



# Save lives, save jobs

*Marketplace, before you inevitably flood this space with numbers, can you please lift the fog and simplify?*

Sure. The goal of the government, and mainly our stalwart civil servants who are running things, is twofold: Save lives. Save jobs.

In a pandemic you save lives by quarantining people, because the virus spreads rapidly through contact. But when people cannot go to work, saving lives destroys jobs, many thousands. So while saving lives, we also have to find creative ways to save jobs. And at the same time begin to prepare for the dawn, when we emerge from our homes and revive the economy.

Lives are foremost. But economic depression also ruins lives. So we have to manage this terrifying lives/jobs trade-off wisely, learning from other smart nations and from history. That's it in a nutshell. I believe the key issue is – how to save lives, while at the same time saving jobs in an innovative fashion. I regret that in Israel, this is not how the core policy dilemma has been framed. And I am certain that there is a right answer.

*What has the Netanyahu government done so far?*

On March 31 an emergency economic bailout program was announced by Prime Minister Benjamin Netanyahu and Finance Minister Moshe Kahlon. Complementing it was a serious stiffening of “shelter at home” policy. Netanyahu declared economic activity will be forced to slow even further, from 30% to 15% of normal.

The total spending on the program is NIS 80 billion. (\$22.3b.). This is massive – 5.7% of GDP and includes the NIS 10b. program announced early on March 11. The US emergency bailout program was bigger, and totaled 10% of GDP.

Some NIS 11b. will go to healthcare (belatedly – in flu season Israeli hospitals stack beds in corridors.) Of that NIS 10b. will go to the healthcare system itself, for equipment and hiring, along with housing virus infected persons in hotels. Some NIS 1b. will go to help at-risk populations, e.g. deliveries to the elderly.

MARC ISRAEL SELLEM



Jerusalem's Mahaneh Yehuda market is shuttered due to the coronavirus outbreak

For business sector loans, NIS 19.5b. is allocated. Most of these loans will be government backed, with credit provided by commercial banks. This sum divides up as follows: Up to NIS 8bi. for small and medium-sized businesses, NIS 7b. for large businesses with NIS 400 million and over in turnover, and the remainder, for loans to non-profits in health, education and welfare.

(Marketplace points out that when small businesses are drowning, it is not helpful to offer to lend them a bathing suit).

Some NIS 12b. will be allocated to enable businesses to delay payments owed to the government or to receive government payments earlier. This includes NIS 9b. in taxes owed or National Insurance payments and bills for water and electricity. It includes refunds for tax prepayments in February and March. Makes sense – most businesses could not pay taxes anyway.

Wage-earners will get NIS 17b., allocated for a “social safety net,” operated by National Insurance Institute. Of this NIS 14b. will go to unemployment benefits for those put on unpaid leave. This will cover such benefits for the coming three months. Some NIS 3b. will go to those over 67 who would not qual-

ify for unemployment benefits.

Infrastructure projects get NIS 7.7b., invested in Finance Ministry projects to enable “speedy recovery post-virus.” It includes transportation infrastructure (NIS 1.1b.), especially highway repair, and NIS 1.5b. for hi-tech companies. What a great time to build railway track and fix highways, when roads and trains are empty and we need to save jobs!

Businesses will get NIS 12.6b. from the government budget. Half of this will be for companies that keep workers on the payroll rather than lay them off. Grants to the self-employed will total NIS 3b.

*Will this not create a huge hole in the budget?*

It will. But so what? Finance Ministry director-general Shai Babad said earlier that the budget deficit in 2020 will jump to more than NIS 100b. (\$27.7b.), compared with NIS 55b. (\$15.2b.) in 2019. This is a massive understatement. But let us recall what J.M. Keynes said during the Great Depression of the 1930s: If nobody is spending, the only source of demand in the economy is the government. When economies crash, deficits do

not matter, jobs do. Save them. In the 1930s, governments did not listen to Keynes and we had a decade-long depression, ended only by a disastrous world war.

Babad warned that the economic cost to Israel of a five-week shutdown would amount to some NIS 130b. (\$36.4b.) and that a 12-week economic lockdown would cost NIS 280b. (\$78.5b.). The cost of the 12-week scenario is rather optimistic and the economic cost will be massive.

Israel is hugely fortunate that its economy entered the COVID-19 crisis with low public debt (60% of GDP), low unemployment, good growth (3% GDP growth) and \$131b. in foreign exchange reserves. Finance Ministry experts have recently successfully borrowed large sums in global capital markets, anticipating huge demands on the budget. With massive amounts of credit floating around, and with its high credit rating, Israel has borrowed long-term (in some cases, for 100 years) at low rates.

*What can we learn from other countries and from experts?*

A lot. Marketplace thinks that spending only 21% of the NIS 80b., or NIS 17b., for workers, as unemployment benefits, is wrong, qualitatively and quantitatively. But don't believe me. Here is the opinion of wiser heads, Prof. Emmanuel Saez of the University of California, Berkeley, and Gabriel Zucman, a French economist, commenting on a similar US plan to pay unemployment benefits:

"Instead of safeguarding employment, America is relying on beefed-up unemployment benefits to shield laid-off workers from economic hardship. To give just one example, in both the United States and Britain, the government is asking restaurant workers to stay home. But in Britain, workers are receiving 80 percent of their pay (up to £2,500 a month, or \$3,125) and are guaranteed to get their job back once the shutdown is over. In America, the workers are laid off; they must then file for unemployment insurance and wait for the economy to start up again before they can apply for a new job, and if all goes well, sign a new contract and resume working."

It is rather simple. If you let businesses fire everyone, and then keep the unemployed alive with meager unemployment insurance, you will need to rebuild the complex legal fabric of businesses during the recovery.

Wrong move. But if you help businesses save jobs by paying part of their payroll, everything is in place for a rapid recovery when people emerge and go back to work. And those employees whose jobs you saved? They will repay their employers with high productivity and hard work.

This is what Israel should do. But alas, it is not.

*The Jerusalem Post* reported, "The number of unemployment benefit claimants exceeded one million for the first time on Wednesday April 2, climbing to 24.4% of Israel's entire workforce. While the unemployment rate stood at just 4% prior to the coronavirus outbreak, over 844,000 individuals applied for unemployment benefits since the start of March."

We could have used part of the added unemployment insurance spending to save jobs by supporting payrolls. Bailout for wealthy businesses? Not at all. It can be recovered later in taxes; leave it to the tax collectors.

The Center for Industrial Excellence at the S. Neaman Institute Technion, where I work, organized an internet based round-table brain-storming session, on April 2, dealing with exit scenarios from the crisis. Over 40 experts from various disciplines participated. This was the first in a series of discussions aimed at generating actionable recommendations.

*What is our strategic plan for the next stage – after putting the economy in intensive care, reviving it and breathing new life into it with cash?*

This is what Economics Nobel Laureate Paul Krugman advises, in *The New York Times*, for the US. It applies to Israel, too: "To simplify things, think of the economy as consisting of two sectors, nonessential services (N) that we can shut down to limit human interactions and hence the spread of the disease, and essential services (E) that we can't (or perhaps don't need to, because they don't involve personal interaction.) We can and should close down the N sector until some combination of growing immunity, widespread testing to quickly find and isolate cases, and, if we're very lucky, a vaccine let us return to normal life.

"For those (like me) still receiving their regular paychecks, this period of shutdown – call it the coronacoma – will be annoying but

not serious. I miss coffee shops and concerts but can live without them for however long it takes.

"Things will, however, be very different and dire for those who are deprived of their regular income while the 'coronacoma' lasts. This group includes many workers and small businesses; it also includes state and local governments, which are required to balance their budgets but are seeing revenues collapse and expenses soar.

"How big is the N sector? The St. Louis Fed estimates that there are 27 to 67 million people, [for the US], which he averages to 47 million. That's a lot; we could be looking at a temporary decline in real GDP of 30 percent or more. But that GDP decline isn't the problem, since it's a necessary counterpart of the social distancing we need to be doing. The problem instead is how to limit the hardships facing those whose normal income has been cut off."

*So does Marketplace have something clear and constructive to recommend?*

Yes! Suppose we had sufficient tests, deployed rapidly, with quick results, to know if every working person had COVID-19. Divide the populace into N (non-essential, or infected) and E (essential and clean).

If you shut down N+E together, everyone, you lose massive output and jobs – you lose E times (average output or income of E), which is huge and unnecessary.

But if you shut down only N, you get all the jobs and output of E, and income. And you can use it to help pay survival incomes to the N.

This makes sense, right? And we can get those quick automated tests out the door if they are given priority.

Asking the right question is the key to getting the right answer. The question now being asked is, how can we save lives? This is understandable, even appropriate. But we should reframe this to ask, how can we save lives, medically, and at the same time save lives, economically, by saving jobs? That's a harder question and embodies a painful, wrenching tradeoff.

Save jobs *AND* save lives. We can do it. ■

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