

Chapter 2

The Labor Market

The dominant influence on the labor market in 2004 was the economic recovery in the business sector which led to an increase in employment and real wages and to a decrease in the rate of unemployment. Government policy had a decisive impact in 2004 through its contribution to public confidence and economic stability which are essential elements for stable growth in output and employment. At the same time the government worked to reduce labor costs and employment in the public sector. Despite the reduction in the rate of unemployment, it remained high at 10.4 percent on average. In addition, the rate of growth in labor input was lower than that of employment due to, among other things, the increase in the proportion of part-time workers. These trends indicate that the labor market is still weak and that the level of economic activity is lower than its potential.

In the business sector, the labor market has been reacting to changes in the business cycle in Israel during the last three years. During 2001 and 2002, employers adjusted the number of workers and the level of wages to the fall in real output, resulting in a decrease in the real wage and a relatively moderate increase in unit labor costs. In this way, they moderated the negative impact on their profitability and could react quickly, through increased hiring, to the positive turnaround in economic activity in the second half of 2003 and during 2004. This was first manifested in the services and commerce sectors and in the high-tech sectors and later on in the other sectors. The expansion in employment during this period was accompanied by a sharp increase in worker productivity and cumulative erosion of 10 percent in unit labor costs.

The government “from welfare to employment” policy formulated during the years 2002 and 2003 was aimed at transferring the focus of public assistance from welfare support to greater personal responsibility and an increased demand for labor. As part of this policy, and as a result of budget constraints, transfer payments were cut significantly in recent years and eligibility was tightened. In addition, measures were taken to significantly reduce the number of foreign workers in the economy.

Despite these policies, unemployment intensified and the proportion of “chronically unemployed” increased. Furthermore, a large proportion of the additional workers absorbed into the labor market in 2004 were hired for part-time and low-paying jobs. These trends indicate that, despite the decline in unemployment, government policy has not yet succeeded in achieving a stable and sustainable increase in employment, particularly among weaker segments of the population. Thus, more should be done to encourage employment and to minimize the negative impact on weaker populations through programs targeted at defined groups, the institution of a negative income tax, incentives for employment in peripheral areas, etc.

1. MAIN DEVELOPMENTS

The dominant influence on the labor market in 2004 was the economic recovery in the business sector which led to an increase of 1.7 percent in total employment, an increase of 2.7 percent in the real wage and a decrease in the unemployment rate from 10.7 percent in 2003 to 10.4 percent this year. Government policy also had a significant influence in 2004 by increasing public confidence and economic stability which are essential elements for stable economic growth. At the same time, the government worked towards reducing labor costs in the public sector.

Business sector employment grew by 2.5 percent in 2004 accompanied by a 1.9 percent increase in the real wage in that sector. The business sector has reacted to changes in the business cycle during the last three years. During the period of recession, particularly from the second half of 2001 until the second half of 2003, this led to a decline in employment, a sharp slide in nominal and real wages and a relatively moderate cumulative increase in per unit labor costs (Table 2.2). Employers thus reduced the negative impact on their profitability which enabled them to react quickly to the positive turnaround in economic activity. Indeed, the demand for workers increased during the second half of 2003 and during 2004, first in the services and commerce sectors and the high-tech sectors and later also in other sectors. The expansion of employment during this period was accompanied by a rise in labor productivity and a cumulative reduction of 7.5 percent in unit labor cost.

The participation rate rose by 0.4 percent in 2004 to a level of 54.9 percent following a similar increase in 2003. The increase in the participation rate is evidence of the two main trends in the labor market this year: economic recovery, which since the first half of 2003 has led to the return of workers to the market due to their increased chances of finding work, and simultaneously, and in spite of the recovery, a cumulative decline in disposable income (which has not yet returned to its previous levels early in the decade despite the increase in 2004) that forced individuals to return to the labor force.

Employment in the public sector declined by 0.6 percent which together with the increase in labor supply, due to the increased participation rate, partially offset

The business sector has reacted to changes in the business cycle during the last three years.

The increase in the participation rate was the result of economic recovery, and a cumulative decline in disposable income in the last few years.

Table 2.1
Principal Labor Market Indicators,^a 2004

	(percent)							
	Increase or decrease from same quarter ^b in 2003				Increase or decrease from previous quarter ^c			
	I	II	III	IV	I	II	III	IV
1. Working-age population	1.8	1.8	1.8	1.7				
2. Participation rate in civilian labor force ^d - Total					55.1	55.2	54.9	54.5
Men					60.7	60.7	60.5	60.2
Women					49.8	50.0	49.6	49.1
3. Civilian labor force	3.1	3.7	2.4	1.3	0.7	0.5	-0.1	-0.2
4. Israelis employed, total	3.0	3.5	3.4	2.2	0.9	0.8	0.2	0.1
4.1 Full-time employees	2.8	1.1	-4.0	1.4	0.7	-0.9	-0.6	-0.3
4.2 Part-time employees	2.1	10.0	22.6	4.0	2.1	5.2	3.3	-3.3
4.3 Temporarily absent from work	13.3	-5.2	8.1	2.9	-4.6	-0.8	8.0	13.2
5. Public-sector employees (Israelis)	0.0	-0.5	-2.2	0.9	-0.6	0.7	-0.7	1.4
6. Business-sector employees (Israelis)	4.4	5.4	5.8	2.8	1.4	0.8	1.0	-0.4
7. Foreign workers in business sector ^e	-16.9	-15.7	-9.5	-4.4				
8. Palestinian workers in business sector ^e	20.3	-15.2	0.5	-13.8				
9. Average weekly hours worked per business-sector Israeli employee	-0.7	0.0	-3.7	-0.5	0.8	-1.0	-0.8	-0.3
10. Israeli labor input in business sector	3.6	5.4	1.9	2.3	2.1	-0.3	0.2	-0.7
11. Business-sector labor input of foreign workers ^e	-17.2	-15.7	-9.3	-4.1				
12. Business-sector labor input of Palestinian workers ^e	21.6	-11.0	5.6	-9.4				
13. Unemployment rate ^d					10.7	10.5	10.2	10.0
14. Number of unemployed persons	3.6	5.9	-5.0	-5.9	-1.1	-2.2	-2.9	-2.1
15. Real wage per employee post, total	6.2	1.7	-0.0	2.9	2.8	-3.6	1.1	7.9
15.1 Business sector	3.9	2.0	0.2	1.4	1.2	-1.1	0.5	0.7
15.2 Public sector	11.3	0.9	-0.7	6.3	8.4	-13.0	4.8	7.2
16. Business-sector unit labor cost	-1.3	-4.1	-10.1	-2.8	-0.6	-1.2	-0.7	
17. Net business-sector domestic product per hour worked ^f	1.3	5.1	12.0	6.4	0.7	1.6	0.6	

^a The numbers of foreign and Palestinian workers include both reported and unreported workers.

^b Unadjusted data

^c Seasonally adjusted

^d Actual level, not rates of change.

^e National Accounts data.

^f At constant prices.

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

the influence of business sector growth on unemployment (Table 2.7). Thus, the unemployment rate fell only moderately to an average level of 10.4 percent. Furthermore, the rate of increase in labor input was lower than the increase in employment, primarily due to the increase in the proportion of part-time workers. These factors, together with the decline in labor's share in output, indicate that the labor market is still weak and that the level of economic activity is lower than its potential.

The real wage per salaried post grew by an average of 2.7 percent in 2004.

The real wage per salaried post grew by an average of 2.7 percent in 2004 (Table 2.9). The real wage in the business sector increased by 1.9 percent in 2004, following a cumulative decline of 9 percent in 2002-3. This reflected significant wage increases in the industrial sectors and the business and financial services sector that accompanied the expansion of employment in those sectors. The wage in public services fluctuated widely in 2003 and 2004 as a result of labor agreements which were signed over the past two years and changes in the timing of periodic payments (vacation pay and the 25-year-service grant). On average, the real wage in the public services has not changed significantly during the last two years.

Despite the government's policy aimed at reducing the number of foreign workers, their proportion in the total number of employed in the business sector is still high, and reduces the possibilities of employment open to Israelis.

In 2004, there were 185 thousand foreign workers in Israel (Table 2.3). The implementation of the policy to reduce their numbers continued during 2004 and indeed the total number of foreign workers fell by 24 thousand which was similar to the reduction in 2003. The drop in the number of foreign workers was particularly large in the construction sector but did not lead to an increase in the employment of Israelis due to the slowdown in the sector.¹ In the remaining sectors which employ foreign workers, particularly the service sectors (hotels and catering, business services and personal services), foreign workers were replaced by Israelis to some extent as activity and employment expanded in these sectors. However, despite the declared policy of the government, the proportion of foreign workers in the total number of employed in the business sector is still high at a level of 9 percent and reduces the possibilities of employment open to Israelis, particularly those with low education. Therefore, the policy of reducing the number of permits for foreign workers while raising the costs of employing them should be continued, and at the same time the number of illegal foreign workers should be reduced through increased enforcement of the law.

During the past twenty years, the proportion of unskilled workers in the workforce and in total employment has declined while the proportion of workers with higher education has increased.² This trend can partially be explained by the changes in the supply of labor which are the result of demographic developments (the aging of workers with lower levels of education and a large influx of immigrants with high levels of education). A further explanation is the reduction in the relative demand for unskilled labor due to technological changes that have raised the demand for highly skilled workers within each sector and at the same time have increased the relative size of the high-tech sectors. These developments, along with the opening of the Israeli economy to foreign workers, led to the reduction in the proportion of unskilled workers in total employment, a decline in their relative wages and an increase in

¹ Only during the fourth quarter of 2004 did the number of Israelis in the construction sector increase.

² For further discussion, see K. Flug, N. Kasir and S. Ribon, "Unemployment and Education in Israel: on Business Cycles, Structural Changes and Technological Changes," *Economic Quarterly* 3, 2000.

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their rate of unemployment. Furthermore, many of them are classified as “chronically unemployed,” i.e, they have difficulty in finding work for extended periods of time.

The goal of the government policy “from welfare to employment”, formulated during 2002 and 2003 was to shift the focus of public assistance from welfare support to increased personal responsibility and demand for labor. As a result of this policy change, and of budgetary constraints, the size of welfare payments was significantly reduced during recent years and the criteria for eligibility were tightened. (For a detailed discussion, see Chapter 4 on Welfare Policy.) This policy, along with the policy to cut the number of foreign workers, is aimed at reducing the magnitude of unemployment and at paving the way for weaker groups to enter the labor market.

The government's policy “from welfare to employment” acted to shift the focus of public assistance from welfare support to increased personal responsibility and demand for labor.

Table 2.2
Labor Market Indicators,^a 2001–2004

	(change over previous year, percent)			
	2001	2002	2003	2004
1. Population (annual average)	2.4	2.0	1.8	1.7
2. Immigrants who arrived in this period	-27.6	-23.0	-30.7	-10.2
3. Working-age population	2.6	2.2	1.8	1.8
4. Participation rate in civilian labor force, total ^b	54.3	54.1	54.5	54.9
Men	60.7	60.2	60.1	60.6
Women	48.2	48.4	49.1	49.6
5. Civilian labor force	2.8	1.9	2.5	2.6
6. Total employees	1.1	0.3	1.2	1.7
Israelis	2.1	0.9	2.0	3.0
Non-Israelis	-6.7	-4.5	-6.1	-10.2
7. Public-sector employees	4.8	3.5	1.0	-0.6
Public-sector labor input	4.0	5.1	-0.7	-1.7
8. Business-sector employees	0.0	-0.7	1.2	2.5
Israelis	1.3	-0.0	2.3	4.3
Foreign workers	13.8	2.7	-10.6	-11.9
Palestinians	-49.0	-37.4	29.7	-3.0
Share in business sector of foreign and Palestinian workers ^b	13.8	13.3	12.3	10.8
9. Business-sector labor input	-2.0	0.1	0.4	1.1
Israelis	-1.1	1.0	1.6	2.9
Foreign workers	13.9	1.4	-11.1	-11.9
Palestinians	-50.7	-34.3	30.8	0.9
10. Real wage per employee post	3.0	-6.0	-3.0	2.7
Business sector	3.3	-6.7	-2.5	1.9
Public sector	2.6	-4.3	-4.1	4.4
11. Minimum wage (real)	7.9	-3.1	1.4	-1.8
12. Business-sector unit labor cost	5.2	2.7	-4.4	-4.7
13. Net business-sector domestic product per hour worked ^c	-1.6	-3.8	1.1	5.5
14. Unemployment rate, total ^b	9.3	10.3	10.7	10.4
Men	8.9	10.1	10.2	9.5
Women	9.9	10.6	11.3	11.4

^a The numbers of foreign and Palestinian workers include both reported and unreported workers.

^b Actual levels, not rates of change.

^c At constant prices.

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

Despite the government's policy and the increased demand for labor in both the high-tech and traditional sectors, unemployment intensified.

The policy has not yet succeeded in achieving a stable and sustainable increase in employment.

Despite the government's policy, and the increased demand for labor in both the high-tech and traditional sectors, unemployment intensified and the proportion of the "chronically unemployed" increased, along with the number of those eligible for the guaranteed income supplement. Furthermore, a large proportion of the newly hired workers are working in part time jobs and for low wages. There is therefore the concern that their entry into the labor market may only be temporary and will not free them from the cycle of poverty.

These trends indicate that government policy has not yet succeeded in achieving a stable and sustainable increase in employment. The current government policy, i.e. reducing welfare support before any reduction in the rate of unemployment, particularly among the weaker segments of the population, is problematic since it harms the ability of these families to subsist in the short run. Moreover, not enough has been done thus far to distinguish between those who are able to work and those who are not. Nonetheless, "from welfare to employment" is one of the most important reforms to be implemented in recent years and if it is implemented correctly, with an emphasis on programs to facilitate integration in the labor market, it will lead to a higher level of social welfare and a reduction in social inequality in the long run.

2. THE POPULATION

The rate of population growth in 2004 was particularly low, primarily due to the significant decline in immigration to Israel.

The population of Israel reached 6.81 million in 2004. This represents an average increase of 1.7 percent relative to the preceding year which was similar to the rate of growth in 2003 (Table 2.2 and 2.3). The working age population grew at a similar rate. The low rate of population growth was primarily due to the significant decline in immigration to Israel and the low rate of natural increase—1.5 percent—which has characterized Israel during the last decade. It is worth mentioning that the immigration figures for the early part of the decade (2001-2002) indicate an increasing rate of emigration such that Israel is approaching a negative migration balance.³

A total of 20.9 thousand immigrants arrived in Israel in 2004 in comparison to some 23 thousand in 2003 and 34 thousand in 2002. The level of immigration resembles the low levels reached during the 1980s (Table 2.3). The proportion of immigrants from the former Soviet Union declined (to 50 percent) while the proportion of immigrants from France rose (to 11 percent) which was a result of programs to promote immigration into Israel and the undermining of the feeling of personal security for Jews in France. In addition, the proportion of immigrants from Ethiopia increased (to 18 percent). The vast majority of the immigrants from Ethiopia are eligible to enter Israel under the Law of Entry (as relatives of Israeli citizens) rather than the Law of Return. In recent years, the proportion of singles in the total number of immigrants has grown and reached about 50 percent in 2004.

³ A situation in which the rate of emigration is greater than the rate of immigration. In 2001, the number of emigrants (defined as those leaving Israel for a period of longer than one year) totaled 27.5 thousand. For a more detailed discussion of this issue, see The Aliyah and Absorption Committee, December 2004.

Table 2.3
Principal Labor Market Indicators,^a 2001–2004

	('000s, annual averages)							
	2001	2002	2003	2004	Change from previous year			
					2001	2002	2003	2004
1. Mean population	6,439.0	6,570.0	6,689.7	6,805.8	149.8	131.0	119.7	116.1
2. Immigrants who arrived in this period	43.6	33.6	23.3	20.9	-16.6	-10.0	-10.3	-2.4
3. Working-age population ^b	4,604.7	4,706.2	4,791.8	4,876.0	118.0	101.5	85.6	84.2
4. Civilian labor force ^b	2,498.9	2,546.7	2,610.0	2,678.6	63.9	47.8	63.3	68.6
5. Number of unemployed ^b	234.0	262.4	279.8	277.7	20.2	28.4	17.4	-2.1
6. Employees, total ^c	2,543.4	2,550.4	2,580.0	2,625.1	27.0	7.0	29.6	45.1
Israelis	2,264.9	2,284.4	2,330.2	2,400.8	47.0	19.5	45.8	70.6
Non-Israelis	278.5	266.0	249.8	224.3	-20.0	-12.5	-16.2	-25.5
Foreign workers	228.5	234.5	209.1	184.8	28.0	6.0	-25.4	-24.3
Palestinians	50.0	31.5	40.7	39.5	-48.0	-18.5	9.2	-1.2
7. Public-sector employees ^{c,d}	575.0	595.4	601.4	597.8	26.3	20.4	6.0	-3.6
8. Business-sector employees ^{c,d}	1,968.4	1,955.0	1,978.6	2,027.3	0.7	-13.4	23.6	48.7
9. Nominal wage per employee								
post-Total (NIS per month)	7,071.8	7,023.3	6,859.4	7,014.8	281	-49	-164	155
Public sector	6,676.4	6,749.9	6,514.7	6,775.3	243	73	-235	261
Business sector	7,257.4	7,154.6	7,026.4	7,129.1	305	-103	-128	103

^a The numbers of foreign and Palestinian workers include both reported and unreported workers.

^b Labor Force Survey data. Changes from 2000 to 2001 are calculated using the survey's new method of extrapolation.

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

^d Israelis and non-Israelis.

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

3. THE LABOR FORCE

The civilian labor force, which includes Israeli employed and unemployed, numbered 2.68 million on average during 2004, representing a 2.6 percent increase over the 2003 average. The rate of growth of the Israeli labor force exceeded that of the working-age population which reflects the increase in the participation rate of 0.4 percent in 2004 to a level of 54.9 percent, following a similar increase during 2003 (Tables 2.2 and 2.3), and was particularly evident among individuals with a low level of education (less than 8 years of schooling).

The participation rate of men rose for the first time in a decade⁴ which represented a deviation from the long run downward trend and from the situation of the last two recessionary years when a large number of men gave up trying to find work and left the labor market. The increased rate of participation of men in 2004 points to the

The civilian labor force averaged 2.68 million during 2004, a 2.6 percent increase over the 2003 average.

⁴ The increase in the participation rate in the first half of the 1990s is related to the large influx of immigration from the Former Soviet Union.

two main phenomena that characterized the labor market: the economic recovery, which increased the chances of finding work, thus attracting workers back into the market, and the erosion of disposable income, which has not returned to where it was at the beginning of the decade (though it did increase during 2004), thus forcing many workers to return to the labor market. It would appear that the increase in the participation of women in 2004 is related to the same factors.

Beginning in July 2004, the retirement age at which one is eligible for pension and old age security payments began to gradually increase from the previous level of 60 for women and 65 for men. By the end of the process, the retirement age will be 67 for both genders. The increase will be spread over a period of 6 years for men and 21 years for women. It is difficult to currently quantify the influence of this measure on the participation rate, especially since a number of early retirement programs

Beginning in July 2004, the retirement age began to gradually increase to 67 for men and women. The increase will be spread over a period of 6 years for men and 21 years for women.

Table 2.4
Labor Force Participation Rates in Israel, 2003

	Men				Women			
	Total		Jews ^a		Total		Jews ^a	
	A*	B*	A*	B*	A*	B*	A*	B*
Average participation rate		60.1		60.1		49.1		54.8
Age group								
24–15	24.3	29.3	23.0	26.3	22.1	33.6	20.6	39.7
Principal working age, 25–54	53.6	83.2	52.9	84.2	52.1	69.9	51.3	78.9
Pre-pension (women, 55–59; men 55–64)	10.0	65.8	10.6	69.5	6.0	54.4	6.3	60.0
Pension age (women 60+; men, 65+)	12.1	15.2	13.5	16.0	19.8	10.1	21.8	10.7
Principal working-age group								
Years of education								
8–0	8.6	63.8	5.1	62.9	9.6	22.0	4.3	46.1
10–9	10.0	82.3	7.8	83.4	7.8	45.4	6.1	63.1
12–11	32.7	87.0	33.0	87.4	32.9	68.6	34.1	75.5
15–13	24.0	84.3	27.1	84.4	24.8	81.1	27.7	82.8
+16	24.7	84.9	27.0	84.6	24.8	87.1	27.9	88.1
Number of children^b								
None	44.6	79.8	47.3	81.6	40.0	76.2	42.6	81.6
1 or 2	36.2	89.2	37.6	89.6	40.2	74.1	42.1	80.7
3 or more	19.1	79.9	15.2	78.6	19.8	48.6	15.3	66.6
With religious education^c			4.8	30.1				
In ultra-orthodox household			6.3	38.9			5.3	56.1
Non-Jews	17.7	78.9			16.4	24.1		
In development towns, north	5.5	83.7	6.2	83.9	5.7	76.6	6.4	78.1
In development towns, south	4.9	81.5	5.8	81.3	4.7	72.8	5.6	72.9

* A = share in population; B = participation rate.

^a Including non-Jewish immigrants.

^b Children under 14.

^c Religious education refers to men whose last place of study is a 'yeshiva' (religious seminary). Anyone who lives in a household whose head has received religious education is considered part of an ultra-orthodox household.

SOURCE: Based on Labor Force Survey of Central Bureau of Statistics.

have been implemented in the public sector in recent years which have led to lower participation rates among the more mature populations.

Approximately 11 percent of the total number of employed in the business sector were non-Israelis, most of whom were foreign workers from countries with very low labor costs (such as Thailand, Sri Lanka and the Philippines); the rest were Palestinians. The number of foreign workers has dropped significantly in the last two years as a result of the government policy to replace them with Israelis; however, there are still more foreign workers than the number of unemployed with less than 12 years of schooling. The number of Palestinian workers, which is around 40 thousand, declined in 2004 by 3 percent following the sharp decline in the early part of the decade as a result of the security situation.

4. EMPLOYMENT

Employment rose in 2004 by 1.7 percent relative to 2003 and reached a level of 2.6 million. The increase in employment was primarily due to the higher demand for workers in the business sector in which employment grew by 2.5 percent. In contrast, employment in public services fell by 0.6 percent as a result of the government policy aimed at reducing wage costs in the public sector. This policy included the firing of workers, the encouragement of early retirement and the lack of new hiring (Table 2.2 and Figure 2.1).

The rate of expansion in labor input (of Israelis, foreign workers and Palestinian workers) in 2004 was lower than that of employment (which rose by 1.1 percent in

The increase in employment was primarily due to the higher demand for workers in the business sector, as activity in the sector recovered.



The growth in employment together with the fall in the number of hours worked primarily reflected the significant increase in the number of part-time positions in the economy.

the business sector and fell by 1.7 percent in the public services). This was the result of an average decline of 0.8 percent in the number of hours worked per employee in 2004. The growth in employment together with the fall in the number of hours worked primarily reflected the significant increase in the number of part-time positions in the economy. According to the Manpower Survey, this increase is not a result of changes in the supply of workers but of restrictions placed on the demand for workers since the proportion of workers interested in working in full-time jobs, but are unable to find them, in the total number of part-time workers is growing steadily. This finding is surprising since it is generally not characteristic of an economic recovery in which employers usually expand the number of hours worked before the number of workers. Neither can it be explained by changes in the breakdown by sector since this would have operated in the opposite direction, i.e. a decrease in the proportion of part-time positions.

In 2004, employment grew in almost all industries, but the main increases were in commerce, hotels and catering and business services.

The increase in employment in 2004 in the business sector was totally composed of Israeli workers while the employment of non-Israeli workers declined, a continuation of the trend in 2003. In 2004, employment grew in almost all industries (Table 2.5); however, the main increase was in commerce (2.8 percent), hotels and catering (2.7 percent) and business services (4.5 percent). In manufacturing there was more moderate expansion of employment, with similar rates of growth in the high-tech, mixed and traditional industries. In contrast, employment in construction significantly declined as a result of the deepening recession in that industry. Growth in employment in the services and commerce industries as well as in the high-tech industries began already in mid-2003 in order to satisfy increased demand while in other industries employment began to expand only in 2004.

The adjustment of the labor market to the level of economic activity, in particular the sharp decline in the real wage in 2001 and 2002, enabled employers to react quickly when a positive turnaround began in economic activity, and to increase employment with only a moderate increase in wages and a continuing decline in labor costs.

In the public sector, the decline in employment primarily took place in the public administration services, in which employment dropped by 7.4 percent in 2004 following a decline of 10.6 percent in 2003. In contrast, employment continued to expand in the health, welfare and social services and in education at a rate of 2.0 and 2.9 percent respectively, which continued the upward trend in 2003.

It appears that in the long run employers in the business sector reacted to the economic slowdown, which lasted from the second half of 2001 until the end of the first half of 2003, by reducing employment and wages. This led to a slowing of the increases in real unit labor costs in 2002 and a decline in 2003 (Table 2.2). The adjustment of the labor market to the level of economic activity, in particular the sharp decline in the real wage, moderated the negative impact on profits and enabled employers to react quickly when a positive turnaround began in economic activity during the second half of 2003. Thus, employment was increased with only a moderate increase in wages and a continuing decline in labor costs.

The need for more flexible employment behavior patterns has existed in the business sector for many decades. Since the 1990s, the system of labor relations has apparently changed, the proportion of non-unionized labor in the sector has increased and at the same time the proportion of workers earning low salaries and employed in part-time jobs has risen. (For further discussion, see the Section on Wages.) The

flexibility of the labor market—as reflected in wages, hours worked and number of workers—is important to the producer; however, alongside the need for flexibility, is the often conflicting need of the worker for security and employment stability. The transition from collective bargaining, which emphasized the security of the worker, to the dominance of market forces, flexible management and personal bargaining is irreversible. Therefore, there exists a role for compensatory government involvement through collective bargaining or through various incentives which focus on the protection of weaker groups of workers.

The flexibility of the labor market is important to the producer; however, alongside the need for flexibility, and sometimes conflicting with it, is the worker's need for security and employment stability.

Table 2.5
Employment and Labor Input, by Industry,^a 2000–2004

	Employment								
	'000s					Rates of change			
	2000	2001	2002	2003	2004	2001	2002	2003	2004
Total business sector ^b	1,967.7	1,968.4	1,955.0	1,978.6	2,027.3	0.0	-0.7	1.2	2.5
Agriculture	80.0	70.9	71.2	70.2	76.0	-11.4	0.4	-1.4	8.3
Construction	236.1	220.3	208.7	204.8	194.3	-6.7	-5.3	-1.9	-5.1
Manufacturing	406.0	386.9	369.3	356.9	361.4	-4.7	-4.5	-3.4	1.3
Commerce and vehicle repairs	316.2	320.1	333.1	334.6	343.9	1.2	4.1	0.5	2.8
Hotels and catering services	138.5	132.5	127.9	128.0	131.5	-4.3	-3.5	0.1	2.7
Banking, insurance, and finance	73.6	75.2	76.2	78.0	79.1	2.2	1.3	2.4	1.4
Business services	284.3	304.0	305.4	325.3	339.8	6.9	0.5	6.5	4.5
Transport, storage, and communications	146.9	150.9	146.2	150.9	155.1	2.7	-3.1	3.2	2.8
Public sector	548.7	575.0	595.4	601.4	597.8	4.8	3.5	1.0	-0.6
	Labor input								
	'000 hours					Rates of change			
	2000	2001	2002	2003	2004	2001	2002	2003	2004
Total business sector ^b	80,533.5	78,941.7	79,049.9	79,390.2	80,285.3	-2.0	0.1	0.4	1.1
Agriculture	3,598.4	3,277.8	3,230.3	3,281.6	3,472.2	-8.9	-1.5	1.6	5.8
Construction	10,288.0	9,548.0	9,224.4	8,854.3	8,289.7	-7.2	-3.4	-4.0	-6.4
Manufacturing	17,138.6	15,954.6	15,366.0	14,808.2	15,109.5	-6.9	-3.7	-3.6	2.0
Commerce and vehicle repairs	13,067.0	12,957.3	13,603.6	13,566.6	13,791.1	-0.8	5.0	-0.3	1.7
Hotels and catering services	5,658.1	5,342.6	5,063.1	5,035.8	5,032.9	-5.6	-5.2	-0.5	-0.1
Banking, insurance, and finance	2,773.2	2,813.2	2,951.1	2,999.6	2,945.8	1.4	4.9	1.6	-1.8
Business services	11,555.9	12,027.4	12,201.9	12,822.1	13,226.6	4.1	1.5	5.1	3.2
Transport, storage, and communications	6,260.9	6,238.6	6,013.3	6,165.5	6,228.1	-0.4	-3.6	2.5	1.0
Public sector	16,877.6	17,555.9	18,457.1	18,323.9	18,011.5	4.0	5.1	-0.7	-1.7

Table 2.5 (cont.)

	Employment and labor input, by industry, 2004								
	Employment						Labor input		
	Foreign			Foreign			Foreign		
	Israeli workers	Palestinians	Israeli workers	Palestinians	Israeli workers	Palestinians	Israeli workers	Palestinians	Palestinians
'000s			Rates of change						
Total business sector ^b	1,808.5	179.8	39.0	4.3	-11.9	-3.0	2.9	-11.9	0.9
Agriculture	49.0	23.7	3.3	13.2	0.0	3.1	9.6	0.0	7.2
Construction	128.7	48.50	17.1	-0.8	-13.9	-8.6	-2.8	-14.3	-4.9
Manufacturing	353.0	1.4	7.0	1.0	-26.3	27.3	1.7	-26.3	32.3
Commerce and vehicle repairs	324.7	10.9	8.3	2.8	-16.2	43.1	1.5	-16.2	48.8
Hotels and catering services	99.4	30.2	1.9	9.7	-14.7	-5.0	6.8	-14.6	-1.2
Banking, insurance, and finance	79.1			1.4			-1.8		
Business services	303.6	35.2	1.0	7.5	-16.2	0.0	6.6	-16.2	4.0
Transport, storage, and communications	154.1		1.0	2.7		11.1	0.9		16.2
Public sector	592.3	5.0	0.5	-0.6	0.0	0.0	-1.7	0.0	0.0

^a Including reported and unreported foreign workers and Palestinians.

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

SOURCE: Central Bureau of Statistics and National Accounts data.

Box 2.1

The Reaction of the Labor Market in the Industrialized Countries to the Business Cycle

The period 2001-2 was characterized by worldwide recession which began with the slowdown in the high-tech industries in the industrialized countries and worsened following the terrorist attack on September 11, 2001. The rate of growth in global output fell by half during those years (Table 1). Although the intensity of the slowdown varied in different parts of the world, the rate of unemployment rose in almost all countries, particularly among women and the young, many of whom found it difficult to find new jobs and were forced to accept part-time jobs at low wages.¹

¹ For further details, see Global Employment Trends, August 2004.

The reaction of the labor market to the recession varied among the industrialized countries. For example, in the EU, the decline in unemployment and the increase in the participation rate continued during 2001-2 as part of the long run trend which has characterized Europe since the mid-90s. A large part of the increase in employment in the EU involved workers in part-time jobs. The combination of an increase in employment and a decrease in the number of hours worked led to a decline in worker productivity during that period. However the decline in the real wage in the EU during those years was more moderate than the decline in productivity and therefore unit labor costs continued to rise—by an annual average of 2.2 percent during 2001-2.

In contrast, the rate of unemployment in the US already began to rise in 2001 at the outset of the recession and continued to do so in 2002. (It is worth mentioning that even after this increase, the rate of unemployment in the US was lower than that in the EU by some 3 percentage points.) Participation rates also declined in 2001-2 relative to 2000 which is an indication of the sensitivity of the supply of labor to the state of the economy. Productivity declined moderately during this period and at the same time real wages were eroded. These trends led to a sharp drop in the rate of growth in unit labor costs in the years 2001 and 2002.

The differential reactions of the labor markets were also evident at the end of the recession. Thus, while the rate of unemployment in the EU increased during 2003-04, despite the acceleration in growth since late in 2003, the recovery in the US was characterized by an increase in employment and a decline in the rate of unemployment already in 2004. The differences in reaction to the business cycle between the EU and the US were evident in

Table 1: Changes in Economic Activity and the Labor Market, 2000 to 2004

	Rate of change in GDP				Rate of unemployment				Labor cost per unit of GDP			
	2001-		2001-		2001-		2001-		2001-		2001-	
	2000	2002*	2003	2004	2000	2002*	2003	2004	2000	2002*	2003	2004
EU	3.5	1.2	0.5	2.2	8.5	8.3	8.9	9.0	-0.5	2.2	0.7	0.5
US	3.7	1.4	3.0	4.3	4.0	5.3	6.0	5.5	4.3	0.1	3.2	1.4
Japan	2.8	0.1	2.5	4.4	4.7	5.2	5.3	4.7	-6.4	0.2	-4.3	-5.1
Israel	8.0	-0.8	1.3	4.3	8.8	9.8	10.7	10.4	1.6	2.1	-3.0	-2.9

* Annual average

Source: IMF. "World Economic Outlook," "The Global Demographic Transition," September 2004.

previous periods as well. For example, during the slowdown in the early 1990s, the reaction of the labor market in the US was more rapid and intense than in the EU countries.²

A possible explanation of this difference lies in the lower proportion of unionized workers in the US³ and the difference in labor laws which gives US employers more flexibility in the hiring and firing of workers.⁴ As a result, the rate of unemployment is lower than in the EU but the safety net is thinner. The comparison of the behavior of markets between the US and Europe demonstrates that the greater the flexibility of employers in adjusting factors of production to the level of economic activity, the more vulnerable workers are in a time of recession, although the recovery from a recession and the improvement in the rate of unemployment are more rapid.

² Thus, for example, the slowdown during the period 1991-3 led to an increase of 2 percent in the rate of unemployment in the US within two years. However, four years later the rate of unemployment had returned to its previous level. In the EU, the rate of unemployment increased by only 1 percent in the first two years but continued to increase in following years.

³ One of the indicators of the power of the unions is the difference in the turnover rate (the period a worker is employed by a particular employer) between the EU and US. During the 1990s, a worker remained with an employer for an average of 10.5 years in the EU while in the US this figure was only 6.6 years.

⁴ For further discussion on the differences between the labor market in the EU and the US, see: Krugman, Paul, "Part and prospective Causes of High Unemployment", in Federal Reserve Bank of Kansas City, *Reducing Unemployment: Current Issues and Policy Options* (1994) and Boeri, Tito and Katherine Terrell, "Institutional Determinants of Labor Reallocation in Transition", *Journal of Economic Perspectives*, Volume 16, Number 1, Winter 2002, p. 51-76.

a. Employment of Israelis

The rise in the number of employed Israelis reflected an increase in the number employed in the business sector and a decline in the number employed in the public services.

The number of employed Israelis grew by 3.0 percent in 2004 to an average of 2.4 million. This growth reflected an increase of 4.3 percent in the number of Israelis employed in the business sector and a decline of 0.6 percent in the number of those employed in the public services (Table 2.2). Employment in the business sector was influenced primarily by the improvement in the economy which began to accelerate in the first half of 2003. The decline in the employment of Israelis in the public services was a result of the policy to reduce the cost of wages in this sector both in the short and the long run.

There was a rapid increase in employment in late 2003 and early 2004, which slowed during the remainder of 2004 (Table 2.1). Employment among men increased

by 0.7 percent but fell somewhat for women (by 0.1 percent). The increase in the employment of Israelis was accompanied by a decline in the number of hours worked, especially in the second quarter of the year. Thus, the labor input of Israeli workers increased by only 1.9 percent, a modest increase relative to the increase in the number of employed Israelis (Table A.2.8).

Apart from the influence of the economic recovery on employment, the continuing decline in the number of non-Israeli workers also contributed to the increase in the number of Israelis employed (Table 2.5). The effect of the changes in the number of non-Israeli workers was primarily felt in the agriculture, construction and personal services sectors in which large numbers of non-Israeli workers are employed. In the agriculture sector, the employment of Israelis grew simultaneously with the increased economic activity in the sector and the limited increase in the number of non-Israeli workers. In the personal services sector, the increase in the employment of Israelis was accompanied by a decline in the number of foreign workers and an expansion of activity in the sector while in the construction sector, the number of Israelis employed declined despite the sharp decrease in the number of non-Israelis working in the sector (which was a result of the low levels of demand and activity in the sector).

Although the acceleration in the growth of employment in 2004 is evidence of the economic recovery and the expectations of employers that it will continue, 84 percent of the additional employment was composed of workers in part-time jobs. Part-time jobs accounted for 94 percent of the women hired and 77 percent of the men hired. The increase in the number of workers in part-time and low-paying jobs in the business sector can be seen in the 5 percent increase in the number of workers earning less than half of the average wage in the economy. This development may also be evidence of the lowering of demands among the unemployed in order to enter the labor market (due among other things to the cutbacks in transfer payments), including the willingness to accept part-time jobs in the absence of full-time ones.

As a result of the government decisions during the past three years to reduce wage costs in the public sector and in accordance with agreements with the Labor Federation, it was decided to fire 650 workers from this sector in 2003 and 2004 and to eliminate their posts. In addition, it was decided to freeze the hiring of workers of all kinds (regular workers, contract workers, etc.) until the end of 2006 and to offer improved retirement conditions in units which are to be closed down (the posts of retiring workers from those units are to be eliminated). This policy reduced the increase in employment in the public services to only one percent in 2003, which was less than the increase in the size of the population, and led to a decline of 0.6 percent in employment in the sector in 2004. The decline in employment in the public sector together with the decline in the average number of hours worked per employee (which was a result, among other things, of restrictions imposed by the budget and various agreements) led to a sharp decline of 1.7 percent in labor input in this sector. The cancellation of the posts of workers who have left the public sector has enabled the reduction of total manpower in the sector along with some increase in employment flexibility.

Apart from the influence of the economic recovery on employment, the continuing decline in the number of non-Israeli workers also contributed to the increase in the number of Israelis employed

Eighty-four percent of the additional employment comprised workers in part-time jobs.

During 2004, several programs were created for the encouragement of employment among the weaker segments of the population. (For more details on these programs, see the Section on Unemployment.) Of these, the program to integrate single parents within the labor market was the most prominent due to its focus on a specific group with special needs.⁵ From August 2003, when the project began, until October 2004, 13,000 single parents participated in the program (out of a total of about 25,000 single parents who registered with the Employment Bureau). Of these, some 1,600 received grants as did 420 employers. Another 2,760 single parents studied in vocational training programs and some 180 were hired for temporary jobs financed by the government (most of which were low-paying and temporary and 85 percent of which were in the categories “agents, sales and services”, “unskilled” and “clerical and secretarial”). The low number of participants receiving grants was primarily the result of their inability to reach the required threshold of the program for wage supplementation.⁶ As a result, the threshold criteria for wage supplements were made less stringent and the program was extended until May 2005. However, the size of the subsidy, both to the employee and the employer, were reduced.⁷

b. Non-Israeli workers

In 2004, there were 224,300 non-Israeli workers (foreigners and Palestinians) in Israel, the vast majority of whom were employed in the business sector, and they accounted for 8.5 percent of the total number of employed.

In 2004, there was a total of 224,300 non-Israeli workers (foreigners and Palestinians) in Israel, the vast majority of whom were employed in the business sector. They accounted for 8.5 percent of the total number of employed and 11.0 percent of those employed in the business sector (Table 2.3). The number of foreign workers stood at 184.8 thousand in 2004 following a drop of 24 thousand in each of the years 2003 and 2004. The number of permits granted to foreign workers also fell in 2004 by some 20 thousand. Most of the reduction in the number of foreign workers occurred in the construction sector, following increased enforcement of the law in this sector, with a smaller number in the hotels and catering sector. In contrast, in the agriculture sector and the caregiving sector (in which there is no limit on the number of permits), there

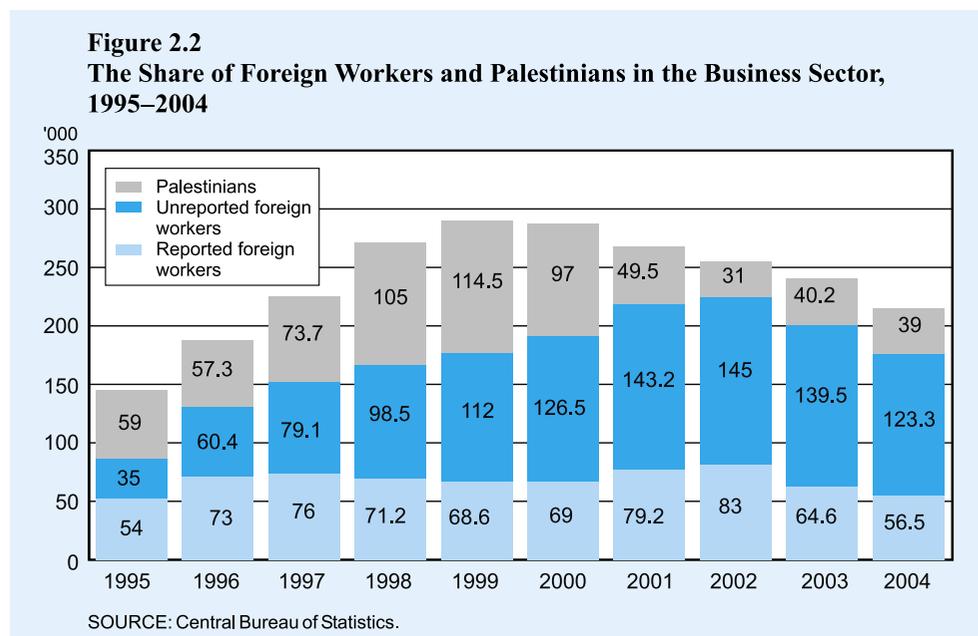
⁵ As part of the program, a worker who increased his monthly income by 1,200 shekels and remained at the same place of work over time received a grant amounting to 9,600 shekels per year while his employer received a subsidy of 1,000 shekels per month. In addition, the government subsidized the cost of childcare and transportation to work. (For more details on the conditions of the program, see Text Box 2.2 in the Section on the Labor Market in the 2003 Report.)

⁶ According to periodic surveys of the Authority for Manpower Planning.

⁷ The subsidy to the employer for employing a worker for a whole year was reduced from 12,000 shekels to 9,000 shekels. For a worker who increases his monthly income by 1,200 shekels, the amount of the subsidy was reduced from 9,600 to 9,200 shekels per year. However, a worker who increases his wage by less than that amount but by more than 600 shekels during the first four months on the job will receive a partial subsidy (60 percent of the regular amount). Subsequently, the worker will have to increase his wage by 1,200 shekels in order to continue receiving the subsidy. Workers in caregiving will receive a partial subsidy of 60 percent during the whole year if they increase their wage by between 600 and 1,200 shekels.

was no significant change in the employment of foreign workers in 2004 (Figure 2.2 and Tables 2.3 and 2.5).

The policy of allowing foreign workers into Israel began in the 1990s, primarily as a result of the scarcity of workers in those professions which for the most part had been filled by Palestinian workers prior to the deterioration in the security situation. Furthermore, since foreign workers were a cheaper source of labor than Israeli workers, employers continued hiring them until a peak was reached in 1999 (when foreign



workers constituted 12 percent of the workforce). The proportion of foreign workers in Israel is higher than the average for OECD countries (approximately 5 percent) and their employment pushes Israeli workers out of the market, particularly workers with a low level of education, thereby increasing unemployment and reducing wages for that group.

In 2003, the government decided to take measures to reduce the employment of foreign workers in Israel. As part of this policy, greater efforts were invested in enforcement of the law regarding illegal foreign workers and the entry of additional foreign workers was almost completely halted (a “closed skies” policy). In addition, the government took a number of steps to increase the cost of employing foreign workers, including a fee for every request for a permit to employ a foreign worker (in the amount of 4,000 shekels), an annual employment fee and an employment tax. However, despite these added costs, the cost of employing an Israeli worker remained higher than that of employing a foreign worker. Therefore, in order to eliminate the advantage in employing foreign workers, the government decided in August 2004

In 2003 the government decided to take measures to reduce the employment of foreign workers in Israel.

to raise their wage to a minimum of 5,000 shekels and beginning in January 2005 to one and one half times the average wage in the country. In addition, the cost of flights from the country of origin will be transferred onto the employer and heavy fines will be charged for the employment of foreign workers without a permit. (These decisions have yet to be implemented.)⁸ It is worth mentioning that in spite of its official policy, the government decided to leave the number of permits for foreign workers unchanged in 2005.

Since 1993, the employment of foreign workers in Israel has been governed by a “binding arrangement” according to which a permit for a worker, both prior to his entry into the country and during his period of employment, is tied to a specific employer and a defined job. The dependence of the foreign worker on an employer often leads to infringement of the workers’ rights, as well as the encouragement of illegal employment, both from the employer’s and the worker’s viewpoint, since without a permit, workers receive higher wages and better conditions. The “binding arrangement” also hinders free market forces and prevents the efficient allocation of workers to the various sectors. The advantages of the arrangement include the commitment of workers in caregiving to work with difficult cases and at a relatively low wage.

In 2004 the Authorizing Committee for foreign workers discussed the problems related to this issue, and instituted a new arrangement which bases the mechanism for employing foreign workers on corporations (manpower companies) that will supply labor to employers. This arrangement will introduce greater flexibility into the move from one employer to another, and responsibility for the employee will fall on the manpower company. Towards the end of 2004 an agreement along these lines was signed by the Ministry of Industry, Trade and Labor, the Ministry of Finance, and the Association of Contractors and Builders in Israel. However, this system, together with the requirement to pay levies for employing foreign workers still leave an element of tying—the worker is tied to the manpower company—and only allows partial mobility. Moreover, the proposed system creates an additional intermediation link in the chain, that between the worker and the manpower company, whereas the true employer–employee relationship actually exists just between the workers and their real employers, i.e., those for whom they are working. The introduction of this extra link may raise the cost of employing these workers without raising their wages, and may actually have the opposite effect. In December 2004 the Ministry of Industry, Trade and Labor authorized foreign workers to move from manufacturing industry to construction in accordance with existing quotas in those industries. Additional measures such as these to enhance efficiency should be introduced, at the same time as pursuing the policy of reducing the number of permits to foreign workers, making

The policy of reducing the number of permits to foreign workers should continue, together with making their employment more costly and stricter enforcement in regard to the employment of illegal foreign workers.

⁸ Furthermore, the level of fines collected from employers in 2004 was particularly low – 7 percent of revenues – and therefore employing a foreign worker is still more attractive than employing an Israeli worker.

their employment more costly, and stricter enforcement in regard to the employment of illegal foreign workers.

The majority of foreign workers in agriculture are employed with a permit. In 2004, the quota on permits in this sector was reduced by 2,000 to 26 thousand; nonetheless, the number of foreign workers in the sector increased to only 23.9 thousand (Table 2.5). It appears therefore that increasing the cost of their employment reduced the profitability of hiring them and that the need for additional workers resulting from the expansion of activity in the sector was filled by Israeli workers.

In 2004, 48.5 thousand foreign workers were employed in the construction sector, representing 33.8 percent of the workers in the sector. Most of them were employed without a permit. This fact, together with the reduction in the number of permits in the sector, together led to a decline in the number of foreign workers in the sector from its 2003 level of 56.3 thousand. Despite the reduction in the number of foreign workers, the number of Israelis employed in the sector did not increase, and labor input even declined by 6.4 percent due to the deep recession in the sector. As in the agriculture sector, employers did not fully exploit their quota of work permits, apparently as a result of the various duties imposed on the hiring of a worker and his inability to prevent the worker from moving to a different job.

Box 2.2

The Changing Trends in the Employment of Arab Israelis During the Last Decade

Arab Israelis constitute about 20 percent of the population in Israel. The Arab sector is characterized by a low level of economic development, high rates of unemployment and employment in positions at the bottom of the ladder (see table below). The main problems of Arab Israelis in the labor market include a low level of education, a lack of sufficient sources of income in Arab towns and, in particular, villages and barriers to their employment in the Jewish sector.¹

The participation rate among Arabs is lower than among Jews as a result of the especially low participation rate among Arab women.² The overall participation rate among Arabs increased moderately during the 1990s while it declined in the early part of this decade as a result of the recession in the labor market and the closing of textile factories in the Galilee,

¹ For further discussion, see Ruth Klinov (1990), "Jews and Arabs in the Israeli Workforce", *Economic Quarterly* 145, August.

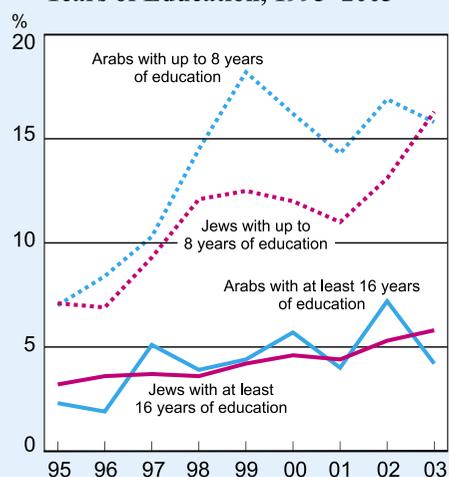
² For further detail on the characteristics of the labor market for Arab women see: Ministry of Labor and Welfare, the Authority for Manpower Planning, "Participation of Arab Women in the Workforce During the Last Decade", June 2004.

which were the source of income for many Arab women, and because of the increasing difficulty in finding work that discourages job search. In addition, the participation rate was influenced by the increasing proportion of Arab Israelis studying in institutes of higher education which in the long run will increase their participation rate.³

The Arabs first enter the labor market at a relatively young age for which there are several reasons: the need for an additional breadwinner, the fact that they do not serve in the army and the low proportion of Arabs, relative to Jews, who continue in school (though it has been increasing in recent years). Since the majority of Arab workers are employed in manual labor, they leave the labor market early and therefore there are also significant differences in participation rates between the Jewish and Arab sectors in the more mature age groups. Another possible explanation for these differences lies in the traditional structure of the family in which children support their parents.

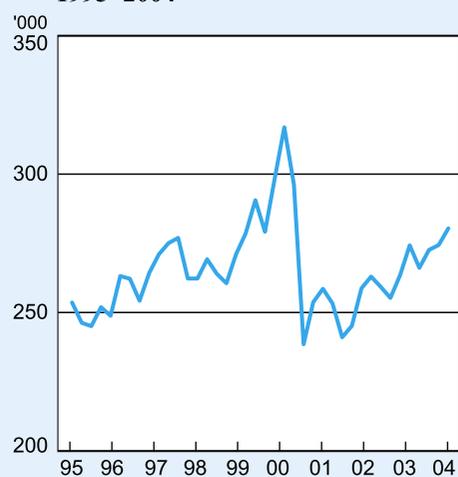
Despite the similarity between Arabs and Jews in the participation rates of men, the rate of unemployment among Arab men is higher than among Jewish men due to their difficulties in finding work (Figure 1 below). The

Figure 1
Rate of Unemployment among Men, Jews vis-à-vis Arabs, by Years of Education, 1995–2003



SOURCE: Central Bureau of Statistics Manpower Surveys.

Figure 2
The Number of Arabs Employed, 1995–2004



SOURCE: Central Bureau of Statistics Manpower Surveys.

³ For a description of the employment of Arab Israelis in previous periods, see: N.T. Epstein, M. M. Alhaj, and M. Saminov (1994), Arab Israelis in the Labor Market, The Floersheimer Institute for Policy Research.

Comparison of Employment Characteristics between Israeli Arabs and Jews, 1995 to 2003

	Arab Israelis			Jews		
	1995 ^a	2000 ^a	2003	1995	2000	2003
1. Working age population (thousands)	634.6	801.3	760.8	3,274.0	3,685.3	3,930.2
	(percent)					
2. Participation rate	42.6	42.8	39.1	56.0	56.8	57.1
2.1 Men	67.2	62.6	60.3	61.8	60.3	59.8
2.2 Women	18.3	23.1	17.3	50.6	53.4	54.6
3. Rate of unemployment	6.9	11.9	11.5	6.2	8.3	10.6
3.1 Men	6.0	12.0	11/9	5.0	7.6	9.9
3.2 Women	10.4	11.7	9.8	7.8	9.0	11.4
4. Participation rate by age group						
4.1 15-24	35.5	32.3	26.0	34.5	34.6	32.7
4.2 25-54	53.6	55.3	52.0	79.7	81.3	81.4
4.3 55+	15.8	14.9	12.6	28.3	26.7	29.7
5. Participation rate by years of education						
5.1 0-8	31.9	25.9	23.9	28.4	23.6	22.0
5.2 9-12	45.9	44.2	41.0	53.5	52.7	52.3
5.3 13-1	56.1	58.2	46.2	67.9	67.5	67.0
5.3 16+	75.0	74.3	75.0	76.1	77.2	77.2
6. Employed by profession^b						
6.1 White collar ^c	37.4	43.5	44.2	68.4	74.3	76.2
6.2 Skilled workers ^d	62.6	57.3	55.8	31.7	25.6	23.9
7. Average wage (NIS)	2,930	4,472	5,034	4,229	6,898	7,129
8. Extent of poverty^e	27.6	40.2	46.2	13.4	12.3	14.6

^a In 2001, the definitions of nationality in the Manpower Surveys were changed. Up until 2001, the figures include other religions.

^b The percentage of total employed.

^c Academic professions, professionals, managers, clerks and salesmen.

^d Workers in agriculture, manufacturing, construction and transportation.

^e Among households; after transfer payments.

SOURCE: Central Bureau of Statistics and processed data of the Bank of Israel

gap has narrowed in the last two years due to an increase of 8 percent in employment, but also due to the sharp increase in the number of individuals who have given up their job search and dropped out of the labor market. The last unemployment crisis, like the one prior to it, proved that the Arab population suffers more from an economic slowdown or structural changes in the economy than does the Jewish population.

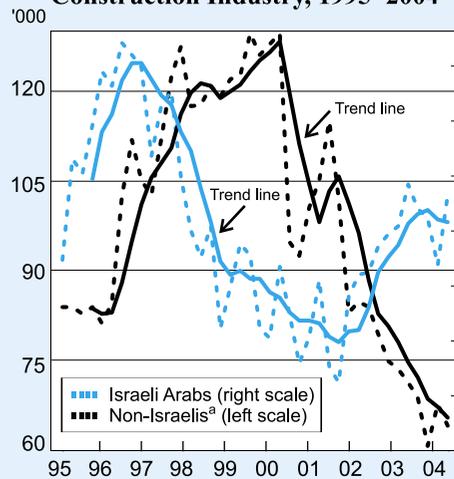
During the last ten years, the employment of Arab Israelis has been affected by business cycle fluctuations, by the security situation and by the employment of non-Israelis (foreigners and Palestinians) (Figure 2; note that in 2001, the definitions of nationality used in the Manpower

Survey were changed, which results in a discontinuity in the data in some of the figures.)

Since most Arab Israelis are employed in sectors with large numbers of non-Israelis (primarily construction and agriculture), the changes in the employment of foreigners had a significant effect on their own employment. Thus, by the end of the 1990s, the number of Arab Israeli construction workers had declined as the number of non-Israeli workers increased. In contrast, during the last three years, in which a policy of reducing the number of foreign workers has been implemented, the number of Arabs employed in the construction sector has increased.

The increase in the monthly average wage of Arab Israelis during the last ten years has been slower than that of Jews. Among uneducated workers, wages have increased similarly for both Jews and Arabs; however, among educated workers, the increase in wages was slower among Arabs due to their difficulties in finding appropriate work (Figure 4).⁴ The proportion

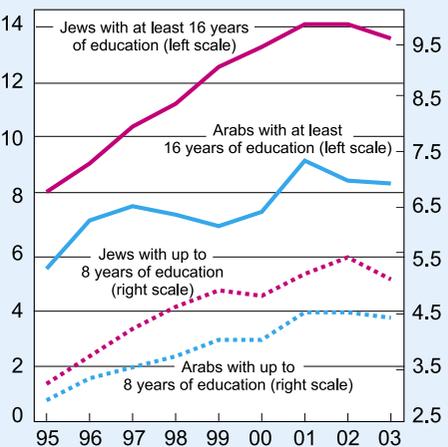
Figure 3
The Number of Employees in the Construction Industry, 1995–2004



^a Including foreign workers (registered or nonregistered) and Palestinians.

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

Figure 4
Average Monthly Wage among Men, Jews vis-a-vis Arabs, by Years of Education, 1995–2003



SOURCE: Central Bureau of Statistics Manpower Surveys.

⁴ For further discussion of wage differentials, see: R. Klinov (1999), “Changes in the Wage Structure – Wage Differentials Within and Between Sectors: Israel 1970-1997,” The Institute for Socioeconomic Research, the General Workers’ Federation, *Article for Discussion 4*, Jerusalem.

of Arab Israelis below the poverty line was 46.2 percent in 2003 (among households and including transfer payments). Empirical research^{5,6} shows that the probability of being poor for non-Jews, given the same level of education, family structure and other characteristics, is higher than for Jews.

⁵ R. Garah, and R. Cohen (2001), "Poverty among Arab Israelis and Sources of Inequality between Arabs and Jews," *Economic Quarterly*, 4 (December), 543-571.

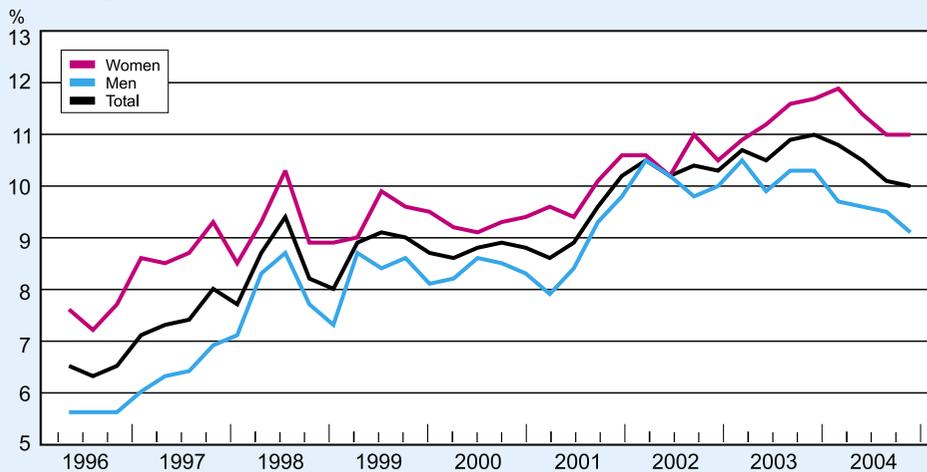
⁶ K. Flug and N. Kasir (Kleiner) (2001), "On Poverty, Work and Everything in Between," *Economic Quarterly*, 4 (December), 535-565.

5. UNEMPLOYMENT

The rate of unemployment in 2004 was 10.4 percent of the civilian workforce. There was a downward trend in the unemployment rate during the whole year which reached 10 percent in the last quarter. This followed two years of an upward trend in which unemployment reached a peak of 10.9 percent (during the second half of 2003) (Tables 2.1 and 2.2 and Figure 2.3). The increase in employment in the business sector by itself would have reduced the rate of unemployment by 1.2 percent; however, the reduction in employment in the public sector worked to offset the decline in unemployment and as a result unemployment fell by only a small amount. The drop in unemployment was

The rate of unemployment in 2004 was 10.4 percent of the civilian workforce. This high rate was the Achilles heel of the Israeli economy during 2004, primarily because it hit the weaker segments of the population the hardest.

Figure 2.3
Unemployment Rate, 1996–2004 (quarterly data, seasonally adjusted)



SOURCE: Based on Central Bureau of Statistics data.

also moderated by the increase in the participation rate in 2004. It is worth mentioning that without the effect of the change in participation rate, the business sector would have been responsible for a 1.7 percent decline in unemployment (Table 2.7). However, despite the positive trend in unemployment in 2004, the high rate of unemployment is evidence that the level of economic activity is below its potential. Unemployment was the Achilles heel of the Israeli economy during 2004, primarily because it hit the weaker segments of the population the hardest.

Within the business sector, the skilled labor-intensive sectors were responsible for a 0.4 percent decrease in unemployment; the unskilled labor-intensive sectors were responsible for a 0.2 percent decrease; and the unclassified sectors were responsible for a 0.6 percent decrease (Table 2.6 and Table A.2.10). In the skilled labor-intensive sectors, the most significant contribution to the decrease in unemployment came from the business services sector while among the unskilled labor-intensive sectors, the most significant contribution came from the hotels and catering sector. The contraction of employment in the construction sector offset part of the reduction in unemployment in the business sector.

Table 2.6
Contribution to Change in Unemployment Rate, Israelis,^a 2001–2004

	(change from previous year, percentage points)			
	2001	2002	2003	2004
Total	0.5	0.9	0.4	-0.3
Public sector	-0.4	-0.3	0.2	0.8
Business sector	1.0	1.3	0.2	-1.2
High-skill industries ^b	-0.1	0.8	-0.1	-0.4
Nontradables	-0.2	0.1	-0.3	-0.4
Manufacturing	0.2	0.3	0.1	0.0
Computer services	-0.2	0.4	0.1	-0.0
Unskilled-labor-intensive industries ^c	0.7	0.4	0.0	-0.2
Manufacturing	0.1	0.4	0.1	-0.1
Textiles and clothing	0.1	0.2	0.0	0.0
Construction	0.1	0.0	-0.3	0.2
Hotel and catering services	0.3	0.2	0.1	-0.3
Other industries (not classified) ^d	0.4	0.1	0.2	-0.6
Manufacturing	0.2	0.2	0.1	0.1

^a The contribution to the rise in unemployment was calculated as the difference between the number of Israelis who would be employed if employment had expanded in line with the growth of the civilian labor force and its actual expansion (for by-industry breakdown, see Table 1.A.2.10).

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

^c Unskilled-labor-intensive industries include some manufacturing, commerce and repairs, construction, and hotel and catering services.

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

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

Unemployment is distributed unevenly among the various demographic groups. Thus, unemployment is high, 16.1 percent, among those with a low level of education and declines monotonically to 5.3 percent among individuals with more than 16 years of education (Table 2.8). In 2004, unemployment declined as a result of a 0.6 percent decrease in unemployment among workers with a high level of education (16 years of education or more). Unemployment among workers with less than 8 years of education fell by a similar rate despite the relatively large increase in the participation rate of this group; however, the proportion of this group in the population is small (about 5 percent in 2004) and has been steadily getting smaller over the years. Among the intermediate group—between 9 and 15 years of education—there was no significant change in the rate of unemployment.

Relatively high rates of unemployment characterized women, Arab Israelis and residents of the periphery, especially the South. Apart from the widening of the gaps in rates of unemployment between educated workers and the rest, gaps widened in 2004 between other groups as well, with the weaker population groups being hit the hardest. Among men, the rate of unemployment dropped to 9.5 percent but among women it increased somewhat to 11.4 percent (Table 2.2.). This was due, among other things, to the firing of workers, most of them women, from the municipal authorities and public bodies. In addition, the rate of unemployment among Arab Israelis increased from 10.6 percent in 2003 to 10.8 percent in 2004 while among Jews it declined. However, the rate of unemployment among new immigrants (who arrived after 1990) was for the first time equal to that of veteran Israelis.

The intensity of unemployment, which is reflected by the number and proportion of “hardcore” unemployed (i.e. individuals who have been unable to find work for a

In 2004, unemployment declined as a result of a 0.6 percentage -point decrease in unemployment among workers with a high level of education

Table 2.7
The Contribution to the Change in the Unemployment Rate by Component, Israelis, 2001 to 2004
(increase or decrease relative to the previous year, percent)

	2001	2002	2003	2004
Total contribution	0.5	0.9	0.4	-0.3
Of this: Effect of the change in the participation rate ^a	0.2	-0.3	0.6	0.8
Effect of the change in the employment rate ^b	0.4	1.2	-0.2	-1.1
Of this: Public services	-0.5	-0.3	0.0	0.6
Business sector	0.8	1.5	-0.2	-1.7

^a The contribution to the increase in the number of unemployed was calculated as the difference between the number of Israelis that would have been employed if employment had expanded at the same rate as the participation rate and the actual expansion.

^b The contribution to the increase in the number of unemployed was calculated as the difference between the number of Israelis that would have been employed if employment had expanded at the same rate as the labor force and the actual expansion.

SOURCE: Processed data from the Manpower Survey of the Central Bureau of Statistics.

Table 2.8
Unemployment Rate, by Years of Education, Israelis, 2000–2004^a

	2000	2001 ^b	2002	2003	2004
	(percent)				
Total	8.8	9.3	10.3	10.7	10.4
8–0 Years of education	13.2	12.8	14.5	16.6	16.1
12–9 Years of education	11.5	12.2	12.9	13.9	13.8
15–13 Years of education	6.9	8.1	9.1	8.7	8.7
+16 Years of education	4.5	4.5	5.8	5.9	5.3

^a The corresponding table in 2002 Annual Report contained incorrect data.

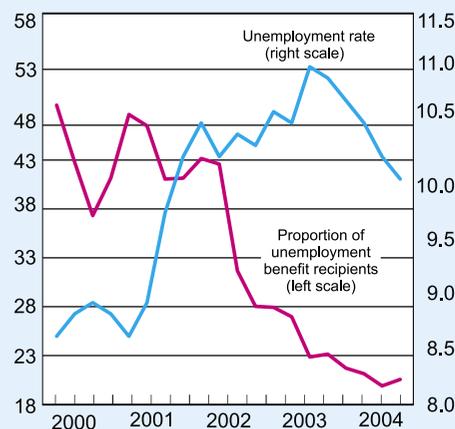
^b A new method of extrapolation was used in the Labor Force Surveys in 2001.

SOURCE: Labor Force Surveys of Central Bureau of Statistics.

The depth of unemployment, which is reflected by the number and proportion of “hardcore” unemployed, continued to increase in 2004, as it had in the previous two years.

long period), continued to increase in 2004, as it had in the previous two years. Close to 60 percent of the unemployed in 2004 had not worked at all for at least one year as compared to 55 percent in 2003 and less than 50 percent in 2002. Similarly, the proportion of workers looking for a job for more than six months increased from 36.4 percent in 2003 to 40.9 percent in 2004 (Table A.2.7). Furthermore, the number of new job seekers who registered with the Employment Bureau in 2004, which increased during the second half of 2003, returned to the level it was at in 2002 (Figure 2.5).

Figure 2.4
Proportion of Total Unemployed Persons Receiving Unemployment Benefit,^a and Unemployment Rate,^b 2000–2004 (percent)

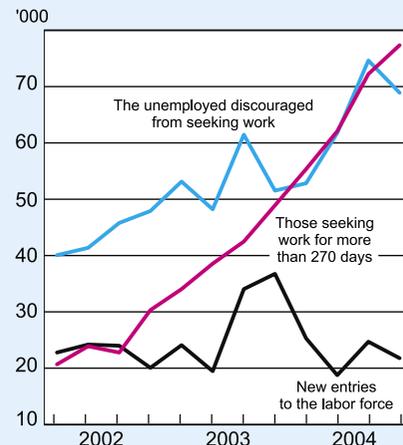


^a National Insurance Institute data.

^b Seasonally adjusted.

SOURCE: Central Bureau of Statistics.

Figure 2.5
Discouraged Workers, Monthly Entries to the Labor Force, and those Seeking Work for more than 270 Days, 2000–2004



SOURCE: The Employment Service.

Apart from the program to integrate single parents within the labor market, which only yielded partial results, there were additional programs for reducing unemployment among the weak sectors which were planned or implemented in 2004. However, these programs were on a small scale, and in some areas programs were cut back. Reducing the level of transfer payments without sufficient consideration given to facilitating integration within the labor market during a period of high unemployment adversely affects the situation of the unemployed, especially those in the hard core. Although it is possible that this is a short run process of adjustment, and although it isn't possible at the moment to evaluate the effect of the policy on employment and welfare in the long run, action should be taken as soon as possible to expand these programs, such as the one to integrate single parents within the labor market, to include additional groups.

Employment subsidies were paid in 2004 for about 7,500 switchboard operators, mostly students, employed in three telephone exchanges—in Akko, Ashkelon and Karmiel (a program launched in 2002). In December a tender was issued for the construction of two more exchanges, in Akko and Sderot. About 250 people were employed in temporary positions financed by the government—in the Israel Nature and National Parks Protection Authority, the Israel Antiquities Authority, and the Nature Preservation Society—but their employment ended in December. In December tenders were issued for the construction or extension of factories in the greater Sderot area; employment in these factories will be subsidized.⁹

In 2004, following an extended delay, the bodies were chosen (by tender) who would establish four experimental employment centers in Jerusalem, Nazareth, Hadera and Ashkelon (“Wisconsin Centers”)¹⁰ which will begin operating by mid-2005. These centers will assist individuals who have been receiving guaranteed income supplements for an extended period of time by teaching them good work habits, increasing their motivation, teaching them skills and providing them with support frameworks, such as childcare and transportation. The centers will be operated on a profit basis and will provide each unemployed individual with a personal plan for training, study and work.

6. WAGES

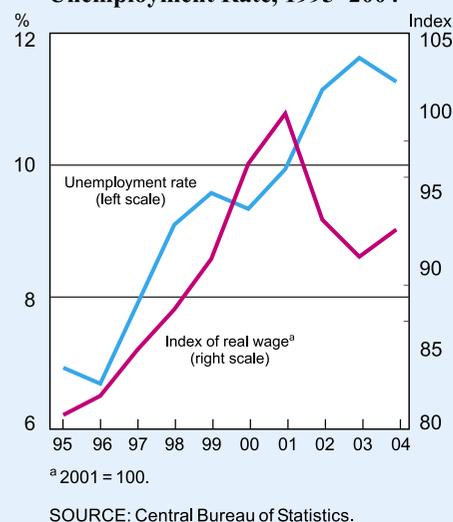
The real wage per salaried post was 2.7 percent higher on average in 2004 than in 2003. This increase reflected the 1.9 percent increase in the business sector and the

⁹ A subsidy for five years, of 20 percent of the gross wage, with a ceiling of NIS 120,000 a year per employee.

¹⁰ Named after the American program that was first implemented in Wisconsin and has since been implemented in many additional states.

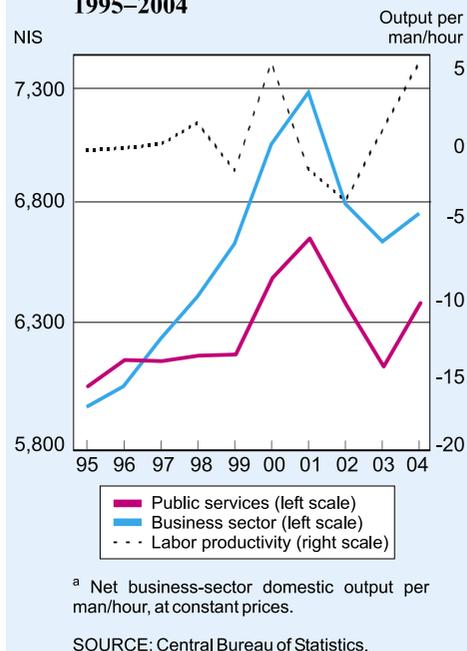
Reducing the level of transfer payments without giving sufficient consideration to facilitating integration within the labor market has a serious adverse effect on the situation of the unemployed. Action should be taken as soon as possible to expand the programs for integrating the weaker sections of the population into the labor market.

Figure 2.6
Index of Real Wage per Employee Post in Business Sector^a and Unemployment Rate, 1995–2004



The real wage per employee post was 2.7 percent higher on average in 2004 than in 2003.

Figure 2.7
The Real Wage per Employee Post in the Business Sector and in Public Services (at 2001 prices), and Labor Productivity,^a 1995–2004



even higher increase of 3.9 percent in the public sector (Table 9 and Figure 2.7). The real wage increase resulted from a 4.4 percent increase in the nominal wage and an average decrease in prices during that period. In the public sector, wages were subject to volatile fluctuations in 2003 and 2004 which were a result of wage agreements and changes in the timing of periodic payments.¹¹ On average, there were no significant changes during these two years. The average wage was also influenced by the decline in the proportion of foreign workers, whose wages are relatively low. Nonetheless, the reduction in the supply of foreign workers led to an increase in their average wage and the wages of Israelis rose by only 1.6 percent, less than for the business sector as a whole.

The flexibility of the labor market has in recent years been influenced by the weakening of the labor unions. There are several factors behind this phenomenon: the increasing weight of sectors in which the unions are weak; the entry of non-organized

¹¹ Payment of vacation pay and the 25-year-service grant were delayed in 2003 and 2004 by six months and in addition the payment of the Cost of Living allowance was delayed till 2006. At the same time, the “Growth Encouragement” deduction was continued at a rate of 4 percent. It was initiated in July 2003 and is expected to be discontinued in July 2005.

workers into the labor market; and the increasing proportion of workers who are employed through personal contracts or manpower agencies. During the last two years, the government's policy has been to work towards the weakening of the labor unions by influencing public opinion against them. In addition, transfer payments have been cut back, including a cumulative real cut in unemployment benefits of about 40 percent during the years 2002-4 (10 percent of which was implemented in 2004). (For further detail, see Chapter 4, Welfare Policy.) All these measures worked to get the unemployed back to work in a shorter period of time and with less bargaining power.

The relatively high flexibility which characterized the labor market in the previous stage of the business cycle (and which was manifested in the layoff of higher-paid workers, wage cuts and efforts by firms to increase efficiency) led to cumulative erosion of 9 percent in the real wage during the period 2002-3. This erosion moderated the impact on profits and thus facilitated the absorption of new workers and the increase in wages which began in mid-2003 when the first signs of renewed growth appeared. This flexibility in the labor market is important to employers but weakens the employment safety net for workers.

Wage increases were particularly high in the first quarter of 2004 and moderated during the remainder of the year. The trend of wages in the business sector during 2004 was affected far less by changes which occurred in the composition of the labor

The relatively high flexibility which characterized the labor market in the previous stage of the business cycle led to a cumulative erosion of 9 percent in the real wage in the years 2002 and 2003.

Table 2.9
Change in Real Wage per Employee Post,^a 2000–2004

	(percent, at constant prices)				
	2000	2001	2002	2003	2004
Total	6.2	3.0	-6.0	-3.0	2.7
Israelis			-5.9	-3.1	2.5
Public sector	5.4	2.6	-4.3	-4.1	4.4
Business sector, total	6.6	3.3	-6.7	-2.5	1.9
Israelis			-7.0	-2.7	1.4
Agriculture, total	5.3	8.3	-5.5	-0.7	1.4
Israelis			-3.8	-0.8	-0.1
Manufacturing	4.3	3.2	-4.2	-0.2	2.5
Electricity and water	7.6	2.5	-3.2	-2.7	0.4
Construction, total	6.3	4.3	-5.1	-3.5	1.4
Israelis			-4.7	-3.0	-1.0
Commerce and repairs	6.1	2.2	-6.3	-2.7	0.2
Hotel and catering services, total	4.0	-0.1	-6.4	0.7	0.1
Transport, storage and communications	1.5	0.9	-5.1	-2.6	-0.8
Financial services	12.0	1.7	-6.8	-3.3	10.8
Business services	14.2	3.6	-8.6	-4.2	3.8

^a The real wage per employee post, according to National Insurance Institute reports, includes reported foreign workers and Palestinians, unless stated otherwise.

SOURCE: Labor Force Surveys of Central Bureau of Statistics.

force than by wage increases in the various sectors. There were significant wage increases in the industrial sectors (2.5 percent) and financial services (10.8 percent). The high rate of increase in the latter was a result of the large profits reported for that sector.¹² Wages in the construction sector rose by 1 percent, despite the contraction in activity in that sector, which resulted from the reduced supply of foreign workers and the subsequent increase in their wages. Within the industrial sectors, the largest wage increase (3.3 percent) was, in fact, recorded in those sectors which are defined as traditional. Meanwhile in the high-tech sectors, in which wages had eroded significantly in the early part of the decade, there was a relatively moderate increase in wages of 1.5 percent on average.

Despite the increase in real wages, unit labor costs declined by about 3 percent for the overall economy and the business sector, and this followed a similar decline in 2003.

Despite the increase in real wages, unit labor costs declined by about 3 percent for the overall economy and the business sector, which was a continuation of the decline recorded in 2003. The reduction in unit labor costs in the business sector at a cumulative rate of 7.5 percent during the last two years followed a cumulative increase of 8 percent in the years 2001 and 2002. The reduction in labor costs encompassed all the sectors, apart from agriculture and electricity and water. The largest increases occurred in the service sectors due to the large increase in worker productivity relative to wage increases in those sectors (Table 1.9 in Chapter 1 Output per Sector).

A far-reaching reform of pension arrangements was implemented in both the public and business sectors. Since it is beyond the scope of this report to describe all the changes in this area during the past three years, following is a list of the most significant changes: the gradual transfer, started in 2002, of new government workers from a non-contributory pension to a contributory pension; the program to rescue the veteran Histadrut (General Federation of Labour) pension funds which were in a deep actuarial crisis; and gradual raising of the legal retirement age (the age of eligibility for pension and old age security payments), starting in July 2004, to 67 for both men and women. (Further discussion of the many changes can be found in the chapters on the labor market in the 2002 and 2003 Annual Reports.). In 2004, there were several additional reforms: 1) Four of the new Labor Federation pension funds were sold into private hands; and 2) Workers in the public sector who are eligible for a non-contributory pension began deducting one percent of their wages towards that purpose. According to the proposed budget, this deduction will increase in coming years until it equals the deduction for workers with contributory pensions. New career soldiers in the Israel Defense Forces were also transferred to contributory pensions and their early retirement age was raised.¹³

¹² In some of the banks, there is a formula for calculating employee bonuses based on the bank's profits.

¹³ Professional soldiers in fighting units will retire when they reach 45 years of age, non-commissioned officers at age 55–57, and administrative rank officers at age 50–52.

The deterioration in labor relations continued in 2004. Although the scale of labor disputes was less than it was in 2003, their intensity increased in 2004. This year most of the labor disputes were related to efficiency measures which were implemented or planned for public entities. (See also the Chapter on the Labor Market in the 2003 Annual Report.) In 2004, labor relations in the economy reached one of the lowest points ever when, during the first half of the year, a proportion of the workers in the municipal authorities¹⁴ were not paid their wages. In a number of municipal authorities, workers had not been paid for up to a year. Following a general strike in support of the municipal workers on the eve of the Jewish New Year, the National Labor Court ruled that “the right of workers to receive their full wages in a timely fashion is a basic right, grounded in law, of the highest order” and the State must pay the strikers their full wages. At the same time, the Court ruled that the municipal authorities must immediately begin efficiency measures and sign recovery agreements.

Labor disputes became more intense in 2004; most of them were related to efficiency and recovery measures planned for public entities.

Box 2.3

Compromise is to be Preferred Over Litigation—the Crisis in Labor Relations from the Legal Point of View¹

During the last ten years, we have been witness to a process in which labor disputes, whether involving an individual worker and his employer or collective bargaining, are increasingly resolved in the labor courts. The reasons for this phenomenon include the expansion of the labor market; the process of globalization, which requires a more efficient and competitive market; the additional authority of the courts (for example, on the issue of the Health Insurance Law)²; and the change in norms characterizing labor relations which have been influenced by the previously mentioned factors

¹ The data have been generously provided by the Labor Court regional administration. For further discussion see Labor Relations in an Era of Transformation, The Israeli Institute for Democracy, Position Paper 54, November 2004.

² There are five regional labor courts and one national. They deal with workers' rights, collective bargaining, wages, pensions, transfer payments, health, disabilities, unemployment, sexual harassment, social benefits, the rights of foreign workers, etc.

¹⁴ This problem was a result of the cutbacks in the Equalization Grant and an across-the-board cut in transfers for education, health and welfare which led to budget deficits in the municipal authorities. Most of the municipal authorities which did not pay their employees have a low socioeconomic profile. Their revenues are dependent on government transfers and they suffer from high rates of unemployment. (For further discussion, see Box 3.5 in the Chapter on the Government Budget in the 2003 Bank of Israel Annual Report.)

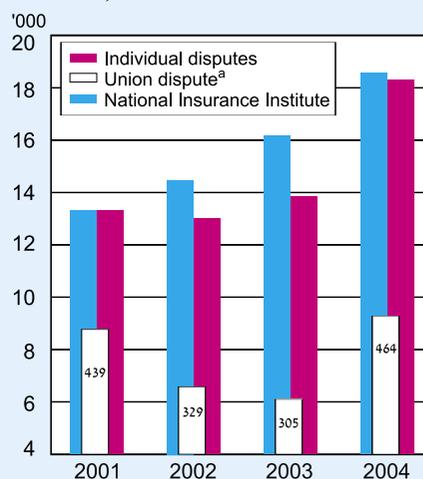
and have been manifested in the diminishing ability of the sides to reach agreement between them.

The period 2002-4, during most of which the economy was in recession, was characterized by a slowing down in the growth of employment in the public services, an increase in layoffs in the business sector and cutbacks in transfer payments, all of which contributed to the increased number of cases before the courts.³ Indeed, the number of cases initiated in the labor courts in 2004 was 25 percent higher than it was in 2001 and 11 percent higher than it was in

2003.⁴ It should be stressed that the upward trend in the number of cases brought before the labor courts contrasts with the downward trend in the rest of the courts (magistrate, family and district) which has continued for the last three years.

Among the cases brought before the labor courts in 2004, there was a particularly large increase of 52 percent in labor dispute cases relative to 2003. This can be explained by the changes in society's values that reflect, on the one hand, the increasing militancy of the labor unions and, on the other hand, the more unyielding approach of the employers.⁵ It also reflects the increasing emphasis on the courts' function as an arbitrator of personal and collective disputes at the expense of its judicial function. The increase

Number of New Files Opened in the Labor Courts, by Type of Case, 2001–04



^a Actual number of cases (not thousands).

SOURCE: The Labor Courts.

³ Due to a lack of data, we are unable to compare the number of cases during this period to that in previous recessionary periods.

⁴ The court cases that relate directly to labor issues grew by 32 percent from 2001 to 2004 and by 19 percent from 2003 to 2004. Among them, those involving personal suits grew by 32 percent in 2004 relative to 2003, primarily due to the increased number of suits relating to National Insurance stipends. The number of cases of this type is expected to continue increasing in 2005.

⁵ The increasing number of disputes is apparently also a result of the slowdown in inflation which required the adjustment of automatic cost of living allowances.

in the number of court cases is also the result of the vacuum in the economy caused by the lack of mechanisms for resolving disputes.

Undoubtedly, the function of the labor court is an essential one and in many cases in which agreement cannot be reached, it alone can decide the matter while minimizing the harm to workers and to the economy.⁶ Nonetheless, the fact is that increasing use of the courts in recent years has not reduced the extent of labor disputes or their intensity. In addition, tension exists between the court's judicial function as an arbiter of justice and its function as an arbitrator between the sides.

Therefore, measures should be taken to reverse the increasing tendency to resolve disputes in the court system and to restore the responsibility of the two sides—the workers and the employers. It is essential that the labor market resolve its own disputes in order to give legitimacy to the wage structure since this enables individuals to influence the conditions of the market in which they are active. In order to strengthen the trust and dialog between the sides, the establishment of alternative mechanisms for resolving disputes (such as arbitration, for example), based as much as possible on consensus, should be encouraged. In addition, there should be a system of incentives to return the sides to the bargaining table. The willingness of the two sides is a necessary condition for the rehabilitation of labor relations in Israel.

⁶ Examples include the intervention of the Labor Court in the ports strike and in the general strike following the non-payment of wages by the municipal authorities.

