

CHAPTER IX

THE LABOR FORCE AND WAGES

1. MAIN DEVELOPMENTS

FULL EMPLOYMENT was reached at the beginning of 1970, after the number of jobless had dropped steadily from the second half of 1967; the unemployment rate¹ stood at 3.8 percent for the year, as against 4.5 percent in 1969 and an average of 3.6 percent in 1961–65. Wages per employee² rose by a substantial 9 percent approximately,³ compared with 5 percent in 1969, while total payroll expenditure per employee went up by about 13 percent, because of a large increase in fringe benefits, mainly employers' National Insurance contributions. These wage hikes, apparently concentrated primarily in the first half of 1970, were largely negotiated under the "package deal" concluded by the Histadrut (General Federation of Labor), the Coordinating Bureau of Economic Organizations (representing the employers), and the Government, and contrast with the more moderate advances of the two preceding years, which were mainly due to wage drift.

The population of Israel numbered 2,998,000 at the end of 1970—2.7 percent more than in the previous year. Both the rate of growth and its sources—the number of immigrants and natural increase—were roughly the same as in 1969: natural increase augmented the population by 2 percent, and immigration by 0.7 percent. A notable feature in 1970 was the sharp decline in emigration, which fell to its lowest level since the establishment of the State.

The civilian labor force expanded by 1.1 percent; since this was less than the rise in the working-age population, the civilian labor force participation rate⁴ edged down to 49.3 percent, as compared with 50.1 percent in 1969 and an average of some 53 percent during the years 1960–66. This persistent downtrend, despite the larger number of job opportunities with the attainment

¹ The rate of unemployment is the percentage of unemployed job-seekers in the civilian labor force. The civilian labor force consists of persons aged 14 or more who are either employed or unemployed and actively seeking work.

² The discussion in this chapter covers only Israeli employed unless otherwise stated.

³ There are inconsistencies in the data obtained from different sources for several economic sectors.

⁴ The civilian labor force participation rate is defined as the percentage of persons aged 14 or over who are either employed or unemployed and actively seeking employment.

Table IX-1
POPULATION AND LABOR FORCE CHARACTERISTICS, 1968-70
(thousands)

	Annual averages			Percent average annual increase or decrease (-)		Half-yearly averages			Percent increase or decrease (-) in half-yearly averages	
	1968	1969	1970	1969	1970	July-Dec. 1969	Jan.-June 1970	July-Dec. 1970	From (6) to (7)	From (7) to (8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1. Average population	2,806.5	2,879.1	2,957.2	2.6	2.7	2,899.6	2,937.2	2,977.2	1.3	1.4
2. Working-age population	1,928.1	1,977.8	2,032.2	2.6	2.8	1,993.2	2,020.1	2,044.4	1.3	1.2
3. Civilian labor force	969.9	990.1	1,001.3	2.1	1.1	997.4	991.9	1,010.8	-0.6	1.9
4. Percent of total population	34.6	34.4	33.9	—	—	34.4	33.8	34.0	—	—
5. Percent of working-age population	50.3	50.1	49.3	—	—	50.0	49.1	49.4	—	—
6. Total employed	910.9	945.8	963.2	3.8	1.8	952.4	955.3	971.0	0.3	1.6
7. Total employees	649.5	689.1	709.2	6.1	2.9	691.4	702.8	715.6	1.6	1.8
8. Wages per employee ^a —excl. administered areas (IL)	595	626	683 ^b	5.2	9.1	—	—	—	—	—
9. Wages per employee—incl. administered areas (IL)	593	619	672 ^b	4.4	8.6	—	—	—	—	—
10. Unemployed job-seekers	59.0	44.3	38.2	-24.9	-13.8	45.0	36.6	39.8	-18.7	8.7
11. Percent of civilian labor force	6.1	4.5	3.8	—	—	4.5	3.7	3.9	—	—
12. Number of employed from administered areas	5.0	12.0	22.0	140.0	83.3	14.0	21.0	23.0	50.0	9.5
13. Total employed in the economy	915.9	957.8	985.1	4.6	2.9	966.4	976.2	994.0	1.0	1.8

^a Revised half-yearly data were not available at the time of writing this report.

^b Data for 1970 are based on actual figures for the first 11 months and a provisional estimate for December.

SOURCE: Line 1—*Statistical Bulletin of Israel*, Central Bureau of Statistics, January 1971; lines 2, 3, 6, 7, and 10—CBS manpower surveys (covering the population of Israel only); lines 8 and 9—CBS data from National Insurance Institute sources (the latter do not include fringe benefits); line 12—Bank of Israel calculations.

of full employment in the economy, is largely explained by the greater percentage of the working-age population serving in the armed forces or studying.¹

The number of Israeli employed went up by 1.8 percent as a result of the growth of the labor force and the decline in unemployment. The total number of employed—i.e. including workers from the administered areas—rose by 2.9 percent because of a big increase in the latter category; the administered areas apparently accounted for more than a third of the incremental employment in the economy.

With the attainment of full employment, it is no longer possible to increase it as rapidly as in 1968 and 1969. It will also be more difficult for the number of workers from the administered areas to go up, because a large proportion of their labor force has already found jobs in Israel and full employment now prevails there. Earnings per employee and per man-hour increased at the comparatively high rates of 9 and 10 percent respectively, as contrasted with 5 and 4 percent respectively in 1969. What is more, the year reviewed witnessed a substantial increase in fringe benefit payments by employers, in particular National Insurance contributions, so that total labor costs rose by 13 percent per employee and 14 percent per man-hour. The inclusion of the administered areas slightly depresses the growth of wages per worker, because of the increased weight in total employment of these workers, who are generally unskilled and hence receive a below-average wage.

Most of the wage increases in 1970 stemmed from the "package deal". After two years of a wage-freeze policy, pressure for wage hikes in anticipation of the renewal of labor agreements at the beginning of 1970 became very strong. The "package deal" was negotiated in order to prevent unduly large advances in wages and disposable income, which were liable to have adverse effects on the balance of payments and the economy's ability to step up defense consumption. Under this tripartite agreement employees received compensation for the rise in the cost of living at the rate of 4 percent of the basic monthly wage up to a ceiling of IL 700. In addition, employees had another 4 percent (gross) added to their wages. This was paid in the form of Government bonds (after deduction of income tax), but low-paid employees received their full increment in cash. Employers' payroll expenditure went up even more than these wage hikes indicate, since they had to increase their contributions to the National Insurance Institute by some 5 percent of their wage bills and to purchase Government bonds equivalent to 4 percent of wages. The increase in employer expenditures on account of these bond purchases is estimated at about 1 percent of their wage payments (based on an estimate of the average interest which employers had to pay on loans compared with the rate of interest borne by the bonds).

Most of the payroll increases apparently took place in the first half of

¹ Persons serving in the armed forces are not included in the civilian labor force.

1970. While the growth of profits in the previous year justified some adjustment of wages, the actual increase in labor costs was apparently too great to be absorbed by manufacturers without seriously denting their profits, at least in certain industrial branches and plants. However, in the "package deal" manufacturers had agreed not to up prices; but when indirect taxes were raised in August, the right of manufacturers to revise their prices was conceded. In some branches producers took advantage of this situation to boost their prices in compensation for their increased labor costs, even when they were not affected by the new taxes.

Unemployment fell from 4.5 percent in 1969 to 3.8 percent, which is generally regarded as indicative of a full employment situation. According to another indicator—the daily average of registered unemployed¹—the economy had already reached a state of full employment in 1969. The daily average of unemployed (adults and youths) in 1970 was 2,211—less than in the previous year and much less than during the boom years of the first half of the sixties. As in 1969, there was no regional unemployment in the year reviewed, and with its disappearance and the elimination of unemployment due to insufficient aggregate demand, relief work was discontinued in the latter part of the year.

The transition to full employment and the friction that accompanied the signing of the 1970 wage agreements resulted in a much larger number of strikes and strike-days.

2. POPULATION AND CIVILIAN LABOR FORCE

(a) *Population and immigration*

At the end of 1970 Israel had 2,998,000 inhabitants, up 2.7 percent from the previous year. A similar increase took place in 1969; in 1968, on the other hand, the population grew by 2.3 percent, and in 1967 by only 1.9 percent (excluding East Jerusalem). The uneven population gains in recent years were mainly due to fluctuations in immigration, while the rate of natural increase held rather steady at 1.9 percent per annum in the past decade. In the last two years, however, the rate of natural increase edged up slightly, owing to a small rise in the birthrate of the Jewish population, and in 1970 it reached 2 percent.

Net immigration (immigrants less emigrants) totalled approximately 20,000 in 1970, roughly the same as in 1969; in 1968 it amounted to 12,000, and in 1967 (a low point) it was only 6,000. Gross immigration totalled some 23,000 in 1970, as against 27,000 the year before; the number of emigrants in 1970

¹ The daily average of unemployed is obtained from the current registration at the labor exchanges of the National Employment Service.

Table IX-2
PERMANENT POPULATION AND SOURCES OF GROWTH, 1962-70

	1962-64	1965	1966	1967	1968	1969	1970
Population at end of period (thousands)	2,526	2,598	2,657	2,776	2,841	2,919	2,998
Annual increase—thousands	97	72	59	119	65	78	79
Annual increase—percent	4.2	2.9	2.3	4.5	2.3	2.7	2.7
Thereof:							
Immigration	2.2	0.9	0.3	0.2	0.5	0.8	0.7
Natural increase	2.0	2.0	2.0	1.7	1.8	1.9	2.0

NOTE: Data include East Jerusalem as of 1967.

SOURCE: *Statistical Bulletin of Israel*, Central Bureau of Statistics.

was thus approximately 3,000—about half of the previous year's level of 6,000 and far below the number in any other year since the establishment of the State.

The number of new settlers began to move up in 1968 from its low level of the two preceding years, and in 1969-70 tapered off at roughly 25,000. In addition to the 23,000 newcomers in 1970, some 15,000 potential immigrants—classified as temporary residents—came to the country, as against 13,000 in 1969. Immigration since the Six Day War has differed from the earlier waves. The current influx is mainly from affluent countries, and the motivation is not persecution or difficult political and economic conditions in the countries of origin. Before the Six Day War most immigrants hailed from Asia and Africa, whereas now they are arriving mainly from Europe and America. Moreover, there has been a notable rise in their technical and professional level: in 1969 and 1970 about half the immigrant breadwinners were in the liberal and technical professions, while in 1961-66 the proportion was only one third. Along with the higher level of skills, the recent immigrants have also brought in larger amounts of capital.

(b) *Working-age population and the civilian labor force*

The working-age population grew by 2.8 percent in 1970, the same rate as the total population. During the sixties it had risen faster than the population as a whole, because the birth rate had declined steadily during the latter part of the fifties and in the sixties, while the growth of the working-age population reflected the high birth rates of the early fifties. This trend was checked in 1969 and 1970, when, as mentioned, the birth rate increased, so that the growth of the total population matched that of the working-age population.

The civilian labor force went up by 1.1 percent in 1970; since the working-age population rose by 2.8 percent, the civilian labor force participation rate edged down from 50.1 percent in 1969 to 49.3 percent. The rate had held

Table IX-3

CIVILIAN LABOR FORCE PARTICIPATION RATE, BY SEX AND AGE, 1965-70^a

(percentages)

	All age groups	14-17	18-34	35-54	55-64	65 +
Total						
1965	52.8	32.8	57.0	62.8	58.8	22.3
1966 ^b	53.1	31.3	58.1	63.4	57.9	23.8
1967	50.4	26.9	54.8	62.1	55.4	21.4
1968	50.3	28.3	55.1	62.3	54.9	18.3
1969	50.1	25.2	53.9	63.1	56.6	20.2
1970	49.3	22.8	53.2	62.8	55.1	19.5
Males						
1965	76.1	38.1	76.2	96.4	91.0	39.7
1966 ^b	75.5	36.0	76.1	96.5	90.3	41.1
1967	72.1	30.7	71.7	95.4	88.1	37.1
1968	71.8	32.4	72.5	95.3	86.5	32.6
1969	70.4	29.2	68.6	95.4	89.0	35.0
1970	69.2	27.3	66.7	94.9	88.5	33.9
Females						
1965	29.4	27.1	37.5	30.9	22.9	6.0
1966 ^b	30.6	26.3	39.6	32.2	23.5	6.7
1967	28.6	23.0	37.2	31.0	21.2	5.6
1968	28.8	24.0	37.2	31.5	21.6	4.5
1969	29.7	21.0	38.7	33.1	23.0	5.7
1970	29.3	18.1	39.1	32.9	22.1	5.0

^a Including East Jerusalem as of 1968.^b Data for 1966 have not been revised; the Central Bureau of Statistics published a correction of the overall rate, but since it was not broken down into its component elements, we have used unrevised data for that year.

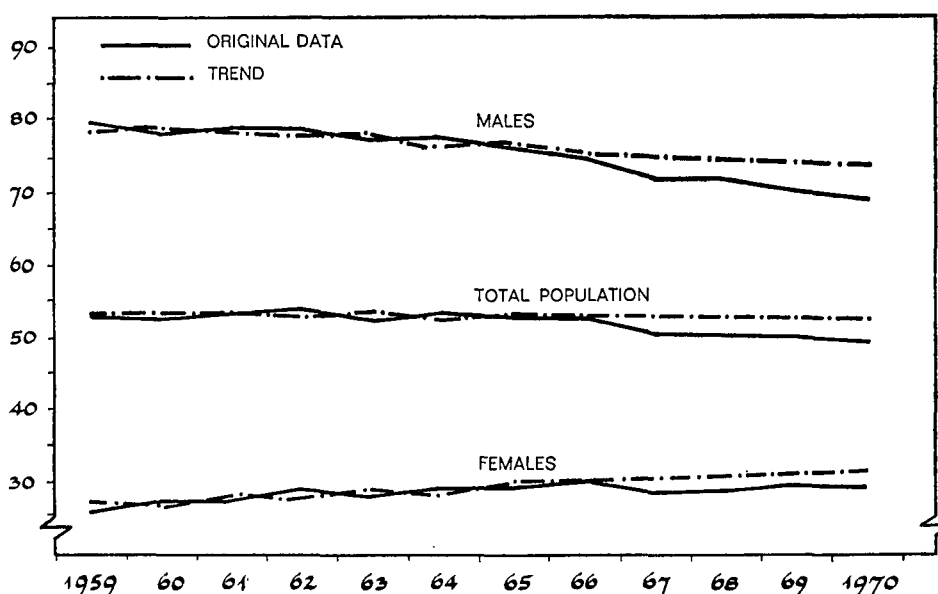
SOURCE: Central Bureau of Statistics manpower surveys.

quite steady at around 53 percent until 1965, but in 1966, and especially in 1967, it fell precipitately¹ because some of the unemployed dropped out of the labor force after despairing of finding work in the acute unemployment conditions prevailing in those years. Despite the decline in unemployment from 1968 through 1970 to a level generally regarded as indicative of a full employment situation, the participation rate did not turn up, but continued to drift down slightly. An analysis of participation rates by age and sex shows that, in contrast to the period before the economic slowdown, most of the decrease was concentrated in the 14-17 age group and among males in the 18-34 group. This suggests an increase in the percentage of persons continuing their studies or

¹ See Bank of Israel, *Annual Report 1967*, Chapter IX.

serving in the defense forces. The decline in the participation rate of 14-17 year olds and males aged 18 to 34 explains some 3 percentage points of the drop in the overall labor force participation rate between 1965 and 1970. Another 0.2 of a percentage point was due to a change in the age composition of the population, and a further 0.2 of a percentage point to the incorporation of East Jerusalem, where the participation rates are lower than in the rest of the economy.

Figure IX-1
LABOR FORCE PARTICIPATION RATE, BY SEX, 1959-70*
(percentages)



* The trend for 1960-65 has been calculated from moving three-year averages; that for 1966-70 has been extrapolated from this trend.

SOURCE: Central Bureau of Statistics manpower surveys.

3. EMPLOYMENT

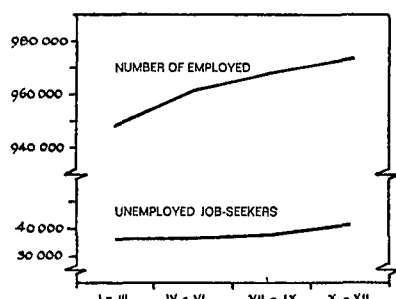
The number of Israeli employed grew by 1.8 percent in 1970, while the total number of employed, including those from the administered areas, went up 2.9 percent. The increase in Israeli employed stemmed from a 1.1 percent rise in the civilian labor force and a decrease in the unemployment rate. The administered areas apparently accounted for more than a third of the economy's employment growth.

The supply of labor from both Israel and the administered areas imposed a greater constraint on the growth of employment than in preceding years. In 1969

the rise of 4 percent in Israeli employed and of 5 percent in total employment had been made possible by a rather elastic supply of labor, from both the areas and Israel—in the latter because of some unemployment remaining from 1968. In addition, the upward trend in the demand for labor slackened in

Figure IX-2

NUMBER OF EMPLOYED AND
UNEMPLOYED JOB-SEEKERS, 1970^a



^a The data do not include the labor force from the administered areas.

SOURCE: Central Bureau of Statistics manpower surveys.

1970. The number of man-hours worked by Israelis rose at a slightly lower rate than the growth in their employment—by 1.4 and 1.8 percent respectively. The decrease in the number of man-hours worked per employee during the year was mainly due to a big increase in the number of persons temporarily absent from work (because of sickness, vacation, and duty in the reserves).

As in 1969, the rise in the number of wage earners outstripped that in the number of self-employed, a phenomenon characteristic of the Israeli economy in periods of strong growth under full employment conditions.

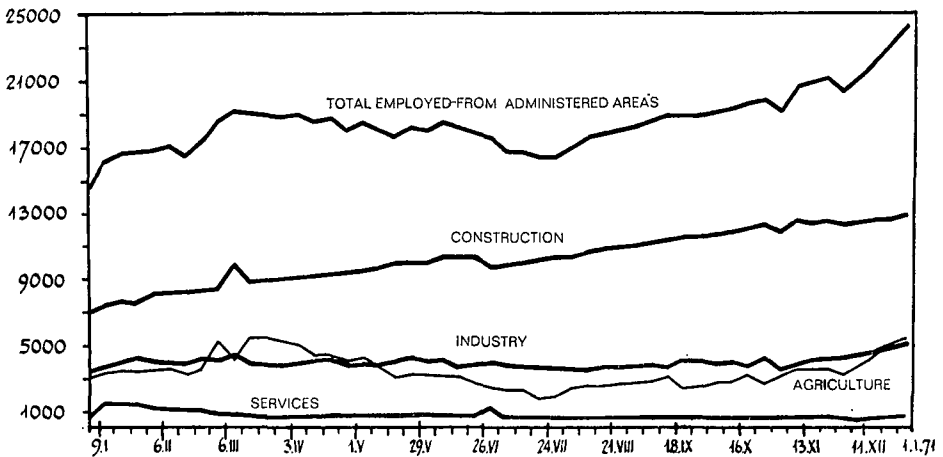
(a) *The administered areas*

The number of employed from the administered areas was 22,000 on an annual average, as against 12,000 in 1969.¹ However, in the course of the year the curve tended to flatten out. In the second half of 1969 it went up by some 50 percent over the first half, and continued upward at the same rate in the first half of 1970; but in the next six months it climbed by only some 10 percent. This suggests that the growth of demand for labor sagged in the course of the year; furthermore, supply also seems to have become more limited. Those working in Israel accounted in 1970 for about 13 percent of total employment in the administered areas. Until this year the number of workers from the areas moved up at a strong and steady rate, but apparently as the percentage of total employed in Israel rises it becomes increasingly harder to step up employment from the areas, because of social and political reasons, the occupational structure of the areas' labor force, and the inconvenience of working at a great distance from home. Under such conditions, a further growth in demand is more likely to drive up wages than the number of employed from the areas.

¹ Information on the number of employed from the administered areas is obtained from various sources, including manpower surveys of the areas, transit surveys of the Central Bureau of Statistics, and current reports of the National Employment Service. There are marked inconsistencies among the various sources; the above figures are Bank of Israel estimates. See also Bank of Israel, *The Economy of the Administered Areas, First Half 1970*; and *The Economy of the Administered Areas 1970*.

Figure IX-3

NUMBER OF WORKERS FROM THE ADMINISTERED AREAS
EMPLOYED IN ISRAEL, BY SECTOR, 1970



SOURCE: National Employment Service.

A sectoral breakdown shows that since the last quarter of 1969 (reliable sectoral data are not available for earlier periods) the percentage of workers from the administered areas employed in the construction industry has been moving steadily upward. At the beginning of 1970 construction workers numbered a little less than half of all persons from the areas employed in Israel, the figure rising to 60 percent by the last quarter. In industry, agriculture, and services the number remained fairly even over the year, with the first two sectors registering a slight increase in the final months, apparently because of seasonal influences. The administered areas accounted for about 2 percent of total employment in the Israeli economy in 1970, and their weight was low in all sectors except construction, where it came to nearly 15 percent.

4. WAGES

Wages per Israeli employee rose by 9 percent in 1970, compared with 5 percent in the preceding year, while hourly earnings went up by about 10 and 4 percent respectively.¹ In addition to this increase in gross wages paid directly to workers, employer expenditure on fringe benefits also went up. When the weight of fringe benefits in total payroll expenditure changes, the changes in wages do not accurately reflect those in total labor costs. Generally speaking, no data are available on the rise in fringe benefit payments, but until the year reviewed the

¹ National Insurance data, the main source for measuring wage increases, by and large show smaller rises in 1970 than do other data available for various economic sectors.

Table IX-4

**NUMBER OF EMPLOYEES, MAN-HOURS AND WAGES PER EMPLOYEE,
AND HOURLY WAGES, 1968-70**

	1968	1969	1970 ^a	Percent annual increase or decrease (-)	
				1969	1970
(1) Number of employees (thousands)	715.4	778.1	808.9	8.8	4.0
(2) Average number of man-hours per employee per week	39.5	40.0	39.6	1.3	-1.0
(3) Average monthly wages per employee, at current prices (IL)	595	626	683	5.2	9.1
(4) Average monthly wages per employee, at 1970 prices (IL)	647	664	683	2.6	2.9
(5) Hourly wages, at current prices (IL)	3.48	3.61	3.98	3.7	10.2
(6) Hourly wages, at 1970 prices (IL)	3.78	3.83	3.98	1.3	3.9

^a National Insurance Institute data for 1970 are based on actual figures for the first 11 months and provisional estimates for December.

SOURCE: Lines 1 and 3—Central Bureau of Statistics estimates based on National Insurance Institute data (excluding the administered areas).

Line 2—CBS manpower surveys (excluding the administered areas).

Lines 4 and 6—Wages have been deflated to 1970 values by the consumer price index.

Line 5—Obtained by dividing line (3) by the number of man-hours per employee, according to manpower surveys.

changes in fringe benefits presumably were similar to those in direct wage payments, so that changes in the latter reflected changes in the total wage bill. But in 1970, when employers' National Insurance contributions were revised upward, total labor costs went up far more rapidly than direct wage payments.¹ According to an estimate of the Central Bureau of Statistics, total labor costs per employee and per man-hour went up by some 4 percent more than the average increase in wages, i.e. by 13 and 14 percent respectively. The rise in wages in 1970, and especially that in total labor costs, approximated the annual increases in 1961-65, which was also a period of strong economic growth under full employment conditions. In 1967-69 the growth of wages trailed behind that of the net national product (at factor cost) per man-hour; however, this came on the heels of a reverse development in 1965-66.

Profits were up sharply in 1969, and because wage hikes in 1968-69 were relatively moderate, upward pressure on wages mounted as the time for the

¹ For industry, survey data are available on direct wage payments and on total labor costs for quite a few years. They show that in 1960-66 total payroll expenditure per worker rose on an annual average by 0.5 percent more than wages per worker. If we assume that this phenomenon was general and not confined to industry alone, then the increase in total labor costs was underestimated in the past.

Table IX-5

ANNUAL CHANGES IN HOURLY WAGES AND IN PRODUCT PER MAN-HOUR, 1965-70

(percentages)

	1965	1966	1967	1968	1969	1970	Average ^a 1965-70
(1) Change in NNP, at current factor prices	21.4	9.0	4.1	18.8	12.7	15.2	13.4
(2) Change in total wage bill	24.8	15.0	1.9	10.6	12.6	20.1	13.9
(3) Change in total man-hours of all Israeli employed	1.4	-0.8	-5.5	16.9	6.7	2.2	3.3
(4) Change in total man-hours of all Israeli wage earners	2.3	-0.7	-5.8	19.2	10.1	2.9	4.4
(5) Change in NNP per man-hour (1÷3)	19.6	9.7	10.2	1.6	5.4	12.7	9.7
(6) Change in hourly wages (2÷4)	22.0	16.0	8.1	-7.3	2.2	16.7	9.2

^a Geometric average of annual rates of change.

SOURCE: (1) Net national product—based on Central Bureau of Statistics data (*Statistical Abstract of Israel 1970*).

(2) Total wage bill (including fringe benefits)—Central Bureau of Statistics.

(3) The number of hours worked by all gainfully employed was calculated as follows: (a) In computing total employment, the number of wage earners was based on data from the National Insurance Institute, while the number of self-employed was taken from manpower surveys (by deducting the number of wage earners from total employed). (b) The average number of man-hours per employed according to the manpower surveys was multiplied by the number of employed as calculated above.

(4) The total number of man-hours worked by Israeli wage earners was computed by multiplying the average number of man-hours per wage earner, according to manpower surveys, by the number of wage earners according to the National Insurance Institute. National Insurance Institute data for 1970 are based on actual figures for the first 11 months and a provisional estimate for December.

renegotiation of labor contracts in 1970 approached. In order to avert unduly large wage increases, which were liable to push up prices, worsen the balance of payments situation, and greatly stimulate private consumption, the "package deal" was concluded by the Government, Histadrut (General Federation of Labor), and the Coordinating Bureau of Economic Organizations (representing the employers). As a result of this tripartite agreement, labor costs rose by some 13-14 percent. Of this, 3 percentage points stemmed from the payment of a higher cost-of-living allowance (4 percent of the basic wage up to a maximum of IL 700 a month), 4 points from the increase in gross wages, 5 points from the

higher employer expenditure on National Insurance, and approximately one point from the compulsory purchase of Government bonds by employers (at the rate of 4 percent of their wage payments).¹

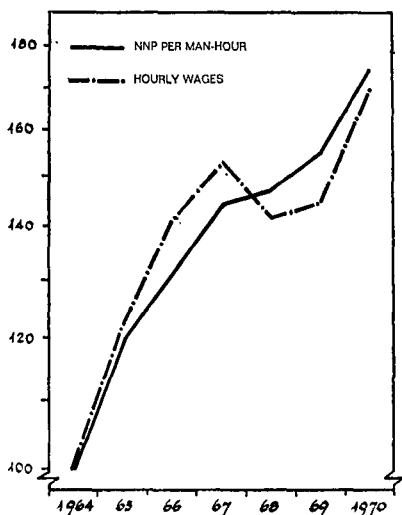
Most of the increases in labor costs under the "package deal" apparently took place during the first half of the year. These could not be fully absorbed without reducing profits appreciably, and consequently they exerted upward pressure on prices, at least in some sectors and enterprises. This pressure could not find expression in higher prices during the first half of the year because of the employers' commitment under the "package deal" not to pass the increase in costs on to the customer. But in the second half of the year, when price rises were allowed after the August tax hikes, some prices were upped also in response to the pressure of the higher labor outlays of the first six months of 1970 (see Chapter VI). After the sharp rise in the first half, labor costs tended to level off in the latter part of the

year, owing in some degree to the easing of demand pressure as the year wore on.²

Figure IX-4

**NET NATIONAL PRODUCT* PER
MAN-HOUR AND HOURLY WAGES,
1964-70**

(1964=100)



Semi-logarithmic scale.

* At current factor prices.

SOURCE: See source to Table IX-5.

¹ In calculating the additional costs incurred by employers in purchasing these bonds, account must be taken of the difference between the estimated interest which they paid or received on credit taken or given (deposits, bonds, etc.) and the interest on the bonds they were required to buy.

² According to provisional monthly data of the National Insurance Institute.

5. WAGE POLICY AND THE COST-OF-LIVING ALLOWANCE

Before the renegotiation of labor contracts for 1970–71 the Histadrut decided to demand wage increases of 6–8 percent for 1970. These demands served as the basis for the tripartite agreement (dubbed the “package deal”) concluded at the end of January 1970. After two years of wage freeze, the “package deal” provided for a 4 percent rise in basic pay, up to a maximum of IL 700 a month, as compensation for the dearer cost of living, with another 4 percent added to gross wages (the former increment went into effect in January, and the latter upon renewal of the labor agreements). These adjustments brought up wage outlays by 7 percent. In addition, in April employers’ National Insurance contributions were raised by some 5 percent of gross wages, by way of both higher payment rates and an increase in the maximum wage subject to such payments. Employers also agreed to purchase Government bonds in an amount equivalent to 4 percent of their gross wage payments. This too raised their labor costs, since the interest on these bonds is apparently lower than that paid for business financing or the interest received on deposits or other bond investments.

The “package deal” thus added a total of some 13–14 percent to employers’ labor costs. Since part of the increase went into effect only in April (National Insurance contributions) and another part only in the course of the year (when wage agreements were signed in each plant), the average annual increase in labor costs as a result of the agreement came to 10 percent. Another 2–3 percent was due to wage hikes granted in 1969 (in other words, the average wage at the beginning of 1970 was already 2–3 percent higher than the average annual wage in 1969). Thus the greater labor outlay per employee in 1970 was due to the increases provided in the “package deal” and partly also to the rising trend of wages in 1969. That year (and to a lesser extent in 1968) wage rates did not go up, nor was the cost-of-living allowance revised; yet wages per employee rose by 5 percent. The upward pressure on wages that existed in 1968 and 1969 in certain markets—in the main for skilled labor—found expression in a relatively large wage drift. In 1970, on the other hand, wage drift was apparently on a more limited scale, since the institutional wage increases were high enough (and in certain cases more than high enough) to fully reflect the mounting demand for labor that year. This does not mean that in 1969 and 1970 there were no wage hikes in excess of those reported: because of the high rates of income tax, employees apparently exerted greater pressure for receiving wage adjustments in nontaxable forms, such as car maintenance and telephone allowances, etc.

Although labor costs went up noticeably in 1970, the disposable income of workers was only slightly larger than in the previous year. Despite the Histadrut’s decision before the “package deal” to demand substantial wage hikes, the anticipated growth of defense expenditures made it necessary to prevent unduly large increases in real disposable income in order to restrain private consumption.

Of the two alternatives considered for achieving this purpose—the imposition of direct taxes or the “package deal”—the latter was chosen. Only the cost-of-living allowance increment was paid to all in cash. The 4 percent rise in gross wages was paid in the form of Government bonds (after deduction of income tax due thereon); workers exempt from income tax received this increment as well in cash. While the additional sums paid by employers to the National Insurance Institute greatly increased their costs, these payments did not augment the current income of employees. Furthermore, employees also had to pay more National Insurance, and the obligatory deductions on account of the Defense Loan cut still further into their take-home pay.

At the beginning of 1970 the Histadrut had decided to demand a 4.2 percent cost-of-living allowance increment (the rate at which the average consumer price index had risen in 1969 over the January 1967 level). In the “package deal” a 4 percent increase was agreed upon. Under the cost-of-living allowance agreement such compensation is tax exempt and paid on basic wages up to a maximum of IL 700 a month. The fact that the wage and c-o-l allowance adjustments were negotiated simultaneously was in itself a step forward. In the past, when the c-o-l allowance increment was determined independently of wage agreements, the automatic nature of the c-o-l allowance arrangement sometimes resulted in a wage-price spiral.¹

6. EMPLOYMENT AND WAGES, BY ECONOMIC SECTOR²

The 1969 trend in the sectoral composition of employment carried over through the year reviewed: the number of persons employed in agriculture continued downward, while that in industry and to a lesser extent in construction continued to rise. These changes are characteristic of economic growth under full employment conditions, and they also marked the 1961–65 boom years.

As a rule, there is a positive correlation between an increase in the number of employed, the product, and wages. Sectors in which production goes up at an above-average rate also display an especially rapid rise in employment and wages. The connection between the first two aggregates is quite clear: a big gain in production reflects a much heavier demand for the goods and services of these sectors, which in turn finds expression in the labor market by a heightened demand for labor, the result of which is a rise in the number of employed. The connection between a rise in demand for labor and an increase in wages in a

¹ For a discussion of this point see Bank of Israel, *Annual Report 1969*, Chapter IX.

² In 1970 the sectoral classification of the economy was changed, rendering more difficult a comparison of employment and wage data for the various sectors with preceding years. Although the 1968 and 1969 figures were revised according to the sectoral classification of 1970, the manpower survey data were revised according to a crude transformation code, based on the first quarter of 1970. Thus an accurate comparison of 1970 data with those of preceding years was still difficult.

Table IX-6
EMPLOYMENT, BY ECONOMIC SECTOR, 1968-70^a
 (percentages)

	Sectoral distribution			Average annual increase or decrease (-)	
	1968	1969	1970	1969	1970
Agriculture, forestry, and fishing	10.4	9.7	8.8	-3.2	-7.1
Industry (incl. mining and quarrying)	24.0	24.0	24.3	4.0	3.1
Electricity and water	1.3	1.1	1.2	-8.6	6.6
Construction and public works	8.0	8.1	8.3	4.2	5.4
Commerce, restaurants, and hotels	13.2	13.3	13.0	4.0	-0.1
Transport, storage, and communications	7.5	7.9	7.5	9.3	-3.5
Financing and business services	4.9	5.1	5.2	9.2	2.5
Public services	22.6	22.7	24.0	4.2	7.7
Personal services	8.1	8.1	7.7	4.4	-3.9
Total	100.0	100.0	100.0	3.8	1.8
Total in thousands	910.9	945.8	963.2	34.9	17.4

^a According to the 1970 sectoral classification.

SOURCE: Central Bureau of Statistics manpower surveys.

Table IX-7

NUMBER OF EMPLOYEES AND MONTHLY AND HOURLY WAGES, BY ECONOMIC SECTOR,^a 1968-70

	Number of employees			Average monthly wages per employee			Hourly wages		
	1970 (⁰⁰⁰)	Percent average annual increase or decrease (-)		1970 (IL)	Percent average annual increase or decrease (-)		1970 (IL)	Percent average annual increase or decrease (-)	
		1969	1970		1969	1970		1969	1970
Agriculture, forestry, and fishing	41.1	-9.2	-1.4	375	8.1	7.8	2.19	8.7	9.5
Industry (incl. mining and quarrying)	225.1	13.8	4.8	665	5.6	9.6	3.64	3.4	10.3
Electricity and water	8.6	4.8	-1.1	942	3.1	5.5	4.96	3.9	4.4
Construction and public works	65.1	10.1	3.2	705	7.0	15.2	3.86	5.0	14.9
Commerce, restaurants, and hotels	70.2	13.9	3.1	631	6.4	11.3	3.53	6.4	12.1
Transport, storage, and communications	55.1	9.3	3.8	998	8.9	11.4	5.51	7.2	12.0
Financing and business services	56.0	10.6	9.8	764	2.8	4.1	4.36	2.6	2.1
Public services	256.2	6.7	2.7	687	2.6	7.2	4.32	1.5	9.1
Personal services	31.5	5.2	12.1	486	4.5	11.0	3.38	2.7	13.0
Total economy	808.9	8.8	4.0	683	5.2	9.1	3.98	3.7	10.2

^a According to the 1970 sectoral classification.

SOURCE: Number of employees and wage payments—CBS data based on employers' reports to the National Insurance Institute (the calculations for 1970 were made on the basis of actual data for the first 11 months of the year and provisional data for December); average man-hours per employee—CBS manpower surveys. Both sources exclude the administered areas.

given sector is less obvious, because the distribution of labor by skill level is not identical with the distribution of labor by economic sector. This is particularly true of unskilled workers: a stronger demand for unskilled labor in construction, for example, will drive up the wages of such labor not only in this sector but also in the rest of the economy. Nonetheless a connection does exist, in the main in the more specialized professions, between the profession and the sector. Here a greater demand for labor in a given sector will push up wages in that sector. Even in the unskilled labor market the adjustment of wages in the various sectors takes time, and therefore it seems that there is initially a connection between a growth of demand for labor in a given sector and an increase in wages in that sector. In both 1969 and 1970 the number of employed rose particularly rapidly in sectors marked by strong demand pressure, and the largest wage hikes also occurred in these sectors. The incremental demand for goods and services was concentrated mainly in the transportation and communications, industrial, and construction sectors. As mentioned, the increase in the number of employed in the last two sectors was greater than that for the economy as a whole. As for transportation and communications, the data from different sources give a confusing picture: manpower surveys point to a decline, whereas National Insurance data show a close-to-average increase in the number of employees. Wages in these three sectors also rose at a rate above the general average.

7. UNEMPLOYMENT

The economy reached a state of full employment in 1970, after the unemployment rate had fallen steadily from the second half of 1967 to stand at 3.8 percent of the civilian labor force, about the same rate as in the boom years of 1961–65. In 1969 a business cycle which had begun in the final quarter of 1965, when unemployment began to swell, drew to a close. The unemployment rate had moved up steadily to peak at 11.4 percent in the first half of 1967; after that it dropped until reaching, at the beginning of 1970, a level considered indicative of full employment.

In Israel there are two principal indicators of unemployment. One is the number of unemployed persons seeking work, according to the manpower surveys of the Central Bureau of Statistics. The other is the daily average of unemployed registered at the labor exchanges of the National Employment Service. According to the latter measure, the unemployment rate reached a level generally regarded as indicative of full employment (i.e. the level of the boom years 1961–65) already in 1969, and not during the first quarter of 1970, as the manpower survey data show.

The average daily number of unemployed (adults and youth), which stood at 5,180 in 1962–65, dropped to 3,145 in 1969 and 2,211 in 1970. The sharp decline in 1969–70 can apparently be ascribed to a number of organizational

TABLE IX-8

REGISTERED UNEMPLOYMENT AND RELIEF PROJECTS EMPLOYMENT, 1962-70

	Daily average of registered unemployed adults	Daily average of registered unemployed youth	Daily average of of all unemployed (1+2)	Daily average on relief work ^a
	(1)	(2)	(3)	(4)
Absolute numbers				
Annual averages				
1962-65	3,809	1,372	5,181	2,481
1966	7,930	2,063	9,993	3,830
1967	13,525	2,213	15,738	12,635
1968	5,709	1,194	6,903	5,245
1969	2,395	750	3,145	1,542
1970	1,595	616	2,211	1,085 ^b
Half-yearly averages				
1969 January-June	2,750	664	3,414	1,771
July-December	2,039	836	2,875	1,315
1970 January-June	1,587	455	2,042	1,136
July-December	1,602	778	2,380	982 ^c
Percent increase or decrease (-)				
Average 1970 as against				
average 1969	-33.4	-17.9	-29.7	-29.6
Average second half of 1970				
as against average first				
half of 1970	0.95	71.0	16.6	-13.6

^a Persons working a full day only.^b Average for nine months.^c Average for July-September.

SOURCE: Unemployment—National Employment Service; relief work—Central Bureau of Statistics.

changes introduced in the National Employment Service.¹ These changes make it difficult to compare Employment Service data as of the end of 1968 or the beginning of 1969 with those of previous periods. In addition, the registration of unemployed apparently became more precise toward the end of 1970 in the light of the impending entry into force of the Unemployment Insurance Law. The intention of the Ministry of Labor was to avoid the unjustified accumulation of unemployment days which could serve as a basis for claims for compensation under the law (the registration of unemployed had been more liberal up to that time).

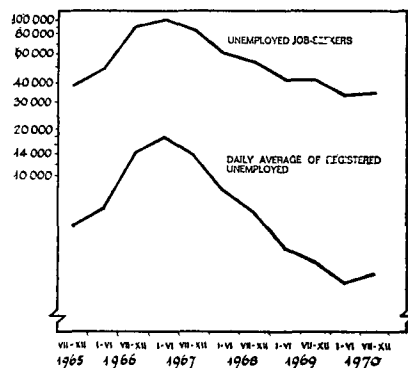
Even in a period of full employment, as in 1970, there are several categories of unemployment that cannot be eliminated by fiscal or monetary policy or by stronger Government demand, but specific means must be applied to each of the categories. These are frictional, seasonal, regional, and structural unemployment. Frictional unemployment represents time lost in changing jobs, even when jobs are available. Seasonal unemployment results from a seasonal slack in the demand for labor (at the end of the harvest, for example) or a seasonal rise in the supply of labor (e.g. at the end of the school year). Regional unemployment stems from insufficient demand for goods and services in certain parts of the country. Structural unemployment arises when the pay for certain categories of labor is higher than the equilibrium wage, at which level some workers are left without jobs.

As in 1969, there was hardly any regional unemployment in the year reviewed. The Northern and Southern Districts, which had been the foci of unemployment during the first half of the sixties, also reached full employment after the Six Day War. This is attributable to the maturing of investments made in these regions during the last decade, and to the defense projects carried out in the border areas.

In 1970 relief work was discontinued. Such employment had served to stimulate demand in times of general unemployment, as in the period of mass immigration in the fifties and during economic recessions, besides increasing demand in regions that suffered from unemployment while full employment prevailed in

Figure IX-5

**INDICATORS OF UNEMPLOYMENT:
DAILY AVERAGE OF REGISTERED
UNEMPLOYED AND UNEMPLOYED
JOB-SEEKERS, 1965-70**



Semi-logarithmic scale.

SOURCE: Daily average of registered unemployed—National Employment Service; unemployed job-seekers—Central Bureau of Statistics manpower surveys.

¹ See Bank of Israel, *Annual Report 1969*, Chapter IX.

Table IX-9
DAILY AVERAGE OF REGISTERED UNEMPLOYED AND RELIEF PROJECTS
EMPLOYMENT, BY DISTRICT,^a 1965-70
(per thousand persons)

	All districts	Northern	Haifa	Central	Tel Aviv	Jerusalem	Southern	Average standard error ^b
Daily average of registered unemployed								
1965	1.3	2.1	1.4	1.1	0.6	1.3	1.8	0.38
1966	3.1	3.3	3.5	3.3	2.2	2.4	4.4	0.24
1967	5.1	6.2	6.7	4.8	4.3	4.0	4.4	0.20
1968	2.1	3.2	2.8	1.8	1.2	2.2	1.9	0.32
1969	0.8	1.1	1.1	0.8	0.4	1.2	1.1	0.39
1970	0.6	0.6	0.6	0.5	0.2	0.9	0.9	0.46
Daily average employed on relief projects								
1965	0.9	4.7	0.1	—	—	0.1	1.5	1.91
1966	1.5	5.4	0.5	0.6	0.1	0.3	3.7	1.37
1967	4.8	10.2	4.4	4.2	1.9	2.4	8.4	0.64
1968	1.9	6.8	1.4	0.5	0.3	2.3	1.8	1.16
1969	0.5	3.0	—	—	—	0.5	0.2	2.17
1970 ^c	0.4	2.2	—	—	—	0.1	0.2	2.15
Daily average of registered unemployed and relief projects employment								
1965	2.2	6.8	1.5	1.1	0.6	1.5	3.2	0.96
1966	4.5	8.7	4.0	3.9	2.3	2.7	8.1	0.57
1967	9.8	16.4	11.0	9.0	6.2	6.5	12.9	0.37
1968	3.9	9.9	4.2	2.3	1.6	4.5	3.7	0.63
1969	1.4	4.2	1.2	0.8	0.4	1.6	1.3	0.89
1970	0.9	2.8	0.7	0.5	0.2	1.1	1.0	0.92

^a Data on registered unemployed and persons employed on relief projects relate to the population at the end of the preceding year.

^b For a detailed explanation see the appendix to this chapter (in Hebrew only).

^c The data relate only to the first ten months of the year.

SOURCE: Population by district—Central Bureau of Statistics, *Statistical Abstract of Israel 1970*.

Daily average unemployed and relief projects employment—CBS *Statistical Bulletins*.

the rest of the economy, as in 1961-65. With the elimination of unemployment due to inadequate aggregate demand and the disappearance of regional unemployment, the Ministry of Labor substantially curtailed relief projects employment in 1969 and halted it completely in the last quarter of 1970.

8. LABOR RELATIONS

Labor relations deteriorated in 1970, as attested by an increase of 43 percent in the number of strikes (as against a rise of some 14 percent in 1969) and a 282 percent jump in days lost because of strikes.

Table IX-10

WORK STOPPAGES, BY MAJOR ISSUE, ECONOMIC SECTOR,^a AND AUTHORIZATION, 1968-70

	Number of strikes					Number of strike-days				
	1968	1969	1970	Percent annual increase or decrease (-)		1968	1969	1970	Percent annual increase or decrease (-)	
				1969	1970				1969	1970
Total	100	114	163	14.0	43.0	71,789	102,162	390,344	42.3	282.1
Major issues										
General wage claims and grading	35	44	85	25.7	93.2	18,671	50,936	328,745	172.8	545.4
Withholding of wages	15	9	7	-40.0	-22.2	1,096	1,661	412	51.6	-75.2
Dismissal of workers	11	12	8	9.1	-33.3	2,050	3,758	1,019	83.3	-72.9
Job classification	0	7	0	^b	^b	0	840	0	^b	^b
Breach of or refusal to sign labor agreements	5	8	13	60.0	62.5	7,183	1,125	13,550	-84.3	1,104.4
Other causes and lockouts	34	34	50	0.0	47.1	42,789	43,842	46,618	2.5	6.3
Economic sectors										
Industry (including mining and quarrying)	35	29	45	-17.1	55.2	32,039	22,652	69,616	-29.3	207.3
Public and business services	42	43	72	2.4	67.4	29,935	64,349	288,592	115.0	348.5
Other sectors	23	42	46	82.6	9.5	9,815	15,161	32,136	54.5	112.0
Authorized and unauthorized strikes										
Percent authorized strikes	47.9	43.6	46.0			61.9	52.9	80.2		
Percent unauthorized strikes	52.1	56.4	54.0			38.1	47.1	19.8		
Total	100.0	100.0	100.0			100.0	100.0	100.0		

^a According to the 1960 sectoral classification.^b Not calculable, since the figure fell to zero in 1969 and 1970.

SOURCE: Central Bureau of Statistics and the Histadrut Institute for Economic-Social Research.

This was apparently due primarily to the pressure exerted by workers in anticipation of the renegotiation of wage agreements, the full employment prevailing in the economy, and the desire of labor to maintain its level of real disposable income in the face of price rises, higher taxes, and compulsory Government loans.

Most of the disputes were over the issue of wages and fringe benefits, which sparked about 85 strikes (52 percent of the total) and accounted for 84 percent of all work-days lost. Over half the days lost in 1970 was due to the secondary school teachers' strike.

The number of strikes and strike-days in 1970 approximated the level of the boom years of 1964-65, evidence that labor relations again became strained after a period of calm from 1967 to 1969.