

Chapter 5

The Labor Market during the COVID-19 Period

PART 1: DEVELOPMENTS IN EMPLOYMENT AND WAGES

- Due to the COVID-19 crisis, economic activity was restricted, which impacted businesses and their capacity to continue employing their staff. Consequently, the working-age employment rate declined sharply.
- Government-provided assistance somewhat mitigated the shock to the labor market. Most employees were not dismissed, thanks to the implementation of furloughs and extended eligibility for unemployment benefits to "COVID-19 Absentees". The decrease in the participation rate was moderate.
- Broadly defined unemployment among those aged 15 and over increased from 3.4 percent to 37 percent during the first lockdown, and following a temporary decline after the lockdown period, increased once again to 21 percent during the second lockdown. The number of those unemployed (broad definition), never dropped below 500,000 throughout the crisis (12 percent of the labor force).
- The impact of the COVID-19 crisis was especially severe in those industries that require physical attendance and working with people. In other industries, restrictions were more moderate, and in some industries businesses successfully adapted their operations to physical distancing restrictions, including by transitioning to working from home.
- Industries with lower average wages and low productivity were more severely impacted during the crisis, both because they involve greater interpersonal interaction and due to the government's attempt to regulate activity restrictions in order to moderate the impact on economic activity. This led to a more moderate impact on GDP, but resulted in many people being out of work, particularly employees from weak socioeconomic backgrounds.
- Due to the demographic composition of the unemployed, the average wage per employee post increased significantly. A simulation that eliminates the effect of the change in the composition of employees on the average wage shows a very slight increase in wages of employees who continued to work. However, in some industries the wages of those employees who continued to work actually declined. The development of their wages was correlated with the development of the number of people employed in the industry.
- The duration of absence from work for all groups of unemployed persons at the end of the period was longer than in the previous year. In particular, by December, 45 percent of all furloughed employees had remained on furlough for longer than 27 weeks. This was similar to the ratio among all other unemployed persons—51 percent. However, in December 2019 only 36 percent of the unemployed (narrow definition) had been unemployed for longer than 27 weeks.
- Reemploying all of the unemployed may be particularly difficult due to their large number and long absence period.

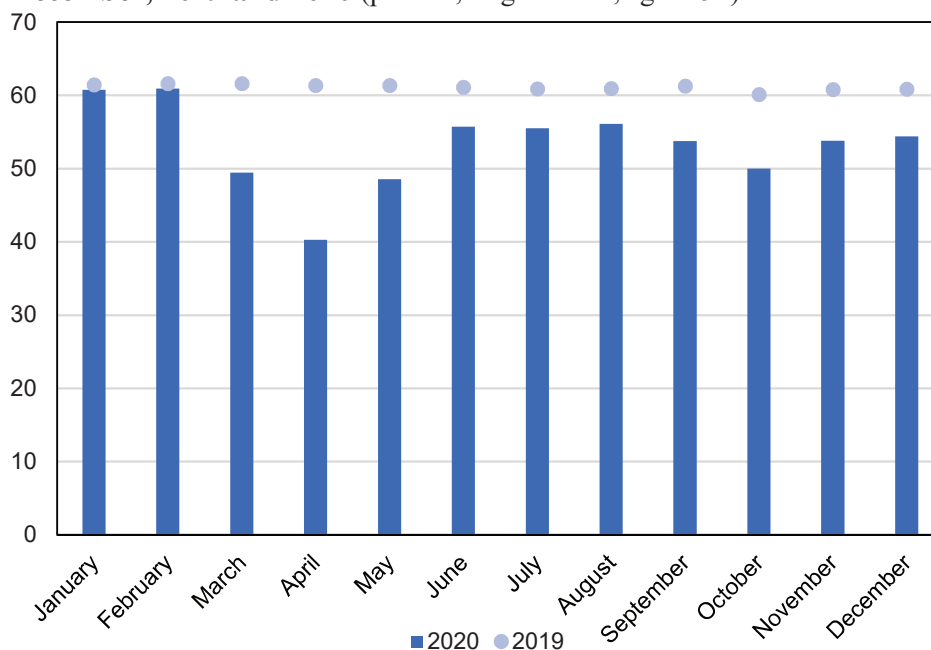
a. Introduction

The health crisis sent deep shock waves through the labor market. The employment rate dropped concurrently with unprecedented increase in the broad definition of the unemployment rate.

The health crisis that affected the world in 2020 sent deep shock waves through the Israeli labor market. After several years of growth, reflected in significantly higher employment and a lower unemployment rate, the COVID-19 pandemic caused a sharp change. The virus outbreak in Israel in late February made physical distancing measures necessary, and in order to slow down the transmission rate, economic activity was curtailed from March. Three country-wide lockdowns were imposed, during which a significant portion of economic activity was shut down. Concurrently, multiple assistance measures were implemented to support businesses and employees impacted by the restrictions on economic activity. Government assistance to the labor market, primarily the furlough (unpaid leave) measures and extended eligibility for unemployment benefits, have allowed for some of the impact of this crisis to be absorbed, but the duration and intensity of this crisis are unique.

The implementation of restrictions was aligned with the pace of the virus spread in the economy. The rapid transmission of the virus and the growing morbidity rates mandated suspension of a significant portion of economic activity in March. Many businesses were required to suspend or reduce their operations and dismiss

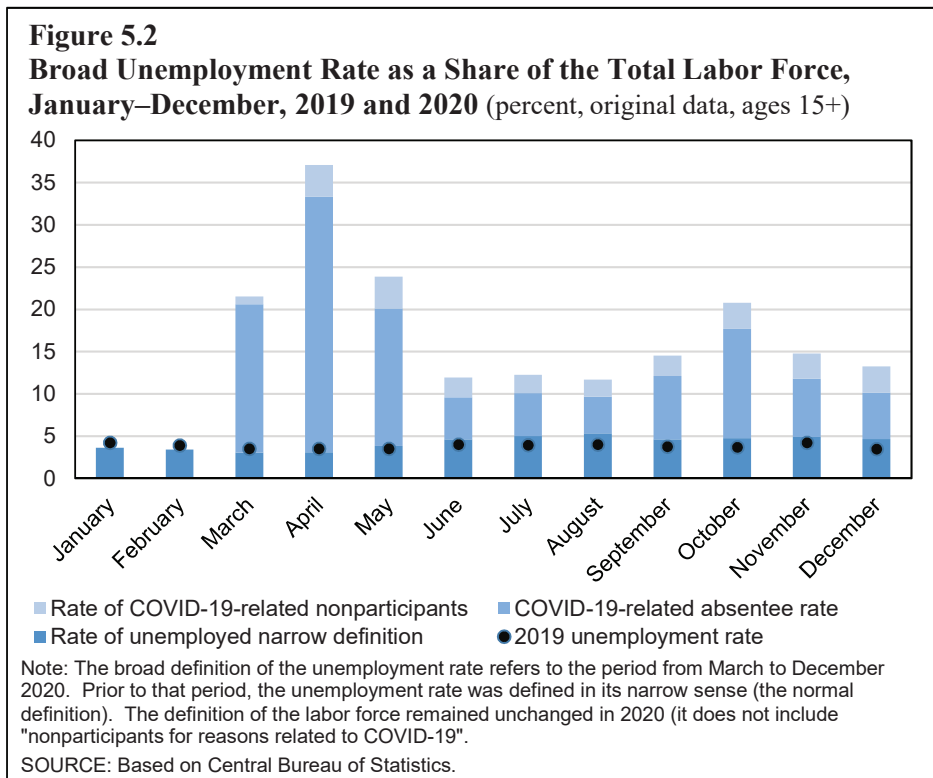
Figure 5.1
Broad Employment Rate as a Share of Total Population, January–December, 2019 and 2020 (percent, original data, ages 15+)



Note: The broad definition of the employment rate refers to the period from March to December 2020. Prior to that period, the employment rate was defined in its narrow sense (the normal definition).

SOURCE: Based on Central Bureau of Statistics.

or furlough their employees. Consequently, the broadly defined employment rate for those aged 15+, which was at 61 percent immediately prior to the crisis, dropped by an unprecedented 20 percentage points during the first lockdown (Figure 5.1).¹ The broadly defined unemployment rate for those aged 15+, which was at a historically low 3.4 percent of the labor force prior to the crisis (February 2020), soared to 37 percent in April, and the (broadly defined) number of unemployed persons soared to over 1.5 million (Figure 5.2).² About one month after the lockdown was imposed, various



¹ This analysis is based on Central Bureau of Statistics definitions, which were revised in view of the crisis. The group of those employed using the broad definition includes all those surveyed who worked, full time or part time, during the determining week, or were absent for reasons unrelated to the crisis. This group does not include most furloughed employees, i.e., the “COVID-19 absentees”—employees who were temporarily absent from work for crisis-related reasons: reduced employment scope, suspension of business, etc.

² Broadly defined unemployment consists of three components: (a) (narrowly defined) unemployed persons – persons who did no work at all during the determining week, who actively looked for work in the four weeks prior to being included in the survey; (b) “COVID-19 Absentees” – employed persons temporarily absent from work for crisis-related reasons: reduced employment scope, suspension of business, etc.; (c) “nonparticipants for COVID-19-related reasons” – persons who do not participate in the labor force due to dismissal or the closure of their place of work since March, and others who do not participate in the labor force for other reasons, who wished to work now and did not look for work for COVID-19-related reasons.

businesses were gradually reopened in keeping with the emergency regulations, but the renewed proliferation of the virus resulted in a further suspension of activity from mid-September. The effect on the economy during the second lockdown, particularly on employment, was more moderate than during the first lockdown. This is probably due to better adaptation of operations to the COVID-19 routine, along with less stringent restrictions, and possibly also due to more lax compliance with physical distancing guidelines. After emerging from the second lockdown, morbidity rates continued to rise, resulting once again in stricter restrictions toward the end of the year and in early 2021.

On an annualized basis, the broadly defined employment rate among those aged 15+ declined from 61.1 percent in 2019 to 53 percent in 2020, and the broadly defined unemployment rate soared from a historically low 3.8 percent to 15.7 percent (Table 5.1). The number of those unemployed (broadly defined), never dropped below 500,000 since the crisis started.

Table 5.1
Main labor market indicators, 2018–20

	(ages 15+)				
	Yearly averages, thousands			Rate of change relative to last year, percent	
	2018	2019	2020	2019	2020
Population ^a	6,363	6,494	6,620	2.1	1.9
Participation rate ^{b,c}	63.9	63.5	61.8	-0.4	-1.7
Broad employment rate ^{b,c}	61.4	61.1	53.3	-0.3	-7.8
Broad unemployment rate ^{b,c}	4.0	3.8	15.7	-0.2	11.9
Number of employed persons ^c	3,905	3,967	3,525	1.6	-11.1
Labor input per week (hours) ^c	152,515	156,863	141,959	2.9	-9.5
Nominal wage per employee post ^{e,d}	10.2	10.5	11.2	2.9	7.1
Real wage per employee post ^{e,e}	9.8	10.0	10.8	2.0	7.8
Nominal GDP per work hour in the business sector ^f	104	109	120	5.1	9.9
Gross unit labor cost in the business sector ^f	101	100	96	-1.2	-4.0
Employee posts ^c	3,900	3,979	3,583	2.0	-9.9
Job vacancies	103	99	59	-3.1	-40.5

The broad unemployment rate includes the following three components: 1) The unemployed under the narrow definition (unemployed who are seeking jobs); 2) Absentees due to COVID-19 (employees who are temporarily absent from their jobs due to reasons having to do with COVID-19, including most furloughed employees); and 3) Labor force nonparticipants due to reasons having to do with COVID-19.

^a The population includes permanent residents, permanent residents who do not have Israeli citizenship and live in Israel and abroad less than one year, and tourists and temporary residents in Israel more than a year.

^b The employment and unemployment rates are presented in percentages and the change relative to the corresponding period last year in percentage points. The definitions of the unemployment and employment rates are according to the broad definition, as of the period from March to December 2020. Prior to this period, the definitions are in line with the narrow (normal) definition. The definition of the participation rate remained the same in 2020 (it did not include the group of "nonparticipants due to reasons having to do with COVID-19").

^c Including foreign workers and laborers from the West Bank.

^d Shekels in current prices.

^e Shekels in fixed prices, 2011=100.

^f Base: 2017=100.

SOURCE: Based on Central Bureau of Statistics Labor Force Surveys and National Accounts data.

The analysis below is mostly based on data from the Central Bureau of Statistics' monthly Labor Force Surveys, merged with payroll data from the 2018 employee-employer file.³ These surveys allow the monitoring of the respondents' employment status over time.⁴ The analysis is focused on the prime working-age population (those aged 25–64), and is based on the narrow definition of unemployment, which includes only unemployed persons and “COVID-19 Absentees”. (As noted above, these include most furloughed employees.) This definition (hereinafter: “unemployment”) excludes the group of “nonparticipants for COVID-19-related reasons”.⁵ However, the group of those employed (hereinafter: “employed”) includes all respondents who worked full time or part time in the determining week (the week when the survey was conducted), or who were absent for reasons unrelated to the crisis (excluding “COVID-19 Absentees”). This analysis is focused on An examination of developments in the labor market in March to December of 2020. Because the data in Labor Force Surveys are not adjusted for seasonality, the comparison is made to the corresponding period last year.⁶ These data were combined with other labor market indicators from other information sources.

b. Development of employment by industry

Due to restrictions on economic activity, the employment rate in March–December declined sharply, from 78.2 percent in the corresponding period in 2019, to 67.6 percent.

Application of the furlough model motivated employers to place employees on furlough in response to the crisis, rather than reduce the number of weekly work hours of those employed while retaining more employees in the workplace. (See discussion later in this chapter.) The decrease in labor inputs (total weekly work hours of the employed) was slightly more moderate than the decrease in the number of those employed and the number of salaried positions, primarily because many of those who

The number of work hours declined, primarily due to reduced employment of part-time employees. The number of work hours for those who continued to work remained stable.

³ Payroll data from the 2018 employee-employer file are the most current available payroll data. The analysis was conducted at the Central Bureau of Statistics research room at the Bank of Israel.

⁴ Labor Force Surveys exclude those living in institutions (boarding schools and retirement homes) and Bedouins who live outside permanent settlements in the south of Israel. The surveys include foreign workers and migrant workers who live in apartments, but exclude Palestinians (other than permanent residents of eastern Jerusalem) who work in Israel.

⁵ This component was excluded from the analysis, because it is only specifically defined as from March 2020. As such, including it would not have allowed us to maintain consistency in the definition of unemployment for comparison with previous years. The rate of nonparticipants for COVID-19-related reasons out of the entire population in March–December 2020 was 1.7 percent in both age groups (prime working age and those aged 15+).

⁶ Accordingly, the definition of employed and unemployed would vary in previous years to maintain consistency.

left work had worked part-time, and the average number of work hours for employees who remained employed was practically unchanged.⁷

The imposition of stricter restrictions had different effects on various industries, primarily due to their capacity to adapt their operations to the social distancing restrictions. This resulted in a dual impact on the economy—with some industries significantly impacted by the restrictions, while others continued to grow (although at a more moderate pace than in previous years). The impact was reflected in the lower number of employees in the industry and in its revenue (Table 5.2).

Table 5.2
Indicators of the impact to business sector industries during the crisis, March–December, 2019 and 2020

Industry distribution by the extent of the impact of the COVID-19 crisis		Main industry	Share of total employed persons ^a	(percent, original data, periodic average)		
				Employed persons ^a	Salaried positions ^b	Industry revenue ^c
				Average rate of change, March–December 2020 compared with the same period in 2019		
Industries impacted more than the average	Hospitality and food services		3	-48	-47	-43
	Art, entertainment and leisure		2	-31	-42	-37
	Other services		3	-26	-21	-37
	Administrative and support services		4	-27	-16	-23
	Total		13	-33	-30	-32
Industries impacted at the average level	Transportation and storage		5	-18	-15	-20
	Wholesale and retail sales		11	-15	-16	1
	Construction		6	-14	-14	6
	Real estate		1	-14	-13	-6
	Agriculture, manufacturing, mining and quarrying		11	-13	-6	2
Industries impacted less than the average	Professional, scientific and technical activity		9	-8	-10	3
	Information and communications		7	1	-4	4
	Finance and insurance activity		4	-5	-8	1
	Electricity and water		1	-1	0	4
	Total		17	-1	-5	4
Total - all industries^d			100	-15	-16	-2

^a Prime working ages, Labor Force Survey data, and Research Department calculations. The share of total employees is based on data from 2019.

^b Ages 15+, Israeli employees. Central Bureau of Statistics data.

^c Fixed prices, based on Central Bureau of Statistics data.

^d Selected industries, not including all industries in the economy.

SOURCE: Based on Central Bureau of Statistics Labor Force Surveys and National Accounts data.

Distancing restrictions resulted in a dual impact on the major industries. Some industries saw a significant decrease in demand for their goods and services, while demand in others remained stable.

An examination of the impact on industry revenue shows it to be positively correlated with the impact on employment. However, as shown in Table 5.2, in most of the industries that suffered an average adverse impact, as well as in those with below-average impact, the decrease in employment was sharper than the decrease in revenue.

⁷ The number of weekly work hours for employees who worked continuously over the past two years was similar to that figure last year – about 40 hours.

Table 5.3
Indicators of business sector industry characteristics prior to the crisis, 2019 and September–December 2020

(original data, prime working ages, periodic average)

Industry distribution by the extent of the impact of the COVID-19 crisis	Main industry	Exports as a share of revenue ^a	Average real wage per employee post ^b	Rate of sales, service, and general workers ^c	Rate of those working from home ^c
					2019 data
Industries impacted more than the average	Hospitality and food services	17.0	4,870	62.5	4.0
	Art, entertainment and leisure	9.7	6,118	13.9	21.1
	Other services	7.4	5,517	43.8	19.5
	Administrative and support services	22.1	5,827	51.7	8.8
	Total	18.3	5,494	46.5	12.2
Industries impacted at the average level	Transportation and storage	38.6	11,082	10.6	6.7
	Wholesale and retail sales	11.8	8,690	38.9	9.9
	Construction	2.0	9,455	6.2	4.6
	Real estate	8.0	11,270	7.1	31.4
	Agriculture, manufacturing, mining and quarrying	43.9	13,204	8.0	12.9
Industries impacted less than the average	Professional, scientific and technical activity	28.1	14,167	0.8	37.8
	Total	22.8	11,164	14.2	15.7
	Information and communications	48.9	20,865	2.0	54.2
	Finance and insurance activity	18.0	17,804	2.7	34.0
	Electricity and water	2.1	17,904	13.9	12.9
Total	33.5	19,577	3.1	44.4	
Total - all industries^d		23.7	10,605	18.3	20.0

^a Percent, revenue on which VAT is zero as a share of all revenue. Central Bureau of Statistics data for 2018.

^b Shekels in fixed prices. Base year 2011.

^c Percent, rate of those working from home between September and December 2020 relative to total employed persons in the corresponding period last year. Central Bureau of Statistics Labor Force Survey data and Research Department calculations.

^d Selected industries, not including all industries in the economy.

SOURCE: Based on Central Bureau of Statistics Labor Force Surveys and National Accounts data.

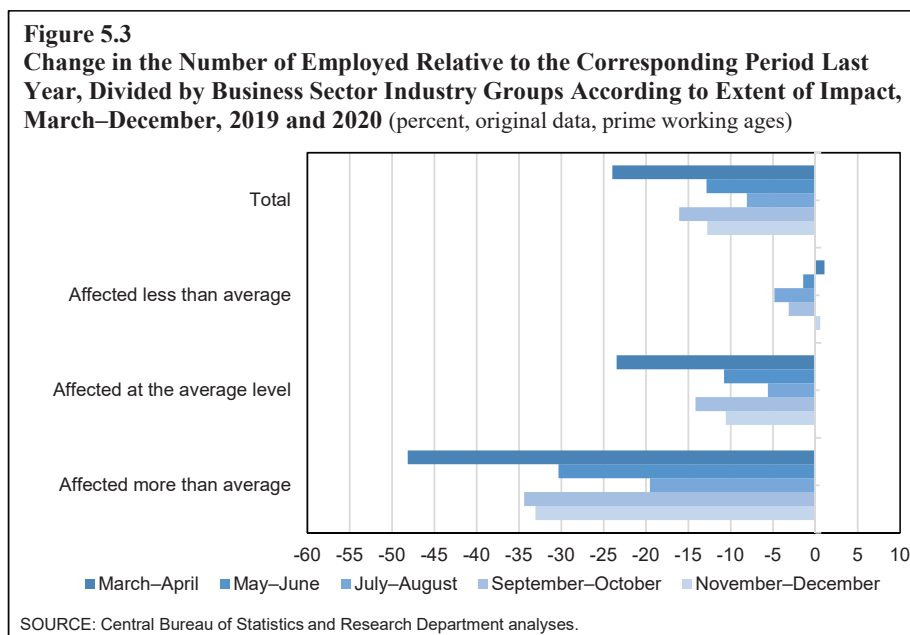
Table 5.3 presents the differences in industry features immediately prior to the crisis, by degree of impact resulting from the crisis. Some industries were more moderately affected, with demand for their goods and services remaining stable. Some of the prominent industries where revenue and employment remained solid are the information and communications industry, financial services and insurance industries, electricity and water industries. Demand for goods in these industries remained stable, partly due to exports' high share of the industry's revenue (information and communications industry) and rigid local demand (financial services and insurance industries, and electricity and water industries).

The impact of the COVID-19 crisis was especially severe in those industries that require physical attendance and high interpersonal interaction. The most severely affected industries include hospitality and food services, and art, entertainment and leisure. These industries were almost completely disabled during the lockdowns and only partially operated between lockdowns. An examination of the pre-COVID-19 attributes of these industries in Table 5.3 shows that the percentage of sales and service staff and general staff in these industries was higher than in other industries. The number of those employed in these occupations declined by 20 percent compared to the previous year—more than in other occupations. Research conducted in other

Most of the impact was absorbed by industries that require physical attendance and working with people, in which high rates of working from home are not possible.

countries also shows that many employees in these occupations, particularly in occupations that require physical attendance and interpersonal interaction, lost their place of work during the crisis (Brussevich, et al. 2020 and Tsvetkova, et al. 2020).⁸

The percentage of employees working from home also shows differences between severely affected industries and those that were more moderately affected. Table 5.3 shows the percentage of employees who worked from home in September–December, out of total employees in the corresponding period last year. In more severely affected industries, this ratio was 12 percent, compared to 44 percent in moderately affected industries.⁹



The fact that the crisis impacted industries where average wages and productivity were lower prior to the crisis has mitigated the impact on output but has widened income gaps between employees.

Earning and productivity profiles of employees who continued to work and of those whose work was interrupted due to the crisis were highly affected by their occupation and their capacity to work from home. Whereas most of the sales and service staff

⁸ A. Tsvetkova, S. Grabner and W. N. Vermeulen (2020). “Labour Demand Weakening during the COVID-19 Pandemic in US Cities”, OECD Local Economic and Employment Development (LEED) Papers.; M. Brussevich, E. Dabla-Norris, and S. Khalid (2020). “Who Will Bear the Brunt of Lockdown Policies? Evidence from Tele-workability Measures Across Countries”, *IMF Working Paper No. 20/88*.

⁹ Data on working from home are only available for September–December 2020. At the industry level, the percentage of employees who worked from home out of all employees who continued working during this period does not reflect the industry’s capacity to expand working from home, because the employees who continued working during this time are relatively highly capable of working from home in the first place. Therefore, we instead calculated the ratio of employees who worked from home during this period to total employees in the industry in the corresponding period last year.

and general staff are employed at lower wages¹⁰, a significant portion of the more moderately affected industries, such as the information and communications industry or the financial services and insurance industries, employ mostly white-collar staff with a relatively high capacity to work from home and high earning capacity (Dingel and Neiman, 2020).¹¹ This mitigated the impact on productivity and output of these industries (by payroll, which is a close approximation of employee productivity), but expanded the income gaps between employees. (See Chapter 7.)

Table 5.4
Indicators of industrial activity in the business sector, rate of change, March–December 2020 compared with 2019

(original data, prime working ages)

Industry distribution by the extent of the impact of the COVID-19 crisis	Main industry	Ratio of entries to exits in the industry ^a			Ratio between the number of unemployed and the number of job vacancies in the industry ^b	
		2019	2020	Rate of change, 2019–2020	2019	2020
Industries impacted more than the average	Hospitality and food services	1.01	0.38	-0.62	0.66	21.34
	Art, entertainment and leisure	1.06	1.12	0.05	2.27	62.62
	Other services	0.96	0.63	-0.34	2.20	35.73
	Administrative and support services	1.32	0.70	-0.47	0.73	7.24
	Total	1.12	0.62	-0.45	0.88	16.97
Industries impacted at the average level	Transportation and storage	1.14	1.85	0.62	0.95	17.55
	Wholesale and retail sales	1.03	1.09	0.06	1.26	11.36
	Construction	1.17	1.22	0.04	0.68	4.47
	Real estate	0.67	1.10	0.64	3.31	45.61
	Total	1.07	1.17	0.09	1.12	9.11
Industries impacted less than the average	Information and communications	1.45	1.75	0.21	0.57	2.49
	Finance and insurance activity	1.14	1.41	0.23	1.42	7.24
	Electricity and water	5.95	0.86	-0.86	0.90	3.80
	Total	1.45	1.55	0.07	0.72	3.16
	Total - all industries^c	1.13	1.07	-0.05	0.98	9.44

^a The number of employees entering industry X: The number of employees who worked during the previous survey round in an industry different than the industry in which they are working during the current survey month. The number of employees leaving industry X for another industry: The number of employees who worked in industry X during the previous survey wave and worked during the current survey month in a different industry.

^b Job vacancy data at the industry level are based on Central Bureau of Statistics estimations, while the number of unemployed is based on Labor Force Survey data compiled by the Central Bureau of Statistics and Research Department analyses (unemployed among those aged 15+).

^c Selected industries, not including all industries in the economy.

SOURCE: Central Bureau of Statistics Labor Force Survey data and Bank of Israel Research Department analysis.

¹⁰ An examination of the composition of employees in the 4th and 5th income quintiles by occupation in 2019 shows that in these income quintiles, the percentage of employees in sales and service occupations and general employees is relatively low: We found that only 10 percent of employees in these two income quintiles were general employees. Twenty percent of them were in sales and service occupations, whereas these income quintiles accounted for at least 30 percent of all other occupations.

¹¹ J. Dingel and B. Neiman (2020). “How Many Jobs can be Done at Home?” *Journal of Public Economics*, 189.

The occupational structure of each industry also impacted the outline of its activity development throughout the year. Therefore, a positive correlation exists between the rate of decrease in the number of those employed during the first lockdown and the rate of decrease during the second lockdown (Figure 5.3). The industries more affected during the first lockdown were more affected during the second lockdown as well, and their recovery from the lockdowns was slower than in other industries.

Industry differences in the development of employment during the crisis may be due to the nature of the industry's operations, but may also result from different adaptations made by industries in response to the physical distancing restrictions.

The differences in the impact on employment between the two lockdowns may be due to differences in how operations were adapted to the social distancing restrictions. According to a real-time survey by the Central Bureau of Statistics (Round 7), businesses adapted their operations throughout this period in various ways, depending on the major operations of each industry.¹² Whereas the information and communications industry, the professional and technical services industry, and the financial services and insurance industry significantly increased their work-from-home rates, turned to online sales, accessed new markets, and made changes to their customer mix—other industries, such as the retail trade industry and the food and beverage services industry mostly adapted their operations by transitioning to working in shifts and increasing sales by couriers. Therefore, it may be that beyond the nature of industry operations and of the restrictions, the adaptations made by more moderately affected industries helped them in resuming operations.

This differential impact on industries, reflected in reduced numbers of employees and of vacant positions offered by different industries, resulted in employee transition between industries, in line with the extent of the impact on the industry.

The number of unemployed per vacant position in the economy rose sharply.

On an economy-wide level, the unemployment to vacancy ratio increased in March–December of this year, compared to the corresponding period in 2019, from 1 to 10 (Table 5.4). This increase was due both to a decrease in the number of vacancies and an increase in the number of unemployed, reflecting the challenge of finding a job during this period.

An industry-based examination shows that the industries that were more severely impacted during the crisis, with a higher unemployment to vacancy ratio, also had a net outflow of employees employed in those industries prior to the crisis, who transitioned to other industries. Such transitions between industries, throughout the period, were apparently due to more extensive employment opportunities in industries that were more moderately impacted.¹³

¹² Real-Time Survey, Round 7, conducted on August 5–7, 2020

¹³ As this is a transition between industries of employees who remained employed throughout the period, the ratio of inflows to outflows across all industries adds up to 1.

c. Wages

The average nominal wage per salaried position for Israeli employees, as reported by the Central Bureau of Statistics, increased exceptionally during the period (by 8.2 percent across all industries, and by 10.5 percent in business sector industries, in March–December over the corresponding period in 2019). This increase reflects the change in composition of employees, and does not indicate a wage increase for those who remained employed throughout the period. Following the first lockdown, the average wage declined at first, probably due to a decrease in the number of work hours and expense reimbursement payments to employees who continued to work, with some working from home. However, as those employees with higher wage profiles returned to full employment, the average wage rose sharply. The average wage settled at a higher level than before the crisis, primarily due to the fact that the newly unemployed (mostly employees on furlough) had lower wages (prior to the crisis) than those who remained employed. These developments took place in both the business sector and the public services sector, but the overall increase in the average wage in the public services sector was more moderate, due to fewer employees dismissed or furloughed in this sector.¹⁴

Productivity was also impacted by precrisis wage differences (which is a close approximation of employee output), between those who became unemployed and those who remained employed. Since the rate of increase in business sector output was higher than the rate of increase in wages per employee post in this sector, the unit labor cost in this sector was slightly lower (Table 5.1). This is evidence of the significant flexibility of the labor market in Israel during crisis periods, which was also evident in crises of the early 2000s and 2008–09.¹⁵

One of the key questions regarding the change in wages concerns the development of the average wage in the business sector, excluding the effect of the change in the composition of those employed. Since there are no detailed data about wages of each salaried employee in 2019–20, we estimated this effect. In the simulation, we held the wages of salaried employees who were employed during the period constant at their 2018 wage (based on data from the Central Bureau of Statistics’ 2018 employee-employer file), and calculated the change in average wages across the period in

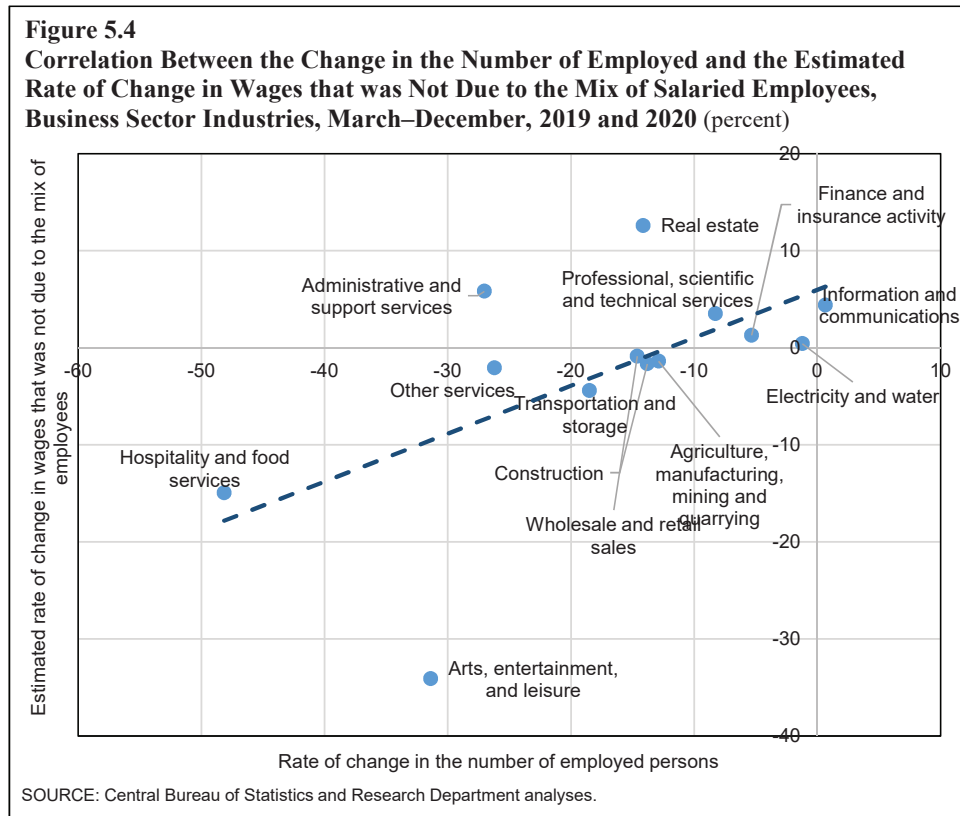
The average wage per salaried position increased exceptionally due to the demographic composition of the employed.

A simulation that eliminated the effect of the change in employment composition on the average wage shows only a slight increase in the wages of employees who continued to work.

¹⁴ During the crisis, multiple collective bargaining agreements were signed, which defined the labor outline in the public sector during this period. Pursuant to the first agreement, some 70 percent of the public sector employees who were not classified as essential employees were placed on paid leave – against their accrued or future vacation. Pursuant to the second agreement, the furlough for nonessential employees was extended, but some of the paid leave would come at the employers’ expense. Pursuant to the third agreement, all employees returned to work, except for those employees no longer required under the new routine conditions. (Employers of such employees were required to pay 67.5 percent of their base wage.) Along with these agreements, some separate agreements were signed with specific groups, such as agreements with healthcare and educational staff. (See the guidelines by the Supervisor of Wages, Wage and Employment Agreements Division, Ministry of Finance).

¹⁵ See Chapter 5 of the Bank of Israel’s Annual Report for 2011, “Evidence of Improved Efficiency in the Israeli Labor Market”; and “Calculation of Flexibility Using the OECD Methodology”, Recent Economic Developments, 132 (September-December 2011), Bank of Israel.

this case.¹⁶ (We assuming that the entire calculated change, as described, is due to the change in the mix of salaried employees, as each employee's wages remained constant.) We then deducted the resulting estimate from the change in actual average wage per employee post, to obtain the change in average wage not resulting from change in the mix of salaried employees.¹⁷



¹⁶ The monthly wage of salaried employees in the employee-employer file was calculated by dividing the annual wages by the number of months in which the salaried employees actually worked in 2018. The definition of "salaried employee" differs between the two files. Data for employee posts by industry only include Israeli employees, whereas Central Bureau of Statistics data available to the Bank of Israel also include foreign workers and migrant workers who live in apartments, but not Palestinians (other than permanent residents of Eastern Jerusalem) who work in Israel.

¹⁷ The average monthly wage per employee post is calculated by the National Insurance Institute based on all employee posts for which employers reported wages to the National Insurance Institute in each month. Therefore, the simulation included all respondents in the monthly Labor Force Surveys, who were salaried employees and actually worked in each month during the relevant period. Since we do not know the number of employee posts occupied by respondents in each month, we assumed for the purpose of this calculation that each employee worked in only one job.

An estimation of the change in average wages in the business sector—not resulting from a change in the mix of salaried employees—shows a 2.6 percent increase in March–December, compared to the corresponding period in 2019. Due to data limitations, we may assume—based on this finding—that most of the increase in the average wage was a statistical outcome of the change in composition of employees, whereas the wages of those who continued to work apparently did not change significantly.

An industry-by-industry examination of the estimated change in average wages not resulting from the change in the mix of salaried employees shows that in some industries the wages of those who continued to work declined slightly. Moreover, the development of their wages is correlated with the degree of the crisis’s impact on each industry. In other words, the industries that experienced the biggest decrease in their estimated average wage are the ones with the greatest decline in the number of employees compared to 2019 (Figure 5.4).

This result shows that in industries that were subject to restrictions on their activity during the crisis, the adverse impact on demand for employees was more severe than the adverse impact on their supply. This finding further reinforces indications of employment pressures to reduce wages in industries that were harder hit by the crisis. This is also indicated by industry-specific changes in the unemployment to vacancy ratio in March–December 2020 compared to the corresponding period in 2019 (Table 5.4).

The simulation also shows a decline in the wages of those in continued to work in some industries. The development of their wage was correlated with the development of the number employees in the industry.

d. Employment patterns of various demographics

The pandemic, and the policy measures applied as a result, led to a sharp decline in employment rates among the prime working-age population in March–December, compared to the corresponding period in 2019. The unemployment rate soared, from 3.6 percent in 2019 to 15.3 percent in 2020, while the participation rate declined only moderately (from 81.1 percent to 79.7 percent).

Employees who left the labor force due to this crisis may be categorized into two groups: (1) those not participating in the labor force due to dismissal or closing of their work place since March 2020 (78 percent of the total decline in the participation rate due to the crisis); and (2) those not participating in the labor force due to other reasons, who wished to work now and did not look for work for COVID-19-related reasons (22 percent of the total decrease in the participation rate due to the crisis). These reasons include, inter alia, health considerations, lack of work matching the employee’s qualifications due to reduction in the number of jobs available in the market, and possibly also reasons having to do with expanded government support for the unemployed, which provide a disincentive to return to work.¹⁸

The adverse impact on activity had different effects on different demographics, depending on their individual and employment characteristics and on prior trends in employment and in labor market participation (Table 5.5).

¹⁸ Employees who have left the labor force for health reasons account for 0.2 percent of the total prime working-age population.

The decline in the employment rate for women was slightly more moderate than for men. For men, the decrease in employment was also associated with a more significant exit from the labor force, further to a slight moderation in their participation rate even prior to this crisis. Conversely, a higher rate of women were furloughed.

These developments reflect opposite gender-related developments in the various industries: While the decrease in employment among Jewish women (both *Haredi* (ultra-Orthodox) and others) was sharper than among Jewish men, in Arab society, employment rates declined more sharply for men, with their participation rate also declining sharply, by 6 percentage points.

While the crisis did exacerbate previous trends in work patterns in the Arab population, the decrease in their labor force participation rate was partially due to crisis-specific attributes. Even prior to this crisis, the participation rates for the Arab population decreased, primarily among young men.¹⁹ This trend may be partially explained by the higher number of workers from the Palestinian Authority working in Israel, mostly in construction, which started prior to this crisis.²⁰ Therefore, the more pronounced trend may have been caused by different employment conditions of these two populations during the crisis, and particularly by the employment conditions of Palestinian workers after the first lockdown, with some of their employers being allowed to have their employees stay over in Israel.²¹

An analysis by age shows a more pronounced impact on the employment of younger employees. During crisis periods, there is often a sharper decrease in employment among younger employees, as shown by the rates of decline in employment in the two previous crises.²²

¹⁹ Participation rates for Arab men aged 20–24 decreased by 6 percent in 2019 and by 18 percent in 2020.

²⁰ S. Cohen-Goldner (2019) indicates interchangeability between Palestinian workers and Israeli Arab workers in the construction industry. According to this article, between 1998 and 2006 about 24 percent of Israeli Arab workers were in the construction sector, compared to less than 7 percent of Jewish men. (S. Cohen-Goldner (2019). “Effect of foreign workers on employment and wages of Israeli workers”. Policy Paper 2019.05, Aharon Institute for Economic Policy). Revised 2018 data from the Central Bureau of Statistics research room at the Bank of Israel, show that the percentage of men working in the construction industry among Israeli Arabs was 23.3 percent, and among Israeli Jews the percentage was 5.9 percent, while among those aged 20–24, the percentages were 30.3 percent and 2.7 percent, respectively.

²¹ According to research by H. Etkes (2020), the decrease in number of employee posts for Israeli employees in the construction industries during the first lockdown was sharper than among Palestinians. Moreover, given the mandatory requirement for employers to provide sleeping quarters for their Palestinian employees during the first lockdown, the total number of permits that allow employees to sleep in Israel increased, and many employees continued to sleep in Israel even after the lockdown (PCPO Survey of Palestinian workers). Therefore, after employment of Palestinians returned to its precrisis level in September, the employment of Israelis in the construction industry remained lower than in the precrisis period. (H. Etkes (2020), “Employment of Palestinians in the Israeli Economy during the COVID-19 Crisis”, Discussion paper, Bank of Israel).

²² At the peak of the Second Intifada, the unemployment rate among those aged 25–34 increased from 9.3 percent to 10.8 percent, while during the Global Financial Crisis, the rate increased from 5.8 percent to 8 percent. By comparison, the unemployment rate among those aged 55–65 increased from 5.5 percent to 6 percent and from 4.3 percent to 5.1 percent, respectively.

The crisis exacerbated the downward trend in employment and participation rates among the Arab population, in particular for Arab men.

Table 5.5
Employment rates by population group, March–December, 2019 and 2020

(percent, original data, prime working ages)

	2019 employment rate	2020 employment rate	Change from 2019 to 2020 ^a
Total population	78.2	67.6	-10.7
Men	82.4	71.5	-11.0
Women	74.1	63.8	-10.4
Non-Haredi Jews	85.4	74.7	-10.7
<i>of which: Men</i>	87.4	77.7	-9.7
Women	83.4	71.8	-11.6
Haredim	64.3	54.3	-10.0
<i>of which: Men</i>	52.3	43.6	-8.7
Women	76.4	65.3	-11.1
Arabs	56.3	45.6	-10.7
<i>of which: Men</i>	76.0	60.0	-16.0
Women	36.8	31.1	-5.7
Less than 12 years of schooling	69.1	56.7	-12.4
13–14 years of schooling	81.2	68.8	-12.4
15 or more years of schooling	85.3	76.3	-9.0
Aged 25–34	77.9	64.7	-13.2
Aged 35–54	82.4	72.2	-10.2
Aged 55–64	68.2	59.9	-8.3

^a The change is measured in percentage points.

SOURCE: Central Bureau of Statistics Labor Force Survey data and Bank of Israel Research Department analysis.

However, during the current crisis, the negative impact on employment rates among the older population (aged 55–65) compared to the younger population (aged 25–34) was sharper than in previous crises. This may be due to the fact that people in the older age group are more prone to risk in case of COVID-19 infection, but most of the employment impact caused by the crisis was on the younger, not older, employees.

In general, the older population has a lower tendency to leave the work place even under normal conditions²³, presumably due to their wish to retain retirement rights and due to the overall challenges in finding new employment at older ages. Furthermore, employers may also tend to retain older employees during a crisis, due to their longstanding acquaintance or for their professional experience. The fact that the crisis resulted in a large number of layoffs among older employees may cause challenges to their rehiring after the crisis.

Social distancing restrictions had more of an impact on some occupations and industries than others. It is therefore important to understand the extent to which employment attributes (occupation and industry) affect the degree of impact on the employment of these populations. In order to isolate the impact of these causes, we used regressions to test how the likelihood of being employed was affected by the

While the impact on the employment rates of older employees was less than among younger employees, the intensity of the impact on older employees relative to younger ones was greater than in previous crises.

²³ Older employees tend to hold the same jobs for longer, and their likelihood of finding a new job is lower. This is shown by comparing the employment attributes of employees aged 60–64 to those of employees aged 55–59 in OECD countries in 2008, 2012, 2016 and 2018. OECD (2019), “Working Better with Age”, *Ageing and Employment Policies*, OECD Publishing.

socioeconomic and employment attributes of employees during the crisis, compared to the corresponding period last year.²⁴

Controlling for employment characteristics, there was a sharper drop in women's probability of working than in that of men, relative to the corresponding period in 2019.

The regression results show that for some populations, the effect obtained when including control variables by industry and occupation are contrary to the effect obtained when excluding these variables. Thus, the occupational compositions of the populations affect the change in employment rates. In particular, we found that when control variables are included, women's probability of working is significantly lower than that of men compared to the corresponding period last year (by 2.5 percentage points). We saw similar findings with regard to Arabs' probability of working, which was significantly lower than that of Jews compared to the corresponding period in 2019 (2.6 percentage points), and with regard to the *Haredi* population compared to non-*Haredi* Jews (3.2 percentage points).²⁵

Similar findings were obtained with regard to Arabs' likelihood of working. The decrease in Arabs' likelihood of working, controlling for employment characteristics, was sharper than among Jews relative to the corresponding period in 2019. The same goes for the *Haredi* population compared to non-*Haredi* Jews.

In other words, these findings demonstrate that the occupational composition of populations affects their likelihood of working. While there was slightly less impact to the overall employment rate for women than there was for men compared to the corresponding period in 2019 (Table 5.5), a comparison of women and men with the same occupation and in the same industry shows that the decrease in women's likelihood of working was greater than for men compared to the corresponding period in 2019. As noted, the findings on the probability of working are similar when comparing Arabs to Jews, and when comparing *Haredi* and non-*Haredi* Jews.

In all other demographics, the employment control variables do not influence the direction of effects described in Table 5.5. The decrease in likelihood of working compared to 2019 was larger among demographics with lower education and among young people, compared to better educated and older demographics.²⁶

²⁴ Estimates prepared for the entire working-age population (Table Appendix 5.1). The dependent variable is the likelihood of being employed, and the explanatory variables are the socioeconomic attributes of employees and the interaction between those variables and a dummy variable for 2020. The regressions included, as control variables, dummy variables for each month, and interaction variables between 2020 and the dummy variables for the industry, the occupation, and the dummy variable assigned the value '1' if the employee was a salaried employee at his current or last occupation. The observations included in the regression (weighted by their weighting in the population) included all respondents in the working-age population, based on Labor Force Surveys in March–December 2020 and in 2019.

²⁵ Another estimate was calculated, also including the interaction variables between gender and the Arab and *Haredi* segments (together with employment control variables by industry and occupation). This regression shows that the likelihood of working among women is significantly lower than among men compared to the corresponding period last year, only in the non-*Haredi* Jewish segment. In both the Arab and *Haredi* segments, the likelihood of working among women is significantly higher than among men compared to the corresponding period last year.

²⁶ The difference in the likelihood of working compared to 2019 among those aged 25–34 was 0.8 percentage points smaller than among those aged 35–54, while the difference in likelihood of working among those with 12–15 years of education was higher than among those with fewer than 12 years of education, and lower than among those with 15 years of education (by 1.02 and 1.04 percentage points, respectively).

e. Reintegration of the unemployed in the labor market

The furlough measures and extended eligibility for unemployment benefits significantly moderated the disconnect between employers and employees during the crisis, and contributed to employment flexibility. A significant percentage of employees who were furloughed during the lockdowns resumed working once the social distancing restrictions were lifted. However, the lack of commitment of the (narrowly defined) unemployed to their previous employers may improve the likelihood of finding an alternative job, especially in those industries where activity was restricted for a long period of time rather than only during the actual lockdowns. An examination of the employment patterns of the “COVID-19 Absentees” and the (narrowly defined) unemployed may shed light on the likelihood of their rejoining the work force as the health crisis ends and social distancing restrictions are lifted.

First, we shall test how employment patterns during the crisis (March–December 2020) changed compared to the corresponding period last year (Table 5.6). In other words, we compare the probability of the employed, unemployed, and labor force nonparticipants changing their employment status during the crisis (March–December 2020) compared to the corresponding period last year. This test is conducted by

Table 5.6

Matrix of transitions between labor force characteristics, March–December, 2019 and 2020

(percent, original data, prime working ages)

	Period	Employed	Unemployed	Nonparticipant
Employment rate		97.2	29.6	7.1
Unemployment rate	March–December 2019	0.9	44.4	4.4
Rate of nonparticipants		2.0	26.0	88.6
Employment rate		92.7	47.2	7.8
Unemployment rate	March–December 2020	5.0	40.9	6.8
Rate of nonparticipants		2.2	11.9	85.3

Note: The table shows the probability of an employed person, an unemployed person, or a nonparticipant in the labor force changing his or her employment status four months after the first survey round during the crisis period (March–December 2020) compared with the corresponding period in the previous year. Column 1 shows the rate of those employed four months after the first survey round among those employed during the first survey round (first row), the rate of those unemployed four months after the first survey round among those employed during the first survey round (second row), and the rate of nonparticipants four months after the first survey round among those employed in the first survey round (third row). Column 2 shows the same rates among those who were unemployed during the first survey round, and Column 3 shows the same rates among those who did not participate in the labor force during the first survey round. The upper part of the table relates the period between March and December 2019, while the lower part relates to the period between March and December 2020.

SOURCE: Central Bureau of Statistics Labor Force Survey data and Bank of Israel Research Department analysis.

monitoring the most recent employment status of Labor Force Survey respondents four months after being sampled for the first time.²⁷

An examination of the likelihood of entering employment during the crisis (March–December) shows significant differences in the probability of the unemployed and their probability in the corresponding period in 2019. In particular, due to the large number of “COVID-19 Absentees” among those, the probability of the unemployed to resume working four months later during the crisis was higher than in the corresponding period last year, and their probability of leaving the labor force was lower. At the same time, the probability of the employed remaining employed decreased only slightly, and the probability of nonparticipants rejoining the labor force remained stable compared to the corresponding period last year.

Therefore, we shall focus on the unemployed, whose likelihood of finding employment again changed significantly compared to the previous year, and we shall test the rates of reemployment of the component groups thereof, i.e., the “COVID-19 Absentees” group and the (narrowly defined) unemployed group. In order to test reemployment of the “COVID-19 Absentees” and the (narrowly defined) unemployed, compared to the unemployed in the corresponding period last year, we shall consider the differences between these populations regarding reemployment patterns and the duration of their unemployment/absence.

The first part of Table 5.7 shows the reemployment rates of the “COVID-19 Absentees” group and the (narrowly defined) unemployed, compared to the reemployment rates of the unemployed in the previous year. The reemployment rates were tested over different time periods—initially after four months during the entire crisis period compared to the corresponding period last year, similar to what is presented in Table 5.6, and thereafter in March only for the short term and for the long term, i.e., after four months (in June) and after eight months (in December).

The second part of Table 5.7 presents the duration of absence/unemployment (percentage of those absent/unemployed for longer than 27 weeks out of the total number of absent/unemployed) for those groups over different time periods. First we present the duration of absence/unemployment across the entire crisis period compared to the corresponding period last year, and we then present other time periods—duration of absence/unemployment at the start of the period (in March) and at the end of the period (in December).

The high volatility in the number of “COVID-19 Absentees” compared to the number of (narrowly defined) unemployed, due to changes in social distancing directives, shows that “COVID-19 Absentees” have a tighter attachment to the labor market (Figure 5.2). This finding is supported by data in Table 5.7 (top row in first part of the table), showing that the reemployment rate of “COVID-19 Absentees” in the

“COVID-19 Absentees” were re-employed during the crisis at higher rates than other unemployed persons. However, re-employment rates for other unemployed persons were lower than for the unemployed in the corresponding period last year.

²⁷ We test a four-month period because the panel for Labor Force Surveys samples respondents during four consecutive months. After this period we have an eight-month pause, after which the same respondents are resampled during the subsequent four months. If a respondent does not participate in all of the surveys, their employment status is determined by their most recent status when participating in the survey.

March–December period was higher than for the (narrowly defined) unemployed, and the reemployment rate of the (narrowly defined) unemployed was lower than for the unemployed in the corresponding period last year. This same conclusion is also drawn from data for duration of absence/unemployment in the March–December period (the first row in the second part of the table).²⁸

However, the differences in the reemployment rates of the various defined groups of unemployed persons, and in the duration of their absence/unemployment may not necessarily indicate the impact of the employment status (unemployed/“COVID-19 Absentee”) on the (tighter or looser) connection to the labor market, because these groups differ in their employment and individual attributes. These differences may therefore explain, to a significant degree, the reemployment patterns and duration of absence/unemployment of the groups of unemployed persons, rather than their employment status.

Table 5.7
Rate of return to work and duration of absence/unemployment in various time periods, among the unemployed, 2019 and 2020

		(percent, original data, prime working ages)		
		2019	2020	
	Period	Unemployed	Unemployed (narrow definition)	COVID-19 absentees
Rate of return to work	March–December	30	20	56
	March - short term	29	15	52
	March - long term	63	24	77
Rate of those absent and/or unemployed more than 27 weeks	March–December	31	37	7
	March	26	30	0
	December	36	51	45

Notes: The first part of the table shows the return-to-work rates four months after the first sample, among those unemployed in 2019 (Column 1), and those unemployed (in the narrow definition) (Column 2) and "COVID-19 absentees" (Column 3) in 2020. The first row relates to the return-to-work rates four months later among respondents between March and December. The second row relates to the short-term return-to-work rates among respondents in March, i.e. four months after the survey (meaning the return-to-work rates in June). The third row relates to the long-term return-to-work rates among respondents in March, i.e. ten months after the survey (meaning the return-to-work rates in December). The second part of the table shows the rate of those absent and/or unemployed more than 27 weeks as a share of all absentees and/or unemployed, among those unemployed in the broad definition in 2019 (Column 1), and among those unemployed in the narrow definition (Column 2) and COVID-19 absentees (Column 3) in 2020. The first row relates to the period between March and December, the second row relates only to March, and the third row relates only to December.

SOURCE: Central Bureau of Statistics Labor Force Survey data and Bank of Israel Research Department analysis.

²⁸ The percentage of those absent / unemployed for longer than 27 weeks out of the total number of absent/unemployed throughout the period among those unemployed in the corresponding period last year was higher than among the “COVID-19 Absentees” and lower than among the (narrowly defined) unemployed this year.

In order to eliminate the effect of different socioeconomic and employment attributes (industry and occupation) of the groups, we estimate separate regressions to test the differences in their probability of reemployment on the one hand, and of being unemployed for longer than 27 weeks on the other hand. These regressions allow us to compare the probability of the (narrowly defined) unemployed and of the “COVID-19 Absentees” being reemployed within four months (or alternatively, to be absent/unemployed for longer than 27 weeks) to the likelihood of the unemployed in the corresponding period last year, provided that they have the same socioeconomic and employment attributes and were sampled within the same month.²⁹ It is important to note that this comparison does not allow for elimination of all unobserved attributes that may have affected their categorization in each of the unemployment groups in the first place.

The findings of our regression support the conclusion that the “COVID-19 Absentees” have a stronger attachment to the labor market than the (narrowly defined) unemployed, even with all other observed attributes being constant. In similar fashion, the (narrowly defined) unemployed are less likely to be reemployed than the unemployed of 2019.

We see similar findings from an analysis of the likelihood of being unemployed/absent for longer than 27 weeks.³⁰ Therefore, including the control variables for industry and occupation only decreased the difference between these likelihoods between the various groups of unemployed.

It may be that one explanation for the attachment of “COVID-19 Absentees” to the labor market is the higher employment volatility for this group around the start and end dates of the lockdowns, compared to the (narrowly defined) unemployed. In order to eliminate this effect as much as possible, we conducted a further comparison of these variables between the start and end of the period, to test their variability over time.

²⁹ Separate estimates were prepared as for the likelihood of being reemployed and the likelihood of being unemployed for longer than 27 weeks (Appendix Table 5.2); the independent variables are dummy variables for COVID-19 Absentee, (narrowly defined) unemployed and unemployed in 2019 (the baseline group). The regressions included, as control variables, dummy variables for each month, and interaction variables between 2020 and the individual attributes, dummy variables for the industry and occupation, and the dummy variable assigned the value ‘1’ if the employee was a salaried employee at his current or last occupation. The observations included in the regression (weighted by their weighting in the population) included all those surveyed who are unemployed and in the working-age population, based on labor force surveys in March–December 2020 and in 2019.

³⁰ The likelihood of the unemployed being reemployed in 2019 is significantly higher than the likelihood of the (narrowly defined) unemployed being reemployed in 2020 (by 11.8 percentage points) and is significantly lower than the likelihood of “COVID-19 Absentees” being reemployed (by 15.7 percentage points). Similarly, we found that those unemployed in 2019 were significantly less likely to be unemployed for longer than 27 weeks than the unemployed in 2020 (by 8.4 percentage points) and more likely than “COVID-19 Absentees” (by 15.7 percentage points).

An examination of the changes over time shows that the disconnect from employment was longer than in 2019, and that the likelihood of reemployment of the “COVID-19 Absentees” and the (narrowly defined) unemployed converged during 2020. Table 5.7 shows the reemployment rates in March for the short range (after four months) and for the long range (after nine months). This table shows that in 2019, the rate of unemployed who were reemployed after four months was nearly doubled after nine months. In 2020, the increase in the reemployment rate was more moderate for both groups of unemployed. Comparing the duration of absence/unemployment of the groups of unemployed between March and December of 2020, shows convergence of the absence (unemployment) durations over time (presented in the bottom two rows of Table 5.7). In particular, the percentage of “COVID-19 Absentees” who remained unemployed for longer than 27 weeks out of all “COVID-19 Absentees” in December was 45 percent. This is similar to this percentage for the (narrowly defined) unemployed—at 51 percent. However, in December 2019 only 36 percent of all unemployed persons were unemployed for longer than 27 weeks.

In summary, “COVID-19 Absentees” in March 2020 were far more likely to be reemployed within a short time than the unemployed in March 2019. However, as time went on during the year, the likelihood of “COVID-19 Absentees” being reemployed decreased significantly, and the gap between “COVID-19 Absentees” and the other unemployed in March 2020 decreased. This finding may indicate that as the furlough period grows longer, those employees on furlough increasingly resemble the “regular” unemployed in terms of their position in the labor market. However, it is important to remember that a significant portion of “COVID-19 Absentees” in March 2020 were employed in industries whose operations were also restricted in December, so still being out of work may not necessarily indicate the likelihood of their reemployment once these industries have been reopened.

Beyond the individual attributes, there is uncertainty with regard to the post-crisis survivability of businesses and the capacity of those businesses that would survive the crisis to reemploy all of their furloughed employees. Other than that, a long absence from the labor market may have negative long-term implications. It may reduce the motivation of the unemployed to keep searching for a job, erode their personal wealth, and reduce their future productivity. Employers are also expected to have less motivation to hire unemployed people who have been loosely connected to the labor market for a long time. Therefore, frictional unemployment may increase (Miyamoto and Suphaphiphat, 2020).³¹

The disconnect from employment was longer than in 2019, and the likelihood of re-employment of the “COVID-19 Absentees” drew closer to that of other unemployed persons during 2020.

Long absence from the labor market may have long-term negative implications and may increase frictional unemployment.

³¹ H. Miyamoto and N. Suphaphiphat (2020). “Mitigating Long-term Unemployment in Europe”, IMF Working Paper No. 20/168.

Appendix Table 5.a.1
Correlation between the probability of being employed and socioeconomic characteristics

	Probability of being employed	
Dummy variable for 2020	-0.122*** (0.00458)	-0.111*** (0.0110)
Dummy variable for woman	-0.0883*** (0.00249)	-0.0256*** (0.00249)
Dummy variable for aged 25–34	-0.0578*** (0.00350)	-0.0447*** (0.00307)
Dummy variable for aged 54–65	-0.119*** (0.00289)	-0.0308*** (0.00260)
Dummy variable for Arab	-0.264*** (0.00333)	-0.0370*** (0.00334)
Dummy variable for <i>Haredi</i>	-0.240*** (0.00469)	-0.0226*** (0.00453)
Dummy variable for at least 12 years of schooling	-0.0945*** (0.00343)	-0.00438 (0.00310)
Dummy variable for more than 15 years of schooling	0.00809** (0.00332)	0.00493 (0.00302)
Dummy variable for woman x dummy variable for 2020	0.00329 (0.00351)	-0.0256*** (0.00350)
Dummy variable for aged 25–34 x dummy variable for 2020	-0.0388*** (0.00494)	-0.00782* (0.00434)
Dummy variable for aged 54–65 x dummy variable for 2020	0.0247*** (0.00407)	0.00463 (0.00364)
Dummy variable for Arab x dummy variable for 2020	0.0136*** (0.00469)	-0.0259*** (0.00469)
Dummy variable for <i>Haredi</i> x dummy variable for 2020	0.00430 (0.00660)	-0.0326*** (0.00633)
Dummy variable for at least 12 years of schooling x dummy variable for 2020	-0.00893* (0.00482)	-0.0104** (0.00435)
Dummy variable for more than 15 years of schooling x dummy variable for 2020	0.0386*** (0.00467)	0.0102** (0.00423)
Control for employment characteristics	X	V
Number of observations (not weighted)	190,927	190,927

Notes: The table shows the probabilities of being employed among the general prime working age population. The explanatory variables are the socioeconomic characteristics of employees and the interaction between them and the dummy variable for 2020 and for the month. Column 2 includes employment control variables: interaction variables between 2020 and the dummy variables for industry, occupation, and a dummy variable that obtains the value of 1 if the employee was a salaried employee at his/her most recent or current job. The observations included in the regression (weighted by size in the population) included all respondents in the prime working ages in the Labor Force Surveys between March and December 2019 and 2020. Standard errors are clustered by industry and reported in parentheses.

SOURCE: Central Bureau of Statistics Labor Force Survey data and Research Department analysis.

Appendix Table 5.a.2
Probability of returning to work and of being absent or unemployed for more than 27 weeks,
among unemployment groups (broad definition)

	Probability of returning to work	Probability of being absent or unemployed for more than 27 weeks
Dummy variable for unemployed (narrow definition) in 2020	-0.118* (0.0674)	0.0836** (0.0386)
Dummy variable for absent due to COVID-19-related reasons in 2020	0.157** (0.0678)	-0.157*** (0.0387)
Dummy variable for woman	-0.109*** (0.0274)	0.0742*** (0.0154)
Dummy variable for aged 25–34	0.054* (0.0307)	-0.0425** (0.0172)
Dummy variable for aged 54–65	-0.00392 (0.0313)	0.115*** (0.0179)
Dummy variable for Arab	-0.0393 (0.0446)	0.0316 (0.0267)
Dummy variable for <i>Haredi</i>	-0.034 (0.0467)	0.00618 (0.0268)
Dummy variable for at least 12 years of schooling	0.0264 (0.0332)	-0.0177 (0.0188)
Dummy variable for more than 15 years of schooling	0.326 (0.326)	0.0351* (0.0186)
Dummy variable for woman x dummy variable for 2020	0.0974*** (0.0299)	-0.0654*** (0.0168)
Dummy variable for aged 25–34 x dummy variable for 2020	-0.069** (0.0339)	0.0361* (0.0189)
Dummy variable for aged 54–65 x dummy variable for 2020	-0.0232 (0.0337)	-0.095*** (0.0192)
Dummy variable for Arab x dummy variable for 2020	-0.0386 (0.0477)	-0.0364 (0.0283)
Dummy variable for <i>Haredi</i> x dummy variable for 2020	0.0151 (0.0503)	0.00669 (0.0289)
Dummy variable for at least 12 years of schooling x dummy variable for 2020	-0.0167 (0.0359)	0.0277 (0.0203)
Dummy variable for more than 15 years of schooling x dummy variable for 2020	-0.0342 (0.0357)	-0.0321 (0.0204)
Control for employment characteristics	√	√
Number of observations (not weighted)	9205	14,537

NOTES: The table shows the results of regressions from separate estimations for the probability of returning to work and for the probability of being unemployed for more than 27 weeks. The explanatory variables are the dummy variables for being absent due to COVID-19-related reasons, unemployed (narrow definition), and unemployed (broad definition) in 2019 (control group). The control variables in the regressions were dummy variables for each month, a dummy variable for 2020 and interaction variables between 2020 and the individual's characteristics, dummy variables for industry and for occupation, and a dummy variable that obtains the value 1 if the employee was a salaried employee at his most recent or current job. The observations included in the regression (weighted by size in the population) included all unemployed respondents (broad definition) in the prime working ages in the Labor Force Surveys between March and December 2019 and 2020. Standard errors are clustered by industry and reported in parentheses.

SOURCE: Central Bureau of Statistics Labor Force Survey data and Research Department analysis.

PART 2: POLICY MEASURES APPLIED TO THE LABOR MARKET IN ISRAEL³²

- In light of the significant decrease in demand for employees due to the health crisis, the government, immediately at the outset of the crisis, applied more flexible measures for payment of unemployment benefits to furloughed employees. This step was taken in order to preserve the employees' attachment to their employers and to facilitate the return to normal operations following the crisis.
- The government eased the eligibility criteria for receiving unemployment benefits, for both furloughed employees and the unemployed, increased the unemployment allowance and extended the eligibility period several times. As part of the "Safety Net" applied in late July, eligibility for an unemployment allowance, as well as all other approved relief and add-ons, was extended through June 2021 or until the unemployment rate in the economy would drop below 7.5 percent.
- Due to these measures, 79 percent of all new jobseekers who signed on with the Israeli Employment Service in March–December did so due to furlough, rather than dismissal or resignation.
- Like Israel, many other developed countries adapted existing assistance measures at the outset of the crisis for employees facing lower demand, by making eligibility criteria for assistance more flexible, improving the terms, and extending eligibility periods.
- Unlike in Israel, employee assistance policies in most developed countries were based on optional continued partial employment, with the employer paying the wages and the government contributing full or partial payment for the reduced work hours.
- Despite the different mechanisms, the decrease in total work hours in Israel was not excessive compared to other countries.

a. Support for employees whose employment was dismissed

The sharp decline in economic activity at the outset of the crisis necessitated the application of rapid measures, which were designed to achieve multiple objectives: 1. Avoid significant impact to employees' income, both for social considerations and in order to moderate the decline in private consumption that would further exacerbate the crisis; 2. Protect business survivability in order to allow businesses to resume operations once the social distancing restrictions were lifted, thereby avoiding

The COVID-19 crisis made it necessary to take rapid measures in support of employees.

³² This section is focused on policy measures designed to directly support employment or provide assistance to employees impacted during the crisis. The labor market was also, naturally, affected by many other policy measures applied by the government, including decisions as to which work places would be allowed to operate during the different stages of the pandemic, and to what extent. For more information about other assistance measures for businesses and households, see Chapter 6.

a prolonged adverse impact to GDP and to employment; 3. Help cope with the pandemic by reducing the incentive for employees to attend their place of work and for employers to pressure employees into attending; and 4. Maintain the attachment between employees and their employers at the outset of the crisis, based on the understanding that the economic shock is not due to structural economic issues and would be of limited duration, after which the industries whose activity was restricted would resume operations (see discussion in Box 2.1 in this report).

The need to act quickly with limited information forced the government to rely on the adaptation of existing institutional measures. Therefore, the government immediately allowed for more flexible payment of unemployment benefits to furloughed employees³³, while easing the eligibility criteria for unemployment benefits and increasing the benefits for specific populations—both for those placed on furlough and for the unemployed³⁴ (Table 5.8). This move had multiple advantages: Employers saved temporarily on payroll while their business was fully or almost fully shut down, while retaining their connection with employees whom they had already found to be suitable for the work place. This arrangement reduced the pressure on employers and employees to attend the work place, thereby reducing crowding and transmission of the virus. It also saved on expenses associated with dismissal (such as severance pay) and the expenses of searching for and training new employees. Thus, this arrangement placed the economy at a convenient starting point to resume operations as the lockdowns were lifted, which indeed was reflected in a rapid resumption of economic activity and employment when lockdowns were lifted. The advantages of this arrangement moved employers and employees to overwhelmingly choose it: 79 percent of all new jobseekers who signed on with the Israeli Employment Service in March–December did so due to furlough rather than dismissal or resignation.³⁵

Along with these advantages, the arrangement had several disadvantages: At first, it was only implemented for a limited period, so that employees' uncertainty about their income should the crisis be prolonged led to concerns about their income when their eligibility would expire as well as a potential adverse impact to consumption, especially since the eligibility period for unemployment benefits in Israel is short by international comparison.³⁶ The inability to reemploy employees on a part-time basis once the restrictions have been lifted, without the employees losing their full

The furlough arrangement had multiple economic advantages for the crisis period.

The disadvantages of the furlough arrangement are partly due to its rigidity.

³³ The increased flexibility included waiving the requirement for employers to first fully pay for employees' paid leave and other rights. This allowed employers to immediately reduce their payroll cost, thereby avoiding liquidity issues when the business could not operate.

³⁴ The cost of furlough, based on eligibility criteria for unemployment benefits in effect prior to the crisis, was NIS 10.5 billion, and measures to extend eligibility added another NIS 9.5 billion, such that the total cost of unemployment benefits in 2020 was NIS 20 billion (1.5 percent of GDP) higher than before the crisis.

³⁵ Furloughed employees are entitled to resign and be deemed to have been dismissed.

³⁶ The maximum eligibility period for unemployment pay in Israel—175 days—is one of the shortest in the OECD. The median for member countries is 12 months, with only Hungary, Slovakia, the Czech Republic, the UK, and the US having shorter maximum eligibility periods (prior to the crisis). Many countries, including the US and the UK, extended the maximum eligibility period at the very outset of the crisis.

eligibility for unemployment benefits, and the risk for employees whereby, should they be reemployed at partial wage, this wage would form the basis for calculating their unemployment allowance in case of any additional furlough, reduced the flexibility of employers and employees, resulting in an incentive to reemploy fewer employees on a full-time basis, rather than sharing the work among more employees. Furthermore, employees who “returned too early” from furlough lost their eligibility for the unemployment allowance for the entire period in which they were absent from work.³⁷ Thus, as the disconnect from the work place grew longer and with only partial recovery in demand in the economy, the number of employees who have been unemployed for a long time grew, and their connection with employers was eroded. This is in contrast with models applied in other countries (see below), which allowed for partial employment along with receiving partial unemployment benefits.

Later on during the crisis, multiple measures were applied to significantly adapt the furlough arrangement.

From March to June, the eligibility period for unemployment benefits was gradually extended—for a further 1.5 months at a time—for those whose eligibility had run out. Only in late July, as part of the “2020–21 Economic Safety Net” program, was a decision made to extend eligibility for unemployment benefits, as well as all other approved relief and add-ons, through June 2021 or until the unemployment rate in the economy would drop below 7.5 percent (Table 5.8). In July, additional relief was also provided when determining eligibility for unemployment benefits and calculating the allowance, with full unemployment pay allowed while attending professional training by the Israeli Employment Service (compared to the normal 30 percent reduction in unemployment pay).

The “Flexible return from furlough” arrangement added important, albeit late, flexibility to the labor market.

The replacement ratio of unemployment allowance and wages in Israel is not low by international comparison³⁸, but unemployment allowance does not fully replace the lost wages. Therefore, as the crisis persisted, the cumulative income impact to those unemployed for a long period grew more significant. After the second lockdown caused many employees who had already been placed on furlough during the year to once again be unemployed, the government resolved in November to provide a partial solution for this by means of a nonrecurring grant payable to those who received an unemployment allowance (or adaptation grant for those aged 67 and over) for at least 100 days during the crisis.³⁹ In order to promote reemployment and to address the disincentive inherent in unemployment benefits, a “flexible return from furlough” arrangement was added. This tool is intended for recipients of unemployment benefits who were reemployed at a part-time position during the COVID-19 crisis, including

³⁷ Eligibility for unemployment pay was contingent on being on furlough for 30 days or longer. This period was shortened to 14 days only in August.

³⁸ For the wage levels and individual attributes applicable to most employees in Israel, the unemployment allowance paid in Israel is higher than the OECD median. In Israel, the employees receiving relatively low unemployment allowances are mostly those aged 28 and under, particularly those with 1 or 2 children.

³⁹ The bonus was also paid to unemployed persons who were reemployed and to recipients of unemployment benefits who work in part-time positions.

<https://www.btl.gov.il/Corona/Pages/MaanakAvtCont.aspx>

with the employer who had placed them on furlough, allowing for payment of the unemployment allowance for the portion of their wages that was reduced relative to the employees' wages immediately prior to the crisis (subject to caps).⁴⁰ This measure added significant flexibility to the labor market, but was implemented late (after the second lockdown) and was subject to stringent conditions which, while they reduced concern about abuse of this measure, did so at the cost of reducing its efficacy.

Table 5.8	
Policy measures and support for the labor market	
Start of first lockdown	March 16, 2020
Agreements between labor unions and employers on avoiding dismissals in the short term, special grant for those dismissed. Shortening of the qualification period prior to unemployment benefit eligibility from 12 months' work in the 18 months preceding the start of unemployment to 6 months. ¹ Clarification that employees going on furlough for 30 days or longer would be eligible for unemployment allowances, without requiring them to first use up their accrued paid leave. Online enrollment with the Israeli Employment Service to confirm eligibility for unemployment benefits, without requiring physical attendance.	March 16, 2020
Extended eligibility for unemployment benefits through April, for those whose eligibility period has run out. ²	March 27, 2020
Monthly adaptation grant to those aged 67 or over who were furloughed or dismissed (in addition to old age pension). ³	March 30, 2020
Start of emergence from first lockdown	April 19, 2020
Extension of special adaptation grant to those aged 67 or over through May (up to NIS 4,000). ⁴	April 24, 2020
Plan to encourage reemployment, valued at NIS 6 billion. Includes a one-time grant to businesses for each employee they reemployed in April–September after being unemployed or on furlough. ⁵	May 8, 2020
Relief in eligibility for unemployment benefits—shorter qualification period and longer eligibility period—extended through May. ⁶	May 9, 2020
Relief in eligibility for unemployment benefits—shorter qualification period and longer eligibility period—extended through August 15. ⁶	June 28, 2020

⁴⁰ The bonus was paid to persons who were unemployed for 75 consecutive days prior to November 1, who received unemployment benefits for 75 days since March 1 (even if not consecutive), and who started work by December 31.

<p>1. Payment of multiple allowances—to those eligible for unemployment benefits as well as old age pension, disability pension, income insurance, or child support. Revised retroactively since March, effective through August 15.</p> <p>2. Special adaptation grant to those aged 67 and over who lost their employment due to the COVID-19 crisis, extended through August 15.⁷</p>	June 30, 2020
<p>Safety net for those unemployed or salaried employees placed on furlough, extended through June 2021 or until the unemployment rate would drop below 7.5 percent^{8,9} including payment of multiple benefits through June 2021. Additionally:</p> <p>1. Those who were eligible for unemployment benefits from January and February were added to the Safety Net (starting in July 2020).</p> <p>2. Shortening of furlough duration for eligibility for unemployment benefits to 14 days.¹⁰</p> <p>3. Elimination of 5-day waiting period between unemployment periods, except for when first going on unemployment during the crisis.¹¹</p>	July 9, 2020
<p>The Economic Assistance Plan Act was approved¹², whereby:</p> <p>1. Those undergoing professional training would be eligible for full unemployment benefits, rather than 70 percent thereof.</p> <p>2. Those aged 28 or younger with a child would receive a full, rather than reduced, unemployment allowance.</p> <p>3. Changed the calculation of unemployment benefits so that the amount would be determined based on the higher wage received after first going on furlough, and would not be reduced after a specified period, as is the case normally, or when the employee returns to work at a lower pay for a certain period.</p>	July 29, 2020
Start of second lockdown	September 18, 2020
<p>Expanded the Economic Safety Net.¹³</p> <p>1. More flexible eligibility rules for employment encouragement grant.¹⁴</p> <p>2. Employee retention plan, payable in one lump sum.¹⁵</p> <p>3. Postponed reduction in unemployment benefits.¹⁶</p>	September 22, 2020
<p>Increase of Earned Income Tax Credit (EITC) by 62 percent for employees eligible for one month or more in the period April–December 2020. In addition, employees would receive an advanced EITC payment of 25 percent of the grant (not less than NIS 1,000), which would not be reimbursable should it emerge later on that the employee was not eligible for the payment.</p>	September 29, 2020
Start of emergence from second lockdown	October 18, 2020
<p>Nonrecurring payment to those who received unemployment benefits or adaptation grants for an extended period (100 days or longer) during the crisis.^{17,18}</p>	November 11, 2020
<p>“Flexible return from furlough to employment”¹⁹ grant for unemployment allowance recipients who returned to work on a part-time basis by the end of December, including those who returned to the employer who had placed them on furlough.²⁰</p>	November 15, 2020
<p>Extended eligibility for the “Flexible return from furlough to employment” grant, through February 2021.</p>	November 30, 2020
Start of third lockdown	December 27, 2020

¹ https://www.gov.il/he/departments/news/press_16032020_b

² https://www.gov.il/he/departments/news/press_27032020

³ Those aged 67 or over are not eligible for unemployment benefits because they are eligible for an old age pension. The grant was paid for March (up to NIS 2,000) and April (up to NIS 4,000).

⁴ https://www.gov.il/he/departments/news/press_24042020_b

⁵ The grant was paid for each qualifying employee above the employee headcount in May, for each month in which the employee was employed in the June-September period. The employee must earn at least NIS 3,300 per month. Employers could elect an alternative track, whereby the grant was payable for employees recruited in July–October, under the same conditions.

https://www.gov.il/he/departments/news/press_09052020,

⁶ https://www.gov.il/he/departments/news/press_11052020

⁷ https://www.gov.il/he/departments/news/press_30062020

⁸ The unemployment rate, as defined by law, includes the unemployed (narrowly defined unemployment) as well as those temporarily absent for COVID-19-related reasons.

⁹ Should the unemployment rate be between 7.5 and 10 percent, after 30 days the unemployment allowance would be reduced (for the unemployed and for those placed on furlough whose eligibility for unemployment benefits has expired) to 90 percent. Should the unemployment rate drop below 7.5 percent, the expanded eligibility for unemployment benefits would expire 30 days after the announcement date. National Insurance Institute, “Extending payment of unemployment benefits”, July 29, 2020.

¹⁰ <https://www.btl.gov.il/About/news/Pages/haraca-june-21.aspx>

¹¹ Compared to 30 days prior to the crisis and through July 31, 2020. Moreover, going on furlough is not contingent on using up the remaining paid leave.

¹² <https://www.btl.gov.il/benefits/Unemployment/Pages/pay.aspx>

¹³ <https://main.knesset.gov.il/Activity/Legislation/Laws/Pages/LawPrimary.aspx?t=lawlaws&st=lawlaws&lawitemid=2143895>

¹⁴ https://www.gov.il/en/departments/news/spoke_joint220920

¹⁵ Due to the second lockdown, a decision was made whereby those who worked in September for 15 days or more would not be excluded from the employees considered for grant calculation, even if dismissed or placed on furlough. The minimum wage for an employee to qualify for this bonus was reduced to NIS 2,500.

¹⁶ Nonrecurring grant for continued employment of employees in September and October. Employers are eligible for this grant if their revenue is up to NIS 400 million and if their revenue during the eligibility period declined by 25 percent or more compared to the corresponding period last year. The grant amount is NIS 5,000 multiplied by the number of qualifying employees, where the number of qualifying employees depends on the extent of impact on the business: the harder the impact on the business—the lower the percentage of employees above which the grant is payable for each additional employee (employment threshold). For impact levels of 80 percent and higher, the grant shall be payable for each employee above 40 percent of employees. For impact levels of 60–80 percent, the grant shall be payable for each employee above 55 percent of employees. For impact levels of 40–60 percent, the grant shall be payable for each employee above 70 percent of employees. For impact levels of 25–40 percent, the grant shall be payable for each employee above 80 percent of employees. The grant shall be paid through the Small Business Authority of the Ministry of Economy and Trade.

¹⁷ The decline threshold shall only be tested from October 16, 2020, thus delaying the reduction due to the low unemployment rate in September.

¹⁸ The grant is payable to the unemployed who were reemployed and to those who were not, provided that the eligibility period is in compliance with the eligibility conditions, and that the effective wage was lower than the average daily wage in the market. The 100 days of unemployment shall be counted from March 1, 2020 to October 31, 2020.

<https://www.btl.gov.il/Corona/Pages/MaanakAvtCont1122-4416.aspx>

¹⁹ The grant is for each day of employment, for up to 4 months, and makes up the prorated share of unemployment pay relative to the employees’ wages immediately prior to the crisis (subject to caps). Eligible persons are those unemployed for 75 consecutive days prior to November 1, who have received unemployment benefits for 75 days from March 1 (even if not consecutive) and who started work by December 31.

²⁰ The grant is for each day of employment, for up to 4 months, and complements the unemployment benefits up to the employees’ wages immediately prior to the crisis (subject to caps). Eligible persons are those unemployed for 75 consecutive days prior to November 1, who have received unemployment pay for 75 days from March 1 (even if not consecutive) and who started work by December 31.

b. Encouraging reemployment of employees

After the first lockdown, a decision was made to provide incentives for employers to re-employ employees by means of a bonus payment.

There was extensive use of furloughs during the first lockdown: Nearly 1 million employees, or 22 percent of the work force, were placed on furlough, while only 115,000 employees were dismissed or resigned.⁴¹ Some of these employees were reemployed when restrictions were lifted from mid-April, but the number of unemployed remained high, with 20 people who were unemployed or on furlough for each job vacancy in the market.^{42,43} In order to avoid a labor market equilibrium with relatively low employment—due to concerns about morbidity trends and due to the temporary nature of the arrangement and some of its features—a decision was made to provide employers with grant incentives to hire employees. The grant was paid to employers who hired employees in April–September⁴⁴, who met several conditions, including unemployment pay after the lockdown. The original announcement called for this reemployment grant to be valued at NIS 6 billion, but the plan as approved was more limited, so that actual expenditure was NIS 1.6 billion, which paid for the reemployment of 430,000 employees.

The re-employment grant provided a quick response to the need for re-employment after the lockdown, but had some prominent disadvantages.

The grant approved in May provided a quick response for the need for reemployment after the lockdown, to avoid extended unemployment and to reduce payment of unemployment benefits. It had the disadvantage of compensation being based merely on the reemployment of employees who were unemployed or on furlough, regardless of the extent of impact on the business's activity and the total number of employees. Thus, employers who avoided placing employees on furlough despite the impact of the crisis, who may not have been in a position to actually employ them in full-time positions, were hit twice: They bore the cost of employment during the lockdown, rather than having the State pay an unemployment allowance to their employees, and did not receive a grant for the reemployment of their employees, as employment was continued throughout the lockdown. The grant structure also hurt those employers who were quick to reemploy their employees after the lockdown, because those who re-employed their employees in April and May received a lower grant than those who waited until June.⁴⁵ Thus, the government gave employers the message that, in case of an additional morbidity wave and restrictions, the way to receive support is by placing employees on furlough, rather than make the effort to preserve those employees.

One of the concerns that arose due to the increased flexibility of furlough measures and criteria for eligibility for unemployment benefits, and extension of the eligibility

Due to concern that the "safety net" would lessen the motivation of the unemployed to return to the labor market, it was stipulated that it would be discontinued once the unemployment rate would drop below 7.5 percent.

⁴¹ Including employees who entered "Other" as their reason for visiting the Employment Service.

⁴² Based on Labor Force Survey data – broadly defined unemployment.

⁴³ During the summer months, this ratio decreased to 9. Prior to the crisis, the runemployed to vacancy ratio in the economy was 1.5.

⁴⁴ The grant amount was NIS 1,875 per month for employees who earned at least NIS 3,300 per month, and it was paid for up to 4 months. Employers could choose between this scheme and an alternative one, whereby the grant was payable for employees recruited in July–October, under the same conditions. Eventually, 95 percent of grant recipients chose to receive it for June–September.

⁴⁵ NIS 875 per month for employees hired in April above the headcount in March, or hired in May above the headcount in April.

period for unemployment pay through June 2021, was that certainty among the unemployed with regard to continued payment of the unemployment allowance would reduce their incentive to look for alternative work, or even to return to their previous positions. This was especially the case in view of restrictions on the operation of the Israeli Employment Service during the crisis. Due to such concern, the government applied a mechanism to automatically decrease unemployment benefits in accordance with the unemployment rate (Table 5.8), and in late September it increased the Earned Income Tax Credit (EITC) (“negative income tax”) for 2020 by 62 percent to provide incentive for employment. It was further decided to immediately pay an advance on account of the 2020 EITC, which was scheduled to be paid only in the second half of 2021, and those eventually found to be ineligible to receive this grant would not be required to repay it.

In view of insights gained from the reemployment grant at the end of the first lockdown, and based on improved availability of information, the government resolved, upon entering the second lockdown, to act to reduce the number of employees placed on furlough, by means of an employee retention scheme of up to NIS 5,000. This grant was paid for each employee (above a certain threshold) who was continuously employed in September–October. Employers’ eligibility to receive this grant was based on the extent of impact to their revenue and the percentage of employees preserved during this period (for more details see Table 5.8). Total grants paid through February 2021 (in cash and by obligation) amounted to NIS 400 million, out of the original estimate of NIS 800 million.

In view of insights gained from the first lockdown, upon entering the second lockdown an employee preservation bonus was implemented.

c. Support model in other advanced economies

As in Israel, other countries also implemented programs to support the labor market. In order to analyze policy measures applied in Israel from an international perspective, we reviewed policy measures applied by 14 OECD member countries (Table 5.9).⁴⁶ The review shows that most of these countries implemented programs primarily designed to provide additional income to employees whose livelihoods were affected, without severing their connection with their employers. We also found that these programs were mostly based on extending or revising the support programs and safety nets that had existed in those countries prior to the current crisis, and extending/adapting them as the crisis continued to unfold. (In most countries, the initial assistance period was significantly longer than in Israel, where the program was initially only approved for several weeks at a time).

Most countries implemented programs to provide employees with income coverage without severing their ties with their employers.

⁴⁶ US, Australia, Italy, Germany, France, UK, Finland, Canada, Spain, Denmark, the Netherlands, Sweden, Poland, and the Czech Republic. The choice of countries was dictated by the availability of economic reports about these countries from the International Monetary Fund and from the OECD. In addition, we also reviewed data from other OECD member countries, but information about these was not available in the uniform format as it was for the selected countries.

The “German Model” makes up, through employers, the income of employees whose work hours have been reduced.

In all countries, the government’s contribution to support programs was increased relative to the precrisis period.

The furlough program implemented in Israel was different than policy measures applied by most countries, particularly Western European countries and Canada, which focused on making up employees’ income for those whose employment intensity was decreased, in whole or in part, through their employer. The most prominent of these plans is the long-standing Kurzarbeit program in Germany.⁴⁷ As such, this plan was referred to in Israel as the “German Model”. This model supports employee preservation in periods when their income is affected due to temporary decline in demand. Under this program in Germany, employers with a reduced need for labor input may reduce their employees’ work hours, paying their full wages for actual work hours and 60–87 percent of the employee’s wage for work hours reduced from their precrisis scope of employment. The payment for those reduced hours was fully covered by the State (including a waiver of social security pay for these hours), so that employers had no additional cost beyond payment for the actual work hours they required.⁴⁸

Similar measures were implemented in France (“Short Time Work”), in the UK (“Coronavirus Job Retention Scheme”) as well as in Italy, Spain, Canada, Sweden and the Czech Republic. In all these countries, the State pays for reduced work hours through the employers. Figure 5.5 shows two key parameters of these programs—the wage replacement payment to employees for reduced hours, and the rate of contribution by the State towards these expenses during the COVID-19 crisis period. Thus, for example, in Spain employees received 70 percent of their normal wage for reduced work hours (in addition to full payment for actual hours worked) during the first six months, and 50 percent thereafter; the State fully covers these costs. In all other countries as well, employees received 70–90 percent of their wage for reduced hours.⁴⁹ In all of these countries, the government’s contribution was higher than in the precrisis period, and in nearly all of them, employers were fully indemnified by the State for wages paid for reduced work hours. In France, for example, the full contribution replaced 90 percent of the minimum wage contribution that was in place prior to the crisis⁵⁰, while in the UK, the State contributed 75–80 percent.⁵¹ The share of employees who participated in these programs was high in all of these countries.

⁴⁷ See Box 5.1 of the Bank of Israel *Annual Report* for 2019.

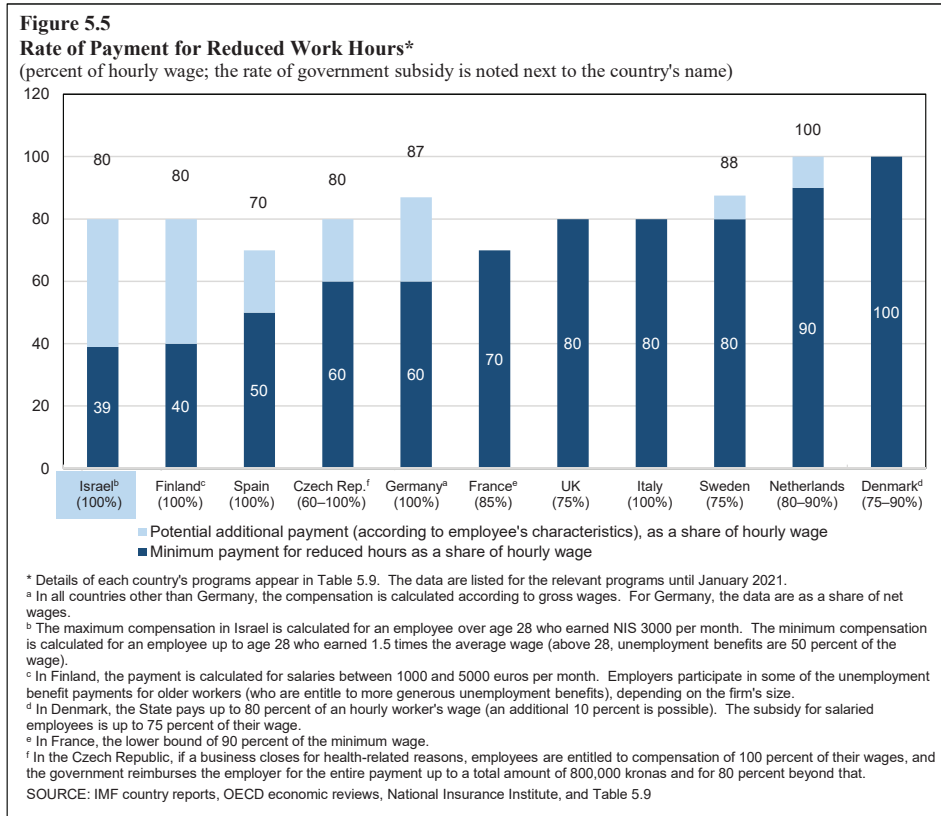
⁴⁸ The payment rate depends on the duration of the period in which the employee was employed at a reduced position, and on whether the employee has children. For more information see Table 5.8.

⁴⁹ In the Netherlands, the government contributed 90 percent of wages for reduced hours, and the number of work hours for which the bonus was payable was determined based on the impact to business revenue. In Australia, a fixed amount was payable at 45 percent of the average wage in the market, for each employee preserved by the employer whose pay was not impacted, but only for businesses whose revenue was reduced by 30 percent or more.

⁵⁰ As of June, the government contribution was decreased to 85 percent and as of January 2021, employers in France would be reimbursed at only 60 percent, except for industries that were severely impacted—where the reimbursement remained at 100 percent.

⁵¹ In Canada, the assistance provided was complicated. The rate of employment support was contingent on the impact on the business, with a significant share of the unemployed and those whose income was impacted in the crisis receiving weekly grants of C\$500 over and above the normal unemployment pay.

In France, for example, this covered 50 percent of those employed, and in Germany it covered 25 percent.



Among the countries we surveyed, only Finland applied a policy similar to Israel's (with slightly different parameters, and for a period of up to 90 days), with the primary policy measure applied being a direct unemployment allowance from the State to the unemployed placed on full furlough—i.e., to those employees who were not dismissed but who did no actual work. Concurrently, a grant of €1,000 was paid in Finland to those who hired a previously unemployed person. Denmark applied a program similar to the furlough program, for employers required to dismiss a large number of employees⁵², but concurrently with the long-standing StW program, the terms of which were improved as of September.

The US acted somewhat differently from the other countries. The primary policy measure applied there was an increased unemployment allowance to dismissed employees, along with an extended eligibility period compared to the past. The federal government added \$600 per week to unemployment benefits (paid by the

The US behavior toward the labor market during the crisis differed other countries.

⁵² In this program, the employer continued to pay wages and was reimbursed by the government for 75 percent of the wages.

states) in April–July 2020, and \$300 per week as of August 2020 for 5 weeks. In addition, the eligibility for “normal” unemployment benefits was extended from 26 to 39 weeks, with the self-employed also made eligible. The PPP (Paycheck Protection Program) also allowed businesses to convert federal loans they received at the start of the crisis into grants—provided that at least 60 percent of the loan was used for payroll expenses, that the number of employees in the 24-week qualifying period was higher than the average number of employees in February–June 2019 and in January–February 2020, and that the wages for each employee were at least 75 percent of their precrisis wages.

All countries eased eligibility conditions, and programs were extended.

As in Israel, other countries also made access to assistance easier compared to eligibility conditions in the precrisis period (Table 5.9). All countries eased eligibility conditions, and programs were (gradually) extended through the first quarter of 2021 (or later). Thus, for example, in Germany eligibility was granted to firms where the number of work hours for 10 percent of employees was reduced by 10 percent, compared to eligibility criteria of 30 percent or more of employees in the precrisis period. The program also allowed employees whose work hours were reduced to work for another employer concurrently, without becoming ineligible to receive an unemployment allowance for the reduced hours.⁵³ In the UK, the unemployment allowance was increased to 63 percent of net wages, compared to 56 percent in the precrisis period.

Countries implemented complementary programs for employee preservation and re-employment.

In addition to the aforementioned programs to support income and employment, the countries implemented complementary programs designed to promote employee retention and reemployment (Table 5.9). The UK announced the Kickstart scheme, a program to provide subsidies for hiring younger employees. Canada provided subsidies for employee wages, with the rate depending on the extent of the decline in the employer’s revenues.

It is important to create programs in advance to provide solutions during a crisis.

The review shows that most countries relied during the crisis on programs that had existed in the precrisis period, in order to provide assistance and support for employee income, with some adjustments and extensions. Some countries added new programs, but these did not replace the primary policy tool used in the precrisis period. This finding is evidence of the importance of creating programs ahead of time to provide solutions during crises. Once a crisis is underway, the reaction speed in providing a solution for employees, for the unemployed, and for businesses is critical, and developing programs takes valuable time, as in many cases it requires institutions to adapt, as well as information that is not available. Thus, the attempts during this crisis to institute more effective and accurate assistance measures for affected employees in Israel ran into barriers—particularly lack of data about the extent of the impact on businesses, the industry they belong to, wages of employees at the outset of the crisis,

⁵³ This was subject to the total income not exceeding the previous net pay.

and work hours. Even the partial information available was dispersed across multiple government authorities.⁵⁴

Table 5.9 Measures to support continued employment and to make up income in OECD countries		
Country	Support programs	Adjustments to unemployment pay
Australia ¹	Job Keeper Payment: A new program, with a biweekly payment of A\$1,500 (45 percent of the average wage) to each employee of employers whose revenue was reduced by 30 percent compared to the precrisis period. Employers with annual revenue above A\$1 billion are only eligible if their revenue was reduced by 50 percent or more. Employers must continue to pay employees their full wages, and if they earned less than A\$1,500 – they must pay them at least A\$1,500. Dismissed employees may be reemployed and paid at least A\$1,500 per biweekly period, for as long as the employer receives the grant on behalf of these employees.	A\$150 per biweekly period was added to the unemployment allowances through March 2021.
Italy ²	Cassa Integrazione Guadagni (CIGO and CIGS programs) The plan that existed: The employer pays 80 percent of wages for reduced work hours, and is fully reimbursed for this amount by the State. (The maximum grant is €1,199 for those who originally earned over €2,159, or 60 percent of the average wage). Relief provided during the crisis: Employers exempted from national insurance payments with respect to the grant. Extended to include those who did not contribute to the program, and to the entire economy, whereas previously this was intended for specific industries and for medium and large businesses. Approval is based on the impact on revenue and on reaching agreement with the employees union, compared to more stringent requirements in the precrisis period. Eligibility was extended from 13 weeks in the precrisis period, to 42 weeks (effective through January 2021).	
US ³	Paycheck Protection Program (PPP): Employers received federal loans and were allowed to convert these into grants—provided that at least 60 percent of the loan was used for payroll expenses, that the number of employees in the 24-week qualifying period was higher than the average number of employees in February–June 2019 and in January–February 2020, and that the wages for each employee were least 75 percent of their precrisis wages.	The federal government added \$600 per week to unemployment allowances (paid by the states) in April–July 2020, and \$300 per week as of August 2020 for 5 weeks. In addition, the eligibility for “normal” unemployment pay was extended from 26 to 39 weeks, with the self-employed also made eligible.

⁵⁴ A government team (“the Directors General Committee”) recommended several improvements to be made to reporting and to information management by the government, which would allow the policy measures to be improved and better focused, including the following: 1. Monthly reporting by employers to the National Insurance Institute about wages and work hours of each employee; 2. Monthly reporting of employees on furlough; 3. Including the actual work location of employees on the annual reporting by employers to the Tax Authority (Form 126); 4. Improvement and regulation of business reporting on the industry to which they belong; 5. Elimination of reporting by separate businesses to the Tax Authority as “consolidated businesses”; 6. Merger of employment data, attributes of businesses and the unemployed in a uniform operating database, to be managed by the Central Bureau of Statistics and made accessible in real time to authorities involved in formulating policy.

Table 5.9 Measures to support continued employment and to make up income in OECD countries		
Country	Support programs	Adjustments to unemployment pay
UK ⁴	<p>Coronavirus Job Retention Scheme (furlough scheme) Compensation at 80 percent for reduced hours (up to £2,500, or 125 percent of the average wage). Through August, the State paid employers 100 percent of the cost of making up wages, in September 87.5 percent (up to £2,187), and in October 70 percent (up to £1,875). This program was discontinued on October 31.</p> <p>November 1, 2020–June 30, 2021: “Job Support Scheme”—employers and the State each pay 33 percent of the employee’s wage for reduced hours, and the employee must work at least 33 percent of their original work hours. Intended for small and medium businesses, and for large businesses severely impacted by the crisis.</p> <p>Government grant of £1,000 for employers who reemploy furloughed employees continuously from November 2020 through January 2021, at an average monthly wage of £520 or higher.</p> <p>Kickstart scheme: Subsidy for wages of employees aged 16–24 who are at risk of prolonged unemployment.</p>	<p>Temporary increase of unemployment benefits, to 63 percent of net wages, instead of 56 percent previously.</p>
Germany ⁵	<p><i>Kurzarbeit</i> plan Relief and benefits during the crisis: It is possible to apply when 10 percent of employees have their work hours reduced by 10 percent or more, compared to a reduction in work hours for 30 percent of employees before the crisis. In addition, the program was extended to cover temporary employees.</p> <p>For employees whose work hours decreased by 50 percent or more, the supplementary income increased from 60 percent (or 67 percent with child) prior to the crisis, to 70 percent (77 percent) from the fourth month and to 80 percent (87 percent) from the seventh month.</p> <p>Payment of national insurance contribution by employers for the reduced hours was waived, compared to 80 percent prior to the crisis.</p> <p>The requirement to utilize all paid leave prior to gaining access to the program has been eliminated.</p> <p>Working an additional job was allowed, provided that total wages do not exceed the precrisis wages.</p> <p>The program is valid through 2021.</p>	
Denmark ⁶	<p>Wage Compensation Scheme: Compensation to employees in significantly impacted businesses. Any business that is about to dismiss 30 percent of employees or more, or at least 50 employees, may place them on temporary leave with full pay, and the government would compensate them for 75 percent of the wages (90 percent for hourly employees), up to DKK 30,000 (75 percent of the average wage). Employees must use 5 days of annual leave and may not work for their employer or elsewhere. The unemployment period was initially capped at 90 days, and later extended through June 2021.</p> <p>StW: The program continued to operate as it was prior to the crisis, and was extended from September. Employers may reduce the position to 3 days per week, with the government paying increased unemployment pay for the days reduced.</p>	

Table 5.9 Measures to support continued employment and to make up income in OECD countries		
Country	Support programs	Adjustments to unemployment pay
The Netherlands ⁷	<p>Tijdelijke Noodmaatregel Overbrugging voor behoud van Werkgelegenheid (“NOW”): Three similar, consecutive stages (March–May, June–September, October 2020–June 2021).</p> <p>The grant is intended for continued employment by companies whose revenue was down by 20 percent or more. It is calculated as the product of the percentage of decrease in revenue and 90 percent of wages, plus 30 percent with respect to social benefit contributions (40 percent from June). It is payable for monthly salaries of up to €9,538 (twice the average pay) and would be reduced to €4,845 as from April 2021. Payment is contingent on the employer not dismissing employees during this period. From June 2021, they may dismiss and may reduce pay by up to 10 percent, and the grant would be reduced accordingly (From April 2021, the reduction may be up to 20 percent.)</p> <p>Beginning in October, the grant factor was reduced to 80 percent of wages (multiplied by the percentage of decrease in revenue) and in April 2021 it would be reduced to 60 percent.</p> <p>Employers who receive this grant may not distribute any dividends, buy back their own shares, or pay bonuses to executives.</p>	Unchanged.
Spain ⁸	<p>ERTE</p> <p>Existing plan: Payment to employees for reduced hours: 70 percent of gross wages. After 180 days, this is reduced to 50 percent (up to €1,412. The insured wage is capped at 75 percent of the average wage). The State funds 100 percent.</p>	
Poland ⁹	<p>Loans to businesses, with 75 percent of the loan convertible into a grant if the number of employees was not reduced for 12 months.</p> <p>Since November: Extended for impacted industries through June 2021. Furthermore, in these industries 100 percent of the loan may be converted.</p> <p>Wage subsidies: Up to 40 percent of average wage paid by the company prior to the crisis.</p> <p>Through November: Waiver of social benefit contributions for 3 months.</p>	<p>Unemployment pay increased by 35 percent in September–November. The increase was smaller from December through June 2021.</p> <p>Solidarity grant payable to the unemployed through June.</p>
Finland ¹⁰	<p>Temporary layoff scheme</p> <p>Unchanged: Employees placed on furlough for up to 90 days are eligible for unemployment pay. They may be placed on furlough again if reemployed between periods.</p> <p>Employees may work part-time during the furlough period and retain eligibility for unemployment benefits.</p> <p>Changes to the program since the outbreak of the crisis:</p> <p>The option for temporary dismissal was extended to employees hired on short-term contracts.</p> <p>The minimum notice and negotiation period were reduced from 5 weeks prior to the crisis to 5 days.</p>	<p>Changes since the outbreak of the pandemic:</p> <p>No changes were made to eligibility criteria or to allowance amounts.</p> <p>The waiting period for unemployment benefits was eliminated.</p>

Table 5.9 Measures to support continued employment and to make up income in OECD countries		
Country	Support programs	Adjustments to unemployment pay
Czech Republic ¹¹	Antivirus Employment Protection: Grant payable to employers who were required to continue paying wages if the crisis had an adverse impact on their operations. The grant depends on the cause of the impact. If the business was shut-down due to healthcare restrictions imposed by the government, employees were eligible to receive their full wages (up to CZK 50,000) and the government indemnified the employer for the full amount up to CZK 800,000 (at 80 percent over 800,000). If the cause of reduction was too many employees in quarantine, all other employees are eligible for 100 percent of their wage. If the cause was a shortage of raw materials or of other suppliers' services, employees were eligible for 80 percent of the wage. If the cause was low demand, they were eligible for 60 percent. In all of these cases, the employer was eligible for indemnification of 60 percent of wages paid, up to CZK 29,000 per month (80 percent of the average wage).	Unchanged
France ¹²	<p>Short-time work (StW)</p> <p>The program was revised in March 2020, in July 2020, and in January 2021. The initial program was the most generous one, and benefits were reduced with each revision. The program was available to companies that reduced work hours or closed some of their branches. Under this program, employees earn 84 percent of their net wage (compared to 65 percent typically for unemployment pay), but not less than the minimum wage, for up to six months (with potential extension up to 12 months). From January 2021, the supplementary pay was reduced to 71 percent. From July 2020, the qualifying wage was capped at €4,608, or 110 percent of the average wage.</p> <p>Eligibility for this program was extended in March to all contract types (regardless of seniority), and filing of applications was simplified. Existing companies may file an advance application with authorities for payment of reduced hours, and may retroactively revise the actual number of hours reduced up to 12 months back.</p> <p>In March 2020, the reimbursement payable by the State to employers was raised to 100 percent of actual cost of payment for reduced hours, compared to 90 percent of the minimum wage prior to the crisis.</p> <p>In June 2020, the reimbursement was reduced to 85 percent of the employer's cost. In severely impacted industries—hotels, tourism, culture, and others—or those restricted by government decrees, the reimbursement rate remained at 100 percent.</p> <p>In January 2021, the reimbursement rate was reduced to 60 percent (it remained at 100 percent for severely impacted industries). The current program is valid for six months.</p> <p>From July 2021, employers may join an alternative collective bargaining agreement under which businesses that sign an employment agreement for at least 40 percent of regular hours, for a period of 24 months over the next 3 years, would be reimbursed at 85 percent.</p>	No significant change; 65 percent of the previous salary.

Country	Support programs	Adjustments to unemployment pay
Canada ¹³	<p>Canada Emergency Wage Subsidy (CEWS)</p> <p>A new program providing subsidies to businesses with a decrease in revenue of 15 percent or more in March, or 30 percent or more in April and thereafter, 75 percent of wages (up to C\$1,129 per week per employee, about twice the average wage). A different rate is in place for furloughed employees.</p> <p>Businesses that are not eligible for this benefit may receive up to 10 percent of employees' wages.</p> <p>The program was revised in July, with assistance better aligned with the decrease in revenue, decreasing as the support period grows longer.</p> <p>In November, the program was extended through June 2021.</p>	<p>Extension of the maximum period for receiving unemployment allowance, elimination of waiting periods, less strict and more expansive eligibility criteria.</p> <p>Work Sharing Program: Supplementary pay to employees in part-time jobs with employers whose revenues were impacted.</p> <p>Canada Emergency Response Benefit (CERB)</p> <p>Since April 1: Weekly grant of C\$500 for 16 weeks, payable to employees who lost their jobs due to the pandemic (or those earning up to C\$1,000 per month other than the grant). The grant was extended for a further 28 weeks after being fully utilized and after expiration of the program.</p>
Sweden ¹⁴	<p>Short-term work allowance: Agreement where employers may agree with their employee union (or subject to agreement by 70 percent or more of the employees) to reduce work hours by 20 percent, 40 percent, 60 percent, or 80 percent, along with reduction of wages by 4 percent, 6 percent, 7.5 percent, or 12 percent compared to the precrisis wages, respectively. The government compensates employers at 15 percent, 30 percent, 45 percent, and 60 percent of wages (75 percent of wages for reduced hours), provided that employers first dismiss temporary employees and consultants, and avoid any dividend distributions and bonus payments to executives. The compensation is paid for monthly wages of up to kr44,000 (similar to the average wage) for a period of up to 9 months, after which there is a two-year qualification period for renewed eligibility. (This requirement was temporarily suspended in early 2021.)</p> <p>The right to an 80 percent reduction was instituted in 2020 for May, June and July only, and was then reinstated from January to April 2021. In May 2021, this option would be eliminated, and government contributions toward the other steps would be reduced to 10 percent, 20 percent, and 30 percent of wages (50 percent of wages for reduced hours).</p>	<p>Eligibility conditions for unemployment allowance were eased, the insured wage cap was increased, and the condition stipulating no compensation for the first 6 days of unemployment was suspended through January 2021.</p>

Table 5.9
Measures to support continued employment and to make up income in OECD countries

Country	Support programs	Adjustments to unemployment pay
	<p>¹ Australian government Fact Sheet, Economic Response to the Coronavirus. https://treasury.gov.au/coronavirus/jobkeeper</p> <p>² IMF (2021) Article IV Consultation, Staff Report, France, p. 64. https://www.imf.org/-/media/Files/Publications/CR/2021/English/1FRAEA2021001.ashx</p> <p>³ https://esd.ny.gov/sba-paycheck-protection-program-ppp</p> <p>⁴ OECD (2020), OECD Economic Surveys: United Kingdom 2020, OECD Publishing, Paris, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-united-kingdom_19990502; IMF (2020), IMF Country Report: UNITED KINGDOM 2020, IMF Publishing, Washington, D.C. https://www.imf.org/en/News/Articles/2020/12/18/pr20379-united-kingdom-imf-executive-board-concludes-2020-article-iv-consultation; IMF (2021) Article IV Consultation, Staff Report, France, p. 64 https://www.imf.org/-/media/Files/Publications/CR/2021/English/1FRAEA2021001.ashx</p> <p>⁵ OECD (2020), OECD Economic Surveys: Germany 2020, OECD Publishing, Paris, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-germany_19990251; IMF (2020), IMF Country Report: GERMANY 2020, IMF Publishing, Washington, D.C. https://www.imf.org/en/Publications/CR/Issues/2021/01/15/Germany-2020-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-50020; IMF (2021) Article IV Consultation, Staff Report, France, p. 64. https://www.imf.org/-/media/Files/Publications/CR/2021/English/1FRAEA2021001.ashx</p> <p>⁶ https://www.twobirds.com/en/news/articles/2020/denmark/covid-19-guidance-for-employers-in-denmark; https://ec.europa.eu/competition/state_aid/cases/1/202048/289705_2214196_53_2.pdf</p> <p>⁷ https://business.gov.nl/corona/overview/the-coronavirus-and-your-company; https://www.eversheds-sutherland.com/global/en/what/articles/index.page?ArticleID=en/coronavirus/Coronavirus-further-extension-emergency-measures-Netherlands</p> <p>⁸ IMF (2021) Article IV Consultation, Staff Report, France, p. 64. https://www.imf.org/-/media/Files/Publications/CR/2021/English/1FRAEA2021001.ashx</p> <p>⁹ IMF (2021), IMF Country Report: Republic of Poland 2020, IMF Publishing, Washington, D.C.: https://www.imf.org/en/Publications/CR/Issues/2021/02/05/Republic-of-Poland-2020-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-50066; OECD (2020), OECD Economic Surveys: Poland 2020, OECD Publishing, Paris, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-poland_1999060x.</p> <p>¹⁰ OECD (2020), OECD Economic Surveys: Finland 2020, OECD Publishing, Paris, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-finland_19990545; Kyyra, T., H. Pesola, and A. Rissanen, (2017), Unemployment Insurance in Finland: An examination of Recent Changes and Empirical Evidence on Behavioral Response, https://www.doria.fi/handle/10024/149406.</p> <p>¹¹ OECD (2020), OECD Economic Surveys: Czech Republic 2020, OECD Publishing, Paris, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-czech-republic_19990561; https://www.eversheds-sutherland.com/global/en/what/publications/shownews.page?News=en/czech-republic/en/Coronavirus_a_practical_guide_for_employers</p> <p>¹² IMF (2021), France, Staff Report. https://www.imf.org/-/media/Files/Publications/CR/2021/English/1FRAEA2021001.ashx</p> <p>¹³ OECD (2021), Economic Review of Canada 2021. https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-canada_19990081; IMF (2020), IMF Country Report: CANADA 2020, IMF Publishing, Washington, D.C. https://www.imf.org/en/Publications/CR/Issues/2021/03/17/Canada-2021-Article-IV-Consultation-Press-Release-and-Staff-Report-50273</p> <p>¹⁴ https://tillvaxtverket.se/english/short-time-work-allowance-2021.html</p>	

d. Analysis of the furlough model vs. support models in other countries

A major risk associated with the employment crisis lies in turning cyclical unemployment into structural unemployment. Long-term unemployment results in erosion of human capital, an impact on long-term income, and in some cases, despair and leaving the work force. This is in addition to the social aspects of this phenomenon. Therefore, a key test for the various models applied to address the employment crisis in various countries (furlough in Israel; dismissal and payment of unemployment benefits such as in the US; payment of unemployment benefits to those who continue to work, for the hours reduced from their job—"the German model"; pay subsidies as in Australia or the Netherlands)—is the extent to which the impact on employment created during the crisis would persist thereafter.

The furlough model has several advantages, which are partly reflected in rapid growth of employment between lockdown periods in Israel in those industries allowed to reopen: 1. The model shifted the burden of payroll expenses for employees who were temporarily not required from businesses to the State, thereby avoiding mass layoffs; 2. Because eligibility for this arrangement was contingent on going on full furlough, and since the (net) replacement rate of the unemployment benefits was reasonable, this arrangement reduced pressure on employees and employers to attend their work place despite the restrictions, in particular with the closing of kindergartens and schools and the reduced service of public transportation; 3. The model prevented employers from having to immediately finance the cost of employee dismissal (severance pay, accrued vacation, and other benefits) and the litigation this would have entailed, at a time when they faced liquidity issues; 4. The model retained the connection between employees and employers—matched by recruitment processes prior to the crisis—and prevented loss of specific human capital accrued by employees at their work place. As for employees, receiving unemployment benefits during furlough limited the adverse impact on their income—although it was larger than in most countries that adopted models of subsidizing partial employment—without making it necessary to urgently look for new employment when the labor market was at a historical low point. This model allowed them to maintain their connection with the work place where they had acquired specific knowledge and skills (human capital), preserving a reasonable likelihood of returning to their work place should the business survive the crisis. For employees with long seniority at their work place, maintaining their connection there prevented significant, long-term loss of income (Lachowska et al. 2020).⁵⁵

The model where the State pays unemployment benefits only to those actually dismissed has an advantage over the furlough model, in that it requires employers and employees to make rapid adjustments in times of crisis, and prevents failing companies from retaining employees over time even when their likelihood of survival is low. Employee turnover and transition from less efficient companies to more efficient ones

One key test for the various employment support models is the extent to which the impact on employment will persist.

The advantages of the Israeli furlough model were reflected in faster employment growth between lockdown periods.

After a recovery period from the crisis, the benefit of re-employment programs, professional training, and subsidizing hiring of employees from vulnerable groups will increase.

⁵⁵ M. Lachowska, A. Mas, & S. A. Woodbury (2020). "Sources of Displaced Workers' Long-Term Earnings Losses", *American Economic Review*, 110(10): 3231–3266.

may increase productivity and contribute to faster economic recovery from crises (Carrillo-Tudela, et al. 2020; Barrero, et al. 2020).⁵⁶ However, during the COVID-19 crisis—which had noneconomic causes and carried expectations that its primary impact would be over within a limited time—this advantage was apparently of lesser importance. Most businesses whose operations were curtailed did not do so due to issues with managing their business, but rather due to healthcare restrictions and a temporary decline in demand. Therefore, in this case, rapid dismissal of employees would have unnecessarily imposed high costs on employees and employers, as described above. The employees would have apparently been unlikely to find alternative employment, due to the small number of available jobs compared to the number of those unemployed.

The issue of work incentives in the furlough model is less relevant during a crisis.

The distance created between employer and employee by the furlough model may make it easier to proceed to termination.

However, once the epidemiological restrictions on activity would be lifted, and after a recovery period, the economic benefit of continued government support through the furlough model for retaining employer-employee relations created prior to the crisis would decrease, and the benefit of reemployment programs, professional training and subsidizing hiring of employees from vulnerable groups would increase.

Another major disadvantage of the furlough model is that a combination of furlough and assured unemployment benefits for a long period may provide a disincentive for employees to return to employment, and may lead to habits that would make it harder for them to resume employment when this would become possible (especially when kindergartens and schools are closed, public transportation is limited, and working remotely is not relevant). The unemployed bear the responsibility of looking for employment, and should they refuse any employment offers from the Employment Service, they may forfeit their unemployment pay—which is not applicable to employees on furlough. However, this disadvantage, too, was not as relevant during the current crisis because of few potential job offers, and the Employment Service found it challenging to even cope with the online enrollment of the mass of dismissed or furloughed employees, especially given the physical restrictions on visits to the Employment Service offices due to the pandemic.

The “German model” allows companies to better preserve employee skills and team work.

The furlough model had some disadvantages compared to the partial employment subsidy model that was applied in many countries in Europe. In the furlough model, the temporary work disruption indeed retains the employer-employee relations to some extent, but the distancing created between the parties may make it easier to proceed to dismissal and may create a long-term perception of unemployment among employees. The inability to place employees on partial furlough makes it necessary for employers to more significantly disconnect from some employees, rather than having all of them attend their work place for some of the time. It is unknown whether the furlough model caused these effects with the same intensity as unemployment does, but the effects of long-term unemployment may also apply in the case of long-

⁵⁶ J. M. Barrero, N. Bloom, & S. J. Davis (2020). “COVID-19 is Also a Reallocation Shock”, Brookings Papers on Economic Activity conference draft, June 25; C. Carrillo-Tudela, G. Hermann, & L. Kaas (2020). “Recruitment Policies, Job-Filling Rates and Matching Efficiency”, CEPR Discussion Paper No. DP14727.

term furlough. Furthermore, the simple process whereby employees may be placed on furlough and reemployed provides incentive to employers to place employees on furlough whenever they are not required, thereby placing the burden of their pay on the State.

Many of these disadvantages imply an advantage for the “German model”. This model, too, provides employers with flexibility in employing their employees, but mostly with a lesser impact on employee income than full furlough, while retaining closer employer-employee relations than in the furlough model. Companies are better able to adjust the work hours of employees to their needs at any time, since employees are already at the work place. This strategy allows companies to better preserve employee skills and team work.

A key advantage of the full furlough model that was applied in Israel is that employers are exempt of all expenses with respect to the employee during the furlough period. This was highly important during the current crisis, since businesses whose operations were severely curtailed were not required to use their financial reserves to bear part of the employment cost, while still maintaining the connection with their employees. Countries that applied the partial employment model recognized this issue, and most of them transitioned, during the crisis, from partial contribution towards pay for reduced hours, to full coverage (Table 5.9). However, countries such as Sweden, Australia, and the Netherlands required employers to bear some of the payroll cost for reduced hours, and later in the year, some of the other countries partially resumed employer contribution toward costs, which may diminish their capacity to accelerate activity once restrictions have been lifted.

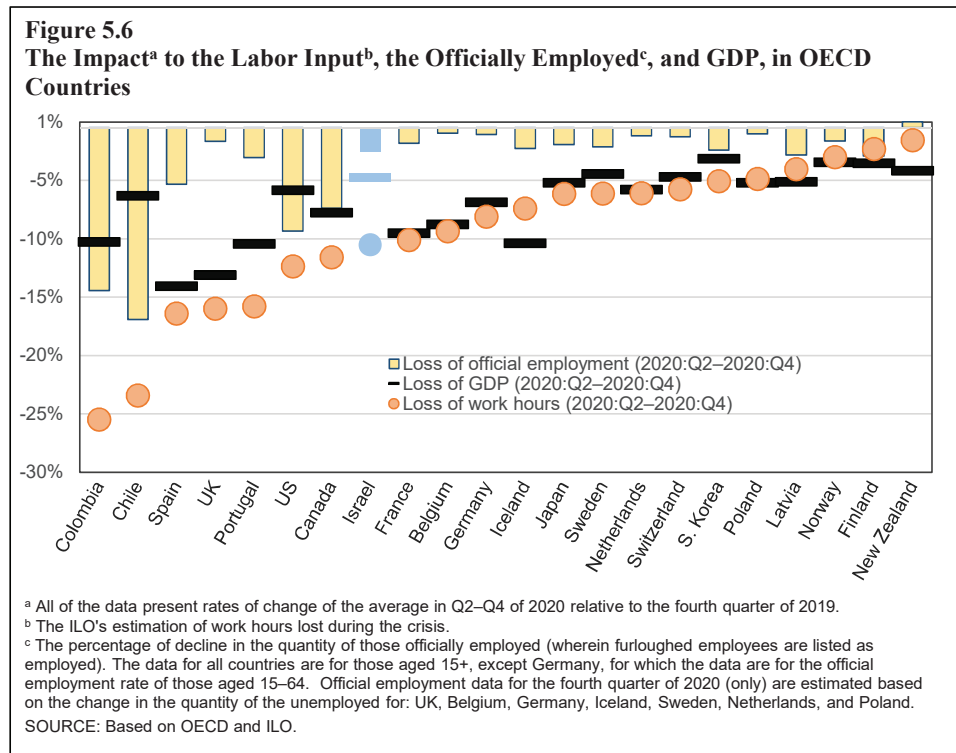
It is too early to determine whether Israel would have been better off adopting the German model during the crisis. Along with its advantages, the application of this model is far more complex than the application of the furlough model (particularly in Israel, which lacked data about employees’ work hours and wages around the outset of this crisis). Because some of the institutional infrastructure for applying this model is lacking in Israel, it is no surprise that, as was the case in other countries, the government turned to tools that were immediately available and well-known to decision makers.

It is also unclear whether the model promotes a greater or lesser reduction in work hours. A continuous model, one that does not require the employer to choose between employment and unemployment, may motivate employers to overuse the benefits offered by the model, thereby actually increasing the impact on employment and the cost to the State, compared to the furlough model which requires a binary decision of whether or not to employ the employee. The overall effect depends on the composition of the impact on businesses, the number of employees, which affects the extent to which employers may spread the impact among employees, and optimal employment—which is an unknown quantity, certainly during a major economic upheaval. During the pandemic, this model may also have provided an incentive to operate businesses that should have shut down completely for health reasons, and

Countries that applied the “German model” transitioned, during the crisis, to full State participation in paying for reduced hours.

It is too early to answer the question of whether Israel would have been better off adopting the German model.

may increase the number of interactions between employees, and consequently the potential for infection. Moreover, because a major part of the reduced employment in Israel was in industries that were in any case fully shut-down for an extended period (Table 5.2 in Part A of this chapter), the applicability of the “German model” in Israel would have been limited in any case.



Israel is slightly above the midpoint of the distribution of countries in terms of total impact on work hours.

Figure 5.6 presents an estimate of the overall reduction in work hours in OECD countries in the last three quarters of 2020 (after the start of the crisis), compared to the final quarter of 2019. This is presented along with the decrease in GDP and in the total official number of those employed (based on a definition whereby employees on furlough and subsidized employees count as employed). The figure shows that Israel is slightly above than the center of the distribution of countries in terms of the total decrease in work hours, and that in some countries that applied supplementary income models (“the German model”) there was less of an adverse impact on work hours than in Israel, while some (UK and Spain) saw more of an impact. It also shows that in most countries, official employment was less affected than actual work hours. This reflects a policy that reduced work hours for all employees (by way of partial furlough or supplementary income measures) without dismissal of employees. It should be noted that in Israel, as opposed to these other countries, actual employment

(defined as excluding employees on furlough) decreased by a rate that is close to the rate of decrease in work hours (see Chapter 2 of this report). This means that the entire decrease in work hours in Israel reflects a disconnect between employers and employees, whereas in countries that applied the “German model”, only the decrease in official employment reflects such an impact.

It is further demonstrated that compared to most countries, in Israel, work hours declined excessively considering the negative impact on GDP. A similar outcome was also observed in the US—which also did not apply any supplementary income programs and even instituted unemployment benefits at a fixed, relatively high amount, regardless of previous pay. However, unlike in the US, which also did not have a furlough arrangement, official employment in Israel, including those placed on furlough, suffered little impact—even considering the decline in GDP. Conversely, in Finland, which also did not apply a supplementary income model, the negative impact on both work hours and employment was low.

In summary, the numerous factors that impacted the labor market currently make it difficult to determine which policy measures resulted in the optimal outcome. A key test should be the pace and efficiency at which countries emerge from the crisis once the epidemiological part is concluded—both in terms of avoiding long-term unemployment (either full or by way of partial employment) and in avoiding structural issues, such as economically nonviable businesses that continue to operate merely due to government support measures. However, in preparing for the longer term, it is advisable to create the infrastructure to allow for the application of more diverse and better focused supportive tools, so as to expand the options available to the government in managing crises in the labor market.

In Israel, work hours declined excessively considering the impact to GDP.

Infrastructure should be put in place to allow for the application of more diverse and better focused supportive tools.

