

W A G E S

The policy freezing basic wages continued, in theory, in 1955, with the consent of the *Histadrut* (General Federation of Labour). However, as the year progressed and more especially towards its end, internal opposition to this policy grew stronger. The main points at issue were:

- (a) The demand by academic staff for higher salaries and greater differentiation between their remuneration and that of other workers.
- (b) The demand for a general wage increase for all types of labour.

Notwithstanding this, the conflict engendered by these claims did not affect the wage level in 1955, except for the salaries of officials in the Government and other public institutions who received increases in July 1955. Changes in wage agreements affecting other kinds of labour only came into effect in January 1956 or later.

1. WAGES DURING 1955

The main tendencies reflected in wage fluctuations during 1955 may be summed up as follows:

- (a) In spite of the basic wage freeze, incomes of wage-earners in the main branches of the economy rose to a greater extent than the rise in the consumer price index. Wage increases were nevertheless smaller in 1955 than in 1954.
- (b) There was no increase in the cost-of-living allowance during the first eight months of 1955.
- (c) Following the publication of the report of the 1955 Wages' Committee, the salaries of academic staff and administrative officials in Government service (and to a lesser extent also of other Government officials) were raised. The purpose of the salary adjustments, decided upon in the light of the recommendations of the Wages' Committee, was to restore the differentiation between the salaries of various grades. This differentiation was reduced in recent years due to the fact that the cost-of-living allowance was only paid on part of the basic wage.

Data on the real income from wages and salaries (not to be confused with the formally approved wage-scales) are available only for employees in industry, building and the civil service. No adequate statistics have as yet been compiled for other branches of the economy.

Of the three classes of employees mentioned, industrial workers benefited most from higher incomes, in spite of the freezing of their basic wages.

Table 47 shows the changes in industrial wages during 1954 and 1955.

TABLE 47
AVERAGE DAILY WAGES IN INDUSTRY BY BRANCHES, 1954 AND 1955
(in IL.)

<i>Branch</i>	1954*	1955	<i>Change from 1954 to 1955 in per cent</i>
Food	7.284	8.084	+11.0
Textiles	7.413	8.508	+14.8
Clothing and Footwear	6.406	7.050	+10.0
Metal Industries	7.317	8.218	+12.3
Motor Vehicles	6.996	7.824	+11.8
Electrical Appliances	7.165	8.075	+12.7
Wood	7.029	7.958	+13.2
Leather	6.465	8.000	+23.7
Printing and Paper	7.253	8.247	+13.7
Chemicals	8.242	8.724	+ 5.8
Stone and Cement	7.787	8.940	+14.8
Diamonds	7.468	7.922	+ 6.0
Miscellaneous	9.076	10.047	+10.7
General Average	7.522	8.450	+12.3

* *As the old index of industrial wages has not been in use since January 1955, the 1954 figures were adjusted to the new index in accordance with the relationship between the two indexes in December 1954.*

SOURCE: *Central Bureau of Statistics. The 1954 figures were corrected in accordance with calculations of the Bank of Israel.*

The increase in the wages of building workers was smaller than that in the wages of industrial workers. According to the indexes of employment and wages in the building industry, prepared by the Central Bureau of Statistics, the average daily wage was IL. 8.200 in 1955 and IL. 7.500 in 1954, the rise thus amounting to some 9 per cent.

No changes occurred in civil servants' salaries in any of the grades during the first six months of the year. Indeed, the average salary dropped slightly, probably as a result of changes in establishment. Following the report of the Wages' Committee and in accordance with a Government decision to this effect, civil servants' salaries were raised during the second half of 1955. The average monthly salary in the civil service was consequently IL. 215.000 in 1955, as against IL. 196.500 in 1954, an increase of some 10 per cent.

Table 48 summarises changes in the wage level during the last three years, as well as changes in real wages (i.e. changes in nominal wage rates divided by the changes in the consumer price index) received by employees in industry, building and Government service.

TABLE 48

CHANGES IN AVERAGE WAGES 1952 TO 1955

(in per cent)

	From 1952 to 1953	From 1953 to 1954	From 1954 to 1955	From 1952 to 1955
<i>Nominal Wages</i>				
Industry	+32	+18	+12	+75
Building	+31	+18	+9	+68
Government Service	+32	+22	+10	+77
<i>Real Wages</i>				
Industry	+3.0	+5.2	+6.0	+15.0
Building	+2.2	+5.2	+2.6	+10.3
Government Service	+3.0	+8.7	+3.8	+16.2

* There is no certainty that the changes in the consumer price index express the changes in the purchasing power of money. However, as long as no more reliable a criterion exists, changes in this index should be regarded as the best approximation of changes in the purchasing power of money.

SOURCE: Until 1954: Economic Advisory Staff;
After 1954: Calculations of the Bank of Israel.

2. NET WAGES

As the size of various deductions from gross wages increases, most wage-earners begin to attach greater importance to their net income, after taxes, trade union dues and payments to various funds have been deducted. Owing to progressive income tax, the pattern of net income from wages tends to be more egalitarian than that of gross wages. On the other hand, the dues of the *Histadrut* (General Federation of Labour) and National Insurance payments are regressive in character for, though they are calculated as fixed percentages of wages, there is a ceiling limiting the amount of wages on which these taxes can be levied.

Payments to provident funds are calculated as fixed percentages of the wage. However, the more gross wages rise, the more marginal income tax rates increase; hence, the proportion of income tax to other deductions also increases.

The average monthly wage of an industrial worker in 1955 was IL. 221.200, as against IL. 188.050 in 1954, representing an increase of IL. 23.150. The percentage of deductions from gross wages remained virtually unchanged. Gross wages and the deductions made from them in 1954 and 1955 are shown in Table 49.

TABLE 49

DEDUCTIONS FROM AVERAGE WAGES IN INDUSTRY, 1945 AND 1955

(in IL.)

	1954		1955	
	Annual Average	in per cent	Annual Average	in per cent
Total Monthly Wage	188.050	100.0	221.250	100.0
Total Deductions	28.983	15.4	32.413	15.3
<i>Histadrut</i> Dues	12.230	6.5	12.970	6.1
National Insurance	2.633	1.4	2.958	1.4
Income Tax	10.360	5.5	12.260	5.8
Provident Funds	3.760	2.0	4.225	1.9
Net Wage	159.067	84.6	178.837	84.7

SOURCE: *Calculations of the Bank of Israel.*

The above example obviously only reflects the situation for wage rates close to it, but it seems that, for the years 1954 and 1955, the ratio between gross and net wages remained unchanged for most employees.

3. CAUSES OF WAGE CHANGES

The cost-of-living allowance still remained the most important cause of changes in the wage level in 1955.

The consumer price index cannot, however, be used, as in the case of calculating real wages, for calculating the contribution of the cost-of-living allowance to the wage increase occurring between 1954 and 1955; this is because the cost-of-living allowance is changed at intervals of three months, and only then if the index has moved by at least three points. Hence, there is always a lag between changes in the index and the payment of the adjusted allowance. In 1955, this lag was responsible for the fact that, while the consumer price index rose by 5.9 per cent, the average index for calculating cost-of-living allowance payments rose by only 5.3 per cent — a difference of 0.6 per cent.

On the other hand, it should be noted that the maximum amount on which the cost-of-living allowance is paid was raised from IL. 80 to IL. 125 per month, as from the end of 1953. As a result of this change, workers, whose basic wages are between IL. 80 and IL. 170 per month, receive compensation for rising prices at a rate which exceeds the change in the index used for calculating the cost-of-living allowance. Table 50 clearly illustrates this point.

TABLE 50

CHANGES IN WAGES CAUSED BY INCREASES IN THE COST-OF-LIVING ALLOWANCE, 1954 AND 1955

<i>Basic Wage in IL.</i>	<i>Gross Monthly Wage in 1954 in IL. (Average index for payments—217.8)</i>	<i>Gross Monthly Wage in 1955 in IL. (Average index for payments—229.4)</i>	<i>Change in per cent</i>
80	174.240	183.520	+5.3
100	197.600	209.200	+5.9
125	226.800	241.300	+6.4
150	251.800	266.300	+5.8
170	271.800	286.300	+5.3
200	301.800	316.300	+4.8

SOURCE: *Calculations of the Bank of Israel.*

It therefore seems that, as regards the average wage, the relative increase caused by the higher cost-of-living allowance equalled the rise in the consumer price index. However, this was not the case where the basic wage was lower than IL. 100 or higher than IL. 150 per month. When considering net wages, it should be noted that employees receiving high basic wages were relatively better compensated for rises in the price level than would appear from Table 50. This was due to the exemption of the cost-of-living allowance increases from income tax. The higher the income (and thus the marginal rate of income tax) the more is this exemption worth.

The raising of the cost-of-living allowance accounts for about half the total wage rise in industry, and some two-thirds of the increases in the remuneration of Government officials and building workers. Further reasons for the rise in industrial wages are: changes in grading and in seniority allowance; family allowances; overtime payments; the increased number of workers receiving production bonuses; and the greater proportion of large, modern, industrial enterprises, paying higher than average wages.

The remuneration of Government employees was also affected by re-grading, higher average seniority, family allowances, etc. But here, however, the deciding factor was undoubtedly the Government's decision to raise basic civil service salaries.

4. PREMIUMS AND BONUSES

The system of paying premiums for output exceeding previously fixed norms has become widespread in Israel industry during recent years. The Government has encouraged this way of raising output and production, by fixing a low, flat income tax rate on premiums in order that income tax cease to be a factor inhibiting harder work. The number of workers benefiting from premium payments is continually rising, as shown in Table 51.

TABLE 51
EXPANSION OF THE PREMIUM SYSTEM, 1953 TO 1955

<i>Year</i>	<i>Number of Workers*</i>	<i>Change in per cent</i>
1953	7,000	100
1954	9,000	129
1955	11,500	164

* *These numbers do not include all workers whose wages are linked to their output, but only those employed under the system of norms and premiums in undertakings where the income tax authorities have approved tax reductions on premiums.*

SOURCE: *Office of the Income Tax Commissioner, Ministry of Finance.*

The average size of bonuses reached IL. 40 per month in 1955 and the total amount paid out under this head during the year was IL. 6 millions. The average share of bonuses in the gross wages of workers who benefited from them was 18 per cent in 1955, 22 per cent in 1954 and 24 per cent in 1953.

Production norms were fixed and bonuses paid for output exceeding the norm, mainly by large undertakings in the food, tobacco, metal, textile and diamond industries.

5. SOCIAL BENEFITS

Social benefits constitute an important part of labour costs. Payments on account of these benefits range from 16 per cent of the gross wage (in the case of temporary agricultural workers) to 33 per cent for permanently employed senior workers in undertakings controlled by the *Histadrut* (General Federation of Labour). Social benefits on the one hand, and deductions from wages on the other, have created a large gap between the amounts paid out by the employer and the net income of the worker.

The structure of social benefit payments remained unaltered during 1955 and the increases in them thus paralleled the rise in gross wages.

There are two kinds of social benefits: (a) social benefits obligatory under the law; and (b) social benefits agreed upon within the framework of collective or individual labour agreements.

The benefits obligatory under the law are minimal, their main purpose being to extend the application of certain benefits of the second type to all undertakings and all employees. The law obliges employers to pay between 2.4 and 4.9 per cent of their workers' wages to the National Insurance Institute for the workers' old age pensions, maternity insurance and accident insurance. The law further prescribes the payment of 0.75 per cent of gross wages into the Equalisation Fund for Reserve Service with the Israel Army, and the payment of 4 per cent for the workers' annual vacations.

A partial survey of social benefits not obligatory under the law was made by the Statistical Department of the *Histadrut* (General Federation of Labour). The most important items are payments to provident funds (1.5 to 3.5 per cent of gross wages), Sick Fund dues (2.7 per cent of gross wages) and insurance against sickness (2 to 2.5 per cent of gross wages). Additional benefits usually paid include extra vacations for senior staff, payments for work on national and religious holidays, participation in convalescence expenses, etc.

Available data are inadequate for determining the average rate of social benefits which, as already mentioned, amount to between 16 and 33 per cent of gross wages.

6. GRADING AND DIFFERENTIALS

After a steady reduction in wage differentials between various grades over several years, a contrary tendency became apparent in 1955.

The diminishing differentials between grades* was mainly due to the fact that the cost-of-living allowance was not paid on the whole basic wage, but only on part of it: until the end of 1953, on the first IL. 80 per month and, subsequently, on the first IL. 125. As a result, workers in the higher grades did not receive full compensation for rising prices; and the greater the share of the cost-of-living allowance in the total wage, the smaller was the difference between the wages of higher and lower grades.

According to research carried out for the 1955 Wages' Committee, the salary ratio between the highest and lowest grades in Government service was reduced from 4.7: 1 in April 1950 to 2.9: 1 in April 1955 for bachelors, and from 3.7: 1 to 2.5: 1 for married men with one child.

As Israel income tax rates are progressive, the differentiation between net wages after deductions is even smaller.

The Wages' Committee, appointed in answer to the demands of academic staff and administrative employees, recommended certain adjustments in salary rates designed to re-establish wider differentials. The new rates, approved by the Government, for academic and top administrative staff, have considerably increased the gaps between the grades.

7. WAGES AND OUTPUT

No adequate data are available on changes in output per worker in the Israel economy. All estimates of this kind should therefore be treated with considerable reserve.

* A secondary factor is the family allowance which remains unchanged in relation to the basic wage and thus reduces the differential; however, the proportion of this allowance in the gross wage is small.

Average output per worker is measured by dividing the estimated national product in each economic branch by the number of employees in that branch. Hence, it is only possible to make such estimates for industry; agricultural output is affected not only by the number of people employed in agriculture or their productivity, but also by climatic factors. For example, average output per worker will drop during a year of drought, quite regardless of the amount of effort expended by those employed. Output in building is likewise considerably affected by factors unconnected with the input of labour and it is therefore difficult to compare average output per worker in different years.

Estimates of changes in output are thus made only for workers employed in industry. The number of people working in industry, excluding employers, during 1955 was 90,400 (excluding home crafts), composed as follows:

Wage-Earners in Industry	83,900
Employed in Communal Settlement Industries	4,000
Members of Industrial Co-operatives	2,500
<i>Total</i>	90,400

The corresponding number for 1954 was 86,200, i.e. 4.6 per cent lower.

Table 52 shows changes in the average output per worker in industry occurring between 1954 and 1955. It therefore seems that average output per worker in industry rose more than industrial wages, though the exact difference in the rates of increase cannot be determined.

TABLE 52
CHANGES IN OUTPUT PER WORKER, 1954 AND 1955*

	1954	1955
Industrial Output (in IL. millions at current prices)	295	363
Number of Employees (in thousands)	86.2	90.4
Output per Employee (in IL.)	3,422	4,015
Index of Output per Worker	100	117
Index of Output per Worker at 1954 prices	100	108

* *The increase in the average output per worker in industry does not conclusively prove that there was a rise in productivity, since it is also possible that there were changes in average employment and in overtime worked.*

SOURCE: *Calculations of the Bank of Israel.*