

CHAPTER X

WAGES

1. MAIN DEVELOPMENTS

IN DESCRIBING WAGE TRENDS in 1966 a distinction must be made between the marked change in average pay per employee as compared with the average for 1965, and the rate of change in the course of the year, which was lower. In the latter case, most of the rise took place in the first part of 1966, while by the end of the year the trend had turned downward. This was true of all sectors of the economy.

The number of wage earners held steady as compared with the average for 1965, but it declined during the year reviewed. Both the stability in the average level and the decline during the year represent a departure from the steady uptrend of previous years. This development resulted from the weakening of aggregate demand, reflected by the growth of unemployment.

Average monthly income per wage earner¹ in 1966 came to approximately IL 570, as compared with some IL 480 in 1966—an increase of nearly 19 percent; the real percentage rise² was approximately 10 percent. Real disposable income per wage earner was 8 percent higher than in 1965. The average

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 and owners of enterprises working therein. 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.

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 is 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 Obtained by deducting the nominal rise in the consumer price index. This index went up by 8 percent in 1966 as compared with the average level in 1965.

Table X-1

**NUMBER OF WAGE EARNERS,^a WAGE BILL, AND ANNUAL EARNINGS
PER EMPLOYEE,^b 1961-66**

	1961 ^c	1962 ^c	1963 ^c	1964 ^c	1965	1966 ^d
No. of wage earners (thousands)	507	547	586	622	642	642
Percent change		8	7	6	3	0
Total wage payments at current prices (IL million)	1,702	2,117	2,533	3,023	3,671	4,374
Percent change		24	20	19	20	19
Total wage payments at 1966 prices ^e (IL million)	2,434	2,760	3,100	3,518	3,965	4,374
Percent change		13	12	14	13	10
Annual income per wage earner at current prices (IL)	3,360	3,870	4,320	4,860	5,720	6,820
Percent change		15	12	12	18	19
Annual income per wage earner at 1966 prices ^e (IL)	4,790	5,040	5,290	5,650	6,180	6,820
Percent change		5	5	7	9	10

^a See the definition of wage earners in note ¹ on the previous page.

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

^c These figures have been chained in accordance with a new sample for 1965.

^d Data for December 1966 are provisional.

^e Wages have been inflated to 1966 values according to the consumer price index—annual averages.

SOURCE: Based on Central Bureau of Statistics data.

number of wage earners in 1966 totalled 642,000 (this figure is somewhat overstated, as explained in the note below), the same as in 1965; the growth of the total wage bill was thus identical with that in earnings per wage earner—19 percent in nominal terms and about 10 percent in real terms. Total payroll expenditure rose from IL 3.7 billion in 1965 to IL 4.4 billion in 1966, and at 1966 prices, from IL 4.0 billion to IL 4.4 billion.

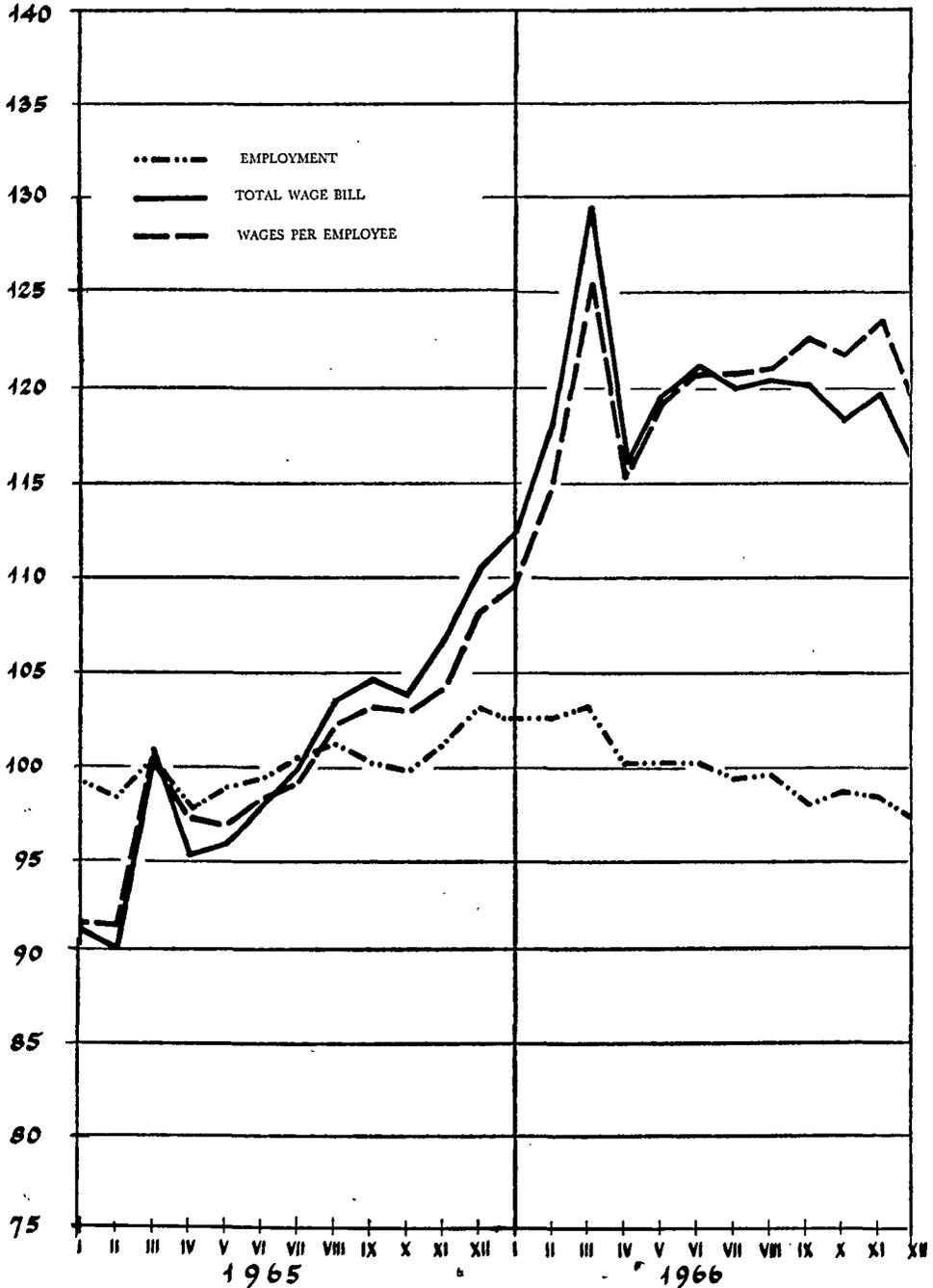
Data on wages and wage earners are from Central Bureau of Statistics publications, which are based on figures of the National Insurance Institute. Various indicators based on direct data collected by the Central Bureau of Statistics and the Bank of Israel suggest somewhat lower rates of increase, and hence the figures cited here may have an upward bias. Nevertheless, all indicators show a substantial increase in wages as compared with 1965.

The year reviewed differed from the period 1960-65 in two respects: (1) the

Diagram X-1

INDEXES OF EMPLOYED WAGE EARNERS, TOTAL WAGE BILL, AND WAGES PER EMPLOYEE, 1965-66

(average 1965=100)



SOURCE: Central Bureau of Statistics.

Table X-2
AVERAGE MONTHLY WAGES PER EMPLOYEE, BY ECONOMIC SECTOR,^a
1961-66
(IL)

	1961 ^b	1962 ^b	1963 ^b	1964 ^b	1965	1966
Agriculture	170	190	220	260	280	330
Industry, mining and quarrying	280	310	350	400	460	540
Construction	260	320	360	410	490	560
Electricity and water	480	480	510	560	640	740
Commerce and finance	310	340	400	440	500	590
Transportation and communications	340	380	430	490	610	760
Public services	300	350	380	420	500	600
Personal services	210	230	260	290	330	400
Total economy	280	320	360	400	480	570

^a See notes ^a, ^b, and ^d to Table X-1.

^b These data have been chained in accordance with a sample for 1965.

SOURCE: Based on Central Bureau of Statistics data.

number of employees remained unchanged in 1966 as compared with the previous year, whereas in 1960-64 the figure rose by 6-8 percent per annum, and in 1965 by 3 percent;¹ and (2) average wages per employee advanced faster in 1966 than in any other year, in both nominal and real terms (see Diagram X-2 and Tables X-1, X-3, and X-4).

As Table X-3 brings out, all sectors of the economy showed a faster growth of wage incomes in 1966, except construction. In the latter, there was a substantial rise in the absolute level, but the percentage increase was somewhat lower than in previous years.

The stability in the average number of wage earners was the resultant of a decline in three sectors—agriculture, industry, and construction; a relatively large increase in public, business, and personal services; and a slight rise in transportation and communications, commerce, and electricity. The marked increase in public services partly reflects the growth of relief projects employment.

¹ The rates of change cited here refer to the number of jobs, as defined in National Insurance data (see note ¹ on p. 235). The rates of change in the number of wage earners according to the manpower surveys fluctuated between 4 and 7 percent in the early sixties.

Table X-3

**INCREASE IN AVERAGE MONTHLY WAGES PER EMPLOYEE,
BY ECONOMIC SECTOR,^a 1961-66**

(percentages; at current prices)

	1961 to 1962	1962 to 1963	1963 to 1964	1964 to 1965	1965 to 1966	Average annual increase
Agriculture	14	15	16	11	18	15
Industry, mining and quarrying	11	13	12	16	17	14
Construction	21	14	15	18	14	16
Electricity and water	0	5	10	13	16	9
Commerce and finance	12	16	10	14	18	14
Transportation and communications	11	12	15	24	25	17
Public services	20	9	10	18	21	15
Personal services	10	13	12	14	20	14
Total economy	15	12	12	18	19	15

^a See notes ^a, ^b, and ^d to Table X-1.

SOURCE: Central Bureau of Statistics.

The number of wage earners declined by nearly 5 percent during 1966, as against a rise of 4 percent during 1965. This constituted a sharp departure from the steady upward movement of past years; it accounts for the stability in the average number of wage earners in 1966, and underlines the change that occurred. The decline during 1966 was common to all sectors of the economy, with the exception of public and personal services, and even in the latter the trend turned downward in the last quarter of the year.

The fall in the number of employees began in the second quarter (see Diagram X-1). It reflects the slackening of economic activity in the year under review and, of course, the rapid growth of unemployment.

The change in wage earner's income in the course of 1966¹ differs greatly

¹ Calculation of the change in wages during the year differs somewhat in accordance with the points of time chosen for the comparison. Underlying the calculation in respect of all sectors where part of the wage increases were paid out in the form of retroactive increments in the summer of 1966, is the plausible assumption that the two points selected do not include the increments. The latter, which were paid in the middle of the year, may also explain part of the decline in wage incomes in the last part of 1966 (see Diagram X-3).

from that in the average annual level. Average income per wage earner in 1966 rose more rapidly than in any other year, whereas the rate of change in the course of the year (approximately 10 percent) was lower than during 1965 (19 percent) and does not differ greatly from that during earlier years.

On the face of it, it is surprising that in a year that saw a decline in employment and a high degree of unemployment there should have been a high percentage increase in income per wage earner. The explanation is that the rise in income resulted from institutional arrangements decided on in the previous year, and the parties concerned displayed no readiness to modify the wage policy at the beginning of the year in view of the sagging demand for domestic output. Furthermore, unemployment began to mount sharply only in the second quarter of 1966.

Table X-4
INCREASE IN AVERAGE REAL MONTHLY WAGES PER EMPLOYEE,
BY ECONOMIC SECTOR, 1961-66

(at constant prices, deflated according to the consumer price index)

	1961 to 1962	1962 to 1963	1963 to 1964	1964 to 1965	1965 to 1966	Average annual increase
Agriculture	5	8	11	3	10	7
Industry, mining and quarrying	2	6	7	8	9	6
Construction	10	7	9	10	6	8
Electricity and water	-8	-1	5	4	7	1
Commerce and finance	2	9	5	6	9	6
Transportation and communications	1	5	9	15	15	9
Public services	9	2	4	10	12	7
Personal services	0	6	7	6	11	6
Total economy	5	5	7	9	10	7

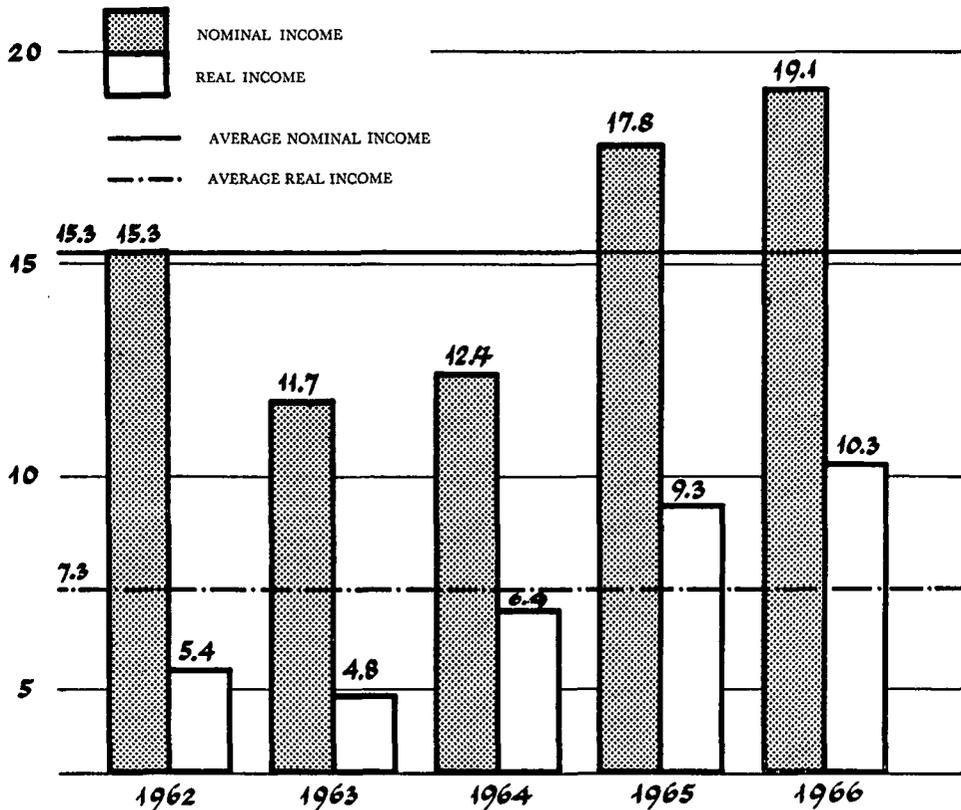
^a See notes to Table X-1.

SOURCE: Central Bureau of Statistics.

The deceleration of economic activity, combined with the strong bargaining position of the trade unions in wage negotiations, resulted in the growth of unemployment. Since the producers who were affected by the stability or decline in demand could not meet the increased wage demands, they were

Diagram X-2

PERCENT CHANGE IN NOMINAL AND REAL INCOME PER EMPLOYEE, 1962-66



SOURCE: Central Bureau of Statistics.

compelled to curtail production, and this was expressed in dismissals and in the shortening of the work week (which is also a form of unemployment).

The substantial percentage increase in average wages per employee¹ in 1966 can be ascribed to the rise which began in 1965. In the second half of that year the figure began to advance at an accelerated rate, a trend which continued through the first quarter of 1966 in all sectors of the economy. In April the rapid growth came to an end, although the trend continued upward in most sectors, levelling off, or even declining, at the end of 1966.² This is partly explained by the payment of the last of the retroactive wage increments. At the same time, not all of the wage increments due employees were paid in all sectors—a phenomenon which can be regarded as negative “wage drift”.

¹ Wages in this chapter are calculated on a cash basis, and include increments paid for previous periods (see note ¹ on p. 235).

² There was a slight decline in October, but in November the upward trend reasserted itself; the data for December, which show a greater decrease, are provisional.

Moreover, the Histadrut (General Federation of Labor) waived an increase in the cost-of-living allowance in July 1966, the allowance was not raised in January 1967, and a compromise was reached on the gradual implementation of wage agreements in 1967.

The explanation for the accelerated increase in the second half of 1965 and the first half of 1966 (see Table X-5 and Diagrams X-1 and X-3) is to be found mainly in three institutional factors:

1. Implementation of the job classification and the consequent revision of grade scales and payment of retroactive wage increments for the period beginning April 1, 1964 to a large part of the employees, mainly in the service sectors. Some of the agreements providing for wage increases were signed at the end of 1964 and some in 1965, but their implementation began in the second half of 1965 and for the most part was completed in 1966.

From the employees' point of view, the retroactive pay increments are wages in every respect, but because of their lump-sum character they influence demand differently from an equivalent increase in ordinary annual wages. From the aspect of employers' overhead, a distinction ought to be made between a rise in payroll outlay due to the payment of wage increments and one deriving from a wage increase per unit of labor input, but this cannot be done because of insufficient data. From the aspect of labor costs, the inclusion of the incre-

Table X-5

**AVERAGE MONTHLY WAGES AND PERCENT CHANGE THEREIN,
BY ECONOMIC SECTOR AND FOR FOUR PERIODS, 1965-66**

	Jan.-June 1965		July 1965- March 1966		April-Sept. 1966		Oct.-Dec. 1966	
	Wages (IL)	Average monthly change (%)	Wages (IL)	Average monthly change (%)	Wages (IL)	Average monthly change (%)	Wages (IL)	Average monthly change (%)
Agriculture	275	2.1	301	1.9	349	0.5	323	-4.2
Industry, mining and quarrying	447	1.1	486	1.9	545	0.6	550	-1.2
Construction	484	0.7	511	2.2	567	-0.5	563	0.4
Electricity and water	616	3.1	697	2.9	706	-1.5	735	0.0
Commerce and finance	476	1.1	534	3.2	600	1.2	590	-3.4
Transportation and communications	564	1.8	687	3.3	773	0.4	741	-1.6
Public services	472	1.9	547	3.0	595	-1.3	607	0.0
Personal services	319	1.0	352	2.3	400	1.0	399	-1.5
Total economy	458	1.4	514	2.8	572	-0.3	573	-1.1

SOURCE: Central Bureau of Statistics and Bank of Israel.

ments in wages overstates the rate of change in per unit labor costs in the period in which they are paid, and subsequently understates it.¹

2. Following the raising of wages for administrative personnel at the end of 1965, claims for substantial increases were put forth for production workers as well. The wage agreements signed in 1966 raised wages by about 8 percent in most sectors of the economy. These agreements took effect from January 1966, but in most cases their implementation began only in April-June, increments being paid during the summer months for the previous period.

3. Beginning January 1966, the cost-of-living allowance was increased by 9.3 percent on basic wages up to a ceiling of IL 700, resulting in a maximum increment of IL 65 a month. The effective increase per wage earner came to approximately 7 percent.

During the year reviewed there were undoubtedly forces operating to depress aggregate demand in the economy (see the detailed discussion in Chapter II). The wage rises at the end of 1965 and the beginning of 1966, which can be attributed to institutional arrangements and to pressure exerted by the trade unions, led to the increased dismissal of workers in those sectors in which demand for labor did not grow proportionately. Evidence of this is the smaller number of wage earners in 1966 in all sectors except the services; the biggest decrease occurred in construction (23 percent), followed by agriculture (8 percent) and industry (6 percent). The downtrend began in the second quarter and continued until the end of the year, while the weakening of aggregate domestic demand began in 1965.

The change in wages per employee during 1966 shows that the increases called for by the wage and cost-of-living allowance agreements were not paid in full in all sectors or to all workers. The percentage rise in earnings per employee and per hour in 1966 was lower than that called for by these agreements, even if not all of the wage drift is imputed (see the discussion on the sectors of the economy below).

The services were the only exception to this trend, and it was in these sectors that the job classification was carried out and wage increments paid. On the other hand, in most sectors the rise measured in 1966 was less, though not by much (except in construction and in transportation and communications) than that stipulated in the institutional arrangements. This was apparently due to two factors: (1) it is not easy to pay less than the official rates in a recession year, since there exists a certain degree of wage rigidity; in 1966 this was reflected by the rise of earnings in conformity with the agreed rates, even though market conditions dictated the opposite; (2) the reduced demand for labor in various sectors came after many years of boom conditions, and at the beginning of 1966 neither employers nor employees expected such a

¹ Owing to the lack of reliable data on fringe benefits, the discussion in this chapter is deficient in respect of labor costs.

drastic and prolonged change in economic activity. In other words, when the institutional arrangements for raising wages were made—immediately after several years of surging activity—it was widely believed that the economic slowdown was of a temporary nature, so that employers preferred to avoid friction with the workers' representatives. But after the recession had lasted for several months, the Histadrut decided not to press for the revision of the cost-of-living allowance in July 1966, even though the determining index for this purpose had risen by more than 3 percent, the minimum rate requiring the payment of an increased cost-of-living allowance under the existing arrangement. At the beginning of 1967 it transpired that the employers' representatives were unwilling to honor signed agreements providing for higher wages in 1967 or to bear the burden of an increase in the cost-of-living allowance. On the other hand, the workers' representatives were prepared to waive the strict fulfilment of the cost-of-living allowance clause and of wage hikes agreed to earlier.

The reduction of wages as a result of the new market conditions thus involved a certain time-lag. It was not until the final months of 1966 that some decline was discernible in nominal earnings per employee¹ and per hour (see Diagram X-1). To some extent, the downtrend reflects the completion of the job classification and the payment of retroactive increments, and not necessarily a decline in wage-labor input. This applies particularly to the public services and electric power generation, but a decline was also recorded in the productive sectors (see Diagram X-3).

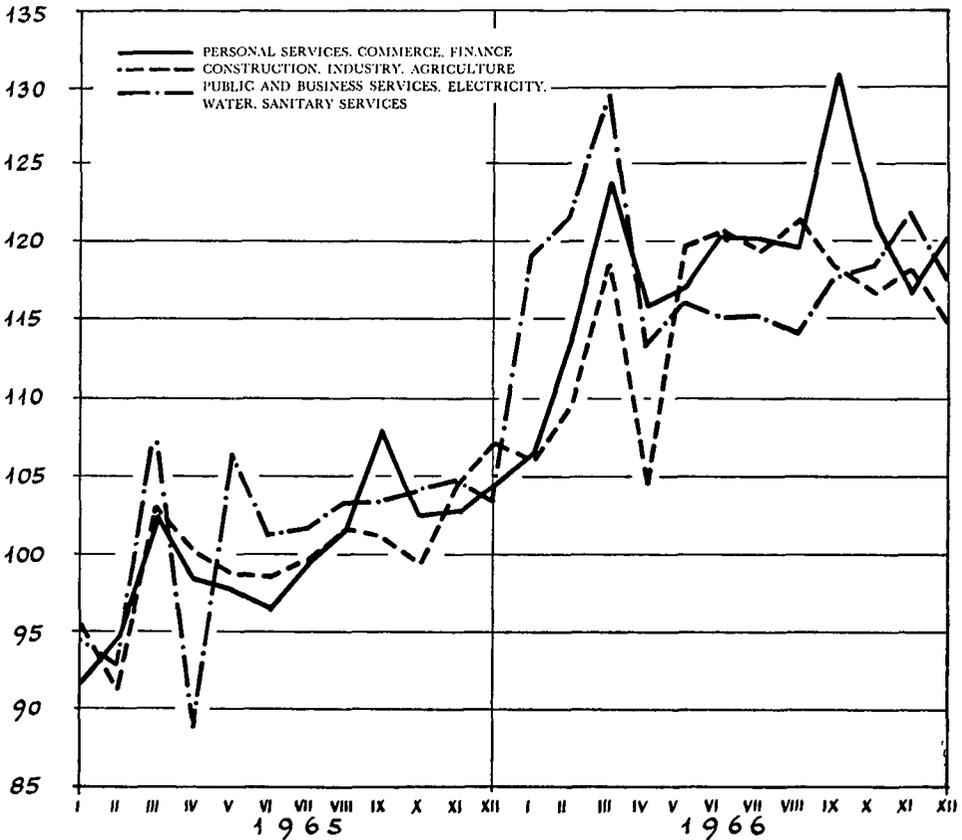
A further reason for the rise in wages in a period of economic slowdown is the fact that in Israel dismissals generally affect the last workers to be employed. The latter receive lower pay because of their brief seniority, more limited experience, and lower grade. Consequently, even if no change occurs in the income of any single wage earner, average income per wage earner is likely to rise in a year like 1966 owing to the changed composition of employed wage earners. When the workers dismissed are those with the lowest income, average income per wage earner rises even though there is no increase whatever in average wages.

It is doubtful, however, whether much significance can be attached to this factor in the year under review. The average number of employees in 1966 was, as already noted, about the same as in 1965, since the increase in the labor force was similar to that in the number of unemployed; as nearly 80 percent of the unemployed were persons losing their jobs during the year, it is reasonable to assume that a like number of employed wage earners had never before worked in this country, and that their income was apparently below the average for their occupation or type of work.

¹ There was no marked decline in the economy as a whole, and the finding must be accepted with some reservation since the data for December are liable to change.

Diagram X-3

INDEX OF MONTHLY WAGES PER EMPLOYEE IN SELECTED SECTORS, 1965-66
(average 1965 = 100)



SOURCE: Central Bureau of Statistics.

Together with the rise in income per wage earner, there was a slight drop in the number of hours worked per wage earner in most sectors of the economy. This is reflected in the decrease of 0.3 percent in the number of hours per employee in the economy as a whole (see Table X-6). Average hourly earnings thus rose by 19 percent over the 1965 figure, the same increase as in income per wage earner. The total wage-labor input, like the number of wage earners, showed practically no change in 1966. There was also no significant change in the number of hours worked per wage earner during the year.

Data from other sources, i.e. independent of employers' reports to the National Insurance Institute, likewise point to a marked increase in income per wage earner in 1966 as compared with the average for 1965, although the rates were somewhat lower in a number of sectors than those measured

Table X-6
MAN-HOURS PER WEEK AND HOURLY WAGES, 1965-66

	1965				1966			
	Man-hours per wage earner		Hourly wages		Man-hours per wage earner		Hourly wages	
	Per week	Percent change from 1964	IL	Percent change from 1964	Per week	Percent change from 1965	IL	Percent change from 1965
Agriculture	38	-1.2	1.7	12	39	3.8	2.0	11
Industry, mining and quarrying	42	-1.0	2.5	18	42	-0.5	3.0	18
Construction	41	-1.8	2.8	21	41	-0.5	3.2	15
Electricity and water	41	-2.6	3.6	16	41	0.8	4.1	15
Commerce and finance	41	-2.6	2.8	17	41	-0.8	3.3	19
Transportation and communications	42	-1.8	3.4	26	42	0.6	4.1	24
Public services	37	-1.2	3.1	19	37	-0.3	3.8	21
Personal services	35	7.3	2.2	6	34	-2.0	2.7	23
Total economy	40	-0.8	2.8	19	39	-0.3	3.3	19

SOURCE: Central Bureau of Statistics and Bank of Israel.

by the Central Bureau of Statistics on the basis of reports to the National Insurance Institute. The upward bias in the growth rate as measured according to the latter data apparently stems from the character of the enterprises and institutions reporting to the National Insurance Institute. Whereas large enterprises and institutions submit complete reports, those of small employers are liable to be less reliable. Such employers are found in agriculture, personal services, crafts, and perhaps also in construction. When aggregate demand slackens, they will doubtless cut wages (or fail to raise them despite branchwide agreements) much more quickly than the large enterprises, since some of them are not organized. Hence the data from this source are liable to overstate the rate of change in wages in a year like 1966, just as they probably understated it in the boom years.

In 1966 the share of wage earnings in national income rose (see Chapter II). The expansionary effect of this development on aggregate domestic demand is reflected in the growth of approximately 8 percent in real disposable income. Disposable income per employed wage earner also rose by 8 percent, since there was no change in the number of wage earners (see Table X-8).

2. WAGES AND WAGE EARNERS, BY ECONOMIC SECTOR

The number of wage earners¹ in 1966 remained at the previous year's level of approximately 642,000. During 1966 (December 1965 to November 1966) the number declined by 30,000, or about 5 percent. Thus there was a considerable rise in unemployment, since the number of self-employed also did not increase.

During the year reviewed workers were laid off in all sectors except the services; the latter took on additional personnel, although at a slower rate than in previous years. As noted, the increase in public services partly reflects the growth of relief projects employment. Workers were dismissed not only in construction, but also in industry, agriculture, commerce, and transportation and communications. Some of them found jobs in the public services and others on relief projects, but the majority joined the ranks of the unemployed. A shift from employment in any one sector to unemployed status or to relief work, if unaccompanied by training or other preparation for employment in another sector in the near future, unquestionably represents the underutilization of the labor force. While a decrease in the number of building workers, and perhaps farm workers too, may be regarded as desirable, the turning of such persons into unemployed or service workers does not improve the country's occupational structure.

Table X-7
WAGE EARNERS,^a BY ECONOMIC SECTOR, 1966^b

	1966 (thousands)	Percent change from 1965	Percent average annual change, 1961-66
Agriculture	39	-5	-3
Industry, mining and quarrying	174	-3	5
Construction	63	-15	3
Electricity and water	12	6	5
Commerce and finance	68	1	5
Transportation and communications	49	1	6
Public services	210	7	7
Personal services	28	11	5
Total economy	642	0	5

^a As pointed out in the note on p. 235, the measurement of wage earners here is actually of wage earners' jobs. Consequently, 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: Based on Central Bureau of Statistics data.

¹ See note ¹ on p. 235.

The relative increase in service personnel in 1966 accentuated a trend which had existed for a number of years. Two additional factors enhanced the attraction of the public services in 1966: (1) income per service employee rose at an above-average rate, both on an annual average and in the course of the year; (2) the economic slowdown, which resulted in mounting unemployment, diminished the feeling of job security in other sectors of the economy and consequently increased the pull of the public services.

(a) *Agriculture*

Continuing the trend that had persisted for a number of years, gainful employment in agriculture declined further in 1966, at an even more rapid rate. The average level fell by nearly 2,000 persons and stood at 39,000. The decrease during the year was approximately 3,400. Average wages per employee rose by 18 percent, and amounted to IL 330 a month.¹ Between the beginning and the end of the year income per hired farm worker rose by 16 percent, with the growth taking place in the first months of 1966. There was a 4 percent increase in the number of hours worked per wage earner, so that hourly earnings advanced by only some 11 percent.

The data on this sector are less reliable than for others owing to the type of employees and the casual nature of their work. However, there is no doubt that these growth rates are lower than those called for by the wage agreements signed in the sector. In 1966 the Minister of Labor ruled that the wage rates of agricultural workers be raised by 15 percent from January 1966. If we add to this the cost-of-living allowance—which apparently not all of the workers receive—the increase in wages per agricultural worker should have amounted to about 18 percent during 1966, as compared with the 16 percent obtained from National Insurance data,² which, as has been noted, may be overstated.

(b) *Industry, mining and quarrying*

Employment in these two sectors was down by an average of 5,000³ in 1966—from 179,000 to 174,000—while during the year (from December 1965

¹ As pointed out in the note on p. 235, this represents the income per wage-earner's job. In agriculture, where the wage earner does not necessarily work for a single employer, the income figure cited here consequently has a downward bias.

² See the note on p. 239.

³ This figure actually represents the decline in the number of wage-earners' jobs (see the note on p. 235). Another source of data for industry is the industrial indexes. These show a reduction of 2 percent in annual average employment and of 9 percent during the year (7 percent if the calculation is made for the period December 1965 to November 1966). According to this source, daily wages per worker rose by 16 percent on an annual average, and annual earnings per employee by 13 percent. The average number of man-days per worker remained practically unchanged.

to November 1966) the decline amounted to approximately 11,000. The rates of decrease were 3 and 6 percent respectively.

Wages per employee averaged 17 percent higher in 1966, amounting to IL 540 per month. The increase during the year was 12 percent, slightly less than what should have followed from the rise in basic wage rates and in the cost-of living allowance. In most branches of industry wage agreements were signed at the beginning of 1966, and they provided for a rise of 8–10 percent in basic rates. Together with the cost-of-living allowance increase, this should have resulted in a growth of about 13 percent during the year, even without taking into account advancement in grade.

Hourly wages went up to virtually the same extent as total wages, since the number of man-hours per wage earner declined by a mere fraction—0.5 percent.

(c) *Construction*

Construction activity fell off sharply in the year under review, a development reflected by the reduction of 11,000, or 15 percent, in the average level of employment.

The decline started at the beginning of 1966, and during the year 17,000 persons, representing 23 percent of the total work force of the sector, were laid off. Wages per employee advanced by 14 percent on an annual average, and by 7 percent during the course of the year. This growth rate—which was the lowest in the entire economy and also lower than that recorded by this sector in preceding years—was still high for a sector experiencing a decline in the demand for its products and whose activity was off by an average of 20 percent for the year. The wage agreements signed at the beginning of 1966 stipulated a rise of 8 percent in wage rates (and of 5 percent for work done on a contract basis), so that the rate of increase during 1966 should have come to 11–14 percent, in contrast to the 7 percent actually measured. Only a fraction of this difference stemmed from the smaller number of hours worked per wage earner in 1966; in the main it can apparently be attributed to the nonpayment of the increments in full. As is true of agriculture, earnings per employee may be somewhat understated here, and for the same reasons. Insofar as payments over and above the official tariffs, which were customary in this sector in the past and which were not reported to the National Insurance Institute, were abolished in 1966, the rate of change cited here is biased slightly upward.

Data from others sources generally confirm the percentage rise in earnings per wage earner mentioned above.

Since there was a slight decline in the number of man-hours per employee, hourly wages went up by 15 percent.

(d) *Commerce, finance and insurance*

Average earnings per employee rose by 18 percent compared with 1965, and amounted to about IL 590 a month. The increase during the year came to approximately 9 percent. Employment edged up 1 percent on an average, but the increase took place in 1965, there being a slight fall in the level in the year reviewed. Toward the end of the year there were also indications of a decline in earnings per wage earner.

The increment arising from the wage agreements signed in 1966 fluctuated between 5 and 8 percent, so that in this sector too the increase during 1966 was lower than that called for by the wage agreements and the cost-of-living allowance clause.

(e) *Transportation and communications*

This sector took on nearly a thousand additional workers on an annual average, but the increase occurred in 1965; in 1966 some 1,500 persons were dismissed as from September. Earnings per wage earner averaged 25 percent higher than in 1965,¹ amounting to approximately IL 760 a month, but most of the rise took place in 1965 and the first quarter of 1966. There are no data from other sources on changes in wages during 1966 which could confirm the figures presented here. Other data on the change in average wages in 1966 as compared with the average for 1965 point to a rise of about 15 percent. These data are based on direct measurements by the Central Bureau of Statistics and the Bank of Israel, and hence the conclusion that the figure of 25 percent noted above has a strong upward bias.

In the final quarter of 1966 nominal earnings per wage earner declined, so that the increase during the year totalled 3 percent only. This is much lower than what the cost-of-living allowance clause and the wage agreements signed in 1966 should have produced. The transport cooperatives did not sign or implement the wage agreements decided upon by the Histadrut and which provided for an 8.5 percent wage hike, nor were wages raised in the shipping industry. Post Office and railway personnel received substantial increases at the end of 1965 and the beginning of 1966, plus retroactive increments for previous years; this explains part of the decline in nominal wages in the last quarter, when payment of the retroactive increments had already been completed.

(f) *Public services*

As in previous years, the number of wage earners in this sector rose by 13,000, or 7 percent, on an average. The trend continued upward during the year, although at a slower rate—2 percent only. Part of the growth was due

¹ This rate appears to be overstated, as is explained below.

to the larger number of persons employed on relief projects, the wages of such workers being financed from the Government budget.

Earnings per employee averaged 21 percent more than in 1965, amounting to about IL 600. The rise during the year was approximately 17 percent. These growth rates were the highest in the entire economy in 1966 (with the exception of transportation and communications, where the figure is biased upward). These rates are confirmed by various other data. The wage increase in 1966 occurred mainly in the first quarter of the year, continuing the accelerated rise which began at the end of 1965. It was in this period that the classification of public service jobs was carried out and most of the retroactive increments paid for the period from April 1, 1965. The available data do not permit the isolation of that part of the wage bill stemming from the payment of retroactive increments in this period from the ordinary wage components, so that it is impossible to determine to what extent ordinary monthly earnings per employee increased as a result of the job classification. This operation was decided upon after the signing of the biennial wage agreement in August 1964;¹ the agreement set forth new wage scales for administrative personnel in the public services, with effect retroactive to April 1, 1964 and whose implementation was made conditional on a reclassification of jobs. The reclassification resulted in a much higher pay for most employees (in no case was pay reduced). The academic personnel thereupon demanded that the previous salary differentials be restored, and this demand was acceded to at the end of 1965, with effect also retroactive to April 1, 1964. Their salaries were raised by 18 percent, after a 12 percent increase in 1964, making a total increase of approximately 33 percent.

(g) *Personal services*

Wage developments here were fairly similar to those in the public services, except that the rates of change were less extreme.

Average earnings per employee were 20 percent higher than in 1965, and reached IL 400 a month. The increase during the year was 15 percent. In the personal services as well, there was a rapid rise in the first quarter of the year, after which the rate slowed down substantially, and in September nominal wages even fell off. This decline is partly explained by the payment of retroactive increments in the summer of 1966 for the early months of the year, in accordance with the revised wage scales, and in part it was due to the decrease in basic wages following an increase in the supply of workers because of dismissals in other sectors.

The number of additional personnel taken on in 1966 averaged 3,000, or 11 percent, while the increase during the year was approximately 1,500, or some 5 percent.

¹ See Bank of Israel Annual Report for 1965, pp. 221 ff.

The number of hours worked per employee was down 2 percent; the increase in hourly earnings thus totalled 23 percent. Basic wage rates were raised by 5–10 percent in 1966, so that incremental earnings per employee over the year were somewhat greater than what the rise in wage rates and in the cost-of-living allowance should have produced.

3. COST-OF-LIVING ALLOWANCE¹

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 validity of the cost-of-living allowance agreement signed by the Manufacturers' Association and the Histadrut was extended to all employees in the country whose working conditions were determined by collective labor agreements.

The cost-of-living allowance is calculated according to the consumer price index, with the housing item adjusted.² The allowance rate is revised twice a year—in January and July—if the increase in the price level amounts to 3 percent or more compared with the level according to which the rate had previously been changed. The allowance is paid on the basic wage, up to a maximum of IL 700 a month.

In 1966 the index rose by more than 3 percent in both January and July—in January by 7.1 percent (or 9.3 points), and in July by 4.3 percent. Accordingly, the cost-of-living allowance was increased in January 1966 by 9.3 percent on basic wages up to a ceiling of IL 700 a month (about 7 percent of the average total wage).

In July the Histadrut decided not to demand an increase in the allowance in view of the economic situation. Employed family men whose total earnings did not exceed IL 400 a month were compensated by a budgetary grant of IL 12 a month for the period August–December 1966.

In January 1967 the determining index rose by 8 percent, entailing a further increase in the cost-of-living allowance. However, representatives of the Manufacturers' Association refused to approve it. After protracted negotiations it was decided that the allowance would not be revised, but that the above-mentioned "higher-prices grant" would be continued. The grant is paid only

¹ A detailed discussion of the economic problems connected with the cost-of-living allowance and a review of the implementation of this clause in the past will be found in the report of the Professional Committee for the Examination of the Cost-of-Living Allowance, which was submitted to the Histadrut and the Manufacturers' Association in November 1966, together with an historical review of the cost-of-living allowance.

² The method of calculating the cost-of-living allowance is explained in the Bank of Israel Annual Report for 1965, p. 224, and that for 1964, p. 221.

to those with total wages of less than IL 500 a month, at a rate of about 4 percent of the total wage.

The purpose of the automatic adjustment of the cost-of-living allowance is to protect the existing distribution of income between wage and non-wage earners against changes due to a rise in the prices of local output. The cost-of-living allowance agreement was not designed to unconditionally safeguard real wages during a period of mounting prices. If the real income of all households declines, there is no justification for maintaining the real income of part of the public. 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 this identity need not always be the case.

4. DISPOSABLE INCOME

Total real disposable wage income and that per employee both rose by 8 percent in 1966, compared with a real increase of 10 percent in total wage income and that per employee (see Table X-8).

Table X-8
DISPOSABLE INCOME^a PER WAGE EARNER, 1965-66

	1965	1966	Percent change
Total income from wages (IL million)	3,671	4,374	19
Total income tax payments (IL million)	419	599	43
Total National Insurance collections from wage earners (IL million)	69	73	6
Total disposable income from wages (IL million)	3,183	3,702	16
Number of wage earners (thousands)	642	642	0
Disposable income per wage earner (IL)	4,960	5,770	16
Disposable income per wage earner (IL, at 1966 prices)	5,360	5,770	8

^a The calculation is explained in the appendix to this chapter (in Hebrew only).

SOURCE: Bank of Israel.

The difference of 2 percent stemmed from the appreciable growth of 43 percent in net income tax collections in the year reviewed. This increase was the result of four factors: (1) Following the recommendations of the Zadok Committee, tax rates were reduced at the end of 1964. Although the lower rates took effect from April 1, 1964, collections actually started to diminish at the beginning of 1965, since refunds were made for the intervening period. (2) Beginning April 1966, income tax rates were increased by an average of

some 6 percent. (3) Income tax was collected in 1966 on the retroactive wage increments paid to public service personnel. (4) Because of the progressive nature of income tax, an increase in wage earners' income results in a relatively higher increase in tax revenue.

The demand of households is affected by the level of disposable income, so that disposable income from wages influences aggregate demand and the growth of consumption.

While real disposable wage income per employed wage earner rose by 8 percent in 1966, nonemployees' income and nonwage income (i.e. the income of those other than wage earners and the return on capital) declined. Part of the incremental income per wage earner reflects the payment of wage increments for the previous period. This is a one-time payment, and research studies¹ show that about 20 percent of such income is spent on consumer goods, as compared with about 80 percent in the case of current income. These two factors—the relatively limited influence on consumption of one-time income, and the fact that while part of the households had a larger real disposable income, others experienced a decline—explain why the demand for consumer goods did not increase proportionally to the rise in disposable income from wages.²

5. LABOR RELATIONS

As an indicator of labor relations³ we can use the data on strikes set forth in Table X-9. According to the table, there was a slight decline in the number of strikes and strikers and a substantial decline in the number of strike-days. Whereas in 1965 there was an increase in the number of strikes, strikers, and days lost in most sectors of the economy, with most of the increase concentrated in the public services, the same sector accounted for most of the decrease in the number of strikers and strike-days in 1966. The reason lies in the completion of the job classification, which has been discussed above. The large number of strikes in the public services in 1965 stemmed

¹ See the 1963/64 Saving Survey, Special Publication No. 217, published by the Central Bureau of Statistics and the Bank of Israel Research Department, Jerusalem, 1967.

² This finding actually derives from a change in consumption patterns over time as compared with the period in which the income was actually received. Whereas most of the one-time income was received in 1966, the very decision to pay the increments, which was announced in 1965, caused consumption to increase that year.

³ Labor relations represent the entire 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. While data are not available, the growth and fear of unemployment presumably induced labor to adapt itself to employers' demands on both the personal and collective planes. On the collective plane, this was reflected by the readiness of labor to reduce the work week (and total wages) in a number of plants, and by the waiving of the cost-of-living allowance increase in July 1966.

Table X-9
STRIKES, BY ECONOMIC SECTOR, 1964-66

	Number of strikes			Percent increase or decrease (-)		Number of strikers (thousands)			Percent increase or decrease (-)		Number of strike-days (thousands)			Percent increase or decrease (-)	
	1964	1965	1966	1964 to 1965	1965 to 1966	1964	1965	1966	1964 to 1965	1965 to 1966	1964	1965	1966	1964 to 1965	1965 to 1966
Agriculture	5	16	22	120	38	0.4	2.6	1.9	-38	-28	0.8	13.8	5.4	1,587	-61
Industry, mining and quarrying	53	73	88	38	21	11.5	9.3	21.2	-19	128	43.8	45.6	64.4	4	41
Electricity and water	11	13	8	18	-39	3.3	3.4	0.8	4	-77	11.3	5.1	2.9	-54	-43
Construction	1	9	13	800	44	0	0.3	1.1	289	243	0.2	0.5	1.4	239	163
Transportation and communications	20	36	17	80	-53	6.8	6.8	6.7	0	-2	7.9	16.0	9.2	103	-43
Commerce and finance	4	17	12	325	-29	0.9	2.6	10.9	188	326	0.5	5.2	6.7	871	30
Public services	38	120	106	216	-12	24.9	65.2	40.8	162	-37	35.4	121.0	58.6	242	-52
Personal services	6	1	4	-67	300	0.3	0	0.1	-64	1,055	2.3	0	0.2	-95	1,909
Total economy	138	285	270	107	-5	48.1	90.2	83.5	87	-8	102.2	207.4	148.9	103	-28
Of which:															
Percent authorized strikes	35	29	46	74	46	19	13.9	33.6	48	117	32	17	42	17	60
Percent unauthorized strikes	65	71	54	131	-31	81	86.1	66.4	117	-31	68	83	58	168	-55

NOTE: The percentage changes have been calculated on the basis of unrounded figures.
SOURCE: The Histadrut Institute for Economic-Social Research.

from the desire of various groups of employees to influence the authorities to grant them higher grades than those originally fixed for them. In other sectors there is no evidence of any significant improvement in labor relations, with the exception of construction and agriculture, where unstable employment conditions are typical.

The number of participants in strikes declined from 316 to 309, so that the average strike in 1966 involved fewer workers.

The average duration of strikes fell by about 22 percent, as reflected by the decrease in the number of strike-days per participant from 23 in 1965 to 18 in 1966.

Particularly noteworthy was the decline in the share of wildcat strikes, i.e. without endorsement from the central institutions of the trade union organizations. This testifies to the readiness of labor to confine its demands to those approved by the latter. The increased share of strikes endorsed by the trade unions should not be interpreted as revealing a stronger stand on their part vis-a-vis the employers, but the desire of the workers to be aided by the trade unions. According to this indicator, there was some improvement in labor relations, particularly in those areas where employment conditions are not very stable.

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