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Save Lives, Save Jobs: A Survey of Emergency Programs in Israel and Abroad

Prof. (emer.) Shlomo Maital

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The Samuel Neaman Institute was established in 1978 in the Technion at Mr. Samuel Neaman's initiative. It is an independent multi-disciplinary national policy research institute. The activity of the institute is focused on issues in science and technology, education, economy and industry, physical infrastructure and social development which determine Israel's national resilience.

National policy research and surveys are executed at the Samuel Neaman Institute and their conclusions and recommendations serve the decision makers at various levels. The policy research is conducted by the faculty and staff of the Technion and scientists from other institutions in Israel and abroad and specialist from the industry.

The research team is chosen according to their professional qualifications and life achievements. In many cases the research is conducted by cooperation with governmental offices and in some cases at the initiative of the Samuel Neaman institute and without direct participation of governmental offices.

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The chairman of Samuel Neaman Institute is professor **Zehev Tadmor** and the director is professor **Moshe Sidi**. The institute operates within the framework of a budget funded by Mr. Samuel Neaman in order to incorporate Israel's scientific technological economic and social advancement.

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Introduction

Save lives. Save jobs. In that order. It's that simple.

Now for the complexity. When policies can do both at the same time, save lives and save jobs, great. But what if there is a tradeoff? Of course lives get priority. But it's not that simple. Because destroying jobs, or allowing them to be destroyed by the pandemic, can also destroy lives.

This survey of emergency bailout measures adopted in Israel, Europe and the US reaches a clear, simple conclusion. The first priority is to save lives. Seclusion, quarantine, 'shelter at home', when implemented effectively, achieve this. The second priority, save jobs, is made difficult by quarantine. The wrenching painful tradeoff between saving lives and saving jobs must be optimally managed.

Governments in the US and Israel have announced crash programs, very large in size, that largely try to assist small businesses that have crashed and to assist the millions who have been laid off and made unemployed, by extending and improving unemployment benefits.

In contrast, in Europe, governments have adopted a different policy – save jobs, by paying wages.

The latter policy is by far the best. And it should be universally adopted. Save lives, destroy jobs (by accepting de facto unemployment at levels unknown for decades, if at all) is not the right policy. In this essay, I review the evidence.

Israel's Emergency Economic Program

Here are the basic details of Israel's emergency economic program, as announced by Prime Minister Benjamin Netanyahu and Finance Minister Moshe Kahlon, on March 30:

The total proclaimed extent of spending on the program is NIS 80 b. (\$22.3 billion). This appears very large – 5.7% of GDP 2019, and includes the NIS 10 billion program announced early on March 11 by Finance Minister Moshe Kahlon.

- Healthcare: NIS 11 billion. Of that NIS 10 billion will go the healthcare system itself, for equipment, and hiring, along with housing virus infected persons in hotels. Some NIS 1 billion will be to help at-risk populations, e.g. deliveries to the elderly.
- Business sector loans: NIS 19.5 billion. Most of these loans will be govt. backed, with credit provided by commercial banks. It is understood the government will ensure payment. This amount is not reflected in the state budget. This sum divided up as: up to NIS 8 billion for small and medium-sized businesses, NIS 7 billion for large businesses (NIS 400 million and over turnover), and the remainder, for loans to non-profits in health, education and welfare. Investment funds: The Finance

ministry will set up funds to help companies fund their operations, totaling NIS 4.5 billion. These funds resemble those set up after the 2008 crisis, and will be run jointly by the government and financial institutions.

- Liquidity assistance: Some NIS 12 billion will be allocated to enable businesses to delay payments owed to the government or receive government payments earlier. This includes NIS 9 billion in taxes owed or National Insurance payments and bills for water and electricity. It includes refunds for tax prepayments in February and March.
- Wage-earners: NIS 17 billion is allocated for a 'social safety net', operated by National Insurance. NIS 14 billion will go to unemployment benefits for those put on unpaid leave. This will cover such benefits for the coming three months. Some NIS 3 billion will go to those over 67 who would not qualify for unemployment benefits.
- Projects: NIS 7.7 billion will be invested in Finance Ministry projects to enable "speedy recovery post-virus". It includes transportation infrastructure (NIS 1.1 billion), especially highway repair, and NIS 1.5 billion for high-tech companies.
- Direct aid to businesses: NIS 12.6 billion will go to direct aid from the government budget to businesses. Half of this will be for companies that keep workers on the payroll rather than lay them off. Grants to the self-employed: Some NIS 3 billion.
- Additional sums reflect temporary exemptions from municipal taxes.

TOTAL: NIS 79.8 billion

Historical Precedent

There are two historical precedents to the major economic, social and financial crisis now facing Israel and the world: the 1930's (the Great Depression) and the 2007/8 financial collapse.

The Great Depression began with a stock market crash in 1929 and lasted through the 1930's. It ended not through government policy but through war, which led to massive defense spending. Between 1929 and 1932, world GDP fell by 15%. Unemployment peaked, in the US, at 24%. In contrast, worldwide GDP fell by less than 1% from 2008 to 2009.

In contrast, in the US millions of Americans already have lost their jobs due to the coronavirus crisis, with unemployment rates soaring from historical lows of just over 3% to nearly a quarter of the work force...and the worst of the damage is yet to come, according to a US St. Louis Federal Reserve estimate.

"Economists at the Fed's St. Louis district project total employment reductions of 47 million, which would translate to a 32.1% unemployment rate, according to a recent analysis.

In Israel, the unemployment rate on March 15 was 4.0% of the workforce, with 87,450 unemployed filing that day for unemployment benefits. On March 20 the unemployment had soared to 12.5%, with 671,115 jobless seeking benefits on that day, as companies laid off workers. By March 29, the unemployment rate reached 22.7%, a historical high, as some 240,000 jobless filed for unemployment insurance on that day. Hence, in just two weeks, or 14 days, the unemployment rate went from historical lows to enormous all-time highs. National Insurance officials report that from the beginning of March, 555,000 persons applied for unemployment insurance, out of a labor force of 4.2 million.

Projections of Unemployment by Israel's National Insurance are shown in Figure 1 below. The projections show a certainty (given current policies) of over 1.1million unemployed by May. This will prove to be an enormous, perhaps unsupportable, burden on unemployment insurance payments. The projections show that unemployment declines slowly during the year, as the economy recovers and as Israelis go back to work. The optimistic projection is for 161,000 unemployed in December, or 2.5 times the level in February; the pessimistic projection is for 394,000 unemployed, or nearly 10% of the labor force, a level that defines recession.

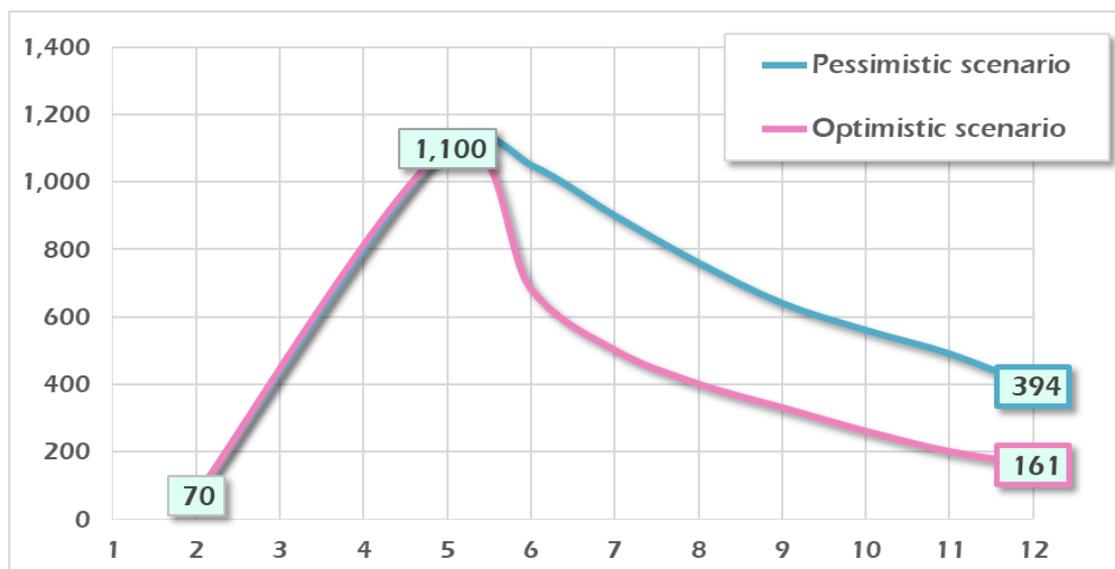


Figure 1: Total Number of Unemployed (in thousands), Israel,
Projection: February to December

Source: National Insurance / The Marker

The conclusion from these projections is clear: Jobs must be saved, and unemployment prevented, rather than unemployment being passively accepted and then insured.

Save Jobsⁱ

National governments everywhere are struggling with the twin goals: Shape policy to save lives and save the economy. Whatever the semantics – quarantine, social isolation, or shelter at home – shutting down the economy to isolate the virus is saving lives. But it is also driving massive unprecedented unemployment. In response, there have been two basic policy responses: help the unemployed, or save their jobs. Common sense suggests the latter is far more effective, in speeding the eventual recovery.

US politicians, led by POTUS (President of the United States) are congratulating themselves for the \$2.2 trillion bailout (Care Act), bringing relief to Americans out of work. But a closer look shows US unemployment has leaped from a 40 year low, to what the St. Louis Federal Reserve believes could be as high as 32%(higher than the 24% unemployment rate in the Great Depression of the 1930's). So the right approach should be to extend unemployment benefits?

Apparently not! A New York Times article by leading economists Emmanuel Saez (Berkeley, a co-author with T. Piketty) and Gabriel Zucman makes this case:

“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.”

So clearly – the ‘extend unemployment insurance’ approach is NOT a solution. In the US, the right policy is to protect jobs. The wrong policy, the one adopted, is to pay pittance to those thrown out of work, in large part owing to government ‘shelter at home’ policy.

The New York Times article continues:

“This dramatic spike in jobless claims [in the US] is an American peculiarity. In almost no other country are jobs being destroyed so fast. Why? Because throughout the world, governments are protecting employment. Workers

ⁱ This section is based on my blog “Unemployment Benefits Are Not the Answer”, www.timnovate.wordpress.com, March 31

keep their jobs, even in industries that are shut down. The government covers most of their wage through direct payments to employers. Wages are, in effect, socialized for the duration of the crisis.

The US has a huge problem with semantics. Let's be clear. Socialism is an economic and social and political system, in which the means of production, distribution, and exchange are owned by the government. By paying wages to employers, governments are NOT implementing socialism, but preserving capitalism, by keeping employers and their companies alive, for a few months. Perhaps Israel and the United States should best-practice benchmark more closely what other leading countries are doing, to revive their economies.

Saez and Zucman observe: "Some countries — like Germany, with its Kurzarbeit system, a policy aimed at job retention in times of crisis — already had the government infrastructure in place to send workers home while the state replaced most of their lost earnings. [Kurzarbeit, 'short work', shortens the work week for all to distribute the hours among more people]. But several nations with no experience in that area — like Britain, Ireland and Denmark — were able to introduce brand-new employment guarantee programs on the fly during the epidemic.

There is a fundamental problem with using unemployment insurance as the main bailout tool:

"Even if unemployment is generously compensated — as it is in the \$2.2 trillion bill Congress passed — there is nothing efficient in letting the unemployment rate rise to double digits. Losing one's job is anxiety inducing. Applying for unemployment benefits is burdensome. The unemployment system risks being swamped soon by tens of millions of claims. Although some businesses may rehire their workers once the shutdown is over, others will have disappeared. When social distancing ends, millions of employer-employee relationships will have been destroyed, slowing down the recovery. In Europe, people will be able to return to work, as if they had been on a long, government-paid leave."

There is a fundamental hidden assumption in the US Care (bailout) Bill. It is based on liquidation — let businesses go broke, they screwed up anyway, we'll re-establish them when all this blows over. Wrong!!!

A liquidationist ideology seems to have infected minds on both the left and the right. On the right, opposition to government grants to businesses is grounded in the view that markets should be left to sort out the consequences of the pandemic. Let airlines go bankrupt; shareholders and bondholders will lose but the airlines will restructure and re-emerge. The best way government can help is by slashing taxes, according to this view. The relief package includes more than \$200 billion in tax cuts for business profits. This view is misguided. There is nothing efficient in the destruction of businesses that were viable before the virus outbreak. The crisis cannot be blamed on poorly managed corporations. Government support, in the case of a pandemic, does

not create perverse incentives. Bankruptcies redistribute income, but in a chaotic and opaque way. And while bankruptcy might be a way to deal with the economic fallout of the pandemic for large corporations, it is not well adapted to small businesses. Without strong enough government support, many small businesses will have to liquidate.

Wrong-headed American policy impacts us all. In the good old days of the global economy, from the 1950's onward, whenever the world economy slowed, America's economy was the locomotive. Burgeoning spending by eager US consumers created demand that pull other economies out of the mud, worldwide. That was a crucial role America played.

Today? We're going to need America and China both, as locomotives, to pull us out of the Depression COVID-19 is causing. China seems to be coming out of it. Well done. But the US? Not under current policies. Sooner or later, policymakers will recognize their error. But the US President NEVER admits error and doubles down on wrongheaded statements and policies. So don't count on the US correcting its fundamental MASSIVE mistake.

World, we're on our own. America will sink, under a mountain of unemployment applications.

Let us look more closely at the Israeli NIS 80 billion package. Of the total package, NIS 17 billion is allocated to the 'social safety net', largely unemployment insurance. By National Insurance's own projections, this sum is inadequate, even for three months. And it will balloon enormously over time.

In contrast, NIS 31.5 billion is allocated for loans and 'liquidity assistance'. But businesses that have laid off all their workers, including very large ones like El Al, which has laid off 80% of its 6,000 workers, are unlikely to be willing to incur debt, even on 'friendly' terms. The same applies to a greater extent to small businesses.

It would make far more sense to use these sums to keep businesses alive, rather than passively accept their liquidation. Take over their payroll, (with appropriate salary cuts, from 10% to as much as 40%), and keep the businesses afloat, so that when the economy does emerge from the virus, it can bounce back quickly with the aid of viable, vigorous businesses that do not need to be legally restructured. (See Box: UK Pays 80% of Wages). A "Jobkeeper" scheme is required urgently!

UK Pays 80% of Wages

The [UK] government will pay the wages of employees unable to work due to the coronavirus pandemic, in a radical move aimed at protecting people's jobs. It will pay 80% of salary for staff who are kept on by their employer, covering wages of up to £2,500 a month. The "unprecedented" measures will stop workers being laid off due to the crisis, chancellor Rishi Sunak said. Firms have warned the virus could see them collapse, wiping out thousands of jobs, as life in the UK is put on hold.

Australian Govt. Pays Wages

The Morrison government [Australia] is preparing to unveil \$1,500 fortnightly wage subsidies to help businesses keep full-time workers on their payroll through the COVID-19 pandemic. Treasurer Josh Frydenberg is expected to announce the so-called 'JobKeeper' scheme today, amid ongoing efforts to protect the economy from the fallout of the coronavirus crisis. The payments will offer \$1,500 per fortnight for each full-time worker and will likely last six months.

Conclusion

When the plague peters out, and life returns to normal, the Israeli economy will have to return to normal. The key issue will be speed – how quickly will this happen? Nations with wise policies will bounce back quickly. Nations with misguided policies will face a long, protracted, slow, difficult recovery, far longer than is necessary.

The choice is clear. Save jobs (and lives), or help the million plus persons who lose theirs, with handouts. Saving jobs will preserve the vital “skeletal tissue” of large, small and medium-sized businesses and their employees; by meeting their payroll, in part, those companies will be put ‘on the shelf’ to await the recovery...and when it comes, they will be able to return to normal functioning rapidly.

But when companies shut down, lay off workers, and basically cease to exist, the recovery will take far far longer. The complex delicate structure of companies and markets will have to be rebuilt. Workers will need to be rehired. (There will be rancor, among workers laid off and subject to much suffering – why would they want to work for an employer who did this to them?)

Other countries have made the right choice. Israel should learn from them.

Economy



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