

CHAPTER VII

WAGES

AVERAGE nominal wages¹ in 1956 were approximately 13 per cent higher than in 1955. The increase in the various industries ranged from 10 to 15 per cent. In accordance with available indices, wages rose by 14 per cent in manufacturing², by 12 per cent in building and by 13.6 per cent in Government service and the national institutions³. Wages of agricultural workers are estimated to have risen by about 10 per cent during the same period⁴. Average wages in 1955 were some 12 per cent higher than in 1954, i.e. the rate of increase was similar to that of 1956.

The components of the increase in 1956 included the increment of the cost-of-living allowance, which raised nominal wages by 7 per cent, and changes in the basic rates of pay caused by the general wage policy, promotions, professional upgrading, seniority and family allowances.

On the other hand, as a result of larger deductions from wages on account of income tax, the Defence Fund and trade union membership dues, the take-home pay increased by only 10 per cent. Discounting the rise in the consumers' price index, the real increase in average wages in 1956 appears to have been in the neighbourhood of 3.5 per cent; i.e. real wages seem to have risen only slightly in 1956, as compared with 1955.

1. WAGE POLICY

General wage increases ranging from 5 to 15 per cent in the various industries were decided upon in 1956, terminating the freezing of basic rates accepted by the trade unions in 1955. The new decision did not affect salaries in the civil service and the national institutions, which had been raised in June, 1955⁵ on the recommendations of a Committee on Wages⁶ which had reported that

¹ Average nominal wages are defined as gross wages paid for an average work-day, and include overtime payments and bonuses, but not social benefit payments.

² According to the publications of the Central Bureau of Statistics.

³ According to calculations of the Bank of Israel and data obtained from the Accountant-General, Ministry of Finance.

⁴ According to an estimate of the Agricultural Workers Union.

⁵ See Bank of Israel Annual Report, 1955.

⁶ Known as the "Guri Committee". Its recommendations were accepted in principle, though not in detail.

year. Following the Government resolve to regrade basic pay rates of civil servants, and to raise those of salaried doctors by a considerable extent, administrative and academic personnel in Government service and the public institutions went on strike in February 1956, claiming rises similar to those granted to the salaried doctors. The agreement which ended the strike set forth the general lines of wage policy in 1956. Its most important terms were:

(a) Confirmation of the increase of physicians' salaries, and similar rises for academic and senior administrative personnel.

(b) Increases for lower and middle-grade Government officials, ranging from 5 to 15 per cent of the previous total salary (basic plus cost-of-living allowance).

(c) Retroactive payment of the full increment for the period July-December 1955.

(d) Payment of two-thirds of the increment in 1956, the arrears to be paid during 1957 and 1958.

(e) Full payment according to the new scale as from January 1957.

While the increase in civil service salaries was payable retroactive to July, 1955, basic wages in the manufacturing, building and other industries were raised only in March, 1956. At the rate of 7-8 per cent, in terms of annual averages, the industrial wage rise amounted to an increase of 5 to 6 per cent, for the whole year, as compared with 1955.

In view of the inflationary dangers inherent to the rising tendency of wages, the Government endeavoured to secure greater stability of the wage level for the future. Discussion of these problems in Government circles as well as in the trade unions and the Manufacturers Association produced a new wage policy for 1957. The relevant decisions were included in an agreement signed by the trade unions and the Manufacturers Association towards the end of 1956, the essentials of which are:

(a) The cost-of-living allowance is to be revised once every six months, if the consumers' price index has varied by at least 3 per cent, i.e. 7.5 points. (According to the old agreement, the allowance was revised every three months, if the index had moved 3 points).

(b) If the index varies by 5 per cent (12.5 points) within the six-month period, the cost-of-living allowance will be adjusted immediately on a quarterly basis.

(c) The cost-of-living allowance will be *pro rata* of the total wages paid in December, 1956 (basic rate, seniority increment, family allowance and cost-of-living allowance), up to IL.500.

(d) Labour agreements will be concluded bi-annually (not annually as heretofore.)

This settlement represents an important step towards the stabilization of wages, although—despite the apparent changes—it reaffirms the old principles of the original arrangement. At the time when the present index was introduced,

a rise of 3 points was equivalent to a rise of 3 per cent of the price level. But with the rapid rise of prices, the proportion was distorted to the extent that, by the end of 1956, three index points represented no more than 1.2 per cent. The 3 per cent limit, below which no adjustment takes place, is intended to ensure a certain stability of wages, which should not vary with every minor fluctuation of the price level. The larger interval between key months, in particular, is expected to exert a stabilizing influence.

In consequence also of the new agreement, a wage-earner whose total pay did not exceed IL.500 per month now received compensation commensurate with the rise of the price level as reflected by the consumers' price index. Table VII-1 compares the cost-of-living allowance according to the old and the new scales:

TABLE VII-1
Cost-of-Living Allowance under the New as compared with the Old Agreement

Basic wage	Index at 250: Basic wage, plus cost-of-living allowance	Basic wage plus cost-of-living allowance, after a rise of 3.2 per cent in the consumers' price index—to 258 points					
		Old agreement			New agreement		
		Wage	Increment		Wage	Increment	
IL.	IL.	IL.	IL.	per cent	IL.	IL.	per cent
80	200.000	206.400	6.400	3.2	206.400	6.400	3.2
100	229.800	237.800	8.000	3.5	237.155	7.355	3.2
125	267.050	277.050	10.000	3.7	275.595	8.545	3.2
170	312.050	322.050	10.000	3.2	322.035	9.985	3.2
350	492.050	502.050	10.000	2.0	507.795	15.745	3.2
400	542.050	552.050	10.000	1.8	558.050	16.000	3.0
500	642.050	652.050	10.000	1.6	658.050	16.000	2.5

SOURCE: Calculations of the Bank of Israel.

It appears from the above that, under the old arrangement, wage-earners whose basic wages were above IL.80 but less than IL.170 received a relatively larger compensation than warranted by the rise of the cost-of-living, while persons whose basic pay exceeded IL.170 received inadequate compensation. The old arrangement, which had been adhered to since the beginning of 1954, thus diminished the differentials between the IL.80-IL.170 basic wage group and the higher wage brackets to an even greater extent than a previous arrangement by which the basic wage for the purpose of calculating the cost-of-living allowance had been fixed at the ceiling of IL.80.

The 25 per cent rise in the index—from 201 to 249 between August 1953 and the end of 1956—thus induced increases in the cost-of-living allowance for

various basic wage rates as detailed in table VII-2. For the sake of simplicity, a rise from 200 to 250 points has been assumed:

TABLE VII-2
*Increase in Total Wages^a caused by a Rise in the
Consumers' Price Index from 200 to 250 points*

<i>Basic wage IL.</i>	<i>Percent increase of total wages</i>
80	25.0
100	27.8
125	30.1
170	25.0
180	24.0
400	14.1

^a Total Wage=basic wage plus cost-of-living allowance.
SOURCE: Calculations of the Bank of Israel.

The wage differential which, in the case of basic rates ranging from IL.80 to IL.180, had been 1:2.25, was narrowed to 1:1.61 when total wages are considered. If a wider range of basic rates is compared, e.g. IL.80 to IL.400, the differential between the total wages was narrowed from 1:5 to about 1:2.71.

This levelling tendency had a detrimental effect on incentives to gain higher skill and promotion, the more so since the cost-of-living allowance is to a large part exempt from income tax—the size of this tax-free part being greater than the lower basic wage. At the same time, the income tax rates applicable to wage components are steeply progressive.

Under the new agreement, the ceiling of basic wages for cost-of-living allowance purposes was raised to IL.500, and the inequality of the increment on wages between IL.80 and IL.125 (basic rates) was abolished. These steps put an end to the excessive compensation for rises in the price level previously accorded to persons whose basic wage was between IL.80 and IL.170 per month; and the regression in the rates of increment was confined to the case of salaries above IL.500 (basic rate)—an income group which includes only a small proportion of fixed income earners.

The rise in the wage level by 13 per cent in 1956 had important repercussions on the various developments in the economy. The increase in the cost of labour must be compared with the changes of other factor costs: Imported industrial equipment rose by 6 per cent in price and locally made equipment by approximately 10 per cent, while the prices of imported industrial raw materials increased by about 5 per cent⁷.

⁷ According to calculations of the Bank of Israel based on data from the Central Bureau of Statistics, the Ministry of Commerce and Industry, the Reparations Corporation and other sources.

These figures reflect two facts: First, that the prices of local raw materials and equipment increased to a greater extent than those of similar items imported from abroad—owing chiefly to wage increases, since in Israel industrial wages account for about 60 per cent of added value; and second, that labour has become more expensive than have the other factors of production. The increasing relative costliness of labour and of semi-manufactured local products may induce a tendency to substitute capital for labour in various ways—especially by importing equipment from abroad. Local production costs of finished goods would thus be further inflated, threatening to diminish their competitiveness, at existing rates of exchange, both on the local and on the export market.

A further undesirable aspect of wage increases is that they discriminate against industries where the percentage of added value is high. In Israel, wages account for nearly two-thirds of the locally added value; therefore, the higher the value added in the course of production of a certain commodity, the more does the individual enterprise or industry concerned suffer from the additional burden imposed by higher wages.

On the consumption side, also, a preference for imported goods may be expected over the ever more expensive local products, so long as the price level of the former is relatively stable and no new imposts are levied on them. The demand for local products and, consequently, the volume of local production and employment, are therefore liable to contract.

Although, owing to the policy of full employment, the higher nominal wages apparently result in greater monetary incomes and larger total effective demand, it must be remembered that real wages after taxation create only a very small increase in real demand. To the extent that this small increase does not offset the possible contraction of demand for local products, due to factors set forth above, productive employment may tend to recede while the burden of relief works increases, which means an uneconomic use of the foreign currency resources available, to the detriment of essential investments. Increased Government purchases of locally produced commodities, financed by higher taxes, may help to prevent the decline in productive employment. But last year the larger Government revenues were used mainly to purchase foreign rather than local goods.

A decline in the number of partly employed wage-earners (who may be regarded as marginal labour) was particularly felt in industry. It is not possible to establish whether the expected decline in the willingness to invest actually materialized, since such a decline can only be measured some time after it has occurred and because quite the better part of investments in this country are made by the Government and public institutions, and are not necessarily governed by considerations of economic return on capital.

2. WAGE FLUCTUATIONS

Table VII-3 gives a general picture of wage movements throughout the year.

TABLE VII-3
Wages in Manufacturing, Building and the Civil Service in 1956^a

	<i>Average (in IL.)</i>			<i>Index</i>		
	<i>Daily wages</i>		<i>Monthly salaries</i>	<i>Average 1955 = 100</i>		
	<i>Manufac- turing</i>	<i>Building</i>	<i>Civil service</i>	<i>Manufac- turing</i>	<i>Building</i>	<i>Civil service</i>
1955 Average	8.4	8.2	229.7	100.0	100.0	100.0
1956 January	8.8	8.5	245.0	104.2	103.1	106.7
February	8.7	8.5	241.8	103.5	103.7	105.3
March	9.3	9.1	248.0	109.7	110.1	108.0
April	9.4	9.2	248.8	111.5	111.8	108.3
May	9.3	9.1	249.4	109.9	111.0	108.6
June	9.4	9.2	250.4	111.4	111.9	109.1
July	9.8	9.6	273.4	116.1	116.1	119.1
August	10.2	9.4	270.5	120.5	114.1	117.8
September	11.0	9.4	282.9	129.9	114.6	123.2
October	10.0	9.4	268.7	118.3	114.0	117.0
November	10.0	9.4	274.2	118.0	114.7	119.4
December	10.0	9.4	277.4	118.9	114.7	120.8
1956 Average	9.6	9.2	260.9	114.3	111.7	113.6

^a Rounded figures.

SOURCE: The Central Bureau of Statistics and Calculations of the Bank of Israel.

As from March, 1956, basic wages were raised in all sectors, as was the cost-of-living allowance, following a rise by 3 points in the consumers' price index between November, 1955 and February, 1956. In June, the cost-of-living allowance was once again increased, as the consumers' price index had risen by a further 10 points between March and May, 1956. During the months February-March and August-September, the effect of the holiday bonus and gratuities was clearly discernible, especially in the manufacturing industries. The effect of this seasonal increment was, however, somewhat blurred in February and March, as a result of the other increments—higher cost-of-living allowances and basic wage rates—which were first paid out following that period.

In 1956, the cost-of-living allowance was still being revised every three months, the average of the index numbers on which the allowance was based being 244.3, as compared with 229.4 in 1955. In other words, the average rose by 14.9 points, or 6.5 per cent. Since in the year under review the consumers' price index rose by 6.4 per cent, it appears that the cost-of-living allowance increased roughly to the same extent as prices. This did not mean, however,

that the gap previously created between the rising price level, as reflected by the consumers' price index, and quarterly (instead of monthly) changes in wages, had disappeared. The widening of this gap was prevented in 1956 by a rise of the index during one of the key months, but a clear picture of it may be obtained by computing the monthly fluctuations in the last few years.

It is possible, on the basis of basic wage differentials in the various sectors, to compute the share of the cost-of-living allowance within the rise of the wage level as a whole in 1956. The cost-of-living allowance seems to have accounted for about 7 per cent out of the 13 per cent rise in average wages, i.e. more than half of the total rise. The remainder was due to higher basic wages, promotions and to seniority and family allowances. However, only the effect of basic wages can be assessed with sufficient exactness. The weighted average of these wages rose by about 6 per cent, the rise beginning in the second quarter of the year. For the whole year, about 4.5 per cent may thus be allowed for basic wage improvements. The remaining 1.5 per cent comprise increments in the other allowances listed above.

The results set out in table VII-4 are obtained according to the distribution of the basic wage rates in the various economic sectors.

TABLE VII-4
Components of Wage Increases by Economic Sectors in 1956
(in per cent)

	<i>Manufac- turing</i>	<i>Building</i>	<i>Agriculture</i>	<i>Civil service</i>
Rise in the Cost-of-Living Allowance	7.2	7.0	6.5	7.0
Rise in Other Wage Components	7.1	4.7	3.5	6.6
<i>Total Increase</i>	14.3	11.7	10.0	13.6

SOURCE: Calculations of the Bank of Israel.

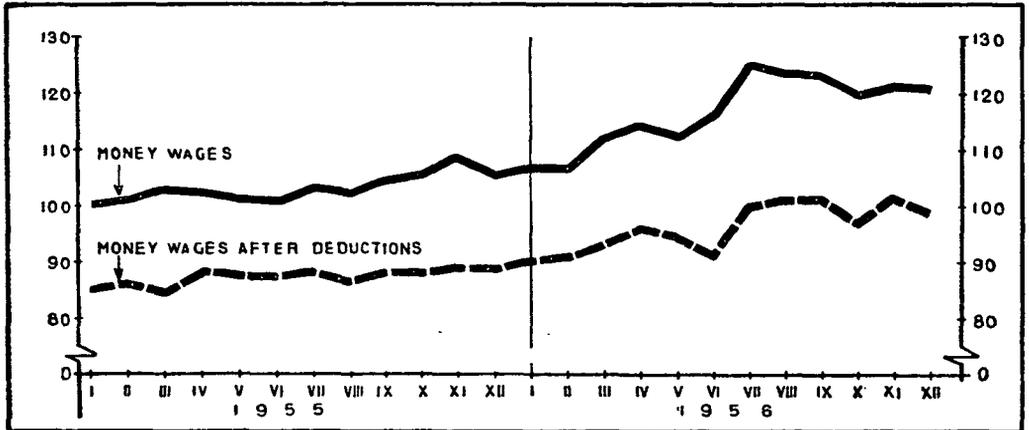
While the contribution of the cost-of-living allowance to the total rise in wages was about equal in all economic sectors, there were considerable divergencies in the increases in basic pay due to the variety of basic pay differentials and the state of business of each sector. In agriculture and the building industry, for example, the relatively small increase in wages due to components other than the cost-of-living allowance reflected a contraction of employment—and consequently a tendency to employ a smaller number of highly-paid workers, to down-grade them, or to pay them less than the official wage rates.

3. TAKE-HOME PAY

Take-home pay is defined as gross wages, including overtime pay, production bonuses, holiday bonuses ("thirteenth month" pay) and special gratuities (but excluding payments of social benefits), less deductions at source according to law or custom, such as income tax, national insurance premiums, Defence Fund contributions, the defence tax, the dues of labour organizations (the so-called unified tax), payments to provident and insurance funds, e.g., "Miv-tahim", and to the National Funds, as well as the dues of workers' committees.

Diagram VII-1 shows the monthly fluctuations in total wages and salaries and in take-home pay in 1955 and 1956.

DIAGRAM VII-1
*Monthly Fluctuations in the Level of Wages and Salaries
 (before and after deductions) 1955-1956
 (January 1955=100)*



SOURCE: Bank of Israel. Data cover over 60 medium and big enterprises, as well as all government and public institutions' employees and 50,000 wage-earners. Weighted figures.

Although agricultural and building workers are not represented in the above diagram, it may be assumed that the fluctuations illustrate fairly well the general trend of wages in all branches of the economy.

Most striking is the increased percentage of wage deductions at source, especially the impact on take-home pay of contributions to the Defence Fund which was set up in June 1956.

The deductions from the annual wages of fully-employed persons are given in table VII-5.

The most important change as regards industry was a rise of 0.5 per cent in the average rate of income tax, due chiefly to higher money wages, which

TABLE VII-5

Deductions from Gross Wages in Industry and Government Service, 1955-1956
(in percent of gross wages)

	Industries		Government service	
	1955	1956	1955	1956
Income Tax	6.5	7.0	7.0	9.6
National Insurance	1.2	1.2	1.3	1.3
Defence Fund and Defence Tax	0.4	2.4	—	2.0 ^a
Histadrut Dues ("Unified Tax")	3.8	4.0	3.7	4.0
Provident Funds or "Mivtahim"	2.7	3.0	—	—
National Funds and Labour				
Committee Dues	0.5	0.5	0.7	0.7
Miscellaneous ^b	—	—	2.4	—
<i>Total</i>	15.1	18.1	15.1	17.6

^a The percentage is lower than in industry because deductions for the Defence Fund were not recorded in the pay-sheets of the Accountant-General.

^b Irregular deductions for various funds.

SOURCE: Calculations of the Bank of Israel.

placed more wage earners in higher tax brackets. In Government service, deductions for income tax increased by 2.6 per cent, as a result of the up-grading of the academic and administrative staff. Regular payments on account of the Defence Tax were likewise considerable in the second half of 1956, averaging more than 4 per cent of the gross wage, though—spread over the whole year—the percentage is reduced to 2.4 in industry and to 2.0 in Government service. There was also a slight rise in payments to provident funds and to "Mivtahim", partly because of revised rates and partly because of improvements in collection methods.

It seems that, in spite of the rise in money wages, amounting to 13 per cent, the larger deductions reduced the increase in take-home pay to 10.5 per cent, and price increases (as reflected by the consumers' price index) brought the *real* rise down to 3.8 per cent.

Allowing for errors and omissions, it can well be said that take-home pay, in real terms, was slightly higher in 1956 than in 1955.⁸

⁸ According to a study of Histadrut industries (*A Survey of Histadrut Industry—1955*, Economic and Social Research Institute of the Executive Committee of the General Federation of Jewish Labour in Palestine, December 1956), the average deduction on account of the above-listed items totalled 17 per cent in Histadrut enterprises, as against 15.1 per cent in the economy generally. The discrepancy is due to the special character of the Histadrut concerns. Most of them are larger than average, their average wage rates are high and the various deductions are collected more regularly than is the case elsewhere.

4. GRADING, WAGE AND SALARY DIFFERENTIALS

Averages are an insufficient yardstick for the analysis of wages and salaries paid by the different sectors; the within-sector distribution of wages as well as sectoral averages should also be taken into consideration.

Two indicators may be used for this purpose: the wage rate for the highest grade as compared with the lowest, and the distribution of wage-earners according to wage rates. In our comparison, we have used the wage rates published by the Trade Union Department of the General Federation of Labour.⁹

Table VII-6 gives the ratio between minimum and maximum wages of officials and clerical staff and of industrial and building workers, according to the schedules of the Trade Union Department in 1956. Those rates include a cost-of-living allowance based on the consumers' price index at 249 points.

TABLE VII-6
*Wage and Salary Differentials by Economic Sectors, according to Trade Union Rates, 1956**

	<i>Gross wage of unskilled worker IL. (1)</i>	<i>Gross wage of highest-grade skilled worker IL. (2)</i>	<i>Ratio 1:2 (3)</i>
<i>Officials (monthly salary)</i>			
Government	154.380	502.800	1:3.26
Histadrut Institutions	154.380	377.800	1:2.45
<i>Building and Manufacturing (daily wage)</i>			
Building	8.427	10.632	1:1.26
Metal Industry	6.972	11.282	1:1.62
Building Materials Industry	7.370	10.336	1:1.40
Food Industry	6.723	9.805	1:1.46

* For adult male workers.

SOURCE: Calculations of the Bank of Israel based on publications of the Trade Union Department of the General Federation of Labour.

It thus appears that the wage differentials in the various industrial branches range from 1:1.26 (in building) to 1:1.62 (in the metal industry) and, as regards officials, from 1:2.45 (in Histadrut institutions). 1:3.26 (in Government). The differentials are due to many factors, including the difficulty of the task performed, the training required to reach the high grades and the occupational hazards. As regards the disparities between the wage differentials among officials and industrial workers it should be noted that the trade union schedules do not include industrial workers whose jobs are on a par with the higher civil service grades.

⁹ Actual wages in the high grades are not limited by the maximum rates.

As a basis of comparison, these pay-rates are not satisfactory, since they do not reflect average daily incomes of industrial workers owing to the lack of adequate data concerning overtime pay, bonuses and special grants, as well as wage payments below the official rates to workers in depressed areas or industries.

For the study of the distribution of employees by wage groups in 1956, the data available covered the civil service, employees of "Koor" industries, and an estimate for agricultural workers. These data are given in table VII-7.

TABLE VII-7
*Basic Wage and Salary Differentials, Government Staff,
Agricultural Workers and "Koor" Workers, 1956*

<i>Basic wage IL.</i>	<i>Percentage of employees</i>		
	<i>Government service</i>	<i>Agriculture</i>	<i>"Koor" industries^a</i>
Up to IL.80	43.4	91.0	52.5
IL.80 to IL.99	29.3	3.5	31.0
IL.100 to IL.124	16.1	} 5.5	13.0
IL.125 and above	11.3		3.5
	100.0	100.0	100.0

^a Excluding office staff.

SOURCE: Calculations of the Bank of Israel, based on the Report of the Civil Service Commissioner, 1956/57, an estimate from the Agricultural Workers' Union, and data received from the management of "Solkoor" Ltd.

As regards the data relating to Histadrut enterprises, it must be taken into consideration that these refer only to *basic* rates, but not to differentials arising from bonuses, customary in these establishments which, on the average, amount to about 6 per cent of gross pay.

Data for the industrial and building industries are available only for the year 1955. The upward revision of basic wages has meantime resulted in changes, the extent of which can, however, not be assessed.

There was a certain shift in the distribution of employees by wage groups in 1956, as a result of the re-grading of administrative personnel and salaried members of the free professions in industry as well as Government service, which between them employ many persons in these categories. It may be assumed that in both sectors, especially in Government service, there was an upward shift of wage and salary groupings. We still possess no accurate data on the subject, but the gap between these two sectors on the one hand and between agriculture and industry on the other hand, must have widened since the latter employ a large proportion of workers whose money wages have not been raised appreciably.

The differential between the lower and the higher wage grades was thus somewhat increased. As regards Government officials, the ratio between the lowest and highest gross salary was 1:2.2 before the re-grading, and 1:3.3 thereafter. In other sectors the effect of the re-grading was less pronounced, except in the case of academic and senior administrative personnel as well as foremen, whose wages were substantially raised.

While the changes in grading increased the differential between the highest and lowest gross salaries, two opposite factors affected take-home pay, *viz.*:

(a) The cost-of-living allowance which was paid only on the first IL.125 basic salary, and

(b) the progressive rates of income tax and the Defence Tax. However, no data concerning the differentials of net salaries are at our disposal.

Although the established wage rates varied within very narrow limits, the data collected by the Bank of Israel show the existence of considerable divergencies between average wages paid by various firms in the same industry. The wage structure in any firm is determined by the composition of its personnel according to vocational grades and seniority, the extent of mechanization, the efficiency of the management and general conditions prevailing in the industry concerned.

Table VII-8 shows the ratios between the lowest and highest average wage per firm in various industries.

TABLE VII-8
*Differentials between the Lowest and Highest Average
Wages in Various Industries, 1955 and 1956*

<i>Industry</i>	<i>Differential</i>	
	<i>1955</i>	<i>1956</i>
Food	1:1.65	1:1.78
Glass and Ceramics	1:1.43	1:1.37
Wood	1:1.20	1:1.19
Metal	1:1.47	1:1.57
Textiles and Clothing	1:1.48	1:1.59

SOURCE: Data collected by the Bank of Israel.

No definite conclusions can be reached from the increase in the differential in 1956, but it may be assumed to have been connected with the general increase of basic wages and the larger gap between the highest and lowest wage rates *within* firms.

5. WAGE COMPONENTS

Only minor changes occurred in the proportion of wage components between 1955 and 1956. Table VII-9 shows these changes, as reflected by two sets of comparable data.

TABLE VII-9
Wage Components, 1955 and 1956
(in per cent)

	<i>Data collected by the Bank of Israel</i>		<i>Histadrut industries</i>	
	1955	1956	1955	1956
Ordinary Wages	79.4	81.0	81.4	80.7
Overtime Payments	6.1	5.9	7.1	8.3
Bonuses and Gratuities	14.5	13.1	11.5	11.0
<i>Total</i>	100.0	100.0	100.0	100.0

SOURCE: Data collected by the Bank of Israel, the Survey of Histadrut Industries, 1955, (Dec. 1956), and data received from the management of "Koor" Ltd.

Although no special significance need be attached to the above change, it should be mentioned that the divergent trends of overtime pay disclosed by the data collected by the Bank of Israel and those relating to Histadrut industries are due to the fact that, in the latter, employment was somewhat expanded, while in manufacturing as a whole there were dismissals of marginal labour which were bound to affect the number of overtime hours worked.

6. FRINGE BENEFITS¹⁰

For the purpose of this analysis, fringe benefits paid by employers in addition to gross wages will be regarded as an integral part of expenses incurred by employers in connection with work days. A portion of these payments is made, according to law or custom, on the basis of a fixed percentage of wages, while the remainder is determined by negotiations and differs from one industry to another and from firm to firm. The fixed or common payments comprise the following items:

Dues of Labour Organizations	2.7 per cent
Reservists' Equalization Funds	1.0 " "
Provident Funds	1.5 " " ^a
National Insurance	1.9 " "
	7.1 per cent

^a Minimum percentage. In most firms the employer participates to the extent of 3 per cent or more.

¹⁰ The term "fringe benefits" is not identical with the accepted meaning of the term "social benefits." This report does not attempt to measure social benefits, because of the lack of clarity and uniformity in their definition.

The changes introduced in 1956 as against 1955 are as follows: The payment to the Reservists' Equalization Fund was raised from 0.75 per cent to 1 per cent, and the ceiling up to which dues of labour organizations and National Insurance premiums are payable has been raised from IL.240 to IL.300 per month.

In addition to the above items, the employer pays a sum equivalent to between 0.5 and 3.0 per cent of the wage (depending on the degree of occupational hazard) on account of workman's compensation.

Some labour agreements provide for the participation of employers in the convalescence expenses of their workers.

A further payment incumbent on the employer is the "work-clothes allowance", regardless of whether this is included in the agreement or paid by private arrangement. It fluctuates around 0.5 per cent of the gross wage.

Payments on account of Severance Pay cannot be accurately assessed, because the amounts payable vary from one industry to another and also because data on the labour turnover are lacking. Estimates range from 3 to 6 per cent of gross wages, representing either payments into special funds or compensation actually paid.

Table VII-10 summarizes the additional fringe benefits in the form of estimated averages.

TABLE VII-10
Additional Fringe Benefits Paid by Employers, 1956
(in per cent)

Workmen's Compensation	2.0
Participation in Convalescence Expenses	1.8
Work Clothes	0.4
Severance Pay	4.5
<i>Total</i>	8.7

SOURCE: Calculations of the Bank of Israel.

Here also changes occurred in 1956: the ceiling of wages for the purpose of computing workmen's compensation insurance premiums was raised from IL.240 to IL.300. As regards other items the absolute amounts paid increased with the general rise in wages.

Fringe benefits now paid thus total nearly 16 per cent of gross wages, and the cost of an average work-day to the employer exceeds gross wages by this amount. Considering the number of actual work-days (excluding paid annual leave, holidays, and half-holidays on the eve of Sabbath and holidays) the proportion becomes bigger still.

In the enterprises from which data were collected by the Bank of Israel, fringe benefits totalled about 15.2 per cent of gross wages in 1955, and about 15.5 per cent in 1956.

7. COLLECTIVE AGREEMENTS

The prevailing trend is towards the inclusion of the various industries and their branches into the framework of collective agreements, signed between the employers' association on the one hand and the workers' organization on the other.

In 1956, collective agreements were in force in 17 industries¹¹. These agreements are uniform in structure, there being only slight differences depending on the character of the industry concerned.

Collective agreements of a sort exist also in agriculture and the building industry, their chief purpose being to stipulate wage rates. Instead of fixing social benefits, they include a clause concerning the insurance fund of permanently employed workers, whose status corresponds to that of regular industrial workers. As regards clerks and officials, there has been a collective agreement with the Civil Service Union and an arrangement with the employees of Histadrut institutions, the Jewish Agency and the National Funds ever since 1949.

In those industries where no country-wide general agreements have been signed, there has been a tendency to enter into partial arrangements, usually covering wage rates only.

The wage rates laid down in collective agreements generally are an indicator of the general wage level. They do not always reflect the wages actually paid, the latter being affected by the state of business in the various industries. A case in point is the building sector where, in the second half of 1956, notwithstanding wage increases in all other industries, average nominal wages did not increase. On the other hand, there is, in most industries, a constant demand for high-grade skilled workers who are paid above the official rates. The system of grants and bonuses also distorts the apparent wage level, since—in so far as these payments are made on a daily and not on a piece-rate basis—they amount practically to wage increases.

The fixing of wage rates in accordance with a uniform policy leads to a levelling of wages in the various industries. This, among other factors, obstructs the mobility of labour in accordance with the conditions of supply and demand. Another factor impeding mobility is the difficulty of dismissing workers. This easy leads to an enterprise retaining an inefficient worker because this is less irksome than the pecuniary burden and the exacerbation of institutional relations involved in dismissing him. Some progress has been made on this point, there being now a greater understanding of the need to make certain concessions to enterprises to enable them to become more efficient.

¹¹ Leather, cardboard, cigarettes, pharmaceuticals, oils and fats, jams and preserves, tinned food, sweets, wine-pressing, bakeries, metals and electrical appliances, spinning, weaving, knitwear, footwear, printing, flour mills and building materials.