

CHAPTER X

WAGES

1. MAIN DEVELOPMENTS

AVERAGE MONTHLY WAGES per employee¹ amounted to IL 570 in 1967, up 0.5 percent from the 1966 average. In the course of the year the average monthly wage rose by about 4 percent. The increase occurred entirely in the second half; in the first half wages were more or less stable, but declined just before and during the war. This applies to most sectors of the economy.

The change in disposable income per employee (gross income less direct taxes) was similar to that in wages per employee, both declining by 1 percent in real terms. Average hourly earnings were 4 percent higher than in 1966; during 1967 the level went up by 6 percent.

The number of employees² edged down about 1 percent on an annual average, but in the course of the year it rose by 4 percent, mainly in the final months. The number of hours worked per employee fell by 4 percent, and consequently the wage-labor input dropped by approximately 5 percent.

Wage developments in 1967 differed from those in previous years. Nominal average monthly earnings and disposable income per employee remained practically at their 1966 levels, while in real terms they were 1 percent lower. This

¹ The number of wage earners (or employees) is defined, according to data of the National Insurance Institute, as the total of all persons working for a wage or salary. It includes *inter alia* members of cooperatives. On the other hand, it does not include defense establishment personnel or domestic help. Nor are the data complete with respect to persons employed on relief projects and hired farm hands.

Wages (or income) as used here means the gross earnings of the wage earners as defined above, and consists of payments for straight time and overtime, retroactive increments, premiums, and bonuses.

Wages are calculated on a cash basis, i.e. payments for work performed in the past or advance payments on account of future work are included in wages for the period in which they were actually paid and not for the period to which they relate.

A distinction is made here between the wage paid to the employee and the wage paid for the job which he fills. National Insurance data show the wages paid for the jobs and not to the workers themselves. The data on wage earners in this chapter reflect the jobs held by employees. The latter are obviously higher than the number of wage earners, since persons holding more than one job, even if on a part-time basis, appear more than once. It follows that the wages per employee (which are actually the wages per job) cited in this chapter are somewhat lower than the actual wages earned by employees.

² See the discussion on p. 250 below concerning the significance of the data on the number of employees and the differences between sources.

is a new phenomenon in Israel (see Diagram X-3), and it can be attributed to a slight increase in hourly wages and a decline in the number of man-hours per employee. The year 1967 also differed from other years in the smaller increase in hourly wages, the decline in employment, and a more pronounced drop in the number of man-hours per employee.

Analysis of developments during the year shows a reversal of trend in the second half, the number of employees and wages per employee rising in nearly all sectors of the economy.

Table X-1
NUMBER OF EMPLOYEES,^a WAGE BILL, AND ANNUAL EARNINGS
PER EMPLOYEE, 1965-67^b

	1965	1966	1967 ^c
Number of wage earners (thousands)	642	642	637
Percent change	3	0	-1
Total wage payments at current prices (IL million)	3,671	4,374	4,369
Percent change	20	19	0
Total wage payments at 1967 prices ^d (IL million)	4,030	4,445	4,369
Percent change	13	10	-2
Annual income per wage earner at current prices (IL)	5,720	6,820	6,850
Percent change	18	19	0
Annual income per wage earner at 1967 prices ^d (IL)	6,280	6,920	6,850
Percent change	9	10	-1

^a See the definition of wage earners in note 1 on p. 246.

^b The figures in this table have been rounded off; the percentage changes have been computed from unrounded figures.

^c Data for December 1967 are provisional.

^d Deflated by the consumer price index; annual averages.

SOURCE: Based on Central Bureau of Statistics data.

The 1967 changes in wages should be compared with data for several preceding years, by subperiod. The first subperiod begins in the last quarter of 1965, when the economy was still booming (with the exception of construction, where the first indications of a slump became manifest). Public sector employees (and all others whose earnings were directly influenced by the job reclassification and revision of salary scales in that sector) enjoyed rises of about 30 percent retroactive for two years.¹ Against this background, new wage agreements were signed in other sectors, providing for an increase of nearly 8 percent in wage rates at the beginning of 1966—a relatively steep advance. At the same time, the cost-of-living allowance was revised upward by about 7 percent, so that

¹ A detailed discussion of the reclassification of personnel appeared in the Bank of Israel Annual Report for 1965, pp. 222-23, and in the 1966 Annual Report, p. 251.

hourly wages jumped 30 percent from the middle of 1965 to the third quarter of 1966.¹

The economic slowdown and sagging demand for goods in 1966 resulted in a drop in employment and a growing number of jobless. True, the large wage hikes granted at this time augmented the demand of those benefiting therefrom, and thus tended to stimulate economic activity somewhat, but the wage increases also pushed up production costs appreciably and reduced profits. Employers found it difficult to absorb the decline in demand for their products without dismissals, and consequently unemployment increased. Institutional wage policy was slow in reacting to the recession (see the discussion in section 3 below), with the consequence that the 1966 wage agreements, which provided for substantial increases (and envisaged a further increase in 1966), had the same result, only more so.

Even in this first subperiod the effect of economic variables on wages was evident. While wage policy is shaped mainly by the Histadrut (General Federation of Labor), the Manufacturers Association, and the Government, they are influenced by the economic variables. The impact of the latter on wage policy is largely indirect, and consequently it finds expression only after the lapse of some time. But there is also a direct effect. In boom periods it is reflected by wage drift—in promotions in grade, the granting of various bonuses over and above the official wage tariffs, travel allowances, etc. In recessionary periods bonuses are generally eliminated and wage policy is only partly implemented. This direct influence was reflected in the second period by a smaller percentage increase in wages than that called for by the wage agreements.

The second period began in the second quarter of 1966 and continued until about the middle of 1967. Employment fell, in contrast to the long-run trend; the number of man-hours per employee decreased substantially more than the long-run trend; wages per employee and hourly wages tapered off and even declined slightly. This was due mainly to the completion of the payment of differentials² and partly to a reduction of bonuses, particularly to building workers. Mounting unemployment and, even more, the fear that it would rise further, weakened and perhaps even halted pressure on the part of trade unions for wage increases in this period (see section 3 below). The general economic situation thus also reduced institutional pressure for wage rises. The cost-of-living allowance was not revised either in July 1966 or in January 1967, even though the determining index rose by more than the required 3 percent.

In the early months of 1967 employment continued to decline and unem-

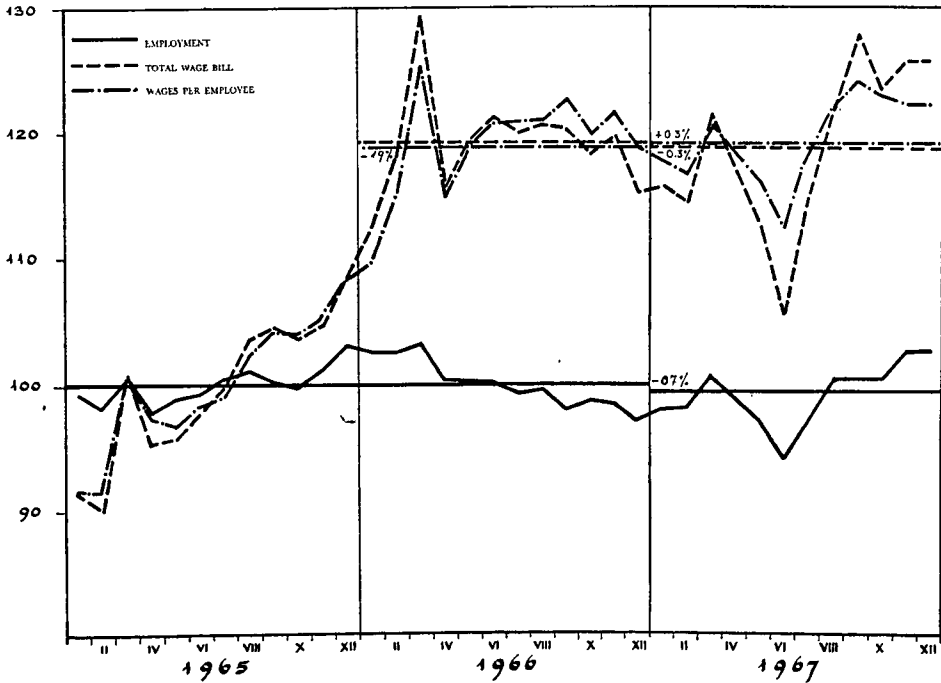
¹ Part of the rise in hourly wages stemmed from the payment of wage increments on account of earlier periods. This percentage increase, therefore, does not reflect the dearer cost of the labor input.

² Public sector employees, as noted, were paid differentials retroactive for nearly two years. In the rest of the economy differentials were paid in the summer of 1966 for the first months of the year, since the wage agreements were signed only in May.

Diagram X-1

INDEXES OF EMPLOYED WAGE EARNERS, TOTAL WAGE BILL, AND MONTHLY WAGES PER EMPLOYEE, 1965-67

(average 1965=100)



SOURCE: Based on Central Bureau of Statistics data.

ployment to mount. The agreed wage increases that were to take effect in 1967 were not fully implemented, owing to the exertion of pressure. Although Table X-7 and Diagram X-2 point to a rise in hourly wages in the second quarter of 1967, it was more the result of wage payments to employees who were absent from work during the war period than of a rise in hourly wage rates.

The third period began in the second half of 1967. Hourly rates and wages per employee moved up slightly, partly reflecting normal wage drift and partly a moderate rise in rates. The policy of the Histadrut, as formulated in its decisions of January 1968 (see p. 258) was to refrain from demanding a further wage revision. At the same time, employment rose and unemployment declined. Economic activity picked up, thanks partly to the wage restraint of the preceding period, which in turn had helped to reduce real payroll expenditure.

The average number of employees came to 637,000 in 1967, 1 percent less than the year before. The decline began in the first half of 1966 and continued virtually without a break until June 1967 (see Diagram X-1). In the second

half of the year employment expanded rapidly, and by year's end was above the average for 1966.

The employment figures cited in this chapter are based on Central Bureau of Statistics data, drawn from a sample of National Insurance files. The data actually refer not to the number of employees but to the number of jobs (see note¹ on p. 246). Another source of employment data is the manpower surveys of the Central Bureau of Statistics; these show a decline of about 8 percent in the average number of employees in 1967 as compared with the last quarter of 1966. The two series diverge most widely in the first quarter of 1967 as compared with the last quarter of 1966. Part of the difference can apparently be explained by changes introduced in the manpower survey in this period, the effect of which was to exaggerate the decline in the number of employees in the first quarter of 1967 according to this source. On the other hand, the change in the number of employees as measured in the National Insurance sample may be biased upward. National Insurance data have been preferred here mainly for the sake of consistency with the practice of former years, and there is no certainty that this year's bias is greater than that of previous years.¹

2. WAGES AND EMPLOYEES, BY ECONOMIC SECTOR

(a) *Agriculture*

Gainful employment in agriculture declined in 1967, as it has for the past several years. The downtrend is connected with a growth in output per worker. The number of workers was nearly 1,000 smaller on an annual average, while in the course of the year the figure fell by about 4,000 to stand at 35,000.

Wages per employee edged down about 1 percent on an annual average, but the end-year figure was 10 percent higher than the year before. This rise was due mainly to an increase of almost 10 percent in the number of man-hours per employee in the second half of the year, and also to a 5 percent upward revision of wage rates in May (it should be noted, however, that in some places the agreement was either not fully or immediately implemented).

Most of the 4 percent decline in the average number of man-hours per week took place in the second quarter (the war period).

(b) *Industry, mining and quarrying*

The average number of wage earners in these two sectors declined by about 8,000, or 4 percent, in 1967. In the third quarter of the year the trend was reversed, and by November the figure had practically regained its average level

¹ If the figures showing the bigger decline in employment are used, the effect would be to reduce the total wage bill, to considerably increase the average hourly wage rate, and to reduce disposable income. The only variable discussed here that would not be affected is wages per employee.

Table X-2
AVERAGE MONTHLY WAGES PER EMPLOYEE,
BY ECONOMIC SECTOR,^a 1965-67
 (IL)

	1965	1966	1967
Agriculture	280	330	330
Industry, mining and quarrying	460	540	540
Construction	490	560	560
Electricity and water	640	740	740
Commerce and finance	500	590	600
Transportation and communications	610	760	760
Public services	500	600	600
Personal services	330	400	390
Total economy	480	570	570

^a See notes to Table X-1.

SOURCE: Central Bureau of Statistics.

in 1966. Earnings per employee declined by a fraction on an annual average, but began to rise in the third quarter. These changes in average wages can be ascribed mainly to changes in the average number of man-hours per employee. While wage rates were raised in many branches in 1967, the increase came to only 2-5 percent; further, some of the agreements were signed

Table X-3
CHANGE IN AVERAGE MONTHLY WAGES PER EMPLOYEE,
BY ECONOMIC SECTOR,^a 1965-67
 (percentages)

	1964 to 1965	1965 to 1966	1966 to 1967	Average annual increase 1961-67 (arithmetic mean)
Agriculture	11	18	-1	12
Industry, mining and quarrying	16	17	0	12
Construction	18	14	0	14
Electricity and water	13	16	1	8
Commerce and finance	14	18	2	12
Transportation and communications	24	25	0	15
Public services	18	21	0	13
Personal services	24	20	-1	11
Total economy	18	19	0	13

^a See notes to Table X-1.

SOURCE: Central Bureau of Statistics.

only in the second half of the year (a few even toward year's end). There is no evidence as to the extent to which these agreements were implemented, but they apparently explain part of the rise in wages per employee, since hourly rates went up by only 4 percent. Wage hikes were approved, as a rule, for branches with a prior agreement to raise rates in 1967; but the delays in signing the final agreements did not in 1967 entail retroactive application of the new rates, so that no differentials were paid.

In addition to the National Insurance sample, the Central Bureau of Statistics also produces a series of industrial indexes. These show an increase of almost 5 percent in daily wages per industrial worker, roughly equivalent to the 4 percent increase in hourly wages. Both sources indicate that most of the increase occurred in 1966. According to the industrial indexes, average wages per employee moved up about 2 percent in the course of 1967, but National Insurance data show no change.

(c) *Construction*

Construction activity has been falling off since the end of 1965, and employment again dropped in 1967—by 19 percent compared with 1966. The total number of man-hours declined even more, owing to a 4 percent reduction in the number of hours worked per employee. As in other sectors of the economy, there was some recovery in the third quarter of 1967, but at the end of the year there were still 6 percent fewer workers than at the end of 1966.

Earnings per employee declined slightly on an annual average—by 0.4 percent. However, hourly rates went up by about 4 percent, mainly in the second quarter

Table X-4
CHANGES IN AVERAGE REAL MONTHLY WAGES PER EMPLOYEE,
BY ECONOMIC SECTOR, 1965-67

	1964 to 1965	1965 to 1966	1966 to 1967	Average annual increase 1961-67 (arithmetic mean)
Agriculture	3	10	-2	6
Industry, mining and quarrying	8	9	-2	5
Construction	10	6	-2	7
Electricity and water	4	7	-1	1
Commerce and finance	6	9	1	5
Transportation and communications	15	15	-1	8
Public services	10	12	-2	6
Personal services	6	11	-3	5
Total economy	9	10	-1	6

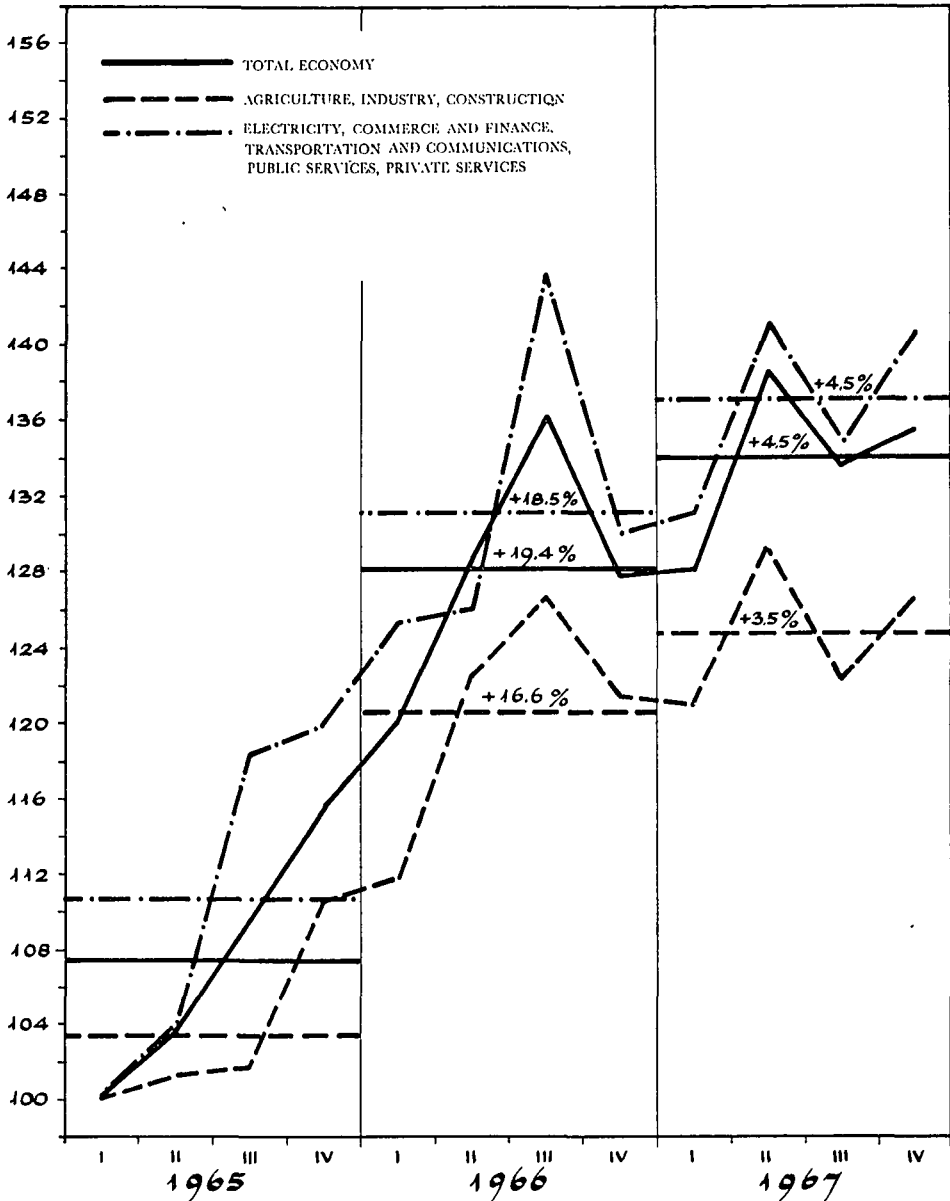
^a See notes to Table X-1.

SOURCE: Based on Central Bureau of Statistics data.

Diagram X-2

INDEXES OF MONTHLY WAGES PER EMPLOYEE, BY SECTOR, 1965-67

(first quarter 1965=100)



NOTE: The figures indicate the percentage changes in annual averages.
SOURCE: Bank of Israel.

of the year, when construction employment declined steeply; this was because permanent employees were paid during the war period, even when they did not work or worked less. Wage tariffs in construction did not change during the year reviewed.

(d) *Commerce and finance*

The number of employees rose by 3 percent on an annual average and by 5 percent during the year. The highest wage increase of the year was recorded in this sector—3 percent over the 1966 average and 5 percent in the course of 1967; these figures, however, were moderate compared with previous years.

Most of the increase occurred in the second half of the year. Hourly rates advanced 5 percent on an annual average and about 7 percent during the year. This was due to normal wage drift, payments to mobilized reservists during the war period, and to the revision of wage agreements with some firms, although in general wage rates in this sector were not changed.

(e) *Transportation and communications*

Average wages per employee in this sector are the highest in the economy, probably because of the inclusion of members of transport cooperatives in the

Table X-5
EMPLOYEES,^a BY ECONOMIC SECTOR, 1966-67^b

	1966 (⁰ 000)	Percent change from 1965	1967 (⁰ 000)	Percent change from 1966	Percent average annual change, 1961-67 (arithmetic mean)
Agriculture	39	-5	38	-2	-3
Industry, mining and quarrying	174	-3	167	-4	3
Construction	63	-15	51	-19	0
Electricity and water	12	6	12	-1	4
Commerce and finance	68	1	69	1	4
Transportation and communications	49	1	48	-1	5
Public services	210	7	226	7	8
Personal services	28	11	27	-2	4
Total economy	642	0	637	-1	4

^a Actually the number of jobs (see note ¹ on p. 246); hence the percentage changes in the number of actual wage earners may also differ from those cited here.

^b See notes to Table X-1.

SOURCE: Central Bureau of Statistics.

employee category. In 1967 average earnings totalled more than IL 760 a month.

Wages, which had gone up rapidly in the two preceding years, rose only slightly in 1967. However, the upward trend reasserted itself during the year, so that the level in November 1967 was 6 percent higher than in December 1966.

Wage rates for non-Government employees in different branches of this sector were raised by between 3 and 8.5 percent at various dates during the year. On an annual average, hourly wages were 5 percent higher, but most of the increase occurred in 1966. Apparently not all of the new wage agreements were fully implemented in 1967.

The average number of employees was down 1,000 from the 1966 level. As in other sectors, the decrease took place in the second quarter of 1967; during the summer months the figure went up by 3,000 owing to the volume of travel and trips to the administered areas; these excursions also made it necessary for the bus cooperatives to take on extra hands.

Table X-6

MAN-HOURS PER WEEK AND HOURLY WAGES, 1965-67

	Man-hours per employee			Percent increase or decrease (-) as against preceding year		
	1965	1966	1967	1965	1966	1967
Agriculture	38	39	38	3	4	-4
Industry, mining and quarrying	42	42	40	-2	-1	-4
Construction	41	40	39	-2	-1	-4
Electricity and water	41	41	40	-4	1	-1
Commerce and finance	41	41	40	-3	0	-3
Transportation and communications	42	42	40	-2	0	-4
Public services	37	37	35	-1	-1	-4
Personal services	35	34	32	8	-2	-6
Total economy	40	39	38	-1	-1	-4
Hourly wages per employee (IL)						
Agriculture	1.7	2.0	2.0	7	14	4
Industry, mining and quarrying	2.5	3.0	3.1	19	18	4
Construction	2.8	3.2	3.3	21	15	4
Electricity and water	3.6	4.1	4.2	18	15	2
Commerce and finance	2.8	3.3	3.5	18	18	5
Transportation and communications	3.3	4.2	4.4	28	24	6
Public services	3.1	3.8	3.9	21	21	4
Personal services	2.2	2.7	2.8	7	23	5
Total economy	2.8	3.3	3.5	19	20	5

SOURCE: Central Bureau of Statistics and Bank of Israel.

(f) *Public services*

Average earnings per employee did not change from their annual level in 1966, although they rose by 3 percent in the course of the year. Hourly wage rates rose by 4 percent, mainly in the second half of the year. This increase is explained primarily by wage drift and to some extent by payments to mobilized reservists, since salary scales were not revised.

Earnings per employee in this sector have been somewhat higher than the average for the economy as a whole in every year since 1961. Ranking the sectors in descending order shows that public services were in fourth place in 1967, the same position as in 1961. Over the entire period 1961–67 wages per employee in this sector have risen at the same rate as the average for the economy as a whole, although with sharper annual fluctuations (see Table X-3).

The number of employees was up 7 percent according to the 1967 National Insurance sample. Other data indicate a much smaller increase—about 1 percent only.

(g) *Personal services*

The average number of personal service workers fell by 1,000 from the 1966 level; most of the decrease occurred in the second half of 1966 and the first quarter of 1967. The number rose in the second quarter—except for the war month—and in the third, but dropped somewhat in the fourth, a recurrent seasonal phenomenon.

Earnings per employee declined by 1 percent on an annual average, and by about 1.5 percent during the year. Hourly earnings rose by 5 percent, partly in 1966 and partly at the end of 1967, following a revision of wage rates. Average wages per employee and hourly wages in personal services are the lowest in the entire economy, apart from agriculture.

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

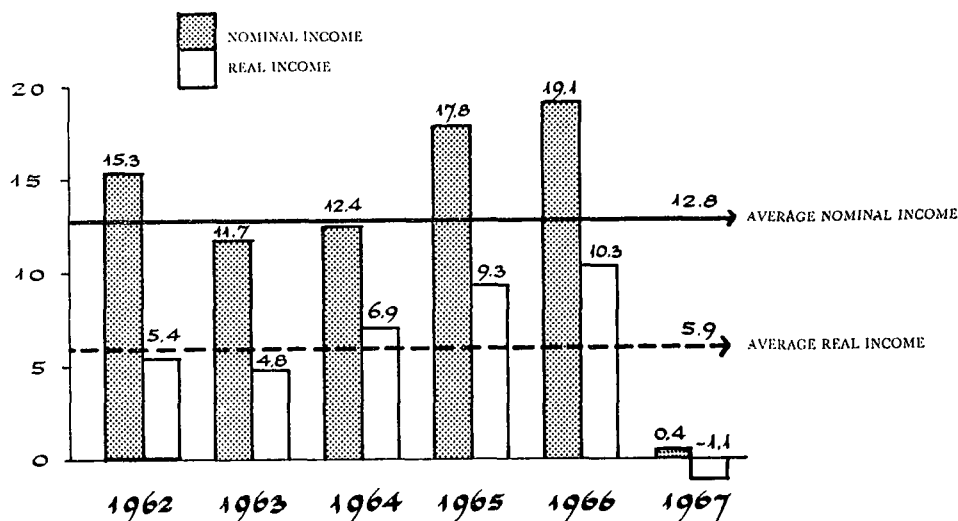
Wage policy is determined by the Histadrut, the Manufacturers Association, and the Government. It finds expression in the cost-of-living allowance agreement, which is designed to automatically adjust the level of wages to that of prices, and in periodic wage agreements between the trade unions and the Manufacturers Association.

In 1967 the recession influenced both aspects of wage policy. The cost-of-living allowance was not revised, even though the consumer price index rose to a degree that formerly justified an increase in the allowance; moreover, a good many wage agreements for 1967 which had been signed in 1966 were not implemented at the beginning of 1967, but only later in the year, and even then not always to the full extent originally agreed upon.

Diagrams X-1 and X-2 show the rapid rise in wages per employee and in

Diagram X-3

PERCENT CHANGE IN NOMINAL AND REAL INCOME PER EMPLOYEE, 1962-67



SOURCE: Based on Central Bureau of Statistics data.

hourly wages which occurred in 1966 and their relative stability in the following year. Real wages per employee even declined in 1967—something that had not previously happened in Israel, certainly not in the 1960's (see Table X-4 and Diagram X-3). This stability (or decline) was connected with the substantial wage hikes awarded in 1966, which in turn are largely explained by the fact that the institutional wage mechanism is slow to adjust to economic variables. In 1966, at a time when the economic slowdown led to a marked increase in unemployment, to the dismissal of many employees, particularly in construction and industry, wage agreements were signed providing for rises of about 8 percent at the beginning of the year in most branches of the economy. In the same period the c-o-l allowance was raised by about 7 percent. And it was in this period that the reclassification of public service personnel was largely implemented, accompanied by considerable salary increases and retroactive payments for the two preceding years. All these drove up wages by 19 percent in 1966; the resulting rise in production costs further depressed profits, already hard hit by the decline in demand, and apparently led to the laying off of more workers. The belated reaction of the institutional wage mechanism in 1966, coupled with the threat of unemployment, helped to keep wages per employee from rising as much as they would have done had the wage and cost-of-living agreements been fully implemented. In other words, the direct effects of the economic variables were felt already in 1966, checking to some extent the

rise of wages—chiefly through the elimination of bonuses (in the main to construction workers), the partial implementation of wage agreements, and a decline in the number of man-hours per employee.

As a result of mounting unemployment and fear of its further growth, the trade unions showed some willingness in the middle of 1966 to ease their pressure, as expressed by the waiving of the cost-of-living allowance increase that should have been paid from July 1966. In the early months of 1967 economic activity continued to be sluggish; employers' representatives, particularly the Manufacturers Association, refused to raise the c-o-l allowance and wage rates—even in plants where this had already been agreed upon. After protracted negotiations with the trade unions, and with the Government's backing, it was decided: (a) not to raise the cost-of-living allowance; (b) wage increases called for in the agreements signed in 1966 to take effect in 1967 were to be implemented 50 percent immediately and the remaining 50 percent only in July; (c) elsewhere, a promised 5 percent rise was reduced to 3 percent, half to be paid immediately and half in July.

What stands out in this settlement is the tendency for bargaining to take place at the plant level instead of at the branch level, which had hitherto been more convenient for the workers' representatives. Moreover, the economic situation was such as to prevent this settlement too from being implemented in full.

Later, a whole series of wage increases—although only from 2 to 5 percent—were awarded in industry, agriculture, and services, applying to branches where there had been previous agreement on a 5 percent increase in 1967 (in construction, wage rates were not raised until the end of 1967). In many cases the increase granted in the new settlement was lower than that stipulated in the 1966 agreement; in practically all cases it was not carried out at the beginning of the year, and in some firms not at all. There were no rises whatever in public services, construction, and finance; in the transportation and communications sector only a minority of employees could show a bigger pay packet.

In January 1968 the Histadrut formulated its wage policy for 1968 and 1969, and here too the influence of the recession is apparent. In order to help maintain economic stability and ensure employment, it stipulated that wage rates would not be raised in all sectors in 1968 or 1969 and that no revision of the cost-of-living allowance would be demanded in 1968 (see below). In effect, the Government rather than employers was called on to carry the load of such benefits as were mentioned in the decisions: an increase in the "higher-prices" grant (this is explained below) and family allowances; income tax relief, and cancellation of the value-linkage of mortgage loans. The economic recovery, which began in the middle of 1967, had not yet influenced institutional wage policy by year's end, but it did lead to wage increases in the form of bonuses of various sorts, promotions, etc., although at a slower rate than in the boom years at the beginning of the decade.

Table X-7

INDEXES OF HOURLY WAGES, QUARTERLY, 1965-67

(first quarter 1965=100)

	1965					1966					1967				
	I	II	III	IV	Annual average	I	II	III	IV	Annual average	I	II	III	IV	Annual average
Agriculture	100	96	98	106	100	109	116	119	110	113	116	117	116	119	117
Industry	100	105	107	113	106	116	127	132	126	125	125	137	129	130	130
Construction	100	99	93	107	100	106	116	120	119	115	119	127	113	120	120
Electricity and water	100	81	98	102	95	119	105	109	105	109	108	114	113	112	112
Commerce and finance	100	105	112	113	108	117	125	139	129	127	126	139	131	138	134
Transportation and communications	100	109	108	122	110	125	140	139	130	133	136	149	136	137	139
Public and business services	100	107	127	122	114	129	137	153	134	138	134	143	150	143	143
Personal services	100	98	100	112	102	120	130	125	128	126	132	136	126	136	132
Total economy	100	104	110	115	107	120	129	136	128	128	128	139	134	135	134

SOURCE: Bank of Israel.

The cost-of-living allowance arrangement was introduced during World War II. Its aim was to automatically adjust the level of wages to that of prices, and thus reduce friction in labor relations and the dislocation of production which might have resulted if every wage change had to be negotiated. In 1952 the cost-of-living allowance agreement signed by the Manufacturers Association and the Histadrut was extended to cover all employees in the country whose working conditions were determined by collective labor agreements. There is no reliable figure on the number of persons covered by this arrangement, but it is estimated at 80 percent of all employees.

The cost-of-living allowance is calculated according to the consumer price index, with the housing item adjusted.¹ Until recently the allowance was revised twice a year—in January and July—if the increase in the price level amounted to 3 percent or more compared with the level according to which the allowance had previously been changed. The allowance is paid on the basic wage, up to a maximum of IL700 a month.

The c-o-l allowance was last increased in January 1966. By July 1966 the determining index had gone up more than 3 percent, and was still more than 3 percent over the January 1966 level in January 1967, July 1967, and January 1968. As noted, the Histadrut decided not to press for the increase due in July 1966 in view of the economic situation. Low-income workers received a Government grant to cover higher prices.² In January 1967 the Manufacturers Association refused to pay a higher allowance, even though the determining index had risen by 8 percent in the interim. The Government thereupon raised its "higher-prices" grant to low-income workers (up to IL 400 a month) so as to provide about half the increase that would ordinarily have been forthcoming.

Owing to both the recession and the war, no increase in the cost-of-living allowance was demanded in July 1967. In January 1968 the Histadrut again decided not to press for an adjustment, but to ask the Government to pay the "higher-prices" grant on monthly wages up to IL 500 and to increase the grant. The Histadrut also agreed that the cost-of-living allowance should be revised only once a year—at the end—if the consumer price index had risen by at least 3 percent on an annual average. The new base for the calculation was set at January 1967. In agreeing to this, the Histadrut waived the increase in the allowance due on the 8 percent price rise that had accumulated in 1966; since prices were virtually stable in 1967, it did not have to demand a revision in January 1968.

The debate on whether and how to implement the cost-of-living allowance agreement has not yet ended. The purpose of this automatic adjustment of

¹ The adjusted index is net of the housing services item. Since most employees own their homes, changes in the price of housing services affect both their expenditures and their imputed income.

² See Bank of Israel Annual Report for 1966, p. 252.

the allowance is to avoid changes in the existing distribution of income between wage and nonwage earners stemming from a rise in the price of domestic output. The c-o-l allowance was not designed to unconditionally safeguard real wages in a period of mounting prices. If the real income of all households declines, there is no justification for maintaining the real income of one section of the public—in this case, the employees. In general, however, an arrangement that ensures the nonimpairment of the distribution of incomes between wage and other incomes because of inflation also maintains the real level of wages, although it need not necessarily always do so. The cost-of-living allowance agreement has a number of defects which prevent it from achieving its purpose as described above, but this is not the place to dwell on them. In 1967 and 1968 the interval between the determining dates for raising the allowance was extended to over a year (instead of half a year). When in the past the interval was fairly long, wages adjusted to prices through the market mechanism (or through negotiations between representatives of the workers and the employers).

4. DISPOSABLE INCOME¹

Disposable wage income is total income from wages less direct taxes (see Table X-8). Neither total nor disposable wage income changed in 1967, indicating that the share of taxes in total wage income did not change either. Real dis-

Table X-8
DISPOSABLE INCOME* PER EMPLOYEE, 1965-67

	1965	1966	Percent change from 1965	1967	Percent change from 1966
Total wage income (IL million)	3,671	4,376	19	4,369	0
Total income tax payments (IL million)	457	641	40	645	1
Total National Insurance employee contributions (IL million)	69	73	6	71	-3
Total disposable wage income (IL million)	3,146	3,662	16	3,653	0
Number of employees (thousands)	642	642	0	637	-1
Disposable income per employee (IL)					
At current prices	4,904	5,705	16	5,730	0
At 1967 prices	5,296	5,798	9	5,730	-1

* In calculating disposable income, fringe benefit payments by employers have been excluded.
SOURCE: Bank of Israel.

¹ In calculating disposable income for purposes of this chapter, fringe benefit payments by employers have been excluded.

posable income per employee declined by 1 percent, as did real wages per employee. Income tax collected from employees was up 1 percent, compared with 4 percent in 1966.¹

It is their disposable income that determines the aggregate demand of employees for goods and services. Although real disposable income per employee declined in 1967, this followed a 9 percent increase in 1966; the latter development stemmed partly from the one-time payment of increments for the previous period, whose effect on current demand is less than that of the same amount of current income, but is felt to a greater extent in the future. In 1967 real disposable income per employee was still 8 percent above the 1965 level, and hence there was no reason to expect a decline in the aggregate demand of employees for goods and services.

5. LABOR RELATIONS

Labor relations represent the whole complex of reciprocal relations between employers and employees. Strikes are an expression of those relations which have not been settled in the ordinary course of negotiations. The growth of unemployment in the past two years and the fears that it would continue, together with the war, undoubtedly induced workers to adapt themselves to employers' demands and to tone down their own demands. One aspect of this phenomenon was surveyed in section 3.

Another indicator of labor relations is the data on strikes presented in Table X-9. The number of strikes, strikers, and strike days, which all fell slightly in 1966, dropped much more in 1967.

The number of strikers decreased by more than the number of strikes, which means that in 1967 the average strike involved fewer workers than in 1966. The number of strike-days declined, but by less than the number of strikes; in other words, the average duration of strikes rose, from 1.8 days in 1966 to 2.3 in 1967 (this was also the average duration of strikes in 1965). Continuing the trend of 1966, there was a decline in the percentage of wildcat strikes (those not approved by the Histadrut).

The number of strike-days was down 63 percent in 1967 and totalled 58,000, compared with 156,000 in 1966 and 207,000 in 1965; these figures are an indicator of the loss to the economy because of strikes.

According to Histadrut data, the reasons for strikes have changed in the last three years. In 1965 the main issues were wages and job classification. In 1966 the proportion of strikes involving overdue wages, dismissals, and wages rose, while job classification disappeared as a factor. In 1967 dismissals were the main cause of strikes, followed by wages. In 1967 the proportion of strikes in the Histadrut sector went up, although they declined in absolute terms; in part, this reflects the recurrent strikes of the bus cooperatives' employees.

¹ See the discussion in the Bank of Israel Annual Report for 1966, p. 253.

Table X-9

STRIKES, BY ECONOMIC SECTOR, 1966-67

	Number of strikes		Percent increase or decrease (-)		Number of strikers (thousands)		Percent increase or decrease (-)		Number of strike-days (thousands)		Percent increase or decrease (-)	
	1966	1967	1965 to 1966	1966 to 1967	1966	1967	1965 to 1966	1966 to 1967	1966	1967	1965 to 1966	1966 to 1967
Agriculture	23	12	44	-48	1.7	0.8	-35	-53	4.5	2.7	68	39
Industry, mining and quarrying	93	53	26	-43	16.5	7.2	77	-57	63.5	27.0	39	57
Construction	11	13	22	18	1.0	2.0	233	100	1.3	2.4	160	85
Electricity and water	9	—	-31	-100	5.2	—	53	-100	7.3	—	43	-100
Commerce and finance	13	2	-23	-85	11.0	0.2	323	-98	7.2	0.9	39	-87
Transportation and communications	20	11	-44	-45	88.	2.9	29	-67	12.1	12.1	-2	0
Public services	108	47	-11	-56	39.7	11.8	-39	-70	57.6	11.1	-52	-81
Personal services	4	4	300	0	0.1	0.1	1055	0	0.2	1.9	1900	850
Miscellaneous	1	—	100	-100	4.3	—	100	-100	2.1	—	100	-100
Total economy	282	142	-2	-50	88.6	25.0	-2	-72	156.0	58.2	-25	-63
Of which:												
Percent authorized strikes	45	55	42	-38	36	58	144	-54	41	51	62	-92
Percent unauthorized strikes	55	45	-26	-59	64	42	-29	-462	59	49	-51	-65
Total strikes	100	100	-6	-50	100	100	-5	-72	100	100	-25	-63

SOURCE: The Histadrut Institute for Economic-Social Research.