

## CHAPTER X

### WAGES

#### 1. MAIN DEVELOPMENTS

THE AVERAGE HOURLY WAGE<sup>1</sup> was approximately 11 percent higher in 1964 than in 1963—a rate of increase similar to that of recent years. The labor market was characterized by demand pressure for workers in most sectors, owing to the continued high rate of economic expansion. This demand continued to be most intense in urban areas—especially in the central region—where to all intents and purposes a state of full employment exists.

The developments of recent years demonstrate that, during a period of economic prosperity and full employment, centralized institutional wage policies are incapable of determining either the wage level or the extent of its rise. Although a wage-freeze policy had been adopted in 1963, hourly wages advanced 11 percent that year—double the rate resulting from the increase in the cost-of-living allowance. In 1964 the hourly wage again went up by 11 percent. Furthermore, the rise in 1964 only partially reflects the total increase expected as a result of the collective labor agreements signed during the year, some of which will not be fully implemented until 1965: most of the new contracts were concluded only in the second half of the year reviewed,<sup>2</sup> and in many instances the new enlarged basic wage rates (as well as retroactive pay increases) were paid only in the final months of 1964 or even the beginning of 1965.

Approximately half the total rise in average hourly wages represents increases in basic rates, while about one-third stemmed from changes in the cost-of-living allowance. Whereas the average hourly wage moved up 11 percent, the consumer price index advanced 5.2 percent;<sup>3</sup> thus the increase in real hourly wages came to 5.6 percent—a high rate compared with previous years (see Table X-1).

<sup>1</sup> Of all wage and salary earners, excluding members of cooperatives and persons serving in the armed forces. The term "wage earners" as used throughout this chapter includes both wage and salary earners.

<sup>2</sup> In industry the new labor agreements were implemented between May and July; in the construction sector wage rates were raised as from July; in the public services sector agreements with various groups of employees were signed in August-September, but some of them were implemented only in November-December 1964 or even at the beginning of 1965 (see the sectorial analysis of wage developments below).

<sup>3</sup> The rate of increase in real wages is obtained by dividing the index of nominal wages—111.1—by the index of the rise in consumer prices—105.2.

Table X-1  
**CHANGES IN HOURLY WAGES, BY ECONOMIC SECTOR, 1962-64**  
 (percentages)

| Sector <sup>a</sup>         | Increase or decrease(-) as against previous year |      |      |            |      |      |
|-----------------------------|--|------|------|------------|------|------|
|                             | Nominal wages                                    |      |      | Real wages |      |      |
|                             | 1962   | 1963 | 1964 | 1962       | 1963 | 1964 |
| Agriculture                 | 5.3  | 8.5  | 14.8 | -3.8       | 1.8  | 9.1  |
| Industry and crafts         | 12.2   | 11.6 | 9.1  | 2.5        | 4.7  | 3.7  |
| Construction                | 14.2   | 11.0 | 9.1  | 4.3        | 4.1  | 3.7  |
| Commerce and finance        | 12.5   | 16.8 | 7.7  | 2.7        | 9.6  | 2.4  |
| Transportation <sup>b</sup> | 12.8   | 14.3 | 8.5  | 3.0        | 7.2  | 3.1  |
| Public services             | 13.5   | 8.6  | 13.9 | 3.7        | 1.9  | 8.3  |
| Personal services           | 11.5   | 13.4 | 16.5 | 1.8        | 6.4  | 10.7 |
| All sectors                 | 12.4   | 10.9 | 11.1 | 2.6        | 4.0  | 5.6  |

<sup>a</sup> In this chapter economic sectors are defined in accordance with the classification of the International Labor Office. In contrast to the classification used in Chapter II, "Resources, Uses, and Incomes", all health, educational, and social welfare services—regardless of whether privately or publicly supplied—are here included in public services.

<sup>b</sup> Including communications and storage.

The average number of wage earners<sup>1</sup> in 1964 was 5.8 percent higher than in 1963, reaching some 600,000 as against 567,000. The increase ranged from 5 to 8 percent in the different sectors. Of the average increment of 33,000 workers, some 30 percent were absorbed in industry and 25 percent in the public services sector. The rising proportion of wage earners within total gainful employment was maintained during the year reviewed, the figure reaching approximately 70 percent. There was no significant change in the average number of man-hours per employee as compared with 1963—approximately 40 per week. In agriculture and in the personal services sector the figure declined, while in industry and the commerce and finance sector it rose somewhat.

Average income per employee<sup>2</sup> was 11.5 percent higher in 1964 than in the

<sup>1</sup> See note <sup>1</sup> on p. 204.

<sup>2</sup> Of all wage and salary earners as defined above. Income is defined here as earnings from work only, and does not include income from other sources, such as property, investments, restitution, etc. Wage income consists of payments for straight time and overtime, premiums, grants, retroactive payments, advances, and direct payments for days of absence (vacations, holidays, sick leave, etc.), but not other fringe benefits. Moreover, it should be noted that in this chapter income is calculated on a cash rather than accrual basis. In other words, payments for work performed in the past or advance payments on account of future work are included in the employee's income for the period in which they are actually received and not for the period to which they relate.

preceding year, reaching approximately IL 430 per month as compared with some IL 385 in 1963. The income level was relatively high in the electricity, water, and sanitary services sector—IL 545 per month; in public services—IL 515; in transportation and communications—IL 485; and in construction—IL 480 (see Table X-2).

Table X-2

AVERAGE MONTHLY INCOME PER WAGE EARNER, BY ECONOMIC SECTOR,  
1962-64

| Sector <sup>a</sup>                | Nominal monthly income<br>(IL) |      |      | Percent increase from<br>1963 to 1964 |                |
|------------------------------------|--------------------------------|------|------|---------------------------------------|----------------|
|                                    | 1962                           | 1963 | 1964 | Nominal<br>income                     | Real<br>income |
| Agriculture                        | 185                            | 225  | 250  | 12.3                                  | 6.7            |
| Industry                           | 325                            | 365  | 410  | 11.5                                  | 6.0            |
| Construction                       | 395                            | 440  | 480  | 8.7                                   | 3.3            |
| Electricity and water <sup>b</sup> | 445                            | 495  | 545  | 9.8                                   | 4.4            |
| Commerce and finance               | 315                            | 365  | 395  | 9.3                                   | 3.9            |
| Transportation <sup>c</sup>        | 400                            | 450  | 485  | 8.1                                   | 2.8            |
| Public services                    | 415                            | 450  | 515  | 14.0                                  | 8.4            |
| Personal services                  | 210                            | 240  | 270  | 12.0                                  | 6.5            |
| All sectors                        | 345                            | 385  | 430  | 11.5                                  | 6.0            |

NOTE: Income figures have been rounded to the nearest IL 5; percentage changes have been calculated on the basis of unrounded figures. Income figures for transportation and communications and electricity and water have been revised for 1962 and 1963.

<sup>a</sup> See note to Table X-1.

<sup>b</sup> Including sanitary services.

<sup>c</sup> Including communications and storage.

Average real income per wage earner was 6 percent higher in 1964 than in 1963. There were marked intersectorial differences in the growth rates: the highest rate—8 percent—was recorded in the public services sector, while in the construction and transportation and communications sectors it came to some 3 percent.

Average disposable income rose by 4.5 percent in real terms, i.e. somewhat more slowly than real gross income. This disparity was due to the fact that total pay deductions (income tax, National Insurance, Absorption Loan, and Compulsory Saving) went up by 30 percent, whereas total wage payments increased by 18 percent.<sup>1</sup>

<sup>1</sup> The increase in total deductions at a more rapid rate than the total wage bill stemmed from the fact that tax rates are basically progressive; hence, as wages go up the marginal tax rate likewise goes up. In addition, this calculation has been made on a cash basis; in other words, it takes into account all deductions made in 1964, including taxes which will be refunded in 1965 because of the changes in income tax rates.

The total wage bill, inclusive of fringe benefits, reached IL 3,524 million in 1964, as compared with IL 2,982 million in 1963—an increase of 18.2 percent (see Table X-3). This increment resulted from the rise of some 11 percent in hourly wages, the increase of approximately 6.5 percent in the number of hours worked, and the rise of nearly 0.5 percent in fringe benefit rates following the signing of the new labor agreements. Labor costs per man-hour thus went up by 11.5 percent.

Average monthly income per wage-earner's family in 1964 amounted to IL 616 gross and IL 529 net.<sup>1</sup> Some 80 percent of the gross figure derived from wage labor of the family head (including extra jobs), about 15 percent was wage income of other breadwinners in the family, and 5 percent came from other sources.<sup>2</sup>

**Table X-3**  
**TOTAL WAGE BILL, BY ECONOMIC SECTOR, 1962-64**  
(IL million)

| Sector <sup>a</sup>                | 1962  | 1963  | 1964  | Percent<br>increase <sup>b</sup><br>from 1963<br>to 1964 |
|------------------------------------|-------|-------|-------|--|
| Agriculture                        | 111   | 131   | 155   | 18.7   |
| Industry                           | 707   | 857   | 1,015 | 18.3   |
| Construction                       | 299   | 354   | 408   | 15.1   |
| Electricity and water <sup>c</sup> | 97    | 112   | 127   | 13.9   |
| Commerce and finance               | 203   | 248   | 290   | 17.1   |
| Transportation <sup>d</sup>        | 161   | 195   | 228   | 16.8   |
| Public services                    | 841   | 971   | 1,163 | 19.8   |
| Personal services                  | 92    | 114   | 138   | 21.1   |
| All sectors <sup>e</sup>           | 2,511 | 2,982 | 3,524 | 18.2   |

<sup>a</sup> See note to Table X-1.

<sup>b</sup> Rates of increase have been calculated on the basis of unrounded figures.

<sup>c</sup> Including sanitary services.

<sup>d</sup> Including communications and storage.

<sup>e</sup> Discrepancies in totals are due to rounding.

<sup>1</sup> According to the survey of family expenditure conducted by the Central Bureau of Statistics for the period July 1963-June 1964. The survey covered only urban Jewish families whose heads were wage earners.

<sup>2</sup> Unlike the definition of average income per employee referred to above, the survey definition also includes income from pensions, grants, independent work, etc., which averages 5 percent of total family income.

## 2. WAGES, BY ECONOMIC SECTOR

The average number of wage earners in Israel reached some 600,000 in 1964, as against 567,000 in 1963—an increase of 5.8 percent. The growth rates were similar in all sectors, so that no significant changes occurred in the sectorial distribution of wage earners (see Table X-4).

Table X-4  
WAGE EARNERS, BY ECONOMIC SECTOR, 1962-64  
(thousands)

| Sector <sup>a</sup>                | 1962  | 1963  | 1964  | Increase or decrease (-) from 1963 to 1964 |     | Percent of wage earners in total gainfully employed <sup>b</sup> in sector in 1964 |
|------------------------------------|-------|-------|-------|--|-----|--|
|                                    |       |       |       | '000                                       | %   |  |
| Agriculture                        | 45.0  | 44.1  | 46.4  | 2.3  | 5.2 | 39.1   |
| Industry                           | 152.6 | 165.3 | 174.7 | 9.4  | 5.7 | 78.8   |
| Construction                       | 54.7  | 58.0  | 61.0  | 3.0  | 5.2 | 7.37   |
| Electricity and water <sup>c</sup> | 15.5  | 15.9  | 16.5  | 0.6  | 3.8 | 97.1   |
| Commerce and finance               | 49.0  | 51.9  | 55.6  | 3.7  | 7.1 | 52.6   |
| Transportation <sup>d</sup>        | 30.1  | 32.2  | 34.8  | 2.6  | 8.1 | 64.4   |
| Public services                    | 153.0 | 162.3 | 170.6 | 8.3  | 5.1 | 90.7   |
| Personal services                  | 34.3  | 36.8  | 29.6  | 2.8  | 7.6 | 59.5   |
| All sectors                        | 534.2 | 566.5 | 599.2 | 32.7                                       | 5.8 | 70.1   |

<sup>a</sup> See note to Table X-1.

<sup>b</sup> Including self-employed, employers, members of cooperatives, members of kibbutzim, and family members doing 15 hours or more of unpaid work per week.

<sup>c</sup> Including sanitary services.

<sup>d</sup> Including communications and storage.

SOURCE: Central Bureau of Statistics; Bank of Israel.

The average increment of 33,000 wage earners constituted some 90 percent of the aggregate rise in gainful employment during the year reviewed. As in previous years, the proportion of wage earners among all gainfully employed continued upward, reaching approximately 70 percent.

While the number of wage earners went up during the year, the average number of man-hours per employee remained virtually the same. However, there were considerable differences between the sectors: in agriculture and personal services the average number of man-hours decreased by 2 and 4 percent respectively, while industry, commerce and finance, and electricity and water recorded rises of 1.5 to 2.0 percent.

The relative weight of each sector in terms of number of wage earners is not always identical with its weight in terms of wage labor input. The public and personal services sectors together employ 35 percent of all wage earners but account for less than 32 percent of aggregate man-hours. On the other hand, industry and construction employ 39 percent of all wage earners, but because of the high number of average hours worked, they account for 42 percent of aggregate man-hours (see Table X-5).

Table X-5

DISTRIBUTION OF WAGE EARNERS, MAN-HOURS, AND WAGES,  
BY ECONOMIC SECTOR, 1964  
(percentages)

| Sector <sup>a</sup>                | Wage earners | Man-hours | Wages |
|------------------------------------|--------------|-----------|-------|
| Agriculture                        | 7.7          | 7.8       | 4.4   |
| Industry                           | 29.2         | 31.0      | 28.8  |
| Construction                       | 10.2         | 10.5      | 11.6  |
| Electricity and water <sup>b</sup> | 2.8          | 2.9       | 3.6   |
| Commerce and finance               | 9.3          | 9.8       | 8.2   |
| Transportation <sup>c</sup>        | 5.8          | 6.2       | 6.5   |
| Public services                    | 28.5         | 26.5      | 33.0  |
| Personal services                  | 6.6          | 5.3       | 3.9   |
| All sectors                        | 100.0        | 100.0     | 100.0 |

<sup>a</sup> See note to Table X-1.

<sup>b</sup> Including sanitary services.

<sup>c</sup> Including communications and storage.

SOURCE: Central Bureau of Statistics; Bank of Israel.

Average income per employee was 11.5 percent higher in 1964 than in the previous year, reaching approximately IL 430 as against some IL 385. The highest rate of increase—14 percent—was registered in the public services sector, in line with the trend of the past few years.<sup>1</sup> The smallest increases took place in construction and in the transportation and communications sector—8 and 9 percent respectively. Elsewhere the growth rates ranged from 10 to 12 percent. However, the overall average rise of 11.5 percent did not fully reflect developments during the year reviewed. As mentioned above, many wage agreements were signed only in the second half of 1964, and while their provisions were retroactive to the beginning of the year, their implementation was in many cases postponed to the end of 1964 or even the beginning of 1965.

<sup>1</sup> Apart from 1963, when the relative success of the wage-freeze policy in this sector prevented large pay increases.

This applies particularly to the public services and to the transportation and communications sector,<sup>1</sup> in which payment of the increased rates has been deferred for most wage earners to 1965.

In all urban and many rural areas (though not in the immigrant centers in the North and the South), a state of full employment has existed for several years. Demand pressure has been felt in the labor market as the economic expansion has continued. It was the demand for labor that caused the large increases in hourly wages in agriculture and the personal services sector, as well as in certain branches of industry. Wage developments in the public services are affected also by the monopolistic position held by both parties as regards the supply and demand of certain categories of professional personnel.

At the beginning of 1964 the Histadrut (General Federation of Labor) decided that, in negotiating the renewal of collective labor agreements in all sectors of the economy, it would demand a 3 percent rise in basic wages for all employees. It was assumed that following promotions, increased seniority, etc. wages would go up another 2 percent on the average. In practice, however, the above demand constituted the minimum and not the ceiling when the new wage rates were negotiated. Because of the prevailing state of the labor market, most of the new agreements deviated from the declared policy.

#### (a) *Agriculture*

In agriculture, which employed about 8 percent of all wage earners in 1964, average hourly wages rose at a relatively high rate—14.8 percent. Half the increment was due to the raising of basic wages and the cost-of-living allowance rate, while the remaining half resulted from the growing demand for labor following the excellent yields in certain labor-intensive branches.<sup>2</sup> One example of the impact of the pressure of demand was the reduction of production norms in many places of work so as to attract hired labor.

In recent years the share of the agricultural sector in aggregate domestic employment has been on the decline. In 1964 it accounted for 14 percent of all gainfully employed, compared with 18 percent in 1958. While the percentage of self-employed in this sector has decreased, the proportion of wage-earners has gone up, from 37 percent in 1961 to 39 percent in 1964. In contrast to the two preceding years, when the number of wage earners in agriculture declined somewhat, there was a rise of 5.2 percent in 1964, from some 44,000 to 46,400.

Average monthly income per employee came to about IL 250 in 1964, compared with approximately IL 220 in 1963—an advance of 12.3 percent. The difference between this percentage increase and the rise in hourly wages (14.8 percent) is attributable to the decline in the average number of hours worked per wage earner, from 42 hours per week in 1963 to 41 in 1964.

<sup>1</sup> Posts, railway, and port services.

<sup>2</sup> Mainly deciduous fruit and vegetables, and to a lesser extent citrus.

Total wage payments in agriculture reached IL 155 million in 1964, as against some IL 130 million in 1963—an increase of 18.7 percent.

(b) *Industry*

Average income per industrial employee reached approximately IL 410 per month in 1964, compared with IL 365 in 1963—a growth of 11.5 percent. Two-thirds of the rise was due to the higher basic wage rates introduced under the new collective labor agreements and to the increase in the cost-of-living allowance rate. The remainder apparently stemmed chiefly from the larger

Table X-6

AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS IN INDUSTRY, 1963-64

| Branch                                 | Weight of branch <sup>a</sup> | Average hourly earnings (IL) |      | Percent increase from 1963 to 1964 | Index of wages in 1964 (average=100) |
|--|-------------------------------|------------------------------|------|------------------------------------|--------------------------------------|
|  |                               | 1963                         | 1964 |                                    |                                      |
| Food                                   | 15.2                          | 1.70                         | 1.84 | 8.5                                | 96                                   |
| Textiles                               | 13.7                          | 1.57                         | 1.72 | 9.7                                | 90                                   |
| Clothing                               | 4.3                           | 1.12                         | 1.23 | 9.4                                | 64                                   |
| Wood, wood products, furniture         | 7.8                           | 1.64                         | 1.81 | 10.5                               | 94                                   |
| Paper, cardboard, and products thereof | 1.8                           | 1.58                         | 1.71 | 8.0                                | 89                                   |
| Printing and publishing                | 4.3                           | 1.79                         | 1.96 | 9.6                                | 102                                  |
| Leather and leather goods              | 2.6                           | 1.44                         | 1.62 | 12.8                               | 84                                   |
| Rubber and plastics                    | 2.9                           | 1.69                         | 1.92 | 13.5                               | 100                                  |
| Chemical and petroleum products        | 3.8                           | 1.95                         | 2.17 | 11.1                               | 113                                  |
| Nonmetallic minerals                   | 6.9                           | 2.05                         | 2.26 | 10.1                               | 118                                  |
| Diamonds                               | 4.6                           | 1.90                         | 2.02 | 6.4                                | 105                                  |
| Basic metals                           | 2.6                           | 2.20                         | 2.38 | 8.2                                | 124                                  |
| Metal products                         | 7.6                           | 1.73                         | 1.91 | 10.5                               | 99                                   |
| Machinery                              | 4.4                           | 1.75                         | 1.98 | 13.4                               | 103                                  |
| Electrical machinery and equipment     | 3.9                           | 1.61                         | 1.76 | 9.4                                | 92                                   |
| Transport equipment                    | 9.8                           | 1.99                         | 2.23 | 12.3                               | 116                                  |
| Miscellaneous                          | 2.0                           | 1.27                         | 1.37 | 8.0                                | 71                                   |
| Mining and quarrying                   | 1.8                           | 2.31                         | 2.53 | 9.6                                | 132                                  |
| All branches                           | 100.0                         | 1.74                         | 1.92 | 10.2                               | 100                                  |

NOTE: The figures relate to production workers only, and have been obtained by dividing the workers' total earnings, including overtime pay, premiums, etc., by the number of hours worked.

<sup>a</sup> The branches are weighted according to their share in the total number of industrial workers.

SOURCE: Central Bureau of Statistics.

average number of hours worked per employee, and to a lesser extent from the wage drift.

Average hourly earnings of production workers went up by 10 percent as compared with 1963—IL 1.90 as against IL 1.75. The smallest percentage increase was in the diamond industry, whereas in the plastic, rubber, and machinery industries wages rose at a relatively high rate. In most industries the rise in average hourly earnings was close to the average, ranging from 8 to 12 percent.

There are considerable interbranch differences in the level of hourly earnings. For many years wages have been lowest in the clothing industry and highest in mining and quarrying and in basic metals (see Table X-6). Besides the disparities between the branches as regards the pressure of demand for labor, the wage level and its growth rate are affected by the composition of the labor force—in terms of both skill level and sex.

The total wage bill of the industrial sector reached IL 1,015 million in 1964, compared with IL 857 million in 1963—an increase of 18.3 percent.

The number of employees in industry reached 175,000 during the year reviewed, as against 165,000 in 1963. This growth of 5.7 percent was smaller than in previous years, and would seem to indicate a trend.<sup>1</sup> The total number of man-hours in this sector went up 7.7 percent, following a rise in the average number of hours worked per employee. The increase of some 2 percent in the number of man-hours per employee primarily reflects a higher volume of overtime work. This was apparently due in part to the shortage of supervisory personnel, which has made it difficult for many enterprises to operate additional shifts, despite the growing demand for their products.

### (c) *Construction*

The average daily wage in the construction sector reached IL 20.7 in 1964, as against approximately IL 19.5 in 1963—a rise of 9 percent. Average income per wage earner advanced a little more slowly—by 8.7 percent—owing to a slight drop in the average number of man-hours per employee. The average monthly income figure reached IL 480 in 1964, compared with about IL 440 in 1963. This was the second consecutive year in which the rates of increase in average hourly wages and average monthly earnings fell below those registered in 1961 and 1962, when construction was booming.

Basic wage rates were raised by 6 percent as from July 1964. This was more or less in line with Histadrut policy; since the decision to raise wages was taken rather late (in June 1964) and since it is hard to implement retroactive payments in this sector, it was decided to increase wage rates by 6 percent as from July instead of by 3 percent as from January. The effect on the average wage level for the year was about the same as it would have been had the latter policy

<sup>1</sup> In 1961 the increase totalled 12.3 percent; in 1963—11.4 percent; and in 1963—8.3 percent.

been followed. The higher wage rates and the increase in the cost-of-living allowance rate apparently explain most of the rise in hourly wages. The remainder was presumably due primarily to the changes that occurred in the vocational structure of the labor force.

The total wage bill of the construction sector went up by 15 percent during the year reviewed, reaching IL 408 million as against IL 354 million in 1963. There was an increase of nearly 1 percent in fringe benefit rates, besides the 9 percent advance in hourly wages, and a rise of 4.5 percent in labor input.

In periods of booming construction activity the greater demand for labor pushes up hourly wages at a relatively fast rate. The increases in the wage rate, however, do not fully reflect the impact of the intensified demand. It finds expression, therefore, partly in frequent upgrading and partly in the payment of bonuses over and above the official wage rates. Owing to the slower expansion of construction in 1964, the promotion of workers likewise slowed down and the payment of bonuses apparently did not increase in scope (in fact it may even have declined slightly).

In recent years the construction sector has absorbed mainly young unskilled workers from among the new immigrants and the Arab population. The labor turnover rate<sup>1</sup> is relatively high in this sector. Numerous workers, among them some who have attained a high level of skill, tend to leave the sector after a short time. Owing to the working conditions—the unstable nature of employment, the physical conditions, etc.—the wages offered have not proved sufficient to prevent this turnover.

#### (d) *Commerce and finance*

In the commerce and finance sector average income per employee rose by 9.3 percent in 1964, to reach approximately IL 395 per month as compared with some IL 365 in 1963. The number of employees went up by 7 percent, and there was a moderate increase in the average number of man-hours per employee.

Over one-third of all hired personnel in the sector are employed by financial institutions,<sup>2</sup> where increases exceeded the average both as regards the number of employees (about 9 percent) and as regards average income per employee (some 13 percent). Employment in the commerce branch, on the other hand, expanded more slowly, the number of employees going up by approximately 4.5 percent. The rise in average income per employee was also more modest—about 6.5 percent.

<sup>1</sup> The labor turnover rate normally measures accessions and separations in respect of the individual firms. However, because of the nature of the sector, such a measurement is irrelevant here, and the turnover rate referred to is that of entry and exit in respect of the sector as a whole.

<sup>2</sup> Banks, investment firms, insurance companies, etc.

The sector's wage bill amounted to IL 290 million in 1964, constituting about 8 percent of total wage payments in the economy.

(e) *Transportation, communications, and storage*

Average earnings per employee in this sector rose by 8 percent in 1964, reaching approximately IL 485 per month as against some IL 450 in 1963. This rate of increase was the lowest in the economy, but wages may be expected to rise considerably in 1965 with the implementation of the new wage agreements concluded in 1964 for the Post Office, Israel Railways, and certain of the port services.

The sector employed an average of some 35,000 wage earners in 1964, as compared with approximately 32,000 in 1963; this represented 6 percent of the total number of employees in the country. The main increases occurred in road haulage, communications, and maritime shipping. The sector's wage bill reached IL 228 million, as against IL 195 million in 1963—a rise of approximately 17 percent.

(f) *Personal services*

As a result of the growing demand for the services of this sector, on the part of both tourists and the local population, the number of gainfully employed increased at a relatively high rate in 1964. This was the third consecutive year that employment in this sector went up more rapidly than total employment. The number of wage earners in the personal services reached 39,600 in 1964, as against 36,800 in 1963—a rise of 7.6 percent. The sector thus accounted for some 7 percent of all wage earners in the country.

During the year reviewed the average hourly wage in the personal services sector rose faster than anywhere else—by 16.5 percent. Average earnings per employee, however, remained among the lowest in the economy, totalling approximately IL 270 per month, as compared with IL 240 in 1963 (an advance of 12 percent). The percentage increase in monthly income was considerably lower than that in the hourly wage owing to the decline in the average number of man-hours per employee—from 34 per week in 1963 to 32.5 per week in 1964. This decrease in the average number of hours worked apparently reflects a rise in the proportion of part-time workers—a natural result of the seasonal character of some of the services supplied by this sector.

(g) *Public services*

1. *Developments in 1964*

The number of employees in the public services sector reached 171,000 in 1964, compared with 162,000 in 1963—an increase of some 5 percent. Relatively high growth rates were registered in health, educational, and business

services,<sup>1</sup> while administrative services showed only a moderate rise. The sector's wage bill, which constitutes one-third of total wage payments in the country, reached IL 1,163 million in 1964, compared with IL 971 million in 1963—a growth of almost 20 percent.

Average monthly earnings per employee in this sector, which accounts for some 30 percent of all wage earners, rose from approximately IL 450 in 1963 to some IL 515 in 1964. The rate of increase—14 percent—surpassed that in all other sectors. This represents the virtual continuation of a trend noticeable for some years: since 1959 average income has risen faster in the public services than in other sectors.<sup>2</sup> Actually, the increase in 1964 only partially reflects the effect of the revised wage scales stipulated in the agreements signed in 1964, since negotiations were concluded only in the second half of 1964, and the new higher rates and retroactive payments had yet to be paid to most employees by the end of the year. Hence a large rise in average earnings may be expected in this sector in 1965, when the new wage rates become fully operative and retroactive adjustments are paid.

The higher basic salary scales and professional allowance paid in 1964 increased the average gross income of academically trained personnel (doctors, engineers, etc.) by 10 to 14 percent. The revision of income tax rates, which was an important issue in the negotiations with professional personnel,<sup>3</sup> raised disposable income by another 5 to 9 percent, this being equivalent to a further increase of 9 to 20 percent in gross income.

Salaries of teachers—both academically and nonacademically trained—went up by an average of 14–16 percent. The increase was more pronounced in the case of teachers with relatively little professional seniority than for teachers with considerable seniority.

Negotiations over the new collective labor agreements were concluded, as already mentioned, in the second half of 1964, and most of the professional personnel did not begin to receive the new higher rates (or advances on account of the higher rates) until December, or at the earliest November. Retroactive adjustments as from April 1, 1964—the date from which the new agreements are effective—were not paid in the year reviewed, but will be paid in 1965.

The new salary scale for administrative personnel in the public services<sup>4</sup> was included in the labor agreement signed in August 1964. Its introduction, however, is dependent upon the regrading of all administrative personnel, using a new method of job evaluation evolved by the Civil Service Commission. Until com-

<sup>1</sup> Including economic, engineering, and legal services; accounting and auditing; advertising and public relations; and office-machine services.

<sup>2</sup> Only in 1963 was this trend not maintained, owing to the relative success of the Government's wage-freeze policy in this sector.

<sup>3</sup> The new agreements include a clause ensuring compensation in the form of higher gross income should the Government's planned reduction of income tax rates not be implemented.

<sup>4</sup> Including laborers, foremen, nurses, and social workers.

pletion of the regrading, the old rates were raised by 3 percent, and an advance of IL 200 (net) was paid to all employees. In November 1964 the new scale went into effect for the first time in respect of several hundred civil servants who had by then been regraded. The increase in their average income, as a result of the regrading, came to 20 percent or more.

2. *The Public Committee for Wages and Salaries in the Civil Service, Local Authorities, and Religious Councils*

The Public Committee for Wages and Salaries in the Civil Service, Local Authorities, and Religious Councils<sup>1</sup> was appointed in December 1961 and submitted its report to the Government in April 1963. Among its main tasks were the following:

(a) "To examine and recommend changes, insofar as it deems necessary, in the following matters: wage and salary scales, methods of grading, grants and allowances, rules governing promotion in job or grade.

(b) "To recommend procedures for the co-ordination of job classification and grading in the civil service and in public institutions, as well as methods of constant supervision of the proposed procedures."

The Committee was established following the demand of the Civil Servants' Union that the pay of administrative staff be brought in line with that of academic and professional personnel in the civil service on the one hand, and with the salaries of administrative personnel in the local authorities and public institutions on the other.

The work of the Public Committee must be viewed in the light of the conditions prevailing in the hierarchical structure and salary system of the public services at that time. Following the agreements signed for the years 1958-59 with administrative staff<sup>2</sup> and with professional personnel,<sup>3</sup> the basic premise general-

<sup>1</sup> This body was generally referred to as the "Horowitz Committee".

<sup>2</sup> Under the agreement for 1958-59 every administrative employee who had served three or more years in his grade was automatically promoted by one grade. Consequently, many were promoted to the grade of their immediate superior. With the introduction of a system whereby employees continued to receive their seniority allowances even after upgrading, many began to receive higher salaries than their superiors. For a detailed description of the collective agreements referred to, see the chapter on wages in the Annual Reports of the Bank of Israel for the years 1959 and 1960.

<sup>3</sup> A large number of new scales were created for professional personnel. These scales were linked to one another, so that in practice a small change in one of them touched off a chain reaction in all the others. The terms of the agreements which severed the link between job and pay may be summed up as follows: (a) the one-time regrading by parity committees, which promoted professional staff by an average of more than one grade; (b) the permanent arrangement of automatic promotion according to professional seniority, without regard to the post held; (c) the granting of seniority allowances on the basis of professional seniority instead of seniority in the grade, together with a large increase in seniority allowance rates.

ly adopted in all countries—namely, that the pay of every employee must be fixed, first and foremost, in accordance with the post held by him—was completely undermined. These agreements were designed to increase average income of public service workers, with larger increases for academically qualified personnel than for administrative staff, while leaving the basic wages rates unchanged.

As a result of these agreements, the essential link between job level and salary level was broken, in respect of both different jobs in the same scale and similar jobs in different scales. Differentials of tens and hundreds of pounds were created between the salaries of persons in the same professional scale and performing identical tasks. In addition, numerous distortions appeared in the job structure: an employee who had accumulated considerable professional seniority could now receive a grade and salary appreciably higher than that of his superior with less seniority. Apart from these distortions within each of the professional scales, inequalities were also created between employees in different scales; in particular, administrative personnel tended to receive lower salaries than their professional subordinates.

In view of this situation, the Public Committee recommended a reform of the salary structure in the public services, the most important points of which were as follows:

1. The grade of every employee,<sup>1</sup> whether administrative or professional, shall be determined by the position which he holds.
2. A single grade shall be fixed for each position, and no employee is to be promoted unless there is a real change in the nature of his position.
3. Grades for all posts—whether administrative or professional—shall be fixed in accordance with objective criteria, which are to be uniformly applied to all types of positions.
4. The pay of every employee shall consist of four components: basic wage, seniority allowance (based on seniority in the grade held), family allowance, and cost-of-living allowance.

Since the Public Committee realized that the introduction of these basic revisions would require considerable time, and in order to free the regrading of all posts—which was to be done in an objective and uniform manner—from the pressures of immediate negotiations over pay increases, it recommended an intermediate stage, in which all the existing scales would be merged into a new uniform scale,<sup>2</sup> with certain salary increases.

The Government approved the Committee's report, and announced that its basic recommendations would serve as the basis for negotiating the new collective labor agreements in 1964. Shortly afterward it was decided not to accept the recommendation concerning an intermediate stage, but to start immediately

<sup>1</sup> Excluding policemen, persons serving in the regular armed forces, and teachers.

<sup>2</sup> On the basis of prepared tables, for some 20 professional scales.

to classify all personnel—both administrative and professional—according to the job evaluation system evolved by the Civil Service Commission.

At the very outset of negotiations with the representatives of the academically trained personnel, it was agreed that these employees would not have their positions evaluated<sup>1</sup> along with those of other personnel within the framework of the uniform salary scale. It was decided to maintain their separate salary scales and special conditions for advancement.<sup>2</sup> The main recommendations of the Public Committee were thus not implemented as regards professional personnel.

Under the labor agreement signed in August 1964, a new scale of 20 grades was approved for administrative employees<sup>3</sup> in the public service. However, its actual introduction was made conditional on the regrading of such personnel on the basis of job evaluation. The Committee regarded the fixing of grades by a single central authority as an essential condition for guaranteeing a “uniform and objective method” of grading staff. Because of the short amount of time allowed for the reclassification, it was not possible to entrust it to a central authority, as the Committee had recommended. Accordingly, several score “committees of six”<sup>4</sup> were appointed, one for almost every department in the public service. Each of these committees was made responsible for classifying the administrative personnel in its department on the basis of data prepared by the Civil Service Commission. Most of the committees were paralyzed by the opposition of the employees, either from the outset or during the early stages of their work. In many cases strikes were called in order to achieve higher gradings. The recommendations of the Public Committee concerning the classification of employees by a uniform and objective method were thus not implemented even in respect of employees for whom the new salary scale was introduced.

### 3. TAX POLICY AND DISPOSABLE INCOME

Toward the end of the year reviewed it was decided to reduce the rates of income tax deduction, following the recommendations made by the Zadok Committee. In accordance with this decision, tax rates were cut and the rates of personal exemption from taxable income were raised, while on the other hand the exemption of the cost-of-living allowance from income tax<sup>5</sup> was

<sup>1</sup> Later it was agreed to exclude from the classification also the majority of professional staff without academic qualifications, apart from nurses, social workers, and foremen.

<sup>2</sup> Professional seniority allowance, promotion by seniority, etc.

<sup>3</sup> Including laborers, foremen, nurses, and social workers.

<sup>4</sup> Committees constituted on a parity basis, including one representative from each of the following bodies: the management of the Ministry or department concerned, the Civil Service Commission, the Local Authorities Center, the Civil Servants' Union, the Trade Union Division of the Histadrut, and the employees' committee of the department concerned.

<sup>5</sup> Apart from that part of the allowance in excess of 33.6 points.

terminated and the lower rates of tax previously charged on income from overtime work were abolished.

Table X-7

RATIO OF DISPOSABLE INCOME TO GROSS INCOME, AND  
RATE OF INCREASE IN DISPOSABLE INCOME, 1964

| Basic monthly wage (IL) | Gross income per month <sup>a</sup> (IL) | Disposable income <sup>b</sup> as a percentage of gross income |                  | Percent increase in disposable income |
|-------------------------|--|--|------------------|---------------------------------------|
|                         |  | At old tax rates   | At new tax rates |                                       |
| 200                     | 272                                      | 98   | 98               | —                                     |
| 400                     | 543                                      | 89   | 91               | 2.1                                   |
| 600                     | 786                                      | 82   | 85               | 4.5                                   |
| 800                     | 993                                      | 75   | 81               | 7.6                                   |
| 1,000                   | 1,193                                    | 70   | 76               | 8.9                                   |
| 1,200                   | 1,393                                    | 66   | 72               | 9.2                                   |

<sup>a</sup> Basic pay and cost-of-living allowance, the latter being calculated on the basis of the average rate in force during the fiscal year 1964/65.

<sup>b</sup> The calculations refer to married men with two children. The rate of increase in disposable income is smaller in the case of bachelors, where it ranges from 0.5 percent for basic pay of IL 200 per month to 7.4 percent for basic pay of IL 1,200 per month.

This tax policy increased the disposable income<sup>1</sup> of most employees in the country, the degree of increase going up with the level of income.<sup>2</sup> There was no rise in the disposable income of persons with gross earnings of IL 300 per month or less, since they were already exempt from income tax payments. As regards persons earning IL 500 per month, disposable income rose by approximately 2 percent; for those earning some IL 800—by 4.5 percent; for those earning some IL 1,000—by 7.5 percent; and for persons earning IL 1,200 or more<sup>3</sup>—approximately 9 percent (see Table X-7). Accordingly, the disposable income ratio between a basic wage of IL 200 per month and a basic wage of IL 1,200 per month went up from 3.4:1 under the previous tax rates to 3.8:1 under the new tax rates (see Table X-8).

<sup>1</sup> Gross income less deductions on account of income tax, National Insurance, Absorption Loan, and Compulsory Saving. The changes in income tax rates apply not only to wage earners but to self-employed as well.

<sup>2</sup> The data cited below refer to tax rates applicable to married men with two children.

<sup>3</sup> Up to IL 2,200 per month; above this income level the rate decreases.

Table X-8

INDICES OF DISPOSABLE INCOME, UNDER OLD AND NEW TAX RATES<sup>a</sup>

(IL 200 monthly basic pay = 100)

| Basic monthly wage | Index of disposable income for a single person |                  | Index of disposable income for a father with 2 children |                  |
|--------------------|--|------------------|---|------------------|
|                    | At old tax rates                               | At new tax rates | At old tax rates  | At new tax rates |
| 200                | 100  | 100              | 100   | 100              |
| 400                | 182  | 184              | 181   | 185              |
| 600                | 242  | 249              | 240   | 251              |
| 800                | 280  | 295              | 279   | 300              |
| 1,000              | 314  | 334              | 312   | 340              |
| 1,200              | 345  | 369              | 344   | 376              |

<sup>a</sup> Old tax rates are the rates in force before the implementation of the Zadok Committee's recommendations. New tax rates are those introduced following the committee's recommendations.

The application of the new tax rates was made retroactive to April 1, 1964, but they were actually deducted from current income only in January 1965. Refunds for the period April–December 1964 were made in the early months of 1965. Thus the effect of the new tax rates and refunds on disposable income will be felt only in 1965.

The above policy must be regarded as a certain concession by the Government to the demands of the academically trained and senior administrative personnel for large pay increases. As a result of the income tax reform, their net income increased by 5 to 9 percent, without necessitating a rise of some 10 to 20 percent in gross salaries (which would have been required to produce the same result under the old tax rates). Most of these workers are employed directly or indirectly by the Government. It is the Government which pays their salaries and which receives the taxes deducted therefrom. The raising of these employees' disposable income by trimming the tax rates rather than by increasing their gross income does not, therefore, affect the Government's net labor costs. Satisfying their salary demands by means of increases in gross salaries rather than net income might have caused a chain reaction and augmented the pressure of other groups for correspondingly higher gross pay. At the same time, it should be noted that, as against this consideration, this tax-policy measure has considerably expanded disposable income in the economy—for wage earners and self-employed alike—thus increasing aggregate demand pressure.

#### 4. THE COST-OF-LIVING ALLOWANCE

According to the cost-of-living allowance agreement,<sup>1</sup> the allowance rate may be raised twice a year, provided that the increase in the price level<sup>2</sup> reached or exceeded 3 percent as compared with the price level according to which the previous rate was calculated. In 1964 the cost-of-living allowance was raised twice—in January and in October.<sup>3</sup> The average allowance rate for the year was 34.6 points—i.e. 34.6 percent of the wage to which it applied,<sup>4</sup> as compared with 28.9 points in 1963. The difference between the average c-o-l allowance rates of the two years increased average hourly wages by some 3.5 percent.

At the beginning of 1964 the maximum wage on which the allowance is computed was raised, resulting in an increase of less than 0.5 percent in the average hourly wage. From 1957 to 1963 the “ceiling” stood at IL 500 per month; i.e. the cost-of-living allowance was paid only on the first IL 500 of the basic monthly wage, inclusive of family and seniority allowances. As of 1964, this “ceiling” was raised to IL 700. Other wage components,<sup>5</sup> including the cost-of-living allowance itself, are excluded when calculating the c-o-l allowance, even after the raising of the “ceiling”. The allowance is not paid at the full rate on the difference between the two “ceilings” (i.e. the additional IL 200 of basic pay),<sup>6</sup> but only for those points accruing to the c-o-l allowance rate as from January 1964.<sup>7</sup>

Thus we see that the cost-of-living allowance does not apply to all wage payments in the economy. In 1964 the allowance was paid on only some 60 percent of total wage payments. Since one point in the allowance is equivalent to 1

<sup>1</sup> The agreements governing the cost-of-living allowance are signed between the Histadrut (General Federation of Labor) and the Manufacturers' Association, but apply to all employees in the country whose working conditions are determined by collective labor agreements. Since the expiration of the last agreement, the two sides have from time to time signed memoranda determining the cost-of-living allowance on an “ad hoc” basis.

<sup>2</sup> As measured by the consumer price index published monthly by the Central Bureau of Statistics.

<sup>3</sup> In January the cost-of-living allowance was raised by 4.7 points (from 28.9 to 33.6); in October it was raised by 4.0 points (from 33.6 to 37.6).

<sup>4</sup> A definition of the wage to which the c-o-l allowance applies is given below.

<sup>5</sup> E.g. overtime, special hospital allowance for doctors, shift allowance for nurses, professional literature allowance, desert allowance, etc. It should be noted that in certain cases (e.g. civil servants) no cost-of-living allowance is paid on the family allowance either.

<sup>6</sup> Including the family and the seniority allowance.

<sup>7</sup> For instance, in 1963 the cost-of-living allowance rate was 18.9 points, and the allowance was applicable only to basic wages up to a maximum of IL 500. In January 1964, when the “ceiling” was raised to IL 700, the rate was raised by 4.7 points, to 33.6 points. In 1963 a person earning a basic wage of IL 650 received a cost-of-living allowance at the rate of 28.9 percent of IL 500 only, while as from January 1964 he received 33.6 percent on the first IL 500 and 4.7 percent on the additional IL 150.

percent of the pay to which the allowance applies, each point by which the allowance was raised in 1964 represented an increase of some 0.6 percent, or IL 20–22 million, in the total wage bill.

Under the cost-of-living allowance agreement the rise in prices between December 1963 and June 1964 called for an increase of approximately 8 points<sup>1</sup> in the cost-of-living allowance rate payable as from July 1964. Apprehensive lest the stability of prices be undermined, the Government proposed the postponement of the increase in the allowance while compensating families in the lower income groups for the rise in prices.

Following the agreement concluded between the Histadrut and the Manufacturers' Association, the method of computing prices of housing services and their weight in the consumer price index<sup>2</sup> was changed for purposes of cost-of-living allowance calculations.<sup>3</sup> It should be noted that the rise in prices of housing services was responsible for one-third of the total increase in the index at that time. As a result of the above agreement, the cost-of-living allowance should have been raised by four points as from July 1964, but in view of the price stabilization policy, the Histadrut agreed to defer the introduction of the higher rate by three months, to October.

## 5. AVERAGE INCOME OF WAGE-EARNING FAMILIES

Average monthly income per wage-earning family<sup>4</sup> in 1963–64 came to IL 616 gross and IL 529 net. Of the gross figure, 95 percent was wage earnings of all breadwinners; the wages of the family head constituted 80 percent of

<sup>1</sup> The average index (excluding fruit and vegetables) according to which the cost-of-living allowance was raised in January 1964 stood at 125.3. In July 1964 the average index (excluding fruit and vegetables) for the first half of 1964, adjusted for the rise in average fruit and vegetable prices during the year July 1963 to June 1964, was 7.9 points higher, i.e. 133.2.

<sup>2</sup> It should be noted that for computing the consumer price index the Central Bureau of Statistics continued to use the method introduced in 1959, while at the same time making separate calculations on the basis of the new method for computing the cost-of-living allowance.

<sup>3</sup> In the report drawn up by representatives of both sides, a number of methods of calculating the housing item were suggested. No less important (from the aspect of its influence on the cost-of-living allowance rate) was the date on which the new system was to go into effect. There were many suggestions on this point too, and it was finally decided to introduce it retroactively from July 1962.

<sup>4</sup> The data cited here are from the family expenditure survey carried out by the Central Bureau of Statistics. The survey covered the period from July 1963 to June 1964 and related to urban Jewish families (in towns with a population of 10,000 or more) where the family head was a wage earner. The inclusion of all wage-earning families, Jewish and non-Jewish, presumably would have yielded a lower income figure owing to the relatively low average income in the agricultural sector.

total earnings and wages of the other breadwinners—some 15 percent. The remaining 5 percent stemmed from pensions, grants, self-employment, etc.<sup>1</sup>

Average income of the head of a wage-earning family (including income from all jobs) reached IL 490 per month. Disparities in educational and vocational levels were reflected by differences in income levels according to continent of birth and length of residence in Israel. A relatively low level was found among persons born in Asia and Africa (IL 397 per month in the case of immigrants<sup>2</sup> and IL 434 per month in the case of veteran residents<sup>3</sup>), and a relatively high level among native-born and veteran residents originating from Europe or America (IL 557 and IL 607 per month respectively). Income of the head of an immigrant family from Europe or America averaged IL 489 per month.

Table X-9

**AVERAGE MONTHLY INCOME PER FAMILY AND PER CAPITA, BY ORIGIN AND LENGTH OF RESIDENCE IN ISRAEL OF FAMILY HEAD, 1963/64<sup>a</sup>**

|                               | No. of persons<br>in family | Income per family |       | Income per capita |       |
|-------------------------------|-----------------------------|-------------------|-------|-------------------|-------|
|                               |                             | IL                | Index | IL                | Index |
| All families                  | 3.9                         | 616.4             | 100   | 158.1             | 100   |
| Afro-Asian origin             | 5.0                         | 477.3             | 77    | 95.5              | 60    |
| Immigrated in 1947 or earlier | 4.6                         | 535.5             | 87    | 116.4             | 74    |
| Immigrated in 1948 or later   | 5.1                         | 468.0             | 76    | 91.8              | 58    |
| European-American origin      | 3.4                         | 674.8             | 109   | 198.5             | 126   |
| Immigrated in 1947 or earlier | 3.4                         | 776.2             | 126   | 228.3             | 144   |
| Immigrated in 1948 or later   | 3.4                         | 605.9             | 98    | 178.2             | 113   |
| Israeli-born                  | 3.5                         | 719.0             | 117   | 205.4             | 130   |

<sup>a</sup> According to the family expenditure survey, which covered Jewish urban wage-earning families only. The survey was carried out by the Central Bureau of Statistics, and the data relate to the period between July 1963 and June 1964.

There are considerable differences in the average size of families, but there is very little dissimilarity in the average number of breadwinners per family. During the period reviewed the average size of a wage-earning family was 3.9 persons. Among Afro-Asian families, the average was 4.6 persons in the case of veteran residents and 5.1 in the case of immigrants. Among families of Israeli, European, or American origin, the average number of persons was 3.4–3.5. For all families the average number of breadwinners ranged from 1.4 to 1.6.

<sup>1</sup> Nonrecurrent receipts (such as severance pay, legacies, gifts, restitution payments from Germany, etc.) increased the average income per family by a further IL 48 per month.

<sup>2</sup> An immigrant is defined here as a person who settled in Israel in 1948 or later.

<sup>3</sup> A veteran resident is defined as a person who settled in Israel in 1947 or earlier.

Among families of Afro-Asian origin, the contribution of the wife of the family head to total income is relatively small (about IL 40 per month). This seems to be due not only to such factors as the educational and vocational level, but also to the large number of young children per family and other social factors which make it difficult for the wife to go out to work. In the case of native-born and veteran residents of European-American origin, the wife's income is relatively high, averaging IL 114 and IL 98 per month respectively.

The average income level of an Afro-Asian wage-earning family reached 77 percent of the average level of all urban wage-earning families. The average income level of European-American families exceeded the general average by 10 percent, while that of Israeli-born was 17 percent higher.

Average monthly income per capita reached IL 158 in 1963/64. For persons born in Israel, Europe, or America, the figure came to approximately IL 200, while for persons born in Asia or Africa it was only IL 96. In other words, average per capita income among persons of Afro-Asian origin is about half as high as that of all other wage-earning families (see Table X-9).