

Chapter 5

The Labor Market

- ◆ The Israeli labor market was in a situation of full employment when the global crisis began to affect it and thus weathered the crisis, during the first half of 2009, with only a moderate increase in unemployment relative to the developed economies and without a major decline in employment. The market started to recover already in the second half of 2009 and unemployment began to decline, even while it was increasing in the advanced economies.
- ◆ The global crisis was manifested in the labor market by a sharp drop in the demand for labor during the fourth quarter of 2008 and a recovery in the second half of 2009.
- ◆ Employment remained stagnant from the beginning of 2008 and despite the crisis did not decline in 2009. This was a result of several factors: the reduction in work hours per employee, flexibility in the composition of employment by industry, a decline in real wages in the business sector and a rapid recovery in the demand for labor.
- ◆ The standstill in employment—particularly in the business sector—since the beginning of 2008 and the decline in the average work hours per employee towards the end of this year led to a drop in aggregate labor input. In addition, the stagnation in employment and the natural labor force growth led to a moderate increase in the rate of unemployment to a level of 7.6 percent in 2009.
- ◆ The stagnation of employment in the business sector reflects a decline in employment in the manufacturing and construction industries and an increase in employment in other industries, such as finance and business services. Employment fell in industries intensive in unskilled labor, both in manufacturing and non-manufacturing. In contrast, the drop in employment in manufacturing industries intensive in skilled labor was fully offset by the increase in employment in non-manufacturing industries intensive in skilled labor.
- ◆ There has been an increase in recent years in the number of Palestinian workers from the territories in the Israeli economy, whose income represents more than 10 percent of Palestinian GDP. The low level of their wages is liable to create downward pressure on the wages and employment of unskilled Israeli laborers.

1. INTRODUCTION

The labor market was in a situation of full employment when the crisis began and had undergone institutional processes that helped it weather the crisis.

The Israeli labor market was in a situation of full employment when the global crisis began to affect it in 2008. The rate of labor force participation had reached its highest level (56.5 percent) in the country's history and the rate of unemployment (6.1 percent) was at its lowest point in two decades. Full employment was achieved after structural and organizational processes in the labor market, including a significant rise in the proportion of workers with higher education and the rapid development of dynamic export industries that are based on a skilled labor force, as well as the gradual weakening of the unions during the previous two decades.¹ In addition, increased cooperation between some of the unions, the employers organizations and the government led to the signing of wage agreements in the spring of 2008 that ensured industrial peace until the end of 2009 and led to the signing of a package deal between the unions, employers and the government for the first time in a quarter of a century. These initial conditions may facilitate the rapid adjustment of the Israeli labor market to the drop in demand for labor due to the global economic crisis, without any significant effect on employment.

A comparison of the drop in GDP and employment between Israel and the OECD countries between the third quarter of 2008 and the third quarter of 2009 shows that the effect on the Israeli labor market was relatively moderate (Figure 5.1). Thus, even though the drop in Israel's GDP was smaller in magnitude than in the OECD countries (1.2 percent as opposed to 3.4 percent on average), employment in the OECD countries dropped by 2.2 percent as compared to the relative stability in employment in Israel's business sector. Had employment in Israel reacted according to the relationship between GDP and employment in the OECD countries, the number of employed in Israel would have dropped by 0.8 percent (about 21,000 workers).²

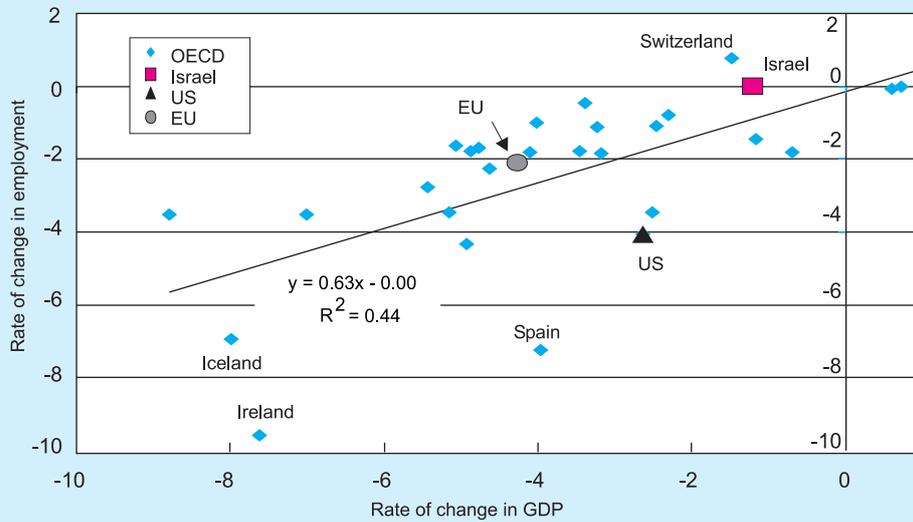
The crisis led to a decline in work hours per employee, to changes in the composition of employment by industry and to a real erosion of wages.

The adjustment of the labor market was accomplished primarily by a drop in the average work hours per employee, which amounted to 1–2 hours in the business sector during the last quarter of 2008 (Figure 5.2) and a change in the composition of employment by industry in the business sector, which resulted in a sharp drop in employment in manufacturing and construction that was offset by the increase in employment in the financial, commercial, and business services. At the same time, workers in the business sector, whose nominal wages remained unchanged, experienced a decline in real wages as a result of the rise in prices, which was not characteristic of other developed economies (see Chapters 1 and 4). In addition, the

¹ The proportion of unionized workers fell from about 80 percent of the labor force in the 1980s to one-third in 2006 and at the same time industrial negotiations were replaced by negotiations on the factory level. See a comparison of OECD countries in the OECD Report for 2010, pp. 84–85.

² The most prominent outlier in the observed relation between GDP and employment is Switzerland which managed to increase employment despite the drop in GDP. One of the main policy measures that enabled Switzerland to avoid layoffs was a government program to subsidize the transition of workers from full-time to part-time employment. Thus, in 2009, more than one percent of employees moved to part-time employment with government subsidization. See OECD Economic Surveys (2009) Switzerland (Dec.), pp. 25–26.

Figure 5.1
Rates of Change of GDP and Employment in Israel and the OECD,
2008:Q3 to 2009:Q3



Note: The figure shows the positive correlation between the reduction in GDP and the reduction in employment evident in OECD countries. Israel and Switzerland are exceptions—their employment did not decline despite a drop of more than one percent in GDP.

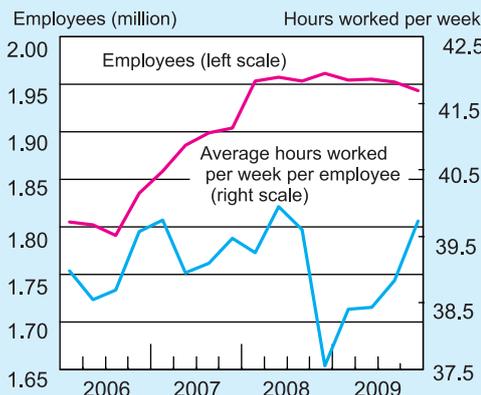
SOURCE: The Central Bureau of Statistics and the OECD.

In contrast to the OECD countries, employment in Israel was unaffected despite the decline in GDP.

rapid recovery of domestic demand already during the second half of 2009 may have helped to moderate the effect of the crisis on the business sector, thus avoiding a major drop in employment in that sector. However, this small decline in employment came at the expense of working conditions, which can be seen in the decrease in labor’s share of GDP by two percentage points during the present crisis, in contrast to the previous crisis in which the labor’s share of GDP rose somewhat (see Chapter 2, Figure 2.7).

Part of the natural increase in the labor force was absorbed in public services, in which employment rose by a moderate rate of 1.7 percent and thus partially offset the increase in unemployment. The rate of unemployment reached 7.6 percent, which is relatively low in comparison both to previous crises and to most of the advanced economies during the current crisis. The increase in unemployment was therefore the result of a combination of the natural

Figure 5.2
Labor Input in the Business Sector,
2006-09



SOURCE: The Central Bureau of Statistics Labor Force Surveys.

Employment in the business sector was stable during 2008 and 2009 although work hours per employee declined sharply in late 2008 and gradually increased during 2009.

Table 5.1
Principal Labor Market Indicators, 2005–09

	(change over previous year, percent)				
	2005	2006	2007	2008	2009
1. Population (annual average)	1.8	1.8	1.8	1.8	1.8
2. Working-age population	1.8	1.8	1.8	1.8	1.8
3. Participation rate in civilian labor force, ^a total	55.2	55.6	56.3	56.5	56.6
Men	60.7	61.1	61.8	62.0	61.6
Women	50.1	50.4	51.1	51.3	51.9
4. Civilian labor force	2.3	2.5	3.0	2.2	2.0
5. Employment rate ^a	50.3	50.9	52.2	53.1	52.3
Employment rate among the prime age group	67.5	68.5	70.1	71.0	69.9
6. Total employees ^b	3.4	2.9	4.5	4.2	0.1
Full-time	3.5	2.9	4.4	5.1	1.1
Part-time	4.3	2.1	4.5	1.3	-0.1
Involuntary part-time	-2.6	-10.2	-9.6	-1.2	5.9
Israelis	3.9	3.2	4.2	3.5	0.3
Non-Israelis ^b	-1.8	-0.7	7.2	11.4	-2.6
7. Public-services employees	4.1	2.0	3.8	3.1	1.7
Public-services labor input	3.7	0.2	4.7	2.7	3.1
8. Business-sector employees	3.1	3.2	4.7	4.6	-0.5
Israelis	3.8	3.7	4.4	3.7	-0.2
Foreign workers ^b	-6.7	-1.3	7.2	9.5	-1.6
Palestinians ^b	24.1	1.7	7.3	19.3	-6.5
Share in business sector of foreign and Palestinian workers ^a	11.5	11.1	11.3	12.1	11.8
9. Business-sector labor input	2.7	2.6	5.4	4.4	-0.9
Israelis	3.4	3.1	5.2	3.4	-0.5
Foreign workers ^b	-6.3	-1.0	7.2	9.8	-1.7
Palestinians ^b	20.5	-0.8	6.9	19.4	-10.5
10. Real wage per employee post	1.0	1.3	1.6	-0.7	-2.8
Business sector	1.5	1.7	1.4	-0.7	-3.1
Public services	0.0	0.3	2.2	-0.7	-2.1
11. Minimum wage (real)	0.4	-1.3	2.8	4.5	-1.8
12. Unit labor costs in business sector ^c	-1.8	-0.4	2.6	0.2	-3.0
13. Gross domestic product per labor hour in the business sector ^{c,d}	5.1	6.5	-0.1	2.9	-6.4
14. Unemployment rate, total ^a	9.0	8.4	7.3	6.1	7.6
Men	8.6	7.9	6.8	5.8	7.6
Women	9.5	9.0	7.9	6.5	7.7
15. Government expenditure on the active labor market policy (percent of GDP) ^e	0.24	0.26	0.24	0.20	0.24

^a Actual levels, not rates of change.

^b Including reported and unreported foreign workers and Palestinians. Data on non-Israeli employees are less reliable than those on Israelis, which are based on the Labor Force Surveys. The estimates of the Israeli Central Bureau of Statistics differ from those shown in Box 5.3 which are based on the Palestinian Labor Force Surveys.

^c Based on gross product, not net product as in previous years.

^d At constant prices.

^e Including training, employment services, programs to integrate recipients of benefits into the work force, aid related to the employment of new immigrants, etc.

^f Estimate.

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

Table 5.2
Principal Labor Market Indicators, 2006–09

	(thousands, annual averages)							
					Change from previous year			
	2006	2007	2008	2009	2006	2007	2008	2009
1. Mean population	7,053.7	7,180.1	7,308.8	7,438.4	123.6	126.4	128.7	129.6
2. Working-age population ^a	5,053.1	5,142.4	5,232.9	5,325.2	89.7	89.3	90.5	92.3
3. Civilian labor force ^a	2,809.7	2,893.8	2,957.0	3,015.4	69.6	84.1	63.2	58.4
4. Employees, total ^b	2,801.0	2,925.7	3,048.2	3,050.3	78.3	124.7	122.5	2.1
Israelis	2,573.6	2,682.0	2,776.7	2,785.9	79.9	108.4	94.7	9.2
<i>of whom</i> Full-time	1,595.1	1,641.1	1,712.7	1,799.3	53.8	46.0	71.6	86.6
Part-time	733.9	749.6	783.3	793.6	30.5	15.7	33.7	10.3
Non-Israelis	227.4	243.7	271.5	264.4	-1.6	16.3	27.8	-7.1
Foreign workers ^c	180.3	193.2	211.3	208.1	0.8	3.4	9.7	-3.9
Palestinians ^c	47.1	50.5	60.2	56.3	-2.4	12.9	18.2	-3.3
5. Public-services employees ^{b,d}	769.1	798.7	823.1	836.9	15.3	29.5	24.5	13.8
6. Business-sector employees ^{b,d}	2,031.9	2,127.0	2,225.1	2,213.4	63.1	95.2	98.1	-11.7
7. Vacancies	57.5	72.8	56.4	28.5	18.3	15.3	-16.4	-28.0
Balance of vacancies filled	90.1	133.5	35.2	-23.2	11.5	43.3	-98.2	-58.5
8. Number of unemployed ^a	236.1	211.8	180.4	229.5	-10.3	-24.3	-31.4	49.1
9. Nominal wage per employee post (NIS/month)	7,468	7,630	7,922	7,952	247	162	292	30
Public services	7,082	7,279	7,556	7,641	171	197	277	85
Business sector	7,647	7,790	8,089	8,099	282	143	298	10
10. Claims for unemployment benefit	69.6	62.8	59.8	91.3	-2.0	-6.8	-3.1	31.5
<i>of which</i> New claims	14.2	13.4	12.3	17.7	0.6	-0.8	-1.1	5.4

^a Including reported and unreported foreign workers and Palestinians. Data on non-Israeli employees are less reliable than those on Israelis, which are based on the Labor Force Surveys.

^b Labor Force Survey data.

^c National Accounts data, including data from education and health imputed to business sector.

^d Israelis and non-Israelis.

^d Data from the Employers Survey.

SOURCE: The Central Bureau of Statistics Labor Force Surveys and National Accounts data; National Insurance Institute data; and Employers Surveys of the Ministry of Industry, Trade and Labor.

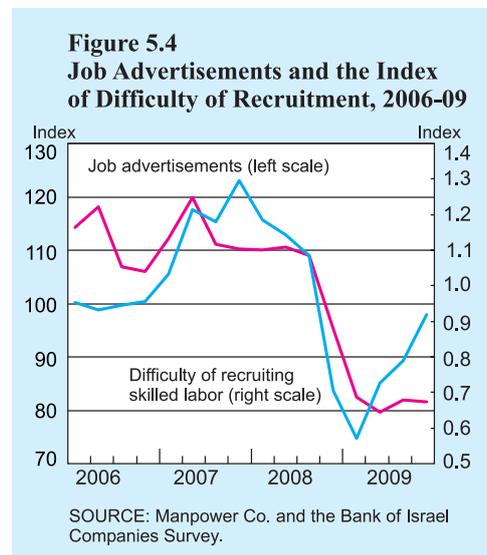
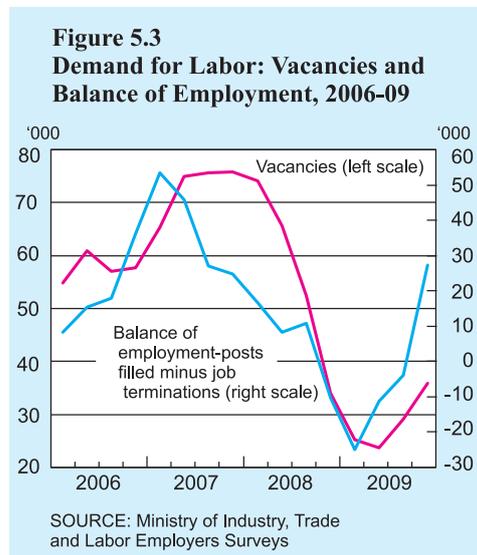
increase in the civilian labor force and stability in employment. This was in contrast to most of the advanced economies which experienced a drop in employment.

The economic recovery during the second half of the year was manifested in an increase in the demand for labor, which resulted in a moderate increase in employment, a moderate reduction in the rate of unemployment, growth in the average number of work hours per employee and a moderate increase in nominal wages per employee post. Nonetheless, the results of the crisis were not insignificant. The rate of unemployment was higher than its pre-crisis level and the moderate increase in nominal wages during the second half of 2009 did not keep pace with inflation.

2. THE DEMAND FOR LABOR

The main development in the labor market during the last two years was the sharp drop in demand for labor in the business sector towards the end of 2008 and the beginning of 2009. This decline could be seen in the reduced number of vacancies, an indicator of the demand for new workers. The decrease in demand for workers was also reflected in the employment balance (i.e., hirings *minus* layoffs), which switched from positive during the first three quarters of 2008 to negative in the fourth quarter of this year (Figure 5.3). The drop in demand for workers towards the end of 2008 and the beginning of 2009 is also evident in the index of jobs advertised by Manpower Inc (Israel) and the greater ease in recruiting skilled workers during this period (Figure 5.4). The decline in the demand for labor occurred in parallel to the drop in global trade and the increase in the financing difficulties experienced by firms in the business sector. In our estimation, these were the main factors behind the decline in the demand for labor.

The demand for labor fell rapidly in late 2008 and partially recovered during 2009.



The Employers Survey shows that the sharp decline occurred in all the industries represented in the Survey, apart from education. Thus, for example, available posts in manufacturing, construction and business services each fell from about 11,000–12,000 posts per quarter during the first three quarters of 2008 to 3,000–5,000 per quarter in the first half of 2009.

The demand for labor began to recover during the course of 2009. The estimates of available posts by the Ministry of Industry, Commerce and Employment³

³ The estimates of the number of available posts by the Central Bureau of Statistics during the period June–November are higher (at 40,000–50,000); however, it is not possible at this point to analyze the trend of these estimates since the data only started to become available in May 2009.

rose moderately, primarily in manufacturing, business services, commerce and accommodation services and restaurants. This increase, together with the increase in work hours per employee and the small increase in the number of workers in the business sector reveal a moderate recovery in the demand for labor during the last three quarters of 2009. The moderation in decline of demand for labor and the transition to rising demand during the second half of the year was reflected in the employment balance which began to rise in the second quarter of 2009 and even became positive during the last quarter. The moderate increase in the index of Manpower advertised vacancies and the increase in the index of the difficulty in recruiting skilled workers also pointed to a recovery in the demand for labor during 2009, which occurred simultaneously with the increase in global trade and the greater ease with which firms in the business sector could obtain financing. In summary, the main driving force in the labor market during the past two years has been the demand for labor which plummeted in late 2008 and early 2009 and recovered starting from the second quarter of 2009.

3. LABOR SUPPLY—THE WORKING AGE POPULATION AND THE CIVILIAN LABOR FORCE

The working age population grew by 1.8 percent in 2009, which was similar to its rate of growth in recent years, and the civilian labor force grew by a somewhat higher rate (2.0 percent). This resulted in the continuation of the upward trend in the civilian labor force participation rate, which stood at 56.6 percent this year. The growth in the participation rate was the result of a small increase in the participation of women, which partly offset the pro-cyclical fall in the rate of participation among men (Table 5.1). The growth rate of the labor force was low relative to 2006–07, which was apparently due to the economic crisis. It can be expected that with the recovery in the labor market that began in late 2009 the civilian labor force will return to a higher growth level.

The national accounts estimates show that the number of non-Israeli workers in the economy fell this year by about 7,100 to a level of 264,400, of which 208,100 are foreign workers and 56,300 are from the territories (see Box 5.3). The drop in the number of foreign workers is consistent with the declared policy of the government to promote the employment of unskilled Israelis by reducing the number of foreign workers (Government Decision 149, May 2009; Eckstein Committee Report 2007). However, this drop only moderated the upward trend in the number of foreign workers in recent years.

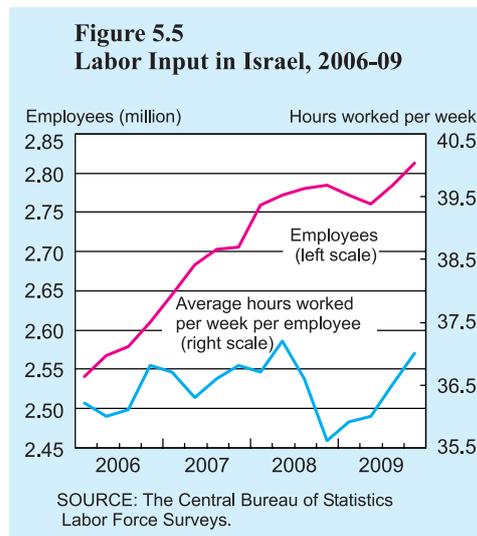
The rate of participation in the labor force increased somewhat as a result of increased participation among women.

4. AGGREGATE EMPLOYMENT

Aggregate labor input declined sharply in the fourth quarter of 2008, as a result of the reduction in the number of work hours per employee, and gradually recovered during the course of 2009 as the average number of weekly work hours per employee increased (Figure 5.5). The number of employed in the economy grew rapidly during the period 2006–07 and moderately in 2008 and reached a level of 2.79 million in the last quarter of 2008 (Figure 5.5). The number of employed fell somewhat until the second quarter of 2009 but again rose in the third quarter in relation to both the previous quarter and the same quarter in the previous year. The average work hours per employee in the economy, which fell more than one hour in the last quarter of 2008 as the global crisis worsened, rose gradually to its pre-crisis level with the recovery in demand for labor during 2009.⁴

The main changes in labor input in the economy primarily reflect developments in the business sector. Thus, the number of employed in this sector stabilized at the beginning of 2008 at 1.95 million, when a slowdown began in the US labor market; however, the intensification of the crisis in the autumn of 2008 resulted in a fall of about two hours in the number of work hours per employee, which led to a reduction in total labor input in the business sector (Figure 5.2). It should be emphasized that the reduction in work hours by many of the employed was not voluntary and therefore the proportion of employees who were working part time unwillingly grew in 2009 for the first time in over five years (Table 5.1).

The sharp decline in work hours per employee in Israel (in late 2008) and the rapid recovery (during the second half of 2009) were unique to the current crisis.



The crisis therefore was partially manifested in the interruption of growth in the number of employed in the Israeli economy which began at the start of 2008; however,

⁴ It should be mentioned that due to the cyclical nature of estimates of average work hours per employee, it is difficult to arrive at an exact estimate of its decline as a result of the crisis.

the main reaction of the labor market was a rapid drop of 2.9 percent in work hours per employee in the fourth quarter of 2008. It should be mentioned that this pattern is not typical of the Israeli economy. Thus, for example, during the 2000–02 crisis aggregate employment continued to expand during the initial quarters of 2001 and only fell (by a rate of 2.5 percent) during the second half of 2001, about a year after the outbreak of the Intifada and the hi-tech crisis (Figure 5.6). The number of work hours per employee *gradually* decreased by about 1.5 hours over the course of 2001, as compared to the present crisis in which it fell during only one quarter. The drop in work hours per employee but not in the number of employed during the present crisis is particularly surprising in comparison to the 2001–02 crisis since the number of work hours per employee at the beginning of 2008 was lower than the corresponding average in 2000 by more than one hour.

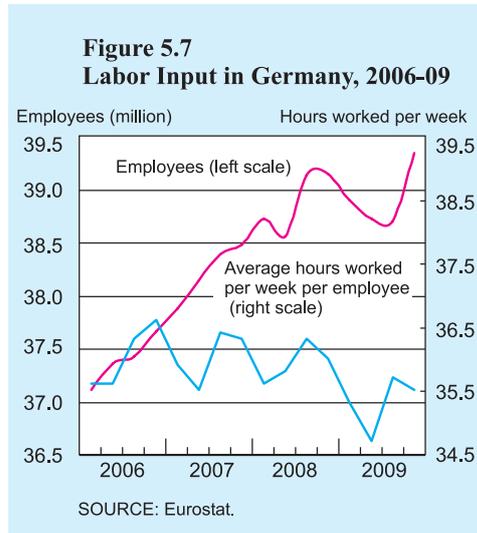
The rapid reaction of the labor market to the intensification of the current crisis through the decline in work hours per employee can be attributed to the sense of emergency and uncertainty in late 2008, following the collapse of major investment banks and global capital markets in September 2008. The reduction in number of work hours per employee while averting layoffs is, in theory, the optimal reaction of employers to a combination of temporary uncertainty and the high costs of laying off workers and then rehiring. Keeping workers in the organization while cutting the costs of employing them by going from full-time to part-time employment enabled employers to expand their activity and in particular to increase the number of work hours per employee as soon as the domestic economy recovered, which occurred early on relative both to previous crises and to other developed economies. It is likely that avoiding layoffs while cutting the number of hours worked avoided the loss of firm-specific human capital. Another possible explanation is related to the nature of the crisis' development, which began abroad and only later arrived in Israel and thus allowed the business sector to prepare by halting hiring already at the start of 2008.⁵ The erosion in real wages adjusted by the business sector price deflator (4.5 percent) also helped to minimize the drop in the number of employed, and facilitated the rapid adjustment of the Israeli labor market to the current crisis.

The reaction of the Israeli labor market to the escalation of the current crisis through the reduction in work hours per employee and the stagnation in employment is similar to that of labor markets in some Central European countries, such as Switzerland and Germany. In Germany, employment shrank by only about half a percentage point between the third quarter of 2008 and the first quarter of 2009 while the number of work hours per employee fell by more than 3 percentage points (Figure 5.7). It should be emphasized that the decline in hours worked in Germany, Switzerland and a number of other countries was subsidized by the government with the goal of avoiding

⁵ The slowdown in economic activity in the business sector began in early 2008 and is reflected in the data from the Survey of Firms for the first and second quarters of 2008 (Bank of Israel, Survey of Firms and Businesses, January and April 2008).

layoffs. The sharp drop in hours worked per employee in Israel and the stability in employment are surprising for it was not coordinated by government intervention.

The stability in employment in Israel and the decline in work hours per employee were similar to the development in Germany and contrasted with the mass layoffs and stability of work hours per employee in the US.



This pattern is even more surprising when the comparison is made with changes in employment and work hours per employee in countries where broadly-based government programs to encourage the transition from full-time to part-time employment were not implemented. Thus, the reduction in labor input in the US (Figure 5.8), Spain, France and Ireland was manifested primarily in a drop in the number of employed, rather than a reduction in the average number of work hours per employee.

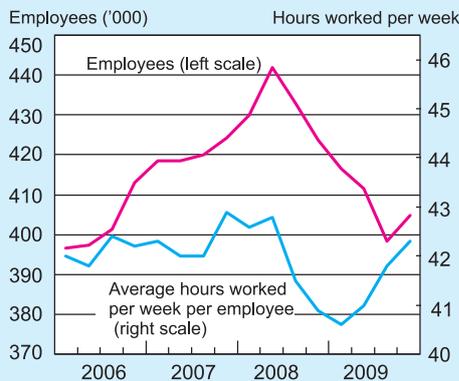
5. LABOR INPUT BY INDUSTRY

The stability in aggregate employment reflects the flexibility of employment on the industry level.

The standstill in the total number of employed in the business sector at a level of 1.95 million (Figure 5.2) reflects a dynamic situation between industries, which involved a decline in some industries that was offset by expansion in others. In contrast, the number of work hours per employee in most industries fell by 1.5–4 percent in the fourth quarter of 2008 with the intensification of the global financial crisis, although it returned to its previous level in most industries during 2009.

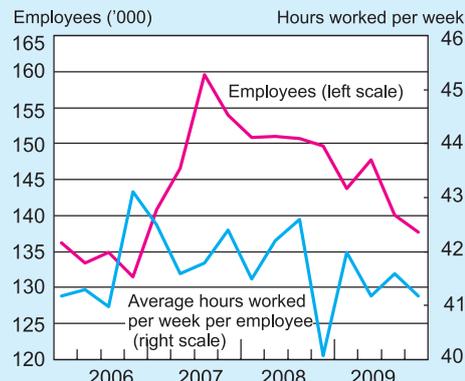
Manufacturing experienced the sharpest decline in labor input as a result of the sharp drop in its output during the crisis (see Chapter 2). The number of employed in this industry plummeted by close to 10 percent between mid-2008 and late 2009. Weekly work hours per employee in manufacturing declined sharply at the beginning of the crisis but during the second half of 2009 they returned to their pre-crisis level (Figure 5.6). It appears that the main reasons for the drop in labor input in the

**Figure 5.9
Labor Input in Manufacturing, 2006-09**



SOURCE: The Central Bureau of Statistics Labor Force Surveys.

**Figure 5.10
Labor Input in Construction, 2006-09**

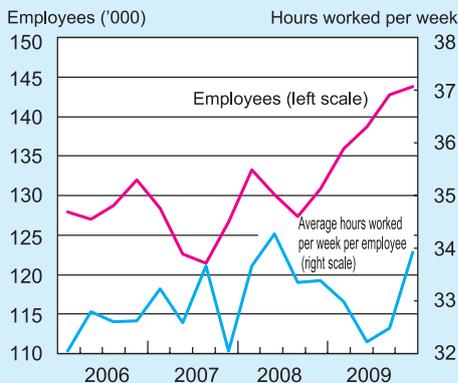


SOURCE: The Central Bureau of Statistics Labor Force Surveys.

Employment in manufacturing and construction declined.

manufacturing industry were the decline in exports and the reduction of demand for investment goods and durable goods.⁶ The labor input of Israeli workers also fell in the construction industry, in which output dropped at a moderate rate. Thus, the number of Israelis employed in this industry fell by about 7,000, while the number of

**Figure 5.11
Labor Input in Community Services, 2006-09**



SOURCE: The Central Bureau of Statistics Labor Force Surveys.

**Figure 5.12
Labor Input in Finance, 2006-09**



SOURCE: The Central Bureau of Statistics Labor Force Surveys.

Employment in community services expanded while employment in the finance industry expanded rapidly during the second half of 2008 and declined somewhat during 2009.

⁶ The Survey of the Association of Manufacturers, which was carried out in March 2009, provides data on the reduction in labor input in the industry. Thus, about 80 percent of the firms surveyed reduced overtime, about one-third sent workers on forced vacation at the expense of accumulated vacation time, about 15 percent switched to a shorter workweek at the expense of accumulated vacation time and close to 6 percent switched to a shortened workweek while reducing wages. The forced vacation at the expense of accumulated days of vacation makes it possible to reduce labor input and employer costs without lowering nominal wages. For more details, see Association of Manufacturers, "Changes in Wage and Employment Policies in Manufacturing during the Economic Crisis," March 2009 Survey.

Palestinian workers increased by about 5,000. It appears, therefore, that Palestinian workers replaced some of the Israeli workers in this industry.

In a second group of industries, which includes commerce, education and transportation and communication, labor input fell in late 2008 and early 2009 and returned to its pre-crisis level later in 2009. In public administration, labor input began to recover only in the second half of 2009.

In a third group of industries, which includes business, financial, and community services, labor input increased during the crisis. It is interesting that employment in the finance industry grew during the first half of the financial crisis and that this growth was concentrated primarily in insurance and provident funds. It appears that

Table 5.3
Employment and Labor Input, by Industry,^a 2005-09

	Employment								
	Thousands					Rates of change			
	2005	2006	2007	2008	2009	2006	2007	2008	2009
Total business sector ^b	1,968.8	2,031.9	2,127.0	2,225.1	2,213.4	4.7	4.6	-0.5	4.3
Agriculture	183.3	187.7	205.6	213.6	203.6	9.5	3.9	-4.7	6.8
Construction	402.6	413.3	432.3	444.1	419.6	4.6	2.7	-5.5	5.0
Manufacturing	349.2	350.6	373.0	395.9	385.0	6.4	6.1	-2.8	2.7
Commerce and vehicle repairs	129.3	135.3	135.6	146.0	143.9	0.2	7.7	-1.5	5.8
Hotels and catering services	82.1	87.4	95.0	99.2	105.9	8.7	4.4	6.8	6.4
Banking, insurance, and finance	374.7	394.2	420.0	440.7	452.1	6.6	4.9	2.6	4.4
Business services	163.8	172.6	172.5	176.2	183.2	-0.1	2.1	4.0	4.0
Transport, storage, and communications	753.9	769.1	798.7	823.1	836.9	3.8	3.1	1.7	1.8
Public services	116.8	128.3	124.2	130.3	138.9	-3.2	4.9	6.6	3.1

	Employment and labor input, by industry, 2009								
	Employment						Labor input		
	Israelis	Foreign workers		Israelis	Foreign workers		Israelis	Foreign workers	
		Palestinians	Israelis		Palestinians	Israelis		Palestinians	
	Thousands			Rates of change from previous year					
Total business sector ^b	1,951.5	206.1	55.8	-0.2	-1.6	-6.5	0.0	-7.8	11.9
Agriculture	142.4	33.6	27.6	-5.4	-7.8	4.0	1.5	43.4	-22.2
Construction	407.7	3.3	8.6	-5.6	43.4	-12.3	5.2	-4.6	-37.6
Manufacturing	370.2	7.9	6.9	-2.0	-4.6	-29.1	7.0	2.1	-36.8
Commerce and vehicle repairs	128.1	14.4	1.4	-1.4	1.8	-29.1	3.3		
Hotels and catering services	105.9			6.8		17.3	4.7	-1.0	-54.5
Banking, insurance, and finance	403.7	45.3	3.0	3.8	-1.3	-48.4	-0.1		18.8
Business services	181.0		2.2	3.7		32.3	4.4	0.0	0.0
Transport, storage, and communications	834.4	2.0	0.5	1.7	0.0	0.0	4.2		
Public services	116.8			6.6		0.0	3.7	0.0	0.0

^a Including reported and unreported foreign workers and Palestinians. Data on non-Israeli employees are less reliable than those on Israelis, which are based on the Labor Force Surveys.

^b Figures may not add due to the exclusion of 'miscellaneous.'

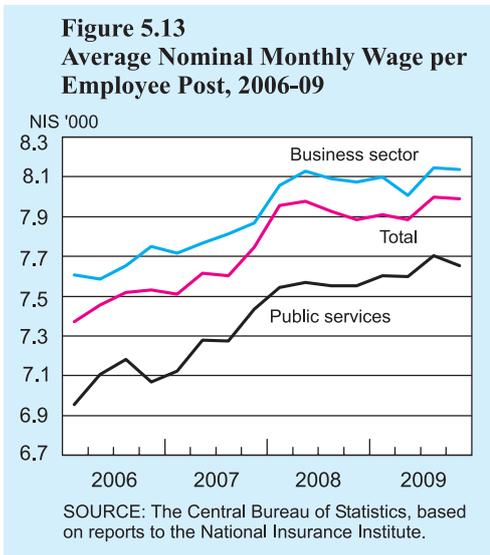
SOURCE: Central Bureau of Statistics and National Accounts data.

the increase in employment in this industry was a result of the increase in demand for financial services as a result of the crisis and the Compulsory Pension Law. Later on during the crisis, the number of employed fell in the finance industry, primarily among banks. Since weekly work hours in this industry fell already at the beginning of the downturn, labor input returned to its pre-crisis level, as a result of the two-percent rise in employment and a parallel drop in work hours per employee (Figure 5.6). An exception was community and personal services⁷ in which labor input, and in particular the number of employed, grew rapidly at the beginning of the crisis in late 2008 and even continued to expand subsequently (Figure 5.6).

In summary, the employment of Israeli workers declined in manufacturing and construction. In commerce, education and public administration, as well as transportation and communication, labor input declined at the beginning of the downturn but started to recover in the second quarter of 2009. Finally, labor input expanded during the crisis in finance and business services, apparently due to increased demand for these services, as well as for community, social welfare and personal services.

6. WAGES

The nominal average wage per employee post, which is reported to the National Insurance Institute, remained at a level of about NIS 7,900 from the beginning of 2008 until mid-2009 and grew somewhat subsequently. The steadiness of the aggregate nominal wage parallels the stability in aggregate employment which is described in Sections 1 and 4. This stability also characterized the average wage in the business sector, even at the peak of the crisis (Figure 5.13). This is in spite of the fall in the number of work hours per employee during the period, which was manifested in the transition by a large number of firms to a four-day workweek. A possible explanation of this phenomenon is the partial usage of accumulated vacation days for an additional weekly day off. In addition, it appears that the decline in wages that resulted from the reduction in hours worked for some workers was offset by the moderate increase in nominal wages for other workers. And finally, the feeling of emergency as a result of the economic crisis limited workers' demands for wage increases.



Real wages were eroded as a result of the stability in nominal wages and the increase in prices.

⁷ This sector includes community and social welfare organizations, religious services and personal services, including laundry and beauty salons.

In contrast, the nominal wage per employee post in public services grew moderately during the course of the year after it had remained unchanged during the previous year (Box 5.1). The public sector operated within the framework of wage agreements signed in spring 2008, which included wage increases of 1.5–2 percent at the end of both 2008 and 2009. The renegotiation of wage agreements during the coming year is expected to increase average wages in the public sector. It should be mentioned that data on wages in the public sector is not published on a regular basis and therefore there is no possibility of measuring the increase in nominal wages in this sector during the course of the year. In any case, the average real wage per employee post was eroded as a result of the inflationary surprise both in the business sector (by 3.1 percent) and in public services (by 2.1 percent) (Table 5.5). The inflationary surprise eroded also the minimum wage by 1.8 percent and thus weakened the incentive of employers to lay off workers, whose wages cannot be legally lowered.

Particularly noticeable in a comparison between industries is the drop in the nominal wage in finance, which accompanied the growth in employment in the industry during the initial quarters of the crisis. It appears that the sharp drop in the average wage in the finance industry is related to the reduction or cancellation of bonuses this year. In addition, it is reasonable to assume that the average wage declined somewhat due to the hiring of new workers at a lower wage, which was possible in a context of increased unemployment. The average wage also fell in business services, in which employment also expanded this year, apparently as a result of the hiring of workers at lower wages.

The average nominal wage in the finance industry declined as a result of the cut in bonuses.

Box 5.1

The public services and the public sector

The data for employment in Israel includes a breakdown of employment and wages in the **public services**, including education, health, R&D and public administration, which historically have reflected employment and wage trends in the **public sector**. However, the reforms carried out in this sector, particularly the transfer of activity from the government to private nonprofit organizations and private companies, alongside the growth in R&D, educational services, etc. in the private sector, have changed the sectoral composition of the public services. Thus, in 2008, there were 890,000 employees in **public services**, of which about 528,000 were employed in the **public sector**, including the government, local authorities, the national institutions and public nonprofit organizations. The rest were employed in public services, private companies (primarily in R&D, education and health services), private nonprofit organizations and households. Therefore, caution should be used when inferring from wages and employment in the public services to wages and employment in the public sector.

**Number of Employee Posts and the Average Wage in the Public Services,^a
2008** (increase or decrease from previous year, percentage points)

	Employee posts (‘000)	Average wage NIS ‘000	Total wage NIS million
Total public services ^b	890.6	7.7	6,864.9
Public sector ^c	529.3	8.7	4,610.6
<i>of which</i> Central government ^d	188.2	10.8	2,024.2
Local authorities	113.1	7.6	857.1
Public nonprofit organizations	191.0	6.8	1,290.9
Government hospitals	36.0	11.9	429.8
Public services excluding the public sector	361.2	6.2	2,254.3
<i>of which</i> Private companies	173.1	7.8	1,345.0
R&D	31.0	22.3	690.4
Education, health, sanitation etc.	141.3	4.1	585.4
Households	28.5	3.0	86.5
Private nonprofit organizations	157.8	5.1	808.1

^a Data from the National Insurance Institute and other administrative sources.

^b Not including education and health services imputed to the private sector.

^c Including private hospitals and nonprofit organizations.

^d Including the National Insurance Institute and National Institutions.

SOURCE: Central Bureau of Statistics.

Table 5.4
Change in Real Wage per Employee Post,^{a,b} 2004-09

	(percent, at constant prices)					
	2004	2005	2006	2007	2008	2009
Total	2.5	1.0	1.3	1.6	-0.7	-2.8
Israelis	2.3	1.1	1.3	1.8	-0.3	-2.8
Business sector, total	1.5	1.5	1.7	1.4	-0.7	-3.1
Israelis	1.0	1.5	1.6	1.4	-0.2	-3.1
Agriculture, total	0.6	0.7	1.6	1.9	-2.7	-0.4
Israelis	-0.3	-0.1	0.5	0.8	1.0	-0.2
Manufacturing–Israelis	2.2	2.6	2.5	2.5	-1.8	-2.2
Electricity and water–Israelis	0.4	6.4	6.8	-0.8	3.0	-0.4
Construction, total	1.6	-1.0	0.7	1.8	1.1	-1.4
Israelis	-0.8	-0.7	0.8	2.4	2.5	-1.1
Commerce and repairs–Israelis	0.2	1.0	0.2	2.1	-1.1	-3.0
Hotel and catering services, total	-0.4	-0.4	0.5	1.8	-1.3	-0.9
Transport, storage and communications–Israelis	-0.7	0.2	0.3	0.0	-2.4	0.1
Financial services–Israelis	10.3	3.0	7.9	-0.9	1.1	-13.4
Business services–Israelis	3.0	4.6	2.7	3.6	1.6	-3.6
Public services	4.6	0.0	0.3	2.2	-0.7	-2.1
Health	3.0	0.7	-0.5	2.0	-1.3	0.1
Community services, Israelis	1.9	0.5	-2.0	2.5	-2.3	-1.6

^a Real wage per employee post according to National Insurance Institute reports. Includes reported Palestinian and foreign workers, unlike otherwise indicated.

^b The sectors are defined according to industry and not employers' classification, and do not include the imputation of employees from the health and education industries to the private sector.

SOURCE: Central Bureau of Statistics Labor Force Surveys.

The average nominal wage rose in manufacturing and construction, in which workers were laid off.

In contrast, the nominal wage reported to the National Insurance Institute for salaried posts in manufacturing and construction, in which the employment of Israelis declined by more than 7 percent, continued to rise during the course of the year and the erosion of the real wage was a result of the rise in prices only. It can be assumed that the continued rise in wages in these industries was connected to the layoffs of relatively low-paid workers. Thus, it appears that the relative rise in wages in manufacturing and construction, in which the employment of Israeli workers declined, and the drop in the real wage in finance and business services, in which employment expanded, was influenced by the selectivity in layoffs and hiring between workers at different wage levels. It should be mentioned that wages reported to the National Insurance Institute for the construction industry are biased upward due to the increase in the employment of Palestinian workers without permits, who probably replaced low-paid Israeli workers.

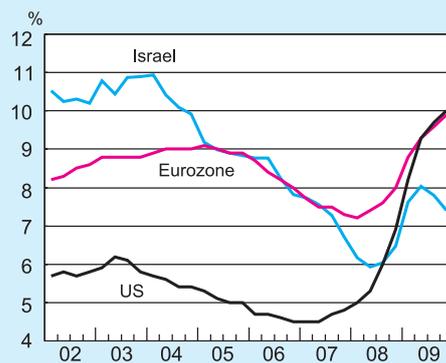
The average wage in the health industry rose as a result of collective labor agreements.

Nominal wages also rose in the health industry as a result of collective wage agreements, particularly those reached through arbitration, which led to accumulated wage increases of more than 20 percent for physicians in hospitals and health services. The first installment of the wage increase went into effect in January 2009 and the other four are spread out until January 2011. The increase in physicians' wages is likely to trigger wage increases in other vocations within the health system and therefore, this year, further increases in the average wage can be expected in the health industry.

7. UNEMPLOYMENT

The economic crisis began in 2008 following a five-year downward trend in the rate of unemployment to 6.1 percent, its lowest level in two decades. The downward trend was reversed by the crisis and unemployment rose to 8 percent in the second quarter of 2009. The increase in the level of unemployment came to a halt in mid-2009 and during the second half of the year it declined as the economy recovered (see Chapter 2). Even at the peak of the current crisis, the rate of unemployment was significantly lower than in the previous crisis of 2002–05, when it reached over 10 percent. The rate of unemployment in Israel, which during the period 2005–07 was similar to that in the euro bloc and exceeded the rate in the US, was by the end of 2009 more than 2.5 percent points lower than in these economies (Figure 5.14). Furthermore,

Figure 5.14
Unemployment Rates in Israel, the Eurozone and the US, 2006-09



SOURCE: The Central Bureau of Statistics, based on reports to the National Insurance Institute.

Unemployment in Israel rose by a moderate rate relative to the US and Europe.

unemployment in Israel began to decline in the second half of 2009 while in the euro bloc and the US it continued to climb to a level of about 10 percent. A continuation of this trend would increase the gap in unemployment rates between Israel and other advanced economies. The low rate of unemployment in Israel and its rapid decline only three months after the peak of the crisis in late 2008 is therefore surprising, both relative to the previous crisis and relative to other advanced economies.

In annual terms, the rate of unemployment rose by 1.5 percentage points. An analysis of contribution to unemployment⁸ by industry shows that the contribution of the business sector was 1.4 percent while that of public services was 0.1 percent (Table 5.5). The industries that are intensive in unskilled labor were the primary contributors to unemployment both in manufacturing (0.2 percent) and in other industries, such as commerce and construction (1.2 percent). In contrast, the contribution of skilled-labor-intensive industries in manufacturing (0.6 percent) was offset by a negative contribution of the same magnitude of non-manufacturing skilled-labor-intensive industries. In particular, the finance industry and other business services made negative contributions to unemployment of 0.2 and 0.4 percent respectively. These phenomena reflect a *decline* in the demand for unskilled workers and a *shift* in the demand for skilled workers from manufacturing to other industries.

An analysis by gender, ethnic group and region reveals that the increase in unemployment during this last downturn was concentrated among populations that are well-integrated within the labor market and who were characterized by low pre-crisis unemployment rates:

1. The gap in the rate of unemployment between men and women narrowed between 2008 and 2009 by 0.6 percentage points to 0.1 percent, as a result of the rapid increase of 1.8 percent in the rate of unemployment among men (Table 5.1).

2. The gap in the rate of unemployment between Jews and Arabs narrowed by one percentage point between the second quarter of 2008 and the second quarter of 2009, as a result of the increase in the rate of unemployment among Jews by 2.2 percentage points.⁹

3. The rate of unemployment among 1990s immigrants, which during the second half of the 2000s was lower than the corresponding rate among the native population, rose by 1.7 percentage points in contrast to an increase of 1.4 percentage points among native Israelis (Table 5.4 in the Appendix).

4. The rate of unemployment in Tel Aviv and the Central District grew more rapidly than that other districts in Israel and converged to the rate of unemployment in Haifa, Jerusalem and the periphery.

⁸ The contribution to unemployment in each industry is calculated as the difference between the level of employment that would have been reached in that industry had it grown at the rate of increase in the civilian labor force and actual employment in the industry, divided by the civilian labor force. Thus, the industries in which employment grew at a slower rate than the rate of increase in the civilian labor force made a positive contribution to unemployment while industries in which employment grew at a higher rate made a negative contribution to unemployment.

⁹ Calculated on the basis of original data.

Unemployment increased rapidly among Jews, men, immigrants who arrived during the 1990s, and residents of Tel Aviv and the Center.

It is estimated that the rate of increase in unemployment among this populations, i.e., among men, Jews, and residents of the Central District—populations that are well integrated in the labor market—will soon dwindle, since their chances of finding suitable work are higher than for weaker populations. The relatively large increase in unemployment among the stronger segments of the population minimized the need for an anti-cyclical policy, such as support for factories in the periphery. Furthermore, it can be assumed that the unemployed in these populations are eligible for unemployment benefits since they worked continuously prior to the crisis.

Table 5.5
Contribution to Change in the Unemployment Rate, Israelis,^a 2005–09

	(change from previous year, percentage points)				
	2005	2006	2007	2008	2009
Total	-1.4	-0.6	-1.1	-1.2	1.5
Public services	-0.5	0.1	-0.2	-0.2	0.1
Business sector	-0.9	-0.7	-0.9	-1.0	1.4
Skilled-labor-intensive industries ^b	-0.4	-0.5	-0.6	-0.2	0.2
Nontradables ^c	0.0	-0.2	-0.4	0.0	-0.5
Manufacturing	-0.2	0.0	-0.2	0.0	0.6
Finance	0.0	-0.1	-0.2	-0.1	-0.2
Other business activities	0.1	-0.1	-0.2	0.1	-0.4
Low-skilled-labor-intensive industries ^d	-0.1	0.2	-0.7	-0.4	1.2
Manufacturing	0.3	0.2	-0.1	0.1	0.2
Commerce	-0.2	0.3	-0.4	-0.4	0.5
Construction	0.2	-0.1	-0.4	0.1	0.4
Hotel and catering services	-0.3	-0.1	0.1	-0.2	0.1
Other industries (not classified) ^e	-0.4	-0.4	0.4	-0.4	0.0
<i>of which</i> Manufacturing	0.1	-0.2	0.0	-0.1	0.3

^a The contribution to the rise in unemployment was calculated as the difference between the number of Israelis who would be employed if employment had expanded in line with the growth of the civilian labor force and its actual expansion (for by-industry breakdown, see Table 5.A.10).

^b Skilled-labor-intensive industries include some manufacturing, computer services, banking, insurance, financial institutions, and other business activities. This classification differs from that in the section on manufacturing in Chapter 1.

^c Banking, insurance, financial institutions, and other business activities.

^d Low-skilled-labor-intensive industries include some manufacturing, commerce and repairs, construction, and hotel and catering services.

^e Other industries (not classified) include agriculture, water and electricity, transport, storage and communications, equipment rentals, employment agencies, security and cleaning, entertainment and other personal services.

SOURCE: Based on the Central Bureau of Statistics Labor Force Surveys.

8. GOVERNMENT POLICY AND INSTITUTIONAL CHANGES

The main policy adopted by the government to assist jobseekers during the crisis was to temporarily relax the criteria of eligibility for unemployment benefits until February 2010.¹⁰ As a result, unemployment benefits are paid for half of the period defined in the National Insurance Law to jobseekers who had accumulated less work experience than that specified in that law. In addition, the government extended the maximum period for receiving unemployment benefits for individuals under the age of 35.¹¹ The combination of more lenient conditions of eligibility for a short period and the extension of the period of eligibility for unemployment benefits eased the situation of jobseekers and provided them with a longer period in which to find a job suited to their abilities.

The government relaxed the criteria for receiving unemployment benefits through a temporary order.

During the crisis, the number of claims for unemployment benefits increased rapidly as a result of layoffs. The number of first-time claims grew by about 12,000 during the first few months of 2008 to a level of about 21,000 in the spring of 2009. The growth in the number of first-time claims leveled off during the course of the year when unemployment declined somewhat and the economy began to recover. One of the factors that increased the number of unemployment benefit recipients, which rose during the second half of the year by 4,500, was the above-mentioned relaxation of the criteria of eligibility for unemployment benefits. An increase of a similar magnitude was recorded in ongoing claims. The possibility of a permanent rather than temporary relaxation of the conditions for eligibility of receiving unemployment insurance and extension of the period of the benefits, should be considered in order to enable the unemployed to find suitable employment. In particular, it is recommended that the qualification period should be shortened in order to assist populations who are not well-integrated within the labor market in finding appropriate employment. It should be mentioned that only about 30 percent of the non-employed receive unemployment insurance and that even after the changes were implemented the unemployment insurance benefits in Israel are still lower than those in other countries.¹²

The reaction of the government to the crisis also included a number of employment programs and policies, some of which continued into 2010. These included a vocational training program for technicians, engineers and workers in the tourist and construction industries; retraining programs in nursing and teaching for university graduates; and a large-scale program costing NIS 180 million to encourage the employment of Israelis in nursing by increasing the allocation of nursing hours to

¹⁰ The more lenient criteria of eligibility go into force when the rate of unemployment exceeds 7.5 percent.

¹¹ According to the more lenient criteria of eligibility, a worker is eligible for unemployment benefits for a short period if he worked for at least 9 full months—instead of 12 months as stipulated in the law—during the 18 months prior to his claim. The maximum period, conditional on the age of the unemployed individual, was thus increased by about 20 percent. For example, following the amendment to the law, an unemployed individual aged 28–34 is eligible for unemployment benefits for a period of 125 days, instead of 100 previously.

¹² OECD (2010), pp. 121–22.

employers of Israelis. A number of the programs had only limited success either due to the timing of their implementation or their conditions. Thus, for example, only two employers were interested in subsidizing workers to take unpaid vacation since the program only reached the implementation stage in July 2009 once the economic recovery had already begun and the need to reduce labor input was not as urgent. In some of the OECD countries employment programs are automatically activated when the rate of unemployment reaches a defined threshold.

The government continued its policy of reducing the rate of taxation on labor in 2009, as part of the ongoing implementation of its long-term policy. The main beneficiaries of the tax reductions are those earning salaries of NIS 14,000–45,000 per month, whose marginal tax rate was reduced by 3 percentage points. The marginal tax rate on the highest tax bracket (over NIS 45,000) and on income in the second tax bracket (NIS 9,000–14,000) was reduced by only one percentage point while the tax rate for low income earners remained unchanged. At the same time, the imputed value for tax purposes on the use of a company car was increased by about 20 percent, i.e., increasing the tax paid by medium-to-high and high income earners who form the main group of those enjoying the use of a company car. In addition, the ceiling for National Insurance payments was doubled, such that the National Insurance deductions for high income earners increased significantly. Despite the increase in the value of vehicle use, the reform reduced the net tax burden for most medium-to-high income earners.

The continuing policy of reducing income tax rates benefited medium- to high-income earners.

The government continued with other measures that are meant to encourage integration into the labor market of weak segments of the population. These include the pilot Welfare to Work program “Lights to Employment” (“Wisconsin Plan”), whose future has yet to be determined, along with the Earned Income Tax Credit (EITC, negative income tax) program introduced in certain areas and the Laron Law, which provides a disability payment to the working disabled (as described in Chapter 8). In addition, the government, the Histadrut and the local authorities signed an agreement that increases the wages of 60,000 local government workers to the level of the minimum wage, as an alternative to income supplements which they received prior to the agreement. This policy, which benefits the employment periphery and low-paid workers, somewhat balances the reduction in the tax burden for medium-to-high and high wage earners but does not benefit low-to-medium income earners, who benefit very little from the tax reduction and are ineligible for the assistance to low income earners.

The changes in legislation have strengthened the position of workers relative to employers.

During the course of the year, a number of labor laws were amended, particularly the Wage Protection Law and the Collective Bargaining Law. These changes strengthened the status of workers vis-à-vis employers. The amendment to the Wage Protection Law strengthened the legal status of workers by obligating employers to provide every worker with a wage slip and to document his days of work, hours of work and deductions from his salary and increased the penalties for violating the law. In addition, the requirement of proof of number of hours worked was transferred to

employers and in December 2009, an amendment to the Severance Pay Law was approved which tightened the criteria for interrupting the continuity of employment from three months to six months with the goal of preventing seasonal layoffs. These changes to the law are likely to have an effect on weaker populations and on interns at the beginning of their professional careers who are often employed under conditions which deviate from the stipulations of the law and whose status makes it difficult for them to demand their legal rights.

An additional change in the law is the obligation of employers to negotiate with representatives of their workers even when the workers are only in the preliminary stage of organization, i.e., when at least one-third of the employer's workers are represented. This obligation was first imposed through precedents in the labor court and was later formalized in an amendment to the Collective Bargaining Law as part of the package deal, in spite of protests from some employer organizations. Workers at a number of companies, such as Hot, Sonol and Tefron, as well as nonprofit organizations such as the Open University, were unionized as a result of the new legal circumstances.

Other factors that are catalyzing union activity include the employment uncertainty due to the economic crisis and the developing dynamic between the various unions—the New Histadrut, the General Histadrut and Power to the Workers¹³—which sometimes compete with each other. Based on unofficial information, it appears that several thousand workers joined the unions during 2009, among them employees in workplaces that had not been unionized in the past, as mentioned. It is too early to say whether the change in the legal circumstances and the rivalry between the unions will moderate the prolonged weakening of the unions during the last two decades. Such changes may become more evident already in 2010 when numerous labor agreements in the public sector will be renegotiated and the Histadrut's commitment to industrial peace (which was given as part of the wage agreements signed in 2008) will end. It is possible that these changes will be expressed in an increasing number of strikes, a trend which began in late 2009.

Union activity has increased as a result of the legislative changes, the crisis and the competition among the various unions.

¹³ A union created in early 2008 that succeeded in unionizing about 3,000 workers in a number of workplaces that were not unionized in the past. As of late 2009, the organization represented about 5,000 workers.

Box 5.2 Employment experience among Arab women¹

Arab women in Israel are characterized by low rates of labor force participation and employment. In 2008, only about 26 percent of Arab women of working age were employed, which compares to 77 percent among Jewish women and Arab men.

There are a variety of explanations for the low participation rate of Arab women: a low level of education and a high rate of fertility; a lack of employment opportunities due to the low level of economic development in Arab villages and the low level of access to support services such as public transportation and daycare; and the norms in Arab society with regard to the role of each gender.²

This box analyzes the employment patterns of Arab women during the period 1983–2004.³ The focus of the analysis is the rate of employment experience, which is defined as the proportion of months of actual employment within the total potential number of working months during the sample period. The analysis is carried out on panel data, i.e. observations for each woman in the sample over time, as opposed to cross-section data,⁴ i.e. observations for different women at each point in time. Young women (aged 25–29 at the beginning of the period) were chosen for the analysis in order to study their employment patterns while of working age and in this way to avoid having to deal with the issue of early retirement.

The rate of employment experience among Arab women is about 24 percent, as compared to 64 percent among Jewish women (see table). The gap is the result of a low rate of employment experience among uneducated Arab women since the rates for educated Jewish and Arab women are similar (as are the rates of employment). It should be mentioned that over the years, participation and employment rates have risen significantly among Arab women born later than the ones analyzed in this box, mainly due to a significant increase in years of schooling. A similar though less pronounced trend can be seen among Jewish women. As a result, there was an increase in the rates of employment experience following the completion of schooling among women in later cohorts.

¹ Part of ongoing research. The database is the result of a merging of the Population and Housing Census for 1983 and 1995 with salary files for the period 1983–2004 and other administrative data. The data processing was done in the Research Room of the Central Bureau of Statistics.

² Y. King et al. (2009). *Employment of Arab Women aged 18–64*, Meyers-Joint-Brookdale.

³ Not including the years 1996–98 as a result of a lack of data.

⁴ See, for example, E. Yashiv and N. Kasir (2009). *Arab Israelis: Patterns of Labor Force Participation*, Bank of Israel, Research Department, Discussion Paper Series 11.2009.

Women's employment experience and Educational Levels,^{a,b} Arabs and Jews
(percent)

Year of education	employment experience		Distribution of the education level	
	Arabs	Jews	Arabs	Jews
10-0	18	47	78	15
12-11	34	61	13	36
+13	71	72	8	49
Total ^c	24	64	100	100

^a Aged 25–29 in 1983.

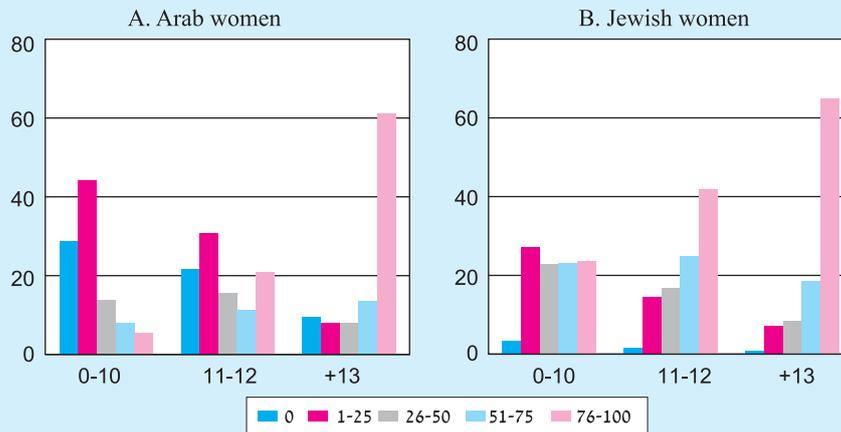
^b Educational levels in parallel group in the 2004 Labor Force Survey.

^c Calculated from the distribution of educational levels shown in the table.

SOURCE: Based on Central Bureau of Statistics data.

Figure 1 presents the distribution of the rate of employment experience according to years of schooling. Long-term non-employment is common among Arab women. Thus, for example, about one-third of women with 0–10 years of schooling did not work at all during the 19-year sample period. The rate of employment experience among Arab women rises with level of education, such that most of the educated women worked for more than three-quarters of the potential employment period. In contrast, only a negligible proportion of Jewish women did not work at all and their ties to the labor market are stronger. Thus, for all levels of education, about one-half or even more of the Jewish women worked for most of the period.

Figure 1
Rate of employment experience among women^a according to years of education (rate for each level of education in percent)



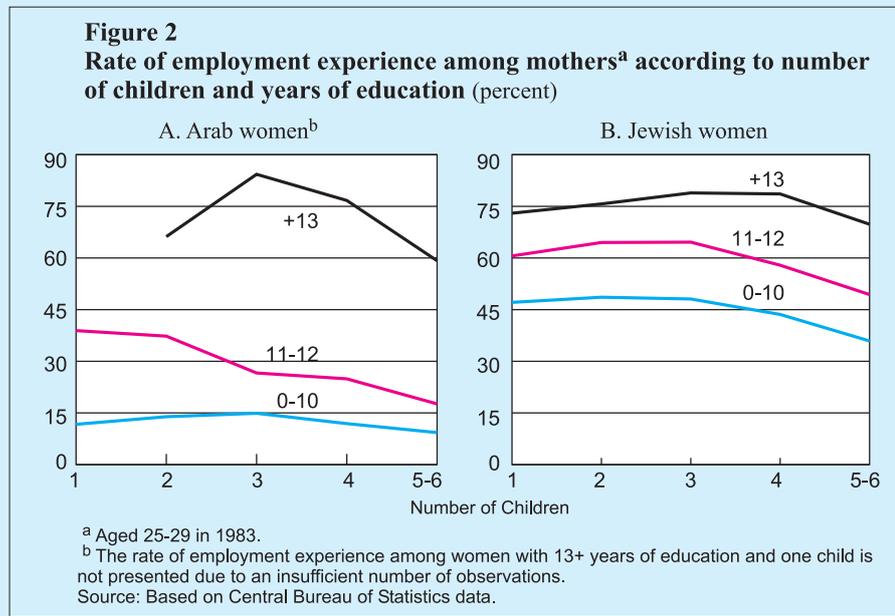
^a Aged 25-29 in 1983.

Source: Based on Central Bureau of Statistics data.

The fertility rate is higher among Arab women than among Jewish women, which has a negative influence on their labor supply. When this is taken into account, it appears that the rate of employment experience among Arab mothers is still lower than among Jewish mothers, given the level of education and number of children (Figure 2). The rate of employment experience in both populations has risen with increasing levels of education, given the number of children. The rate increases until the third child and falls for each additional child.

Arab mothers with a low level of education have a very low rate of employment experience, which is not dependent on number of children. Thus, their low rate of participation in the labor market is likely to be the result of traditional attitudes and low earning ability. Among educated Arab mothers, the rate drops sharply with the third child, which can be explained by the high cost of childcare relative to their income from labor. It is of interest that among educated Jewish mothers, the fall in the rate of employment experience occurs only with the fifth child.

The small amount of employment experience accumulated by uneducated Arab women and those who are caring for a large number of children leads to chronically low household income in this population. Therefore, consideration should be given to comprehensive intervention policies in order to raise the employment rate of these women, as well as their earning ability. This can include vocational training, increased availability of support services (public transportation, daycare, etc.) and the acquisition of additional schooling in the long run.



The main activities to promote the employment of Arab women currently include vocational training provided by the Ministry of Industry, Commerce and Employment (including programs that are part of the “Lights to Employment” program) and short training courses for business development and self-employment, as well as the improvement of basic skills, which are focused on the needs of employers, and empowerment. The training programs have been modified according to the needs of the Arab sector, which include the separation of men and women, instruction in Arabic, provision of transportation to the training centers and obtaining the prior agreement of leaders in the community and family members in order to avoid opposition to participation in the courses and entry into the labor market. In addition, the supply of government-subsidized daycare centers in the Arab sector has been increased in past years, though it is still insufficient.

Box 5.3

Recovery of Palestinian employment in the Israeli economy

In recent years, as the intifada died down, the number of Palestinians from Judea and Samaria who work in the Israeli economy—including Israel and Israeli settlements in Judea and Samaria¹—has grown. This followed the drop during the first two years of the intifada (2001–02). An analysis of the data of the Palestinian Central Bureau of Statistics shows that the number of Palestinians from Judea and Samaria employed in the Israeli economy reached about 44,000 in 2008 (Table 2), about 2 percent of the total number of employees in Israel’s business sector. This is in addition to the 32,000 Arabs of East Jerusalem included in the figures published by Palestinian Central Bureau of Statistics. From a Palestinian point of view the, employment in Israel is clearly of great importance: Palestinians working in Israel constitute 14 percent of the total number of employed Palestinian residents of Judea, Samaria and East Jerusalem. (Table 1). Total payments for the labor services of Palestinians in 2008 was estimated at about \$649 million, which represents more than 10 percent of the Palestinian GDP and is about the same as the total value of Palestinian exports.² These statistics illustrate the importance of employment in Israel to the Palestinian economy.

¹ The distinction between Israel and the Israeli settlements in Judea and Samaria is due to the difference in work arrangements for residents of the territories within the Green Line, including East Jerusalem, and those in the Israeli settlements in Judea and Samaria.

² Source: The Palestinian Monetary Authority (Central Bank): www.pma.ps

Table 1
The Employment of Palestinian Residents of Judea and Samaria in Israel's Economy^a

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^b
Palestinian employees in Israel's economy ^c ('000)	95.4	67.5	45.8	49.1	48.6	62.5	59.5	62.1	74.7	73.7
Share of total employees ^c (%)	22.4	18.0	13.3	12.5	11.6	13.8	13.0	13.1	15.6	14.0
Unemployment rate in Judea and Samaria ^c (%)	12.1	21.5	28.2	23.8	22.9	20.3	18.6	17.7	19.0	17.7
Total wage payments (current \$)	545.6	359.2	273.3	362.1	348.5	431.6	504.2	492.8	649.1	-
Real daily waged in Israel's economy (NIS)	155.5	147.1	151.7	155.1	152.7	-	145.2	143.7	139.4	145.2
Real daily waged in Judea and Samaria (NIS)	97.9	95.1	92.3	90.1	87.5	86.3	86.0	86.1	85.3	86.0

^a Includes Israel and the Israeli settlements in Judea and Samaria.

^b Initial estimates, based on the average of the first three months of the year

^c Including the Arabs of East Jerusalem, because they cannot be deducted from the data of the Palestinian Central Bureau of Statistics withing causing distortions.

^d The real net wage at 2009 prices, calculated using the CPI of the Palestinian Authority in Judea and Samaria.

SOURCE: The Palestinian Central Bureau of Statistics and the Palestine Monetary Authority.

The growth in the employment of Palestinians in Israel during the period 2002–08, together with the improvement in the security situation, the removal of roadblocks, the rehabilitation of institutions of the Palestinian Authority and the Palestinian Authority's economic recovery plan contributed to the increase in the participation rate and a limited decrease in the rate of unemployment. Thus, a report by the Palestinian Ministry of Finance states that the increase of more than 20 percent in the number of Palestinian working in the Israeli economy during 2007–08 led to a significant increase in national income and domestic demand in the Palestinian economy. This was the result of the fact that the wages of Palestinians working in the Israeli economy exceed the daily average wage in Judea and Samaria by about 60 percent (Table 1).³

Palestinian residents of Judea and Samaria working in the Israeli economy are divided into workers with a permit, workers without a permit, and a small minority with an Israeli identity card or foreign passport. In 2008, about 57 percent of the workers from the territories in the Israeli economy possessed a permit, about 37 percent worked without a permit, and a small minority used foreign passports or Israeli identity cards (Table 2). The permits to work in the Israeli economy include both permits to work in the State of Israel, which are subject to quotas and are granted only after a thorough security check, and

³ Palestinian National Authority, Ministry of Finance (2009) "Palestinian Economic Recovery Strategy in Transition" (June 7), p.15.

permits to work in Israeli settlements in the territories, which are given to most individuals who request them.⁴ Therefore, it can be assumed that the absolute majority of those without permits work within the State of Israel, where they can find work at higher wages, even though the number of permits issued is limited. Workers without permits employed in Israel's economy earned a high daily wage (of NIS 124), relative to the average daily wage of NIS 85 in the Palestinian economy, but lower than the average daily wage of NIS 141 earned by permit holders, whose wage is supervised by the Israeli authorities.

The security criteria for issuing permits to work in Israel are reflected in a comparison between Palestinian workers in the Israeli economy who possess a permit and those who do not.⁵ Thus, permit holders tend to be older and are less likely to be single than those without a permit. Israeli efforts to enforce the law against workers employed without a permit are reflected in their irregular pattern of employment and particularly in the fact that they work fewer days per month than do permit holders. As a result of the lower number of days worked

Table 2
Palestinian Residents of Judea and Samaria^a Working in Israel's Economy, by I.D., 2008

	With work permits	Without work permits	Israeli I.D./foreign passport ^b	Total ^c
Men (%)	99	99	95	98
Age (years)	36.7	29.1	32.3	33.6
Unmarried (%)	15	43	38	27
Head of household (%)	78	46	56	65
Years of education	9.4	9.4	9.9	9.4
Number of days worked in previous month	18.2	14.7	21.2	17.0
Net daily wage (NIS)	141.2	124.4	145.9	133.2
Net monthly wage (NIS)	2,546	1,897	3,238	2,264
Employed in construction (%)	54	64	26	56
Number of employees	24,888	16,057	2,744	43,885

^a The Arabs of East Jerusalem are not included in the processed data on Palestinians.

^b These figures should be treated with caution because of the low number of observations.

^c Including those working in Israel's economy who did not report on the type of ID certificate.

^d Calculated by multiplying the individual's daily wage by the number of days worked in the previous month.

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

⁴ In 2008, there were a monthly average of about 25,000 holders of valid permits to work in the State of Israel and about 22,000 permits to work in Israeli settlements in Judea and Samaria. Apparently, some of the permits to work in the settlements are not utilized.

⁵ This, despite the fact that the data of the Palestinian central Bureau of Statistics do not distinguish between holders of permits to work within the Green Line and holders of permits to work only in settlements in Judea and Samaria.

per month and the lower daily wage of workers without permits than those of permit holders, the average monthly wage of the latter is 34 percent higher than that of the non-permit-holder. Permit holders work an average of about 18 days per month and earn a net wage of NIS 2,546 in Israel according to data of the Palestinian Central Bureau of Statistics, which is in line with the administrative data reported to the Israeli authority that supervises their wages and ensures that they conform with Israeli labor laws (including minimum wage laws). This tends to support the reliability of the data. The daily wage of workers without permits is also lower than that of permit holders, whose wage is supervised by the Israeli authorities.

In contrast, from the viewpoint of employers, the difference in cost of employing a worker with a permit and one without is significant. According to data of the Immigration Authority of the Israeli Ministry of the Interior, the average cost to an employer for a reported day of work of a permit holder in Israel, including all the levies and social benefits, was about NIS 210 per day of work in 2008 while the daily cost of a worker without a permit included only his wage, which amounted to about NIS 124 per day of work. The difference between the employer's cost to employ a worker with a permit to work within the Green Line and the cost of an Israeli worker on the one hand and that of an illegal worker constitutes a significant incentive to employ residents of Judea and Samaria without permits.

The low cost of employing Palestinians from Judea and Samaria in Israel's economy is likely to have a negative impact on the wage of unskilled Israeli workers, and has unfavorable social implications. In accordance with a government decision in January 2010, an inter-ministerial team has been established recently charged with making proposals for quotas for Palestinian workers from Judea and Samaria, and on regularizing their employment in Israel's economy. Such arrangements would include improving the policy of enforcement vis-à-vis employers of workers without permits, and also vis-à-vis employers who do not meet the full costs defined by Israeli labor laws.

In conclusion, the improvement in the situation of the Palestinian workforce in Judea and Samaria is partly the result of the increase in employment in the Israeli economy. According to the partial data we possess, a significant portion of this growth involves workers from the territories (with a Palestinian identity card) who have not received a permit to work in Israel. The wages of these workers, particularly in the construction industry in which a large number of Palestinians are employed, is significantly lower than those of Palestinian workers with permits and Israeli workers. The disparity in wages between Palestinian workers without a permit on the one hand and Palestinian permit holders and Israeli workers on the other is expected to increase when the

collective bargaining agreement signed in January 2010 for the construction industry goes into effect. This agreement, which raises the initial wage in the industry by about NIS 500 beyond the minimum wage, increases the cost of employing workers with permits and strengthens the incentive to give preference to non-Israeli workers without permits over Israeli workers and non-Israeli workers with permits.

Effective organization and enforcement with regard to employers of workers without permits, and even levies on the employment of non-Israeli workers with permits, is likely to prevent the displacement of Israeli workers by non-Israeli workers, including Palestinians, and to avoid the negative effect on the wages of the unskilled in Israel's economy.⁶ That said, the employment of permit-holding Palestinian workers is preferred to the employment of foreign workers for political, social and economic reasons. These include a certain increase in the demand for Israeli goods among Palestinians and the greater flexibility in the employment of daily workers from the territories as opposed to the employment of foreign workers, who tend to reside in Israel for a considerable period of time. The employment of Palestinians facilitates an employment continuum over a longer period of time when the security situation is favorable, which increases their economic efficiency relative to foreign workers.

From the point of view of the Palestinian economy, an increase in the employment of workers from the territories in the Israeli economy expands the export of services and increases GDP. On the other hand, the high wages received by workers from the territories in Israel erodes the return to education and thus discourages young Palestinians from obtaining high school or higher education. Thus, it has the potential to hamper the growth of the Palestinian economy in the long run.

⁶ Shmuel Amir and Daniel Gottlieb (2005). Entry of foreign workers and displacement of local workers in Israel, Ministry of Industry, Commerce and Employment, Planning, Research and Economics Authority.

Zussman, Noam and Dimitri Romanov (2005). *Foreign workers in the construction industry: status and policy implications*, Bank of Israel, Research Department, Discussion Paper Series 2003.06.

