CHAPTER IX

THE LABOR FORCE AND WAGES

1. Main Developments

FULL EMPLOYMENT continued to prevail during the first nine months of 1973. The number of employed and the labor input were up 4.9 and 3.3 percent respectively from their 1972 levels, and unemployment fell to an all-time low —2.4 percent as against 2.7 percent in the corresponding period of 1972 and 3.3 percent in 1964. Wages and salaries rose 25 percent, which was consistent with the persistence of full employment for the third consecutive year and the aggravation of inflation in the past two years.

The 3.1 percent growth of the permanent population in 1973 was slightly smaller than in the previous year. The post-1967 uptrend in the rate of natural increase among Jews, the result of a rising birth rate, was temporarily arrested at the end of 1972 and the beginning of 1973. In addition, provisional data show that emigration increased for the second year running.

Changes in the labor input result, apart from changes in the population, from fluctuations in the labor force participation rates, unemployment rate, and the number of man-hours worked per employed. During the first three quarters of 1973 the overall labor force participation rate remained stable at approximately 50 percent of the working-age population, while unemployment edged down from 2.7 percent in the corresponding period of 1972 to 2.4 percent, with the decline concentrated among women. The level reached its nadir in the second quarter of 1973; in the other quarters it was roughly the same as in the previous year. Total employed (including residents of the administered areas working in Israel) was up 4.9 percent, compared with 6.6 percent in 1972. The average number of weekly man-hours per employed was down 2 percent in the first three quarters of 1973 because of an increase in part-time employment and temporary absences. The labor input (measured in terms of man-hours worked) of all Israeli employed rose by a relatively small 2.3 percent during this period; the increase in the number of workers from the administered areas, even though it was smaller than in the previous year, pulled the rate up to 3.3 percent, compared with 6.6 percent in 1972.

According to manpower survey data, employment rose sharply in industry and in financial and business services and fell in agriculture. In other sectors the increases were close to the national average. The moderate growth in construction stands out in comparison with the 18 percent rise recorded

Table IX–1

POPULATION, EMPLOYMENT, AND WAGES—PRINCIPAL DATA, 1971–73

(in thousands, unless otherwise stated)

	Annual or quarterly averages						Percent annual increase or decrease (–)		
	1971	1972		1973			1972	1973	
		Jan.-Sept.	Entire year	Jan.-Sept.	Oct.-Dec.	Entire year		Jan.-Sept.[a]	Entire year
1. Average population[b]	3,045.6	3,132.6	3,146.2	3,237.0	3,288.4	3,254.0	3.3	3.3	3.4
2. Working-age population[b]	2,097.2	2,159.3	2,169.1	2,236.8	2,278.0	2,247.1	3.4	3.6	3.6
3. Civilian labor force[b]	1,032.8	1,073.6	1,076.1	1,112.0	1,134.8	1,117.7	4.2	3.6	3.9
4. Labor force participation rate[b] (2÷3)	49.2	49.7	49.6	49.7	49.8	49.7	—	—	—
5. Israeli employed	997.1	1,044.2	1,047.0	1,084.8	1,098.5	1,088.2	5.0	3.9	3.9
6. Israeli employees	744.5	782.7	787.2	817.4	802.8	818.3	5.7	4.4	3.9
7. Total weekly man-hours of Israeli employed (million hrs.)	39.8	42.0	42.3	42.9	35.1	40.9	6.3	2.1	–3.3
8. Unemployed Israeli job-seekers	35.7	29.3	29.1	26.8	36.3	29.5	–18.5	–8.5	1.4
9. Unemployment rate (3÷8)	3.5	2.7	2.7	2.4	3.2	2.6	—	—	—
10. Number of employed from administered areas	33.8	52.4	52.4	65.1	49.6	61.3	55.0	24.2	17.0
11. Total employed in Israel (5+10)	1,030.9	1,096.6	1,099.4	1,149.9	1,148.1	1,149.5	6.6	4.9	4.6
12. Israeli employee posts[c]	842.0	868.3	867.6	895.6			3.0	3.1	
13. Total employee posts in Israel[d]	875.3	909.5	909.3	942.5			3.9	3.7	
14. Monthly earnings per Israeli employee post, excl. fringe benefits[e] (IL)	801	906	916	1,132			14.4	24.9	
15. Monthly earnings per employee post in Israel,[d] excl. fringe benefits (IL)	781	883	892	1,107			14.2	25.4	
16. Daily average adult unemployed[b]	938	754	744	822	1,048	879	–20.7	9.0	

[a] Compared with January-September, 1972.
[b] The reference is to Israel only—i.e. excluding the administered areas.
[c] Including part-time and supplemental work.
[d] Including workers from the administered areas.
[e] Wages and salaries 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 the data for the period in which they were actually paid and not for the period to which they relate.

SOURCE: Line 1—Central Bureau of Statistics, *Statistical Bulletin of Israel*, February 1974; lines 2–9—CBS manpower surveys; line 10—CBS labor force surveys of the administered areas; lines 12–15—CBS data from National Insurance sources; line 16—National Employment Service.

Table IX-2
SOURCES OF GROWTH OF ISRAEL'S PERMANENT POPULATION, 1964–73
(in thousands, unless otherwise stated)

	1964	1965	1966	1967[a]	1968	1969	1970	1971	1972 Jan.-Sept.	1972 Entire year	1973[b]
1. Permanent population at beginning of year	2,430.1	2,525.6	2,598.4	2,657.4	2,776.3	2,284.1	2,919.2	3,001.4	3,095.1	3,095.1	3,200.5
2. Total natural increase	48.2	50.0	50.8	47.3	53.2	56.2	59.7	64.7	51.9	62.8	53.2
3. Rate of natural increase[c]	19.4	19.5	19.2	17.6	18.3	19.2	20.1	21.2	16.6	19.7	16.4
4. Rate of natural increase among Jews[c]	16.1	16.2	16.1	14.9	15.9	16.2	16.9	18.0	13.9	16.7	13.3
5. Rate of natural increase among non-Jews[c]	45.0	44.6	43.4	38.7	39.0	40.5	39.1	39.3	31.6	38.9	31.4
6. Gross immigration[d]	55.0	31.1	16.0	14.5	21.0	26.6	24.8	31.2	35.8	50.0	36.3
7. Thereof: Number of immigrants[e]	55.0	31.1	16.0	14.5	20.7	24.9	21.2	26.1	31.1	43.4	31.3
8. Net emigration[f]	7.7	8.3	7.8	11.5	9.4	4.7	2.3	2.2	10.5	6.1	14.7
9. Migration balance (6–8)	47.3	22.8	8.2	3.0	11.6	21.9	22.5	29.0	25.3	43.9	21.6
10. Total growth of population (2+9)	95.5	72.8	59.0	118.9	64.9	78.1	82.2	93.7	77.2	106.7	74.8
11. Permanent population at end of period (1+10)	2,525.6	2,598.4	2,657.4	2,776.3	2,841.1	2,919.2	3,001.4	3,095.1	3,172.3	3,201.8	3,275.3
12. Percent increase in permanent population	3.9	2.9	2.3	4.5[g]	2.3	2.8	2.8	3.1	2.5	3.4	2.3
13. Thereof: Share of natural increase (%)	50.5	68.7	36.1	94.0	82.1	72.0	72.6	69.1	67.2	58.9	71.1
14. Thereof: Share of net immigration (%)	49.5	31.3	13.9	6.0	17.9	28.0	27.4	30.9	32.8	41.1	28.9
15. Potential immigrants[h]						13.2	15.5	15.8	10.1	12.5	8.0
16. Migration balance of potential immigrants						5.0	4.9	3.5	1.0	1.8	0.5

[a] Since 1967 the population of East Jerusalem is included in Israel's permanent population.
[b] January-September; provisional data.
[c] Per thousand permanent population. The rate of natural increase among non-Jews in 1967–69 does not include East Jerusalem.
[d] Immigrants, tourists changing their status to immigrants, potential immigrants who acquire immigrant status, immigrating citizens (children born to Israeli citizens abroad), persons returning to East Jerusalem under the family reunion scheme since 1968.
[e] Immigrants and tourists acquiring immigrant status.
[f] Declaring emigrants plus citizens residing abroad for 13 months or more, less Israeli citizens returning from abroad after an absence of 13 months or more.
[g] Since 1967 includes the population of East Jerusalem (no separation is made for natural increase and the migration balance).
[h] In 1969 a potential immigrant was defined as a "person entitled to an immigrant visa or an immigrant certificate under the Law of Return and who intends to enter Israel and to stay there for more than three months". They are really temporary residents who come to explore the possibilities of settling in Israel, and hence are not included in the permanent population or in the sources of its growth.

SOURCE: Lines 1–5 and 9—Central Bureau of Statistics, *Monthly Bulletin* and *Statistical Abstract;* lines 6–8—*Monthly Bulletin* and unpublished data of the CBS.

in 1972. Almost half the total additional employed were engaged in industry. These figures, however, do not square with CBS industrial survey and National Insurance Institute data, which show a much smaller growth of industrial employment—3 and 1 percent respectively. The import of these divergent data probably extends beyond industry, for the 10 percent rise in industrial employment accounted for almost half of all incremental employed according to manpower survey data.

After advancing 15 percent in 1972, earnings per employee during the first nine months of 1973 were 25 percent up on the corresponding period of the preceding year, for a very impressive total rise of 45 percent over these two years. But this was not unexpected, given the sharpening of inflation, the expansion of GNP, and the persistence of full employment during the past three years.

The wage and salary hikes awarded in 1973 were an outcome of agreements concluded in both the private sector, mainly in the second half of 1972, and the public sector, where most of them were signed in 1973 but with effect from April 1972; all the agreements provided for the retroactive payment of increments for 1972. In January and July 1973 cost-of-living allowance increments were paid, adding nearly 10 percent to average earnings in the first nine months of 1973 as compared with the same period the year before. The overall increase of 45 percent during the past two years thus reflected the agreed adjustments in basic wage and salary rates decided upon in 1972 and 1973 and the upping of the cost-of-living allowance in 1973.

It was the rampant inflation that prompted the decision to pay a c-o-l allowance increase in the middle of the year, for the first time since 1965. In addition, the method of determining the allowance was revised, with the increment calculated according to the increase in the average level of the consumer price index between January-December 1972 and July 1972-June 1973. This method mitigates the effects of seasonality, from which the previous method (a comparison of two consecutive half-year periods) suffered, but it gives less weight to changes in prices toward the end of the period.

2. Population and Civilian Labor Force

(a) *Population and immigration*

At the end of 1973 Israel had 3,302,000 inhabitants, 3.2 percent more than at the beginning of the year. After dipping during the recession, the growth rate moved steadily upward to reach 3.4 percent in 1972; in 1973 it again turned downward. Fluctuations in the rate of increase are mainly a function of fluctuations in immigration. Net immigration began to rise after the recession, peaking at 43,900 in 1972. In 1973 it declined owing to an increase in emigration, a trend begun in 1972.

Table IX–3

CIVILIAN LABOR FORCE PARTICIPATION RATE, BY SEX AND AGE, 1965–73[a]

(percentages)

		All age groups	14–17	18–34	35–54	55–64	65+
Total							
1965		52.8	32.8	57.0	62.8	58.8	22.3
1966[b]		53.1	31.3	58.1	63.4	57.9	23.8
1967		50.4	26.9	54.8	62.1	55.4	21.4
1968		50.3	28.3	55.1	62.3	54.9	18.3
1969		50.1	25.2	53.9	63.1	56.6	20.2
1970		49.3	22.8	53.2	62.8	55.1	19.5
1971		49.2	21.1	53.6	62.9	55.5	18.8
1972	Jan.-Sept.	49.7	22.3	54.5	63.7	54.5	17.9
	Entire year	49.6	21.6	54.4	63.7	54.4	18.2
1973	Jan. Sept.	49.7	20.5	55.3	63.1	54.9	18.4
	Oct.-Dec.	49.8	20.1	54.4	64.8	53.7	20.2
	Entire year	49.7	20.4	55.1	63.5	54.6	18.9
Males							
1965		76.1	38.1	76.2	96.4	91.0	39.7
1966[b]		75.5	36.0	76.1	96.5	90.3	41.1
1967		72.1	30.7	71.7	95.4	88.1	37.1
1968		71.8	32.4	72.5	95.3	86.5	32.6
1969		70.4	29.2	68.6	95.4	89.0	35.0
1970		69.2	27.3	66.7	94.9	88.5	33.8
1971		68.8	25.1	66.8	94.7	87.8	33.2
1972	Jan.-Sept.	68.6	26.2	67.4	94.6	86.3	30.7
	Entire year	68.5	25.3	67.3	94.7	86.2	31.4
1973	Jan.-Sept.	68.5	24.1	68.3	94.1	86.5	31.8
	Oct.-Dec.	67.6	24.7	65.8	93.3	85.1	34.9
	Entire year	68.3	24.2	67.7	93.9	86.2	32.6
Females							
1965		29.4	27.1	37.5	30.9	22.9	6.0
1966[b]		30.6	26.3	39.6	32.2	23.5	6.7
1967		28.6	23.0	37.2	31.0	21.2	5.6
1968		28.8	24.0	37.2	31.5	21.6	4.5
1969		29.7	21.0	38.7	33.1	23.0	5.7
1970		29.3	18.1	39.1	32.8	22.1	5.0
1971		29.8	16.8	40.0	33.2	23.3	4.9
1972	Jan.-Sept.	30.9	18.0	41.2	34.8	23.1	5.4
	Entire year	30.8	17.6	41.0	34.8	22.9	5.5
1973	Jan.-Sept.	31.0	16.7	41.2	34.2	24.5	5.2
	Oct.-Dec.	32.2	15.2	42.6	38.3	22.8	6.3
	Entire year	31.3	16.3	42.1	35.2	24.1	5.5
		Age distribution of working-age population					
1972	Jan.-Sept.	100	11.3	38.1	28.5	11.9	10.2
	Entire year	100	11.3	38.1	28.5	11.8	10.3
1973	Jan.-Sept.	100	11.2	38.4	28.4	11.5	10.5
	Oct.-Dec.	100	11.1	38.5	28.4	11.3	10.7
	Entire year	100	11.2	38.5	28.4	11.4	10.5

[a] The reference is to Israel only (i.e. excluding the administered areas); includes East Jerusalem since 1968.

[b] Data for 1966 have not been revised; the Central Bureau of Statistics published a correction of the overall rate, but since it was not broken down into its component elements, we have used unrevised data for that year.

SOURCE: Central Bureau of Statistics, unpublished data.

The rate of natural increase also drifted downward in 1973 for the second straight year, particularly among the Jewish population. The rate for the latter fell steadily from the establishment of the State until 1967; after the Six Day War it turned slightly upward and continued in that direction until 1971, when it reached 18 per thousand, a level similar to that at the end of the 1950s. In 1972 and 1973 the rise was temporarily checked, apparently because of an epidemic of measles, but in the second half of 1973 the uptrend reasserted itself. Among non-Jews the rate has held steady during the past six years at around 40 per thousand, which is lower than before the Six Day War.

(b) *Working-age population and the civilian labor force*

During the first nine months of 1973 the working-age population was 3.6 percent larger than in the corresponding period of 1972, surpassing the 3.4 percent growth of the total population. In 1972 it had also expanded faster than the average population. The main reason for this trend is the decline in the birth rates to below their level in the 1950s.[1] Since the participation rate was, at 49.7 percent, virtually unchanged from 1972, the number of persons belonging to the labor force during these months was 3.6 percent greater than in the same period the year before.

Since the drastic fall in the participation rate in 1967, it has failed to perk up, hovering around 50 percent as contrasted with 53.5 percent before. The reasons for the decline were discussed in previous *Annual Reports*. The year reviewed saw a continuation of the long-run downtrend in the rate for males and the uptrend in that for females. In 1971 and 1972 tax concessions were granted to working women, and in the first nine months of 1973 the rising trend was apparently reinforced by the drop in female unemployment, for experience shows that the better the prospects of finding work the greater the willingness to enter the labor market. The changes in the age distribution of the population during the first three quarters of 1973 and over the entire year were not of such dimensions as to change the overall participation rate. In the 14–17 age group the curve continued to descend, and it also dipped slightly in the 35–54 group; in the other brackets it rose.

3. Employment

Total employment during the first nine months of 1973 was 4.9 percent higher than in the corresponding period of the previous year, while the number of Israeli employed grew by 3.9 percent. These are low rates compared with

[1] The working-age population is defined as those aged 14 or more. Because of the fall in the birth rate, the accretion to the working-age population was relatively greater than that to the total population.

Table IX-4

EMPLOYMENT IN ISRAEL, BY SECTOR,[a] 1972–73[b]

(in thousands)

	Number of employed in 1973[b]		Percent year-to-year change in annual average level				Percentage distribution of total employed, 1973[b]	Percentage distribution of incremental total employed	
			Total		Israelis				
	Total	Israelis	1972	1973[b]	1972	1973[b]		1972	1973[b]
1. Agriculture, forestry, fisheries	92.5	80.1	4.1	–5.7	–1.1	–6.5	8.0	5.6	–10.5
2. Industry (incl. mining and quarrying)	281.2	269.6	5.4	10.2	3.8	9.5	24.5	19.3	48.8
3. Electricity and water	10.4	10.4	–20.0	19.5	–20.0	19.5	0.9	–3.4	3.2
4. Construction	131.2	97.1	18.5	4.6	12.7	–2.5	11.4	28.6	10.9
5. Trade, restaurants, and hotels	143.1	140.4	9.0	3.2	8.6	2.4	12.4	16.8	8.2
6. Transportation, communications, and storage	77.9	77.2	4.1	0.9	4.0	1.2	6.8	4.5	1.3
7. Finance and business services	67.2	67.2	6.5	12.2	6.5	12.2	5.8	5.4	13.7
8. Public services	268.8	266.9	5.0	5.1	4.8	5.1	23.4	17.8	24.4
9. Personal services	77.6	75.9	5.0	—	4.7	–1.0	6.8	5.4	—
Total	**1,149.9**	**1,084.8**	**6.6**	**4.9**	**5.0**	**3.9**	**100**	**100**	**100**

[a] The "unknown" item in the Central Bureau of Statistics manpower surveys was apportioned among the various sectors according to the known proportions.
[b] January-September.
SOURCE: Israeli employed—Central Bureau of Statistics manpower surveys; workers from the administered areas employed in Israel—CBS labor force surveys of the administered areas.

the previous year's 6.6 and 5 percent respectively, but they are high compared with earlier years. The drop in the labor input growth rate is more striking—from 6.6 percent in the first nine months of 1972 to 3.3 percent—a development attributable to the 2 percent decrease in the number of man-hours worked per employed. The latter was due to a rise in the proportion of part-time employment and temporary absences in incremental employment. During this period full-time workers accounted for only 30 percent of all additional employed, as contrasted with their 75 percent share in total employment (see Table IX–5).

During the year reviewed residents of the administered areas continued to enter the Israeli labor market. Between January and September their number rose 24 percent to reach 65,000. They represent about a third of the labor force in the areas and 6 percent of total employed in the Israeli economy.

Manpower surveys reveal that half of the newly hired workers were engaged in industry—where employment grew by 10 percent—and 38 percent in public and business services (see Table IX–4). Data from other sources (employers' reports to the National Insurance Institute and to the Industry Division of the Central Bureau of Statistics) indicate a growth of only 1–3 percent in industrial employment. The rate of jobless, as measured in the manpower surveys, reached a new low of 2.4 percent in the first nine months of 1973, as against 2.7 percent in 1972. Other data on the labor market—chiefly those of the National Employment Service—show a drop in the number of job vacancies and in the number unfilled during this period of 1973, but the volume of help-wanted newspaper advertising continued to rise (see Table IX–6).

Developments in the labor market over the past two years cannot be assessed unambiguously, as may be gathered from the above discussion and from the data presented below. Some indicators point to a sharpening of demand for labor, and others to its stabilization and even some slackening in 1972–73. The outbreak of war in October also rendered the analysis difficult, as it interrupted the continuity of the trends. It appears that in 1972 and 1973 the labor market was marked by a high level of employment and a low level of unemployment, although the indicators which clearly pointed to an intensification of demand pressure in previous years show contrasting developments in 1972–73.

Against the backdrop of accelerating inflation, a big increase in the balance of payments deficit, and the more sluggish expansion of the national product, the moderate rise in the labor input and the fall in unemployment (which was already at a very low level) can be interpreted as clear evidence of the exhaustion of all available manpower reserves at a time of mounting demand for workers. One might therefore be tempted to conclude that it was the increasingly severe labor shortage that helped to account for the dipping of the GNP growth rate, the widening balance of payments gap, and the steep wage and salary hikes (a 25 percent rise in earnings per employee post during the first nine months of 1973). However, a closer look shows the labor market picture to be a little blurred.

Tabl

THE LABOR FORCE ANI

(i

	Total								
		Employed				Unemployed			
	Labor force	Total	Full-time	Part-time	Temporarily absent	No.	%	Labor force	Total
1972[a]	1,073.4	1,044.1	807.2	172.0	64.9	29.3	2.7	738.8	721.3
1973[a]	1,112.0	1,084.8	819.1	191.1	74.6	27.2	2.5	763.8	746.4
1972									
I	1,059.1	1,033.8	815.7	167.3	50.8	25.3	2.4	730.0	713.5
II	1,072.6	1,041.8	785.4	201.2	55.2	30.8	2.9	734.0	715.9
III	1,088.6	1,056.8	820.5	147.5	88.8	31.8	2.9	752.5	734.6
IV	1,084.2	1,055.8	827.3	176.4	52.1	28.4	2.6	749.1	732.9
1973									
I	1,098.8	1,072.1	839.0	180.4	52.7	26.7	2.4	750.7	733.4
II	1,107.8	1,085.4	821.1	205.0	59.3	22.4	2.0	761.6	746.7
III	1,129.5	1,096.9	797.2	188.0	111.7	32.6	2.9	779.2	759.1
IV	1,134.8	1,098.5	630.4	215.2	252.9	36.3	3.2	766.7	746.1
Rate of change (1973[a]/1972[a])	3.6	3.9	1.5	11.1	15.0	–7.2		3.4	3.5
Percentage distribution in 1972[a]	100.0	97.3	75.2	16.0	6.1	2.7		100.0	97.6
Percentage distribution of incremental labor force, 1973[a]	100.0	105.4	30.8	49.5	25.1	–5.4		100.0	100.4

[a] January-September.

IX–5

EMPLOYMENT, 1972–73

thousands)

Males					Females						
Employed			Unemployed		Labor force	Employed				Unemployed	
Full-time	Part-time	Temporarily absent	No.	%		Total	Full-time	Part-time	Temporarily absent	No.	%
611.6	69.8	39.9	17.5	2.4	334.6	322.8	195.6	102.2	25.1	11.8	3.5
620.9	80.2	45.3	17.4	2.3	348.2	338.4	198.3	110.9	29.2	9.8	2.8
616.8	61.2	35.5	16.5	2.3	329.1	320.3	198.9	106.1	15.3	8.8	2.7
591.5	88.8	35.6	18.1	2.5	338.6	325.9	193.9	112.4	19.6	12.7	3.8
626.6	59.5	48.5	17.9	2.4	336.1	322.2	193.9	88.0	40.3	13.9	4.1
627.3	68.7	36.9	16.2	2.2	335.2	322.9	200.0	107.7	15.2	12.2	3.6
629.6	66.9	36.9	17.3	2.3	348.1	338.7	209.5	113.5	15.8	9.4	2.7
622.3	85.9	38.5	14.9	2.0	346.2	338.7	198.6	119.2	20.7	7.5	2.2
610.8	87.8	60.5	20.1	2.6	350.3	337.8	186.5	100.1	51.2	12.5	3.6
436.4	85.0	224.7	20.6	2.7	368.1	352.4	194.0	130.2	28.2	15.7	4.3
1.5	14.9	13.5	–0.6		4.1	4.8	0.4	8.5	16.3	–17.0	
82.8	9.5	5.4	2.4		100.0	96.5	8.5	30.5	7.5	3.5	
37.2	41.6	21.6	–0.4		100.0	114.7	19.9	64.0	30.2	–14.7	

SOURCE: Central Bureau of Statistics manpower surveys.

The unemployment rate, as already mentioned, moved down from 2.7 percent in the first nine months of 1972 to 2.4 percent in the same period in 1973; during the boom in the 1960s the trough was 3.3 percent (1964). The low absolute level of jobless in the first three quarters of 1973 and the persistence of the downtrend suggest a severe and growing shortage of labor. However, as regards the absolute level it is doubtful whether the rate of unemployment in the 1960s can be used as a yardstick. Since the recession the labor market has undergone a number of structural changes, which have substantially reduced hardcore unemployment. One is the drop in the male labor force participation rate, particularly in the extreme age groups; this directly depresses the unemployment rate, since it is above-average in these groups. In addition, the decline in the participation rates probably affects the specific unemployment rates of these groups. Other changes are a coordinated effort by the National Employment Service to regulate interregional demand and supply, and the devoting of special attention to those newly joining the labor force—the provision of vocational training to discharged soldiers and new immigrants, the provision of interim facilities to new arrivals in the country, such as *ulpanim* (Hebrew language study courses) and absorption centers, the setting up of funds to encourage the employment of immigrants, and so forth. Therefore, it is not at all certain that the 2.4 percent unemployment rate recorded for the first nine months of 1973 is indicative of any greater pressure on manpower resources than the 3.3 percent rate during the boom period of the 1960s.

As to the fall in unemployment from 2.7 percent in the first nine months of 1972 to 2.4 percent in the same period in 1973, not too much significance should be attached to this, as the decline occurred among women and was concentrated entirely in the second quarter of the year, whereas in the other quarters the rates were similar to or even higher than those in the comparable quarters of 1972 (see Table IX–5). Nevertheless, it can be said with a considerable measure of confidence that over the past two years the labor market was more heated than in 1971, when the unemployment rate was 3.5 percent.

The drop in man-hours worked per employed is also surprising and is open to various interpretations. At first glance, the decisive share of part-time workers and those temporarily absent from work in incremental employment during the first three quarters of 1973 may be attributed to the drying up of the pool of available labor and the consequent growing need to draw upon marginal workers. However, examination of the quarterly figures reveals that the growth in the number of part-time workers and those temporarily absent from their jobs during 1973 did not represent an accretion to, but was at the expense of, those who had been employed full-time in 1972. It may be argued that with rising living standards many preferred to work less hours, but it is also a reasonable assumption that the decrease in the labor input per employed was due to the weakening of demand for labor in certain branches (tourism, transportation, defense-related industries). In this context it should be noted that in the industrial indexes a

Table IX–6
INDICATORS OF EMPLOYMENT, 1970–73

	Index of job openings (31,093=100)	Index of unfilled job openings (3,955=100)	Percent of unfilled job openings[a] (2÷1)	Index of job-seekers (24,480=100)	Index of unplaced job-seekers (5,625=100)	Percent of unplaced job-seekers (5÷4)[a]	Index of daily average un-employed (1,654=100)	Index of help wanted advertising linage (28,885=100)	Index of total employ-ment[b] (969,200=100)	Index of man-hours of industrial workers
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1970										
Annual average	100.9	107.3	13.6	97.4	101.7	24.0	96.2	103.6	101.5	100.4
1st quarter	100.0	100.0	12.8	100.0	100.0	23.0	100.0	100.0	100.0	100.0
2nd quarter	93.8	101.5	13.9	97.4	103.7	24.5	102.7	98.1	101.2	100.3
3rd quarter	100.9	103.5	13.2	100.0	106.9	24.6	97.7	108.6	101.9	98.2
4th quarter	109.0	124.1	14.6	92.0	96.2	24.0	84.5	107.7	102.9	103.2
1971										
Anual average	112.7	179.0	20.4	79.5	72.1	20.8	56.8	139.3	106.4	105.4
1st quarter	109.7	140.4	16.4	84.0	78.9	21.6	68.6	139.4	104.1	103.4
2nd quarter	115.2	171.1	19.1	77.6	73.8	21.8	57.1	130.3	104.9	104.7
3rd quarter	115.3	190.0	21.2	81.0	71.9	20.4	53.7	129.4	108.1	107.8
4th quarter	110.7	214.6	24.9	75.5	63.9	19.5	47.7	158.1	108.4	106.1
1972										
Annual average	114.3	212.8	23.9	76.5	65.8	19.8	45.0	153.7	113.4	112.1
1st quarter	115.4	234.7	26.1	73.3	68.6	21.5	45.6	139.8	111.4	109.0
2nd quarter	115.3	196.0	21.8	80.7	67.7	19.3	48.1	168.2	113.2	113.9
3rd quarter	115.1	201.4	22.5	84.1	68.5	21.2	47.0	144.9	114.6	113.9
4th quarter	111.5	219.3	25.3	78.0	58.4	17.2	39.3	161.9	114.5	111.5
Average Jan.-Sept.	115.3	210.7	23.6	76.0	68.3	20.7	46.9	151.0	113.1	112.3
1973										
1st quarter	102.5	182.6	22.9	69.4[c]	44.8[c]	14.8[c]	48.9[c]	175.4[c]	116.7[c]	114.9[c]
2nd quarter	96.7	163.8	21.8	66.7	45.4	15.7	52.2	174.3	119.0	118.9
3rd quarter	101.3	175.0	22.2	67.6	45.7	15.5	50.1	181.0	120.2	116.1
4th quarter	90.0	161.9	23.1	12.1	61.7	20.0	60.8	81.7	118.5	. .
Average Jan.-Sept.	100.2	173.8	22.3	67.9	45.3	15.3	50.4	176.9	118.6	116.6

NOTE: All National Employment Service data relate to adults only. Col. (1) to (7) are seasonally adjusted data; col. (8) to (10) are unadjusted data.

[a] Calculated on the basis of absolute seasonally adjusted data and not the indexes.

[b] Israeli employed and workers from the administered areas employed in Israel.

[c] As of January 1973 a new series due to the introduction of the unemployment insurance amendments to the National Insurance Law.

SOURCE: Columns 1–7—National Employment Service; column 8—Advertising Association of Israel; columns 9–10—Central Bureau of Statistics.

connection was found between the growth of output in the various branches and the rise in the number of employees, but not with that in either the labor input or earnings per employee. Thus there is no evidence to support the assumption that a shortage of labor constrained the expansion of output.

National Employment Service data (Table IX–6) indicate an apparent stabilization and even weakening of demand for labor in 1972 and 1973, after the preceding year's rapid rise. But here too it is possible that the fall in the number of job vacancies was due to employers despairing of obtaining workers through the labor exchange (a conjecture which, incidentally, is rejected by the National Employment Service). Help-wanted advertising in the newspapers, which is a supplementary means of recruiting workers, continued to rise in 1973, though somewhat more slowly than before. Once again it is not clear how far this reflected a greater tendency to resort to this medium for recruiting workers, and to what extent it can be taken as indicative of an actual stronger demand for labor.

To recapitulate, 1972 and 1973 were years of full employment and an unprecedented low level of unemployment, but trends in the labor market were indistinct: while some branches, such as textiles and clothing, greatly stepped up their output, there were others—e.g. construction, tourism, machinery, mining and quarrying, and paper and paper products—which experienced little expansion and in some cases output actually contracted. Thus it is possible that while certain branches absorbed additional workers and even suffered a shortage of certain types of labor, there were others in which there was less than full employment and a weakening of demand.

4. Wages

(a) *Wage developments*

Wages and salaries (excluding fringe benefits) per employee rose during the first three quarters of 1973 by 25 percent above the level in the corresponding months in 1972. During this period the consumer price index climbed 18.5 percent, so that real per capita earnings were up 5.5 percent. The picture for incremental fringe benefits is similar. This increase far eclipsed the 14 percent recorded in 1972, a development mainly explained by the aggravation of inflation and the protracted renegotiation of wage settlements, so that retroactive adjustments on account of 1972 were paid in the year reviewed. The wage curve went up at a fairly uniform rate in the various sectors of the economy.

It is not clear what effect the practice of paying employees partly in the form of various nontaxable benefits had on the growth of wages and salaries. These benefits—which include car maintenance, soft loans for buying cars and homes, telephone allowance, travel abroad, professional literature allowance, per diem, etc.—come to a tidy sum, but there is no way of knowing whether they went up to the same extent as direct wage and salary payments. The growth of this component of employee compensation has an adverse effect on the welfare of the population, since for the most part it is given with strings attached; consequently, each IL of such expenditure costs the individual less than it does the economy.

(b) *Wage policy and the cost-of-living allowance*

The year reviewed was the second covered in the framework agreement for 1972–73. Because of the protracted negotiations which got underway in 1972 and were only completed at the end of the year and in some cases only in 1973, retroactive increments on account of the previous year were paid in 1973. This basic overall agreement stipulated a 6 percent hike in basic wages and salaries, the upping of the minimum wage, and payment of a cost-of-living allowance increment. However, this was not a binding agreement, and the collective pacts signed in 1973 provided for raises of 30 percent and more over the two years 1972–73, to which must be added the c-o-l allowance increments paid in 1973. The actual pay increases in 1972–73 therefore did not exceed the limits set by the branchwide agreements and the c-o-l allowance. Apparently those negotiating the agreements took a more realistic view of the pay hikes to be expected in the prevailing full employment situation and the accelerating inflation.[2] Although there were intersectoral differences in the intensity of demand for labor and in the direction of its development, no connection was found between the extent of wage and salary increases and the relative strength of such demand pressure.

In accordance with the cost-of-living allowance agreement, a 14.3 percent increment was paid on basic wages and salaries up to a maximum of IL 700 in January 1973. Because of the high inflation a demand arose, for the first time since the recession, to depart from the accepted practice of adjusting the allowance only once a year. A method was worked out whereby an increment would be paid in July, based on the difference between the average index for 1972 and the average for the year from July 1972 to June 1973. This differs from the method used until 1965, when the allowance was paid twice a year according to the increase in the consumer price index between two consecutive half-years. The modification was introduced in an attempt to reduce the influence of seasonal variations, which show up in price changes between half-yearly periods. The drawback of the new method is that price movements toward the

[2] An attempt to forecast wage and salary increases in 1972 and the first nine months of 1973 on the basis of the relationships found in previous years between the rate of change in such earnings and the current rate of change in prices, the lagged change in the level of unemployment, and the share of workers from the administered areas in total employment in Israel shows that in 1972 the actual rise in wages and salaries fell 2 percent short of the forecast, while in 1973 it was about as predicted.

Table IX-7

EMPLOYEE POSTS AND EARNINGS PER POST, BY SECTOR, JAN.-SEPT. 1972–73

	Employee posts ('000)						Average earnings per employee post, 1973[b]			
	1973		Percent increase or decrease (–) 1972[b]–1973[b]		Percentage distribution of increment 1972[b]–1973[b]		Amount (IL)		Percent increase or decrease (–) 1972[b]–1973[b]	
	Total[a]	Israeli	Total	Israeli	Total	Israeli	Total	Israeli	Total	Israeli
1. Agriculture, forestry, fisheries	32.6	28.4	–16.4	–12.6	–19.4	–15.2	667.8	701.4	29.7	26.7
2. Industry (incl. mining and quarrying)	251.0	236.5	2.6	0.7	19.1	5.9	1,051.1	1,088.3	23.5	24.7
3. Electricity and water	10.4	10.4	6.1	6.1	1.8	2.2	1,839.0	1,839.0	21.6	21.6
4. Construction	90.6	68.4	2.5	–0.1	6.7	–0.4	986.6	1,126.3	24.0	28.2
5. Trade, restaurants, and hotels	75.8	73.5	2.8	1.8	6.4	4.8	963.0	983.1	20.6	21.6
6. Transportation, communications, and storage	61.8	61.3	2.8	3.4	5.1	7.4	1,699.0	1,643.8	27.3	26.9
7. Finance and business services	70.4	70.4	9.5	9.5	18.5	22.6	1,329.4	1,329.4	25.5	25.5
8. Public services	312.5	310.3	6.6	6.6	58.8	70.8	1,124.0	1,130.1	25.5	25.7
9. Personal services	37.4	36.1	2.7	1.4	3.0	1.9	686.1	693.1	27.7	27.8
Total	**942.5**	**895.2**	**3.6**	**3.1**	**100.0**	**100.0**	**1,107.0**	**1,138.6**	**25.4**	**25.6**

[a] The reference is to both Israelis and workers from the administered areas employed in Israel.
[b] January-September.
SOURCE: Central Bureau of Statistics data based on employers' reports to the National Insurance Institute.

Table IX–8

SECTORAL DISTRIBUTION OF WORKERS FROM ADMINISTERED AREAS EMPLOYED IN ISRAEL, AND THEIR SHARE IN TOTAL EMPLOYMENT IN THE SECTOR, 1970–73

(percentages)

	Sectoral distribution							Share in total employment in sector						
			1972		1973					1972		1973		
	1970	1971	Jan.-Sept.	Entire year	Jan.-Sept.	Oct.-Dec.	Entire year	1970	1971	Jan.-Sept.	Entire year	Jan.-Sept.	Oct.-Dec.	Entire year
Agriculture	24.3	22.2	23.7	23.3	19.1	19.8	19.3	5.5	8.1	12.6	12.7	13.4	10.2	12.7
Industry	11.7	14.8	17.1	17.4	17.8	19.3	18.1	1.0	2.0	3.5	3.5	4.1	3.4	3.9
Construction	54.3	52.3	49.3	49.8	52.3	49.6	51.7	12.2	16.7	20.6	20.7	26.0	20.8	24.8
Other sectors	9.7	10.7	9.9	9.5	10.8	11.3	10.9	0.4	0.6	0.8	0.8	1.1	0.9	1.0
Total														
Percent	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**2.1**	**3.3**	**4.8**	**4.8**	**5.7**	**4.3**	**5.3**
In thousands	20.6	33.8	52.4	52.4	65.1	49.6	61.3	893.8	1,030.9	1,096.6	1,099.4	1,149.9	1,148.1	1,149.5

SOURCE: Central Bureau of Statistics manpower surveys of Israel and labor force surveys of the administered areas.

end of the period are given less weight in calculating the change in the index. When prices are advancing at an accelerated rate, the new method yields a smaller increment than the old method, whereas when the price rise is held to modest proportions, the compensation is higher and generates more upward pressure on the price level.

The increment paid in July 1973 amounted to 10.5 percent of basic wages and salaries. In January 1974 an additional 14.8 percent was paid, based on the rise in the determining index between July 1972 and June 1973. In February a 6 percent advance was paid on account of the mid-1974 increment (resulting from the trimming of subsidies).

The present system has a number of serious drawbacks with potentially very damaging effects. Most of them were discussed in detail by a committee set up to examine the problem and which published its conclusions in 1966. They are quite relevant to the situation prevailing in 1973 and early 1974.

The first limitation is connected with the fact that the cost-of-living allowance system compensates the working public for an increase in consumer prices, including direct and indirect imports. This guarantees automatic compensation for price rises abroad or those resulting from the Government's balance of payments policy. Similarly, there is automatic compensation for a hike in indirect taxes or the paring of subsidies, a fact which blunts the effectiveness of Government action in these spheres. In 1973 import prices rose precipitately and in February 1974 subsidies were cut sharply—a development which threw into sharp relief the drawbacks of the system.

Table IX–9

WORK ATTENDANCE IN POSTWAR MONTHS OF 1973

(index: September 1973=100)

	October	November	December
Total employed[a]			
Civilian industry	60	70	78
Construction	40	50	62
Israeli employed			
Total	**76**	**87**	**88**
Agriculture, forestry, fisheries	84	95	90
Industry (incl. mining and quarrying)	68	81	83
Construction	52	69	81
Trade, restaurants, and hotels	83	92	93
Transportation, communications, storage	57	75	74
Financial, public, and personal services	86	94	92

[a] Includes workers from the administered areas.

SOURCE: Bank of Israel calculations based on Central Bureau of Statistics data: total employed —employers' reports; Israeli employed—CBS manpower surveys.

If the need arises to harness the inflationary process by restraining the growth of demand, it will be necessary to ensure that this arrangement does not exert upward pressure on the price level.

Other serious shortcomings are the setting of a ceiling wage and the exemption of the allowance from income tax. If the allowance is intended to link employees' earnings to a price index, there is no justification for a ceiling. If the latter is intended to ensure greater equality in income distribution, this will come about only if there is a rise in the index.

By contrast, the income tax exemption tends to increase inequalities in income distribution. The combined effect of these two factors varies according to income level. At any rate, their results are nebulous and it is not clear what purpose they serve. The aforementioned committee recommended that the ceiling be abolished and that the increment be taxed at the average rate of income tax.

5. Fourth-Quarter Developments

The impact of the war was felt mostly on the level of actual employment (i.e. attendance at work).[3] A number of factors, such as the mobilization of workers, the secondary effects of the call-up of key personnel on the ability to provide full employment for others, the ebbing of civilian demand for various goods and services, and transport difficulties, depressed the wage-labor input (see Table IX-9).

The intersectoral differences in the level of employment may be explained by the factors described above. The influence of the call-up was more severe in those sectors employing a large proportion of young men—construction and industry as compared with services. They were also hit harder by the transport difficulties and the faltering of civilian demand.

Because of the cloudy business outlook during this period some employers preferred to hold on to workers, particularly skilled, even though current demand did not warrant it. Thus there was apparently some hidden unemployment, which is not reflected in the data in Table IX-9.

It is noteworthy that, in general, the war had only a limited effect on the labor market (see Table IX-10). To be sure, there was some increase in the number of unemployed job-seekers and a decline in the number of job vacancies, but these changes were not drastic, particularly if we take into account that in tourism, construction, and some industrial branches demand and the level of activity fell off proportionately more than the percentage of manpower called up—a development which, given the increased demand for workers in defense-related industries, is liable to produce frictional unemployment. As may be seen from Table IX-10, the labor situation worsened somewhat in

[3] As distinguished from the conventional measure of employment, which treats those temporarily absent from work (including those on reserve duty) as employed.

Table IX-10

UNEMPLOYMENT AND JOB VACANCIES IN THE POSTWAR PERIOD

(seasonally adjusted data)

	Monthly average, third quarter	October	November	December	January 1974
Daily average unemployed	828	712	1,160	1,098	854
Job-seekers	16,926	14,808	20,079	18,231	16,564
Unplaced job-seekers	2,657	2,759	4,276	3,509	2,642
Job vacancies	31,822	25,905	29,338	28,354	29,044
Unfilled job vacancies	7,065	6,064	6,697	6,332	7,026
		Indexes (third-quarter monthly average=100)			
Daily average unemployed	100	85.0	138.4	131.0	103.1
Job-seekers	100	87.5	118.6	108.2	97.9
Unplaced job-seekers	100	103.8	160.9	132.1	99.4
Job vacancies	100	81.4	92.2	89.1	91.2
Unfilled job vacancies	100	85.8	94.8	89.6	99.5

SOURCE: National Employment Service.

November in comparison with the prewar months. In December the picture brightened a little and in January there was a further improvement, with the number of jobless and of those for whom placements were not found almost regaining their prewar level.

Over and above the general changes in employment opportunities, the war and the mobilization generated an overdemand for skilled workers (particularly in the metal trades) and depressed the demand for clerical and service workers in particular. In addition, the problem of placing immigrant professional workers, which had arisen before the war, became a little more acute.

The employment of labor from the administered areas took a sharp downturn at the beginning of the fourth quarter, mainly because of the unwillingness of workers to come to Israel. This gradually evaporated, and the volume of employment was determined more and more by the availability of transport and the demand for labor in the various sectors, as well as by the job opportunities available in the areas themselves (in the final quarter of previous years too there was a rise in employment in the areas at the expense of that in Israel). The number of persons from the areas working in Israel stabilized at the end of December 1973 and January 1974 at 70 percent of its prewar level. The pickup was greatest in agriculture, followed by industry and construction.