopening outline schedule. As of the writing of this paper (the last week of June), restrictions on the resumption of train service have been lifted, which was not, however, the case with overseas flights or cultural events and shows. The reopening of the economy was accompanied by strict instructions on how businesses should be operated—according to the "Purple Badge"—maintaining social distancing and adhering to restrictions on the number of people allowed in public gatherings. Israel's emergence from the crisis still involves a great deal of uncertainty regarding the decisions of business owners about the scope of their activity and the number of employees who will be reinstated as well as regarding the consumption behavior patterns of households. All of these factors continue to dictate how quickly the Israeli economy will recover. The government's assistance policy for business owners, employees and self-employed persons—which was patchy, often adopted only following public pressure—and its complicated and inefficient conduct in transferring the awards only exacerbated the sense of job insecurity and economic uncertainty.

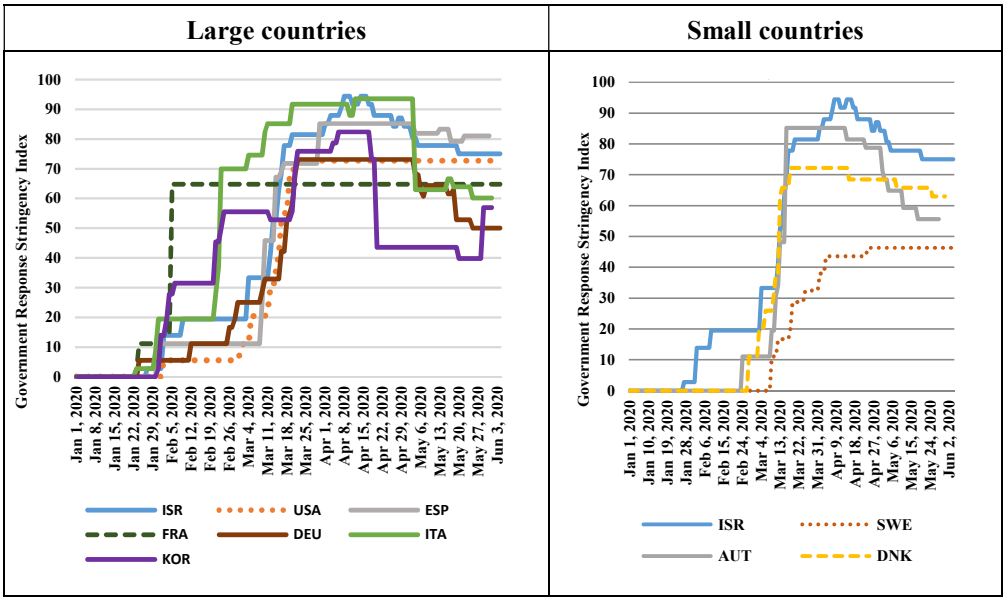
This review summarizes a paper presented at the Conference of the Israel Economic Association in mid-June 2020 about the coronavirus crisis and the Israeli labor market, although most of the data presented it were up-to-date as of May or mid- to late June, according to data published during June. The data refer to the population of salaried employees and their employers, especially in the private sector. The discussion does not include the self-employed population, which, due to the harsh economic damage it has sustained, should be discussed separately. I will first discuss, in brief, the contraction in GDP and the negative impact on employment in the context of the health policies of various countries. I will then present a snapshot of the labor market in Israel from mid-March, according to data from various sources, the response patterns of employers in various industries and the differential damage of the crisis to different groups of employees. The last section is dedicated to a discussion of the unpaid leave scheme and employee retention schemes implemented by advanced economies, as well as of the role of unemployment insurance in the coronavirus crisis.

2. THE HEALTH POLICY AND DAMAGE TO GDP AND EMPLOYMENT

Countries differed from each other in their health policies to halt the spread of the pandemic, mainly in terms of the severity of the mobility restrictions and strategy regarding testing, quarantining and monitoring to break the chain of transmission. Compared to other Western countries, Israel put in place a stricter, more stringent policy relatively early on, shortly after the outbreak of the pandemic. Figure 1 illustrates the stringency of the restrictions imposed by governments in selected countries according to the Oxford Government Response

Stringency Index. The index is a single component of a more extensive index, which monitors governments' response to the coronavirus crisis (the Oxford COVID-19 Government Response Tracker). Israel was one of the most restrictive countries: At the height of the crisis (mid-April) Israel's stringency score was 93, similar to Italy (93) and France (90), but higher than that of Spain (85), Germany (73), the US (73), and South Korea (80) and even than smaller nations such as Austria (85), Denmark (72) and Sweden (43). Even after the Israeli economy was reopened, Israel's stringency score remained relatively high (75), similar to the US's (73), but lagged significantly behind Germany, Italy, Austria and Sweden (whose scores ranged between 45 and 50). A comparison with South Korea and Sweden—each of which represents a different response pattern—is especially compelling. Indeed, South Korea did impose lockdowns and restrictions, but they were more focused and less stringent; at the same time, it invested significant resources in an extensive array of testing, monitoring and investigating the sources of transmission. Sweden opted for minor restrictions only (especially in respect to large events) and left social distancing decisions to the discretion of its residents.

Figure 1
The Oxford Stringency Index (Hale, et al. 2020)

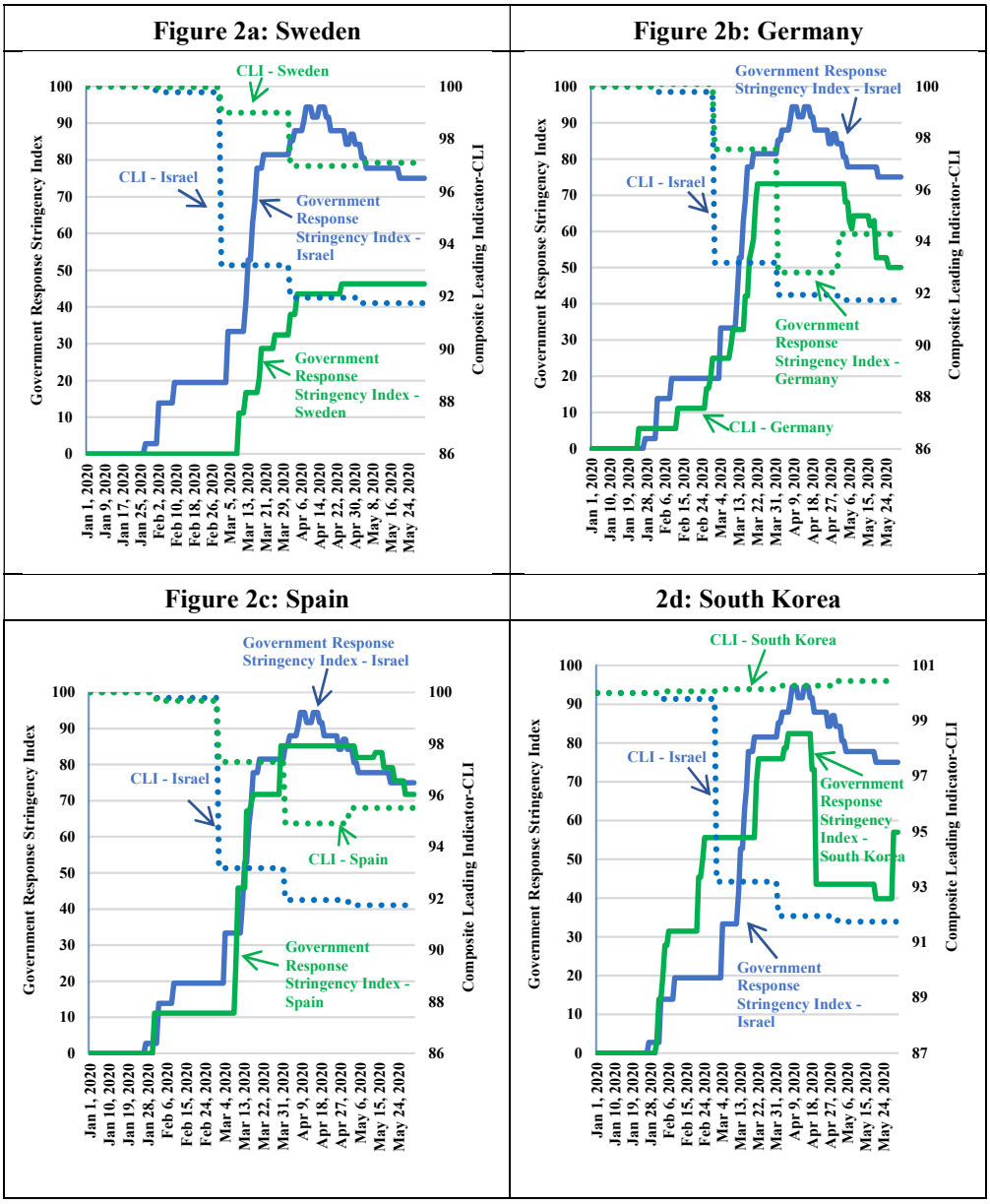


In addition to other factors, the policy of restricting mobility and social distancing impacted the extent of damage to the economic activity. To illustrate the effect of the scissors knot between the extent of damage to economic activity and the stringency of the restrictions implemented and their duration, Figures 2A and 2D present the Composite Leading Indicator (CLI) for short term economic activity published by the OECD for January to May 2020 (January 2020 = 100) and the Oxford COVID-19 Government Response Tracker by comparing Israel, Sweden, Germany, Spain and South Korea. In South Korea, economic activity remained largely intact. Economic activity in Sweden indeed suffered less damage than in Israel, Germany and Spain—but greater than expected, probably due to the voluntary social distancing (Born et al., 2020). Even the CLI score for Germany shows that the damage to its economy was less than Israel's, as does the CLI score of Spain, although the restrictions imposed by Spain were similarly stringent to those imposed by Israel. The negative economic impact was also examined in terms of expected decline in GDP in the second quarter of 2020 and throughout 2020, according to the OECD's outlook (OECD, 2020)[2], with similar conclusions. Thus, for example, South Korea's GDP is expected to contract by a mere 1 percent in 2020. The expected contraction in GDP is similar to that expected in Germany, Austria and Sweden (around 6–7 percent), but is rather lower than the one expected in Italy, France and Spain (around 11 percent), which were hard-hit by the pandemic. It is obvious that additional factors related to the restriction policy also contributed to the variance among countries, such as the extent of compliance with the government's instructions regarding social distancing, as opposed to voluntarily adhering to social distancing, the choice between differential or focused lockdowns or quarantining and the combination of testing and monitoring.[3] All the above reduce the economic price of the pandemic in terms of GDP loss.

[2] A thorough discussion of the OECD's analysis of the channels through which the restriction policy impacted the size of GDP and the consumption expenditure in various countries as well as the method of estimating the impact appears in OECD Economic Outlook, Volume 2020 Issue 1 (OECD, 2020a).

[3] Other such factors relating to the economy's sector structure in terms of production and employment and foreign trade were taken into account in the OECD's outlook.

Figure 2
Oxford COVID-19 Government Response Tracker and OECD's Composite Leading Indicator (CLI) for Short Term Economic Activity (Jan.–May 2020): Israel compared with Sweden, Germany, Spain, and South Korea



The extent of the damage sustained by the labor market was affected not only by the stringency of the restrictions, but also by the strategies implemented by countries with regards to testing, tracing (T&T) and investigating chains of transmission. A study conducted by the International Labor Organization (ILO, 2020) examined—using a statistical model—adverse impact to employment in terms of loss of work hours as a function of the testing and tracing array (T&T Proxy)[4] among 78 countries, finding a statistically significant negative correlation. The model's estimates showed that the percentage of working hours lost to an economy due to the crisis in the countries with the lowest T&T score was double that of the countries with the highest T&T score (14 percent compared to 7 percent of total working hours in the last quarter of 2019). The statistically significant negative correlation held even when the model included control variables such as indicators for the quality of the country's institutions and government, variables of labor market policy and the Oxford Government Response Stringency Index as well as when different T&T measures were used. Also found was a statistically significant positive correlation between the score of an economy on the Oxford Government Response Stringency Index and the loss of work hours by that economy.[5] An extensive and efficient testing array is of great significance, especially when restrictions are being lifted, since the use of information makes it possible to reduce the stringency of restrictive measures, thus increasing the public's confidence in returning to economic activity. The number of tests in Israel was relatively low at the beginning of the crisis, but increased as the economy was reopened. Nevertheless, the increase in the number of tests was not accompanied by improved tracing of contacts of infected individuals with other persons.

3. SNAPSHOT OF THE LABOR MARKET IN ISRAEL SINCE THE OUTBREAK OF THE CRISIS

The data accumulated about the extent of the crisis make it possible to depict the damage sustained by the labor market, the characteristics of the employees who were cut off from their workplace by being placed on unpaid leave or dismissed altogether, and the differences

[4]The T&T indicator should express the ratio between the resources devoted in effect to testing and tracing and the resources needed to apply the testing and tracing strategy. In the absence of such data, several quantitative and quantitative indicators are used, which are approximations. For example, the ratio between the number of tests per capita in a country and the number of casualties from the epidemic per capita or the number of identified patients per capita. The indicators and the rationale for their selection are presented in the body of the study (2020, ILO).

[5]The estimates of the International Labor Organization concerning the loss of working hours were calculated at the regional level only rather than per country. They indicate, for example, that in the second quarter of 2020, the world will have lost 10.7 percent of the working hours compared with those logged prior to the crisis (which totaled approximately 365 million full-time positions). This rate is even higher in North America and Southern Europe (17 percent) than in other European regions (12-13 percent).

between the response patterns of employers in various economic sectors. They were obtained mostly from the Israeli Employment Service (Israeli Employment Service, 2020a, 2020b), from the National Insurance Institute (National Insurance Institute 2020a, 2020b), from the Central Bureau of Statistics' Labor Force Survey and ongoing reports of the number of employee posts and average salary (Central Bureau of Statistics, 2020a, 2020b), and from real-time surveys about the state of businesses conducted by the Central Bureau of Statistics six times since the outbreak of the pandemic (Central Bureau of Statistics, 2020c to 2020g).

The Israeli Employment Service figures illustrate the extent of the drop in employment immediately after the restrictions were placed on freedom of movement and on opening stores in the public sphere. In March, approximately 850,500 new job seekers were added, and in April, approximately 182,000 more, with the total number of job seekers rising from 162,000 immediately prior to the crisis to 1,161,400 in April. Out of all job seekers in April, approximately 1,068,600 applied for unemployment benefits and approximately 92,800 applied for income support benefit (ISB) from the National Insurance Institute. The unemployment rate—which is calculated as the ratio between the number of jobseekers and the participants in the labor force—soared to 27 percent. The vast majority of new jobseekers (about 87 percent) were placed on unpaid leave by their employers and a minority (7 percent) was dismissed altogether. Prior to the crisis, only 3 percent of all jobseekers were on unpaid leave. In May, the number of jobseekers appeared stable, at 1,165,700, of which approximately 1,065,300 applied for unemployment benefits and approximately 100,300 applied for ISB. The increase in the number of ISB applicants also stemmed from the transition of employment benefits recipients who have exhausted their term of eligibility, to the ISB system. In May, there were around 35,000 new jobseekers, but toward the end of the month around 206,000 jobseekers were back at work (i.e., reported being hired), compared to approximately 31,300 who went back to work in April.

As expected, almost all job seekers who went back to work in May were employees who were previously placed on unpaid leave or employment benefits applicants. The rate of those who went back to work out of total job seekers who were dismissed or resigned was 5.5 percent, compared to 21 percent of those placed on unpaid leave. The rate of employees returning to work out of ISB applicants was also only 5 percent, compared to 19 percent of unemployment benefits applicants. The odds of returning to work were undoubtedly affected by the exit plan set by the government, among other things. They were thus low, for example, in professions related to tourism, hotels, the media and entertainment (approximately 10 percent only). The back-to-work trend continued in June, but it seems that even after the economy was almost back to normal, the pace of going back to work remained slower than expected. By the end of June, the number of jobseekers reached approximately 850,400 (of which about 585,000 were on unpaid leave), and the unemployment rate, which is calculated according to the number of jobseekers, was 21 percent. Similar figures emerge from data of

the National Insurance Institute, which pertain to unemployment benefits recipients or ISB and the number of rejected applications.[6]

The Labor Force Survey data usually serve as the main source for depicting the status of the labor market. However, according to the Labor Force Survey statistics, employees placed on unpaid leave are not considered "unemployed" but rather "temporarily absent from work", with the latter considered to be "employed" in the economy. Therefore, the accepted definition of unemployment rate does not reflect the number of employees cut off from their work places (which remains approximately 3.5 percent—the same as prior to the crisis). Moreover, the way employees who are on unpaid leave or temporarily dismissed are recorded, as are people taking part in job retention schemes, differs from country to country, and therefore a comparison of unemployment rates as a measure of the current state of the labor market may be misleading. For Israel, the effect of the crisis can, of course, be depicted by comparing the number of actual full-time or part-time employees (original data) from February to May[7] and seeing that it was down by about 745,000 workers. This number is equal to the total of the following components: the increase in the number of workers who were temporarily absent (about 631,000), the increase in the number of unemployed (about 28,000) and the decrease in the number of participants in the labor force (around 87,000). In other words, these are not only the employees who were placed on unpaid leave, but also the ones dismissed (or who stopped working for other reasons, such as downsizing, shutting down of their place of work or resignation) and are now seeking jobs or have given up looking for work. In May, the number of actual workers was still 20 percent lower than that of February 2020. If we were to calculate the "unemployment rate" in May other than in accordance with its usual definition but rather as the number of people who have lost their jobs since February plus the number of people that have been already unemployed in February relative to the number of labor force participants in May, the result would have been 21.6 percent.[8]

Even the monthly salaried employee jobs data set published by the Central Bureau of Statistics, which is based on employers' reports to the National Insurance Institute, shows the severity of the crisis in the labor market. Employees on unpaid leave or who receive

[6] As of the end of June, approximately 675,000 people received employment benefits, about 100,000 people received ISB and approximately 75,000 were rejected due to non-conformance with the eligibility terms and conditions - in total, approximately 850,000 men and women (the data were published on June 29, 2020, in Calcalist). https://www.calcalist.co.il/local/articles/0,7340,L-3836851,00.html

[7] From February to April, the number of temporarily absent workers was up from about 167,000 to about 1,531,000 but was down to around 798,000 in May. At the same time, the number of actual workers in the economy (whether full- or part-time) was down from around 3,838,000 to around 2,401,000 but was up again in May, reaching approximately 3,092,000.

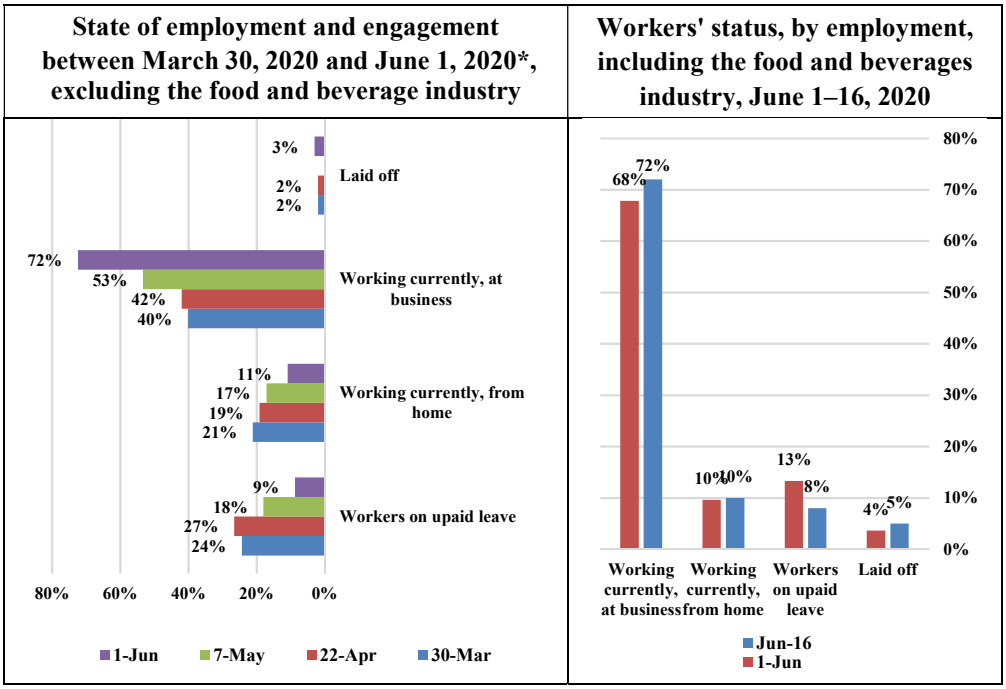
[8] The Central Bureau of Statistics did, indeed, release figures net of the seasonality effect for all data sets—excluding for employees who were temporarily absent from work—but using them is problematic when unusual changes occur. According to the non-seasonal data, the unemployment rate is 16.3 percent.

unemployment benefits are not included in their employers' reports. The number of employee positions was down by 1,180,000 between February and April 2020, i.e., by approximately 30 percent (the Central Bureau of Statistics, 2020b), but it is estimated that due to the reopening of the economy, the rate of job loss will reach 17–18 percent in May compared to February. Since the average salary of the workers who did not work was relatively low, the average salary in the market was up by 13 percent, but this result does not reflect improvement, of course. Moreover, in certain industries, such as high-tech, the average salary even declined (by about 6 percent).

Real-time surveys on the state of businesses (with 5 or more employees) conducted by the Central Bureau of Statistics add more aspects of the changes in employment and response patterns of employers since the onset of the crisis[9], highlighting the differences between economic sectors. Figure 3 presents a snapshot of the state of employment from the employer and employees' perspectives from late March to mid-June. On April 22, after the Eve of Passover lockdown, 61 percent of workers who were employed prior to the crisis in the industries included in the survey population either telecommuted or worked on premises. However, since then, the state of employment improved, and in mid-June, approximately 82 percent of the workers employed prior to the crisis either worked on their company's premises or telecommuted, although the rate of those working remotely was down. At the same time, the rate of workers on unpaid leave was down, but the rate of dismissed workers was up. The improvement in the state of employment was apparent across all industries, except in the hotel industry. It should be emphasized that these data refer mainly to businesses with 5 or more employees, and it is safe to say that the state of micro-businesses and self-employed persons remained much more worrisome.

[9] The dates of surveys 1 to 6, by order, are as follows: March 18-19, 2020; March 30-31, 2020; April 21-22, 2020; May 5-7, 2020; June 1-3, 2020 and June 15-17, 2020 and reflect the state of businesses as of said dates. In the second to fourth surveys, the survey population was limited to businesses which employ at least five positions in the high-tech, financial services and insurance services industries, traditional and mixed manufacturing, construction, retail and professional and technical services, transportation and storage services, courier services, etc. In the fifth and sixth surveys, the food and beverage industry (which includes restaurants, food stalls and banquet halls) was added. The questionnaire was given to approximately 1,400 businesses and in the last two surveys, the survey population focused on 1,415,000 employees who constitute approximately 34 percent of all employees in the Israeli economy (and more than half of the employees of the private sector). The survey does not cover self-employed persons and micro-businesses with five or less employees, who were even harder-hit by the crisis.

Figure 3
State of Employment and Engagement between March 30, 2020 and June 1, 2020*, Excluding the Food and Beverage Industry



* In the following industries: manufacturing (excluding high technology), high technology, retail trade, financial services, insurance services, construction, and professional and technical services.

SOURCE: Real-time employer surveys, waves 1–6, press releases, Central Bureau of Statistics, 2020.

In other words, after the economy reopened, the state of the labor market improved, but more slowly than expected. The "unemployment rate", which is defined respectively for each of the data sources surveyed (based on data but not seasonally adjusted) remained high—ranging from 18 to 22 percent.

4. RESPONSE PATTERNS OF VARIOUS ECONOMIC SECTORS TO THE CORONAVIRUS CRISIS

According to the picture emerging from the data, generally speaking, employers responded to the government's restriction policy mainly by placing their employees on unpaid leave. However, they also allowed their employees to work from home, cut down on working hours, reduced pay and even dismissed workers. The economic sectors differed from each other in their response mix, with the choice of mix depending, among other things, on the following: (a) The extent of the damage sustained by businesses in the industry due to the severe

restrictions placed on movement in the public sphere and due to the orders to close businesses or educational institutions. Some businesses were forced to discontinue their activity altogether, while others were only forced to cut down on their activity. Other enterprises were recognized as "essential" and continued to employ their workers. (b) The types of professions, educational level and skills of employees, which affect, among other things, their ability to work from home. In some industries, there is no such option, due to the nature of their activity or employees' skills. The digitization levels of businesses also affects their ability to continue their economic activity and extent of telecommuting. (c) The employment patterns and characteristics of an industry and the employer's elasticity in terms of pay reduction or dismissal of employees, especially the distinction between unionized and non-unionized workers, including between the public and private sectors. (d) Taking advantage of the crisis to downsize, which was probably needed even prior to the crisis or, alternatively, the understanding that it will continue beyond that which is expected and that employees should be dismissed immediately or at the end of their unpaid leave.

The employer surveys conducted by the Central Bureau of Statistics indeed show differences in response patterns of different industries. High-tech companies reacted with greater flexibility and a more diverse mix: they had many employees working from home (even before the crisis), and relative to other industries, were less inclined to place employees on unpaid leave, but were more likely to reduce wages (even without reducing working hours) and even lay off workers. At the height of the crisis[10], high-tech companies placed 11 percent of their employees on unpaid leave and had 50 percent of their employees who were employed prior to the crisis work from home. The rate of employees working from home or on company premises remained high - at 81 percent. The rate of dismissal was only 2.5 percent, but higher than all other industries except construction. At the same time, high-tech companies reduced the wages of approximately 26 percent of their employees. The financial services and insurance services industry reacted similarly to the high-tech industry, although the number of employees working from home was lower (32 percent), especially those who had their wages reduced (approximately 10 percent).

At the other end of the scale are the retail industry and the food and beverage industry, which were hard-hit by the restrictions placed on the public sphere. They tended to use unpaid leave as their almost sole response: Nearly 48 percent of the retail industry's workers were placed on unpaid leave and only about 3 percent worked from home; at the same time, about 10 percent of the workers had their wages cut. At the height of the crisis, only about 45 percent of the workers continued to work from company premises or from home. The damage to the food and beverage industry (which includes restaurants, food stalls and banquet halls) was much greater and more enduring since most of the businesses in this industry only reopened in early June 2020. At this point in time, almost half of the workers were still on unpaid leave, the employers had laid off close to 6 percent of the workers and reduced the pay of 28 percent of them.

[10] When conducting the third survey in April 21–22.

The manufacturing sectors (excluding high-tech) as well as the construction and "technical and professional services", transportation, storage, mail and courier services are positioned mid-way between the high-tech and financial services sectors and the retail commerce and food and beverage sectors. At the height of the crisis, about 60 percent of workers in these sectors were still employed. Thus, for example, employment in the mixed and traditional manufacturing sectors sustained less damage than the commerce sector, partly due to the fact that critical plants and food plants continued to manufacture, the ability to maintain physical distance between the workers and the fact that the work does not incorporate direct interaction with customers.

The gradual reopening of the economy immediately after Passover (April 19) led to a gradual recovery in employment across all sectors. In mid-June, the employment level was close to that prior to the crisis (about 90 percent) across all surveyed sectors, excluding commerce (80 percent), especially the food and beverage sector (43 percent only). Workers still on unpaid leave were mainly in the food and beverage sector which continued to stand out in terms of a relatively high dismissal rate (approximately 9 percent). Finally, the rate of employees whose salaries were reduced was on the rise, reaching approximately 20 percent of all salaried employees. It ranged between 8 percent in the financial services and insurance services sector and 31 percent in the high-tech and food and beverage services sector.

5. ASPECTS OF INEQUALITY IN THE EFFECT OF THE CRISIS ON THE LABOR MARKET

Analysis of the workers who were cut off from their place of work shows that the coronavirus crisis hit the weaker segments of the labor market and low-wage workers harder, thus further deepening existing gaps. Only employment in the private sector was hurt. Public-sector employees went on regular leave, at their own expense, and workers of the official educational systems taught remotely, but they were spared unemployment and anxiety over employment uncertainty. The sectors hardest hit by the restrictive policy at the height of the crisis were primarily those that employ relatively younger people, low-education workers and people with a short employment history as well as women—industries that traditionally pay relatively low wages. In this population, there is an over-representation of younger people up to age 35 (48 percent of all new job seekers and 23 percent unemployment) and Arabs (whose percentage out of all job seekers was 19 percent compared to 14 percent among total employed persons) and the largest concentration of out-of-work persons in the lower deciles of the wages hierarchy. Out-of-work workers earned, on average, about one third less of the average wages in the economy, but even in industries such as financial services, which pay relatively high wages, employers tended to place more workers on unpaid leave or dismiss those earning low wages (Ministry of Finance, Chief Economist Department, 2020). The number of employed persons in the five sectors paying the lowest wages was down 33 percent, compared with 14 percent in the five sectors paying the highest wages (Heller,

National Insurance Institute, 2020). These findings also reflect the considerably greater adverse impact sustained by low-productivity workers, who will probably find it hard to fit back into the labor market, reflecting the fact that the crisis is likely to exacerbate the low productivity problem in the low-technology sectors. The gaps in the unemployment rate also arise from differences in the opportunities to work from home.

Finally, the crisis exacerbated the scope of poverty and economic gaps (Endeweld, Heller and Karady, 2020). The standard of living, as measured according to disposable income, fell by 3 percent (even after the financial assistance given by the government in the form of unemployment benefits and awards to self-employed persons, older adults and in respect of children), the poverty rate among working families was up by approximately 2 percentage points (from 12 percent to 14 percent) and income gaps, measured according to the Gini Index, rose by about 2 percent.

6. ISRAEL'S UNPAID LEAVE SCHEME AND JOB RETENTION SCHEMES

The coronavirus crisis exposed the public to an existing scheme which allows an employer to place employees on involuntary unpaid leave and the employee's eligibility to receive unemployment benefits as a result.[11] At the same time, the extensive use made of the scheme brought to the surface questions about its nature and whether it fits the current crisis compared to alternative schemes the government could develop with employers. The unpaid leave scheme is considered a job retention scheme (JRS) for businesses that are under temporary distress due to a slowdown in their business activity (OECD, 2020a). The general objective of the job retention policy was two-pronged: to provide financial support to employees whose wages have been hurt and to help businesses overcome the crisis and get back to economic activity as soon as possible. Common to all schemes is employees retaining their connection to their place of work even if they are not working at all and that employers refrain from dismissing employees, which could damage their businesses and, of course, employees. Almost all OECD countries implemented policies allowing employers to retain jobs by expanding existing schemes (reliefs in conditions for employers, coverage for additional populations and higher payment rates per employee) or thorough schemes tailor-made for the crisis (OECD, 2020b; OECD, 2020c).The extensive use of these schemes is not

[11] While dismissed workers' entitlement to unemployment benefits in Israel is anchored in law, the entitlement of workers placed on unemployment benefits was implemented through case law, by an interpretation of the law in a ruling handed down by the National Labor Court in 2004. The rationale behind the ruling is that unemployment insurance is intended to protect against the risk of loss of wages during unemployment which an employee has **involuntarily** sustained**.** The judges did not take into consideration the needs or financial considerations of the employer, but rather only the protection of the employee. An employee placed on unpaid leave for a period of 30 days or longer is entitled to unemployment benefits, as long as he/she does not receive pay and provided he/she first made use of the regular paid leave available to them. During the coronavirus crisis, the condition of first using regular paid leave was temporarily lifted.

surprising, since almost all economic sectors were hurt in one way or another by the lockdown policies and restrictions placed by governments to curb the spread of the pandemic.

I will first discuss the unpaid leave scheme on which opinions are divided. Businesses under crisis sometimes need to reduce wages or working hours of employees or even dismiss them altogether. Alternatively, they can avoid severing employer-employee relations altogether and retain the connection with the employees by placing them on unpaid leave for an indeterminate period of time (which means placing the employer-employee relations on hold). In this manner, the employer does not lose jobs which are indeed unprofitable during the crisis, but has a better chance of surviving it. In addition, the employer can retain its human capital and utilize the knowledge and experience of the employees to make swift recovery following the crisis, save the costs involved in recruiting new workers and avoid—just when it is under financial distress—the mandatory dismissal payments or defer them if eventually forced to dismiss the employee.

Under each of these alternatives available to employers—reducing pay, reducing the number of working hours, unpaid leave or dismissal—the employees may find themselves in an inferior position. From the employees' perspective, retaining their jobs—whether part time or with reduced pay—may benefit them for several reasons, such as taking time to look for another job, without significant financial pressure, retaining their social and work benefits, retaining their work skills, greater odds of going back to work for higher pay or going back to working more hours, after the business is able to recover from the crisis, of course. Such advantages do not necessarily exist when the employee is forced to take unpaid leave and is completely out of work.

However, during a dire financial crisis, in which it is difficult to find another suitable job in any case, it seems that going on unpaid leave for a limited time may be preferential for the worker over dismissal. For the employee, it somewhat reduces employment uncertainty, allows them to maintain a certain connection to their work place and gives them a better chance of going back to a job that suits his or her skills. In Israel, it does not even compromise their eligibility for unemployment benefit. However, the employee undertakes the risk of prolonged unemployment if the employer is unable to take them back.

The use of the unpaid leave option during the coronavirus crisis is not unique to Israel. In the US, for example, there is an unemployment scheme called "furloughed employees" and during the current crisis, the government extended the eligibility to unemployment benefits for employees on unpaid leave even to self-employed individuals and freelancers. The UK instituted a scheme allowing employers to put employees on unpaid leave and pay them 80 percent of their wages up to a certain ceiling, for a period of three months (which was subsequently extended). The state pays the wages and manages the scheme directly vis-a-vis the employers. Similar to the scheme in Israel, the UK one does not allow employees to work for pay for their employers, but contrary to Israel, the scheme has nothing to do with unemployment insurance and payments are not conditioned on eligibility for unemployment benefits. About 30 percent of the employees in the US and approximately 34 percent in England were placed on unpaid leave (Adams-Prassl et al., 2020). Another scheme, which is

practiced regularly in some countries, is called "temporary dismissal" and constitutes an unpaid leave scheme for all intents and purposes (the employee is told when he or she will be reinstated at work, but the employer is not obliged to comply).

Unpaid leave schemes in the UK and Israel are rigid in the sense that they do not allow for part-time work. The unpaid leave scheme instituted in Denmark during the current crisis, in contrast, allows, under certain conditions, to place employees on flexible unpaid leave (for example, working on some days of the week). Neither does the scheme exempt the employer from taking part in carrying the burden: The government pays 75 percent of the wages (90 percent when it comes to low-paid employees) up to a certain maximum, and the remaining wages are paid by the employer.

Other job retention schemes are the known wage subsidy schemes (by number of workers or actual working hours) called short-time work (STW). STW schemes are especially popular. They allow greater employment elasticity by adjusting working hours (rather than employees), and can thus be more efficient in retaining human capital. Common to these schemes is the fact that the employee stays at his or her place of work, saving job-seeking costs, working part time with relatively little damage to net wages. Employers save employee recruitment costs, pay for actual working hours, and the government pays a certain percentage of the wages attributed to the number of reduced working hours. Such assistance is limited in time and amount. In many schemes, the business needs not only to lay off workers for economic reasons, but also to comply with certain conditions reflecting the severity of the crisis and to comply with a minimal percentage of participants in the scheme. The state always manages these schemes vis-a-vis the employers. As early as the 2008 crisis, the use of STW schemes was extended, as is the case in the current crisis. Thirty to fifty percent of employees in countries such as France and Belgium participated in such schemes (OECD, 2020a). The STW model attracting the most attention is the German one. It is one of the most flexible schemes in terms of working hours, allowing employees to employ their workers anywhere from zero hours to full time. As part of the exemptions in the current crisis, employees were even allowed to have another job, provided their total wages would not exceed those they earned prior to the crisis.[12] In early April 2020, 35 percent of employees in Germany were asked to reduce their working hours by an average of 50 percent (Adams-

[12] Under normal circumstances, businesses under temporary but unavoidable distress, in which the wages of at least one third (during the coronavirus crisis - 10 percent) of the employees was down by more than 10 percent are entitled to participate in the scheme. All employees registered in the National Insurance Institute may participate in the scheme, excluding temporary contract workers (this condition was removed during the coronavirus crisis period). Employers pay for the wages in respect of the employee's actual working hours, while the government pays 60-67 percent of the net salary loss as a result of reduced working hours (during the coronavirus crisis, if the number of working hours was reduced by 50 percent, the government participation will have reached 70-77 percent of the first six months or more, and 80-87 percent thereafter).The employer incurs the social security contributions for the wages of the reduced hours. The government subsidy is given for a maximum of 12 months. The employer may dismiss employees participating in the scheme for financial reasons if the condition of the business has deteriorated further (OECD, 2020a).

Prassl et al., 2020). These numbers illustrate the effectiveness of STW schemes in terms of short-term job retention and in avoiding a sharp rise in the unemployment rate during the initial phases of the crisis.[13]

However, schemes such as STWs involve two main risks: One is that public resources are allocated to support jobs that would have been retained by the employer in any case and the other is that the scheme may be inefficient if, following the crisis, some of the jobs retained under the scheme will have no long-term survival prospects. In other words, the reallocation of workers among sectors (from jobs with no survival prospects to jobs with growth prospects) may be hurt if necessitated by the crisis. It seems that these two risks were quite limited to the first phases of the coronavirus crisis due to the breadth of the lockdowns and restriction policy, but the longer the crisis continues and the pandemic endures, the greater the risk to resource allocation across businesses and sectors. For example, the food service, accommodation and leisure industries, as well as travel services, will continue to see a decline in demand for their services due to the social distancing restrictions and changing consumer tastes. In this situation, more workers will be laid off. Therefore, the policy mix has more room and significance to extend coverage and generosity of employment insurance.

7. THE ROLE OF UNEMPLOYMENT INSURANCE IN THE CORONAVIRUS CRISIS IN ISRAEL

The coronavirus crisis underscored the significance and necessity of employment insurance in financially protecting salaried employees cut off from their place of work, but also exposed its rigid terms and conditions under normal circumstances, especially the scope of partial coverage and relatively brief entitlement period. Due to the extent and duration of the crisis, the government was forced to shorten the qualifying period in order to allow more of the employees cut off from their work place to be entitled to unemployment benefits and extended the payment period several times, each time at the last moment, just before the temporary order expired. The government thus exacerbated the sense of uncertainty among all those who were out of work. Even as of the writing of this document, the legislation allowing workers to continue getting unemployment benefits in June has yet to be amended.

Against the backdrop of the previous section, two questions arise: Did unemployment insurance provide an adequate and equitable solution to all employees hurt by the coronavirus crisis? Would it have been better to adopt the flexible unpaid leave model or at least to combine unemployment benefits with part-time work? I will discuss this in brief.

- Shortening the qualifying period increased the number of persons eligible for unemployment benefits by about 10 percent. Yet at the same time, by one estimate, about 10 percent of the workers who ceased working were not eligible for any unemployment benefits even after the reliefs regarding the qualifying period came into

[13] In the short term, the STW scheme was found to have a positive effect on employment and stabilizing businesses, for example in: Giupponi and Landais 2018; Kopp and Siegenthaler 2018).

effect. In addition, unique populations that are not entitled to unemployment benefits include out-of-work individuals over retirement age and other recipients of National Insurance Institute benefits (such as survivors and recipients of disability benefits), although they were addressed later in the crisis. In addition, the replacement rate for unemployment benefits (the ratio between unemployment benefits and wages prior to dismissal) is not the same for all unemployed persons, but rather depends on age and marital status. As a result, the advantages of a universal model—similar to the UK one discussed above, in which each worker receives 80 percent of their wages from their employer, regardless of entitlement to unemployment benefits—are obvious.

- As early as the 2008 crisis, there were suggestions to institute some sort of STW scheme (Achdut and Sussman, 2014). In the current crisis, many experts and the General Organization of Workers in Israel (Histadrut) and employers proposed to institute a flexible unpaid leave scheme. Another alternative was to institute partial unemployment benefits for those working part time or at low-paying jobs. It is proposed to use a scheme available under the Unemployment Insurance Law in order to encourage employees to take lower paying jobs than before the crisis, but also to improve the scheme in order to adapt it to the coronavirus crisis and make it more attractive, especially for unemployed young adults.

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