

Chapter 4

Employment and Wages

The average unemployment rate fell to 6.3 percent in 1995, and during the year reached 6 percent—lower than it was before the influx of immigrants began in 1989. As in the preceding two years, the declining unemployment rate reflects the sharper increase in the demand for labor (in both private and public sectors) than in the rate of growth of the labor force. For the first time in many years, the marked rise in business-sector employment was accompanied by increased labor productivity. Real wages in the business sector remained stable in 1995, while real labor costs continued to rise. In the business sector, the numbers of workers from the Autonomy and the administered areas continued to decline and of foreign workers to soar. Alongside the expansion of public-services employment, wages rose considerably in the wake of far-reaching wage agreements reached in this sector since the second half of 1993.

In 1995 the Central Bureau of Statistics (CBS) changed the method of classifying industries. This has made it impossible to compare 1995 data with those of previous years, so that the analysis of this year's trends should be treated with caution. This data limitation is compounded by others, particularly with regard to the reliability of figures for foreign workers and workers from the Autonomy and the administered areas.

The expansion of economic activity in 1995 was accompanied by a marked 5.9 percent growth in employment, and the continued rise in the number of hours worked per employee. As in 1993–94, the increase in the demand for labor surpassed the growth in the civilian labor force. Hence the unemployment rate continued to fall—from 7.8 percent in 1994 to 6.3 percent in 1995—and during the year reached 6 percent, similar to the level in 1984, before the influx of immigrants and the economic stabilization program (ESP). In the context of the high unemployment rate prevailing in Israel from 1989 to 1993, and the mass immigration since 1989, the fall in the unemployment rate to the level of the mid-1980s is a commendable achievement. Alongside the continued

¹ Because of data limitations arising from the change in classifying industries, by-industry changes in employment in 1995 were examined in accordance with the old classification, and changes in wages—except for the distinction between public- and business-sector wages—in accordance with the new one.

reduction of the unemployment rate, the depth of unemployment also fell, though hardcore unemployment (i.e., persons out of work for longer than a year) rose above its level just before the mass immigration began. The 2.1 percent increase in the real wage per employee post reflected the continued rise (5.6 percent) of the real wage in the public services and its stability in the business sector.

The marked increase in labor input was evident in both the public services and the business sector (4.9 and 7.3 percent respectively). In the former, employment rose in spite of the decision made at the beginning of the year to reduce the number of government employees—which was at a peak level—by 2 percent. At the same time, large wage hikes were awarded in this sector as a result of agreements reached eighteen months previously; a further increase is expected in 1996.

Table 4.1
Principal Labor Market Indicators, 1981-95

	Average			1993	1994	1995
	1981-1985	1986-1989	1990-1995			
<i>Percent change over preceding year</i>						
Permanent population (end-year)	1.7	1.7	3.5	2.5	2.7	2.5
Israeli employed persons	2.6	1.7	4.9	4.9	6.4	5.9
Business sector	1.5	1.8	5.2	5.2	7.1	6.5
Public services	3.1	1.4	4.0	3.9	4.6	4.4
Labor input, business sector	1.0	1.5	6.1	5.2	8.7	7.3
Real wage per employee post	1.1	5.0	0.3	0.6	2.3	2.1
Business sector	1.6	4.9	-0.8	0.3	-0.4	0.2
Public services	0.1	5.3	2.9	1.1	9.8	5.6
Minimum real wage	2.9	13.0	-0.6	-1.7	1.6	2.4
Unit labor costs, business sector ^a	1.2	2.6	0.1	2.3	2.9	1.3
Labor productivity, business sector ^b	1.6	2.6	1.3	-1.4	-1.0	1.4
<i>Ratio</i>	49.8	51.0	52.6	52.9	53.6	53.8
Unemployment rate	5.3	7.0	9.2	10.0	7.8	6.3
^a Based on net product at factor cost.						
^b Based on by-industry net product.						
SOURCE: Based on data from Central Bureau of Statistics and General Federation of Labour.						

In the business sector, the rise in labor input came in the wake of the cumulative 30 percent expansion of the last four years. The composition of employment reveals a continued sharp increase in the number of foreign workers and a decline in those from the Autonomy and the administered areas. For the first time in many years the expansion of employment in this sector was accompanied by an increase—albeit moderate—in labor productivity. Real wages (from the employee's point of view) remained virtually un-

Table 4.2
Labor Market Indicators, 1990-95

	(thousands, annual average)						Cumulative change 1990-95
	1995	1991	Change over preceding year				
			1992	1993	1994	1995	
Working-age population	3,903.4	225.8	146.6	108.1	106.8	114.5	701.8
Civilian labor force	2,100.4	120.4	87.5	88.3	83.6	70.7	450.5
Established population	1,843.3		31.7	49.4	47.7	42.2	193.4
Immigrants	257.1		55.8	38.9	35.9	28.5	257.1
Unemployed persons	132.3	29.5	20.1	-12.6	-36.6	-26.0	-25.6
Established population	107.5		14.1	-5.9	-29.5	-20.6	-50.4
Immigrants	24.8		6.0	-6.7	-7.1	-5.4	24.8
Employed persons ^a	2,086.1	81.3	84.6	85.7	118.2	116.7	486.5
Established population	1,735.8		17.1	55.6	77.2	62.8	243.9
Immigrants	232.3		49.8	45.6	43.0	33.9	232.3
From administered areas ^b	60.0		17.7	-31.5	-14.0	-10.0	-47.7
Foreign workers ^c	58.0			16.0	12.0	30.0	58.0
Public services ^a	551.0	27.2	14.3	18.8	23.0	23.0	106.3
Business sector ^a	1,535.1	54.1	70.3	66.9	95.2	93.7	380.2

^a Including employees from the Autonomy and the administered areas and foreign workers.

^b The Autonomy and the administered areas.

^c The number of foreign workers is an underestimate, as it does not include illegal foreign workers.

SOURCE: Central Bureau of Statistics.

changed, while real labor costs (from the employer's point of view) rose by over 2 percent, although labor costs fell in 1995, because product prices rose by less than inflation.

Several factors exerted upward pressure on real wages in the business sector in 1995. The main ones were the sharp drop in the unemployment rate, which created labor shortages in some occupations, the continued excessive wage hikes in the public sector, alongside the marked expansion of employment there, and the faster slowing of the rate of inflation than was predicted at the time the agreements were signed. Nonetheless, real wages hardly rose in 1995, and the rate at which nominal wages increased was slightly below that of the last three years. In recent years the linkage between wage increases in the public and private sectors has weakened, largely due to structural changes in the labor market (see Section 5 below). As a result, there is a closer connection between profitability and the state of the labor market, on the one hand, and changes in business-sector wages, on the other. Because of this, and since profitability has been declining in recent years, the over-generous public-sector wage hikes of the last two years did not translate into large wage increases in the business sector too, and the gap between the rates of wage change in the two sectors widened. Thus, while the real hourly wage fell in the business sector by some 13 percent in 1989–95, it rose by about 18 percent in the public sector (by 14 percent since 1994). The large proportion of new employees, most of whom are paid starting wage rates, and the change in the sectoral composition of employment—its expansion mainly in industries where the relative wage is low or falling—acted to moderate increases in the average wage in the business sector.

Some 75,400 immigrants arrived in Israel in 1995, in line with the rate evident since 1992. Alongside the increase in the average period immigrants have been in Israel and the fact that the demand for labor outstripped supply, the immigrant unemployment rate fell to an annual average of 9.6 percent; among immigrants who arrived in 1990 it was 7 percent. In contrast with the improved employment situation among immigrants—as indicated by their declining unemployment rate and the narrowing of the wage gap between them and the veteran population—the composition of immigrant employment reveals that many of them are unable to find work commensurate with their skills. Their high rate of occupational change is particularly prominent in comparison with previous influxes of immigrants with similar demographic features.

2. THE POPULATION AND THE CIVILIAN LABOR FORCE

The mean population increased by 2.6 percent in 1995, similar to its rate in the preceding two years (Table 4.3), due to the stabilization of the immigration rate. In the 1980s, before the influx of immigrants began, the annual growth rate was 1.7 percent.

These trends were also reflected in the rate at which the working-age population grew, at about 3 percent, as the immigration rate stabilized. The proportion of the working-age population rose faster than the rate of population growth, reflecting both the greater share of persons of working age in the veteran population and the age composition of the immigrants, where the proportion of children is relatively low.

Table 4.3
Israeli Labor Force, Selected Data, 1980-95

	1995	Change			(annual average change, percent)		
	(thousands)	1980/1985	1985/1989	1989/1995	1993	1994	1995
Total							
Mean population	5,539.7	1.8	1.6	3.5	2.7	2.6	2.6
Working-age population	3,903.4	2.0	2.0	4.0	3.0	2.9	3.0
Civilian labor force	2,100.4	2.2	2.6	4.6	4.8	4.3	3.5
Employed	1,968.1	1.8	2.0	5.1	6.1	6.9	5.2
Unemployed	132.3	9.1	10.2	-1.2	-6.1	-18.8	-16.4
<i>Percent</i>							
Participation rate	53.8						
Unemployment rate	6.3						
Men							
Working-age population	1,903.7	2.0	2.0	3.9	2.9	2.8	2.9
Civilian labor force	1,192.2	1.7	1.7	3.7	4.5	2.9	2.6
Employed	1,131.9	1.2	1.3	4.3	5.3	5.5	3.8
Unemployed	60.3	10.8	7.6	-3.7	-3.5	-25.5	-15.9
<i>Percent</i>							
Participation rate	62.6						
Unemployment rate	5.1						
Women							
Working-age population	1,999.7	2.0	2.0	4.2	3.1	3.0	3.1
Civilian labor force	908.2	3.0	4.0	5.8	5.2	6.2	4.7
Employed	836.2	2.8	3.1	6.3	7.4	8.8	7.1
Unemployed	72.0	7.1	13.6	1.3	-8.4	-12.3	-16.9
<i>Percent</i>							
Participation rate	45.4						
Unemployment rate	7.9						

SOURCE: Central Bureau of Statistics.

The educational level of the labor force has risen over the years due to the increase in the years of schooling of the veteran population and the particularly high level of education of the immigrants. Thus, the median of years of schooling of employed persons rose from 11.1 in 1983 to 11.6 just before the influx of immigrants began in 1989, and to 11.9 percent in 1994. While human capital rose due to the increase in years of schooling, the declining share of employees who had been educated in Israel and the lower average seniority in employment (because of the high proportion of labor-force entrants in recent years) served to reduce the human capital component specific to Israel and the place of work.

Together with the increase in the working-age mean population in 1995, the labor-force entry rate continued to rise, reaching 53.8 percent. The civilian labor force thus rose by 3.5 percent, a lower rate than in 1991–94. The rise in the participation rate reflects a persistent rise among the established population and a decline among immigrants (to similar levels). The increase in the participation rate of the established population in recent years is due to its age composition—a rise in the share of those age groups which tend to have a high participation rate, and a rise in the specific participation rate of each group. These factors should also increase participation rates in the future. The decline in the participation rate among immigrants seems to be due to the discouraged worker effect (i.e., they gave up trying to find work in general, or trying to find work in their profession), and to the change in their age-composition in recent years, with a rising proportion in the 55 and over age-group.

The participation rate of men remained stable in 1995, while that of women continued to rise, reflecting a long-term trend of a change in attitudes regarding women's employment and a rise in their level of education.

3. EMPLOYMENT AND LABOR INPUT²

The number of employed persons rose by 5.9 percent in 1995, similar to the increase in 1994. Employment expanded in both the public and the private sectors—though by more in the latter—4.4 and 6.5 percent respectively. The number of hours worked per week per employee rose by 0.8 percent, so that total labor input rose by 6.7 percent—7.3 percent in the business sector and 4.9 percent in the public services.

² The classification of industries in the Labour Force Surveys and elsewhere is problematical, requiring caution when analyzing changes. The Labour Force Surveys and National Insurance Institute data include in the public services all employees in education and health, even those supplied privately. In addition, in the last few years employment through private employment agencies, which provide, e.g., cleaning, security and computer personnel, has expanded considerably. Workers in this category are sometimes ascribed by the Labour Force Surveys to the business services industry and sometimes to the industry to which the service is provided (principal industries or public sector). National insurance data and industry surveys, which are based on employers' reports, ascribe these workers to the companies employing them, i.e., business services. Note that in the national accounts, payment to companies supplying services to the public sector is recorded under purchases.

Trends in the composition of employment remained the same as in the previous two years. The number of Israelis employed rose by 5.2 percent. The number of foreign workers more than doubled in size, from 28,000 to 60,000 and accounted for some 3 percent of all employed persons.³ The number of workers from the Autonomy and the administered areas fell by 10 percent.

In the last few years security incidents and closures have hampered the regular attendance at work of employees from the Autonomy and the administered areas, particularly in industries such as construction and agriculture where they account for a large proportion of the work force. As a result, since 1993 the government has permitted the employment of foreign workers as substitutes. The latter have also found employment in occupations where workers from the Autonomy and the administered areas did not formerly account for a large share, e.g., personal services.

Since 1993 the number of permits issued for foreign workers has soared, and they now account for a larger proportion of employed persons. In 1993 their number was relatively small, and in many cases Israelis were substituted for workers from the Autonomy and the administered areas; in 1994 much of the additional substitution was by foreign workers, and in 1995, as it became more difficult to find Israelis who were suitable for certain occupations, the expansion of employment of foreign workers outstripped the decline in employment of workers from the Autonomy and the administered areas.

The rate at which employment expanded in the public services in 1995 was only slightly lower than in 1994, remaining high in comparison with previous years as well as with the growth of the population and the civilian labor force. In view of the marked expansion of public-sector employment in 1994, it was decided that government employment—which had reached a record level—would be reduced by 2 percent in 1995. The notable expansion of public-sector employment indicates that this measure had little effect, however, possibly because many posts are not manned.

Alongside the rise in employment in 1995, the average number of hours worked per employee rose by 0.8 percent, in line with the cumulative 4.1 percent increase since 1992. This rise was evident in both the public and the business sectors, and at similar rates. The growing shortage of employees in specific occupations made it difficult to expand labor input by increasing the number of employed persons, so that part of the rise was achieved by increasing the number of hours worked, particularly through the continued reduction of the proportion of part-time jobs. In the business sector, the number of hours worked per employee rose in 1995, even though under the collective

³ In 1993–95 there were far-reaching changes in the extent of the employment of workers from the Autonomy and the administered areas and from abroad. These changes created difficulties in estimating the number of employed persons and labor input, and hence in the reliability of the data. The figure given for foreign workers is an underestimate, as it does not include those working in Israel without a permit, for whom no national insurance is paid. Various estimates indicate that this accounts for a significant number.

wage agreement in this sector the working week was shortened. The rise in the number of hours worked per employee in this sector reflects both the larger share of foreign workers, who work particularly long hours, and the fall in the share of workers from the Autonomy and the administered areas, who work relatively few hours.

The expansion of business-sector employment was evident in all industries (Table 4.4); particularly notable was the increase in labor input in construction, where activity soared in 1995, and in services and commerce, which expanded markedly for the third year in succession, accounting for some 60 percent of incremental labor in the business sector.

		(percent change over preceding year)								
		1995 ^a		1989	1990	1991	1992	1993	1994	1995 ^a
	Number of employees ^b	Share in business sector								
Employed persons										
Business sector ^c	1,535.1	100	-0.4	2.1	4.7	5.8	5.2	7.1	6.5	
Business sector excl. construction	1,327.1	86.5	-0.5	1.2	3.0	3.8	7.1	7.8	5.9	
Construction	208	13.5	-0.2	9.6	16.6	18.6	-5.4	2.7	10.6	
Industry	412	26.8	-3.2	1.8	4.1	2.4	6.6	4.7	3.8	
Agriculture	76	5.0	-1.9	-9.2	-9.6	1.5	8.5	1.4	1.3	
Transport	117	7.6	-1.8	-0.6	4.4	7.8	1.8	2.8	7.3	
Trade and services	693	45.3	2.7	2.5	4.1	4.9	9.1	10.9	8.1	
Electricity and water	18	1.2	-0.7	15.3	1.2	-13.7	17.2	5.9	0.0	
Labor input										
Business sector	61,474	100	1.4	2.3	4.7	8.6	5.2	8.7	7.3	
Business sector excl. construction	52,652	85.6	1.0	1.1	2.9	6.5	7.4	9.1	6.2	
Construction	8,822	14.4	5.1	11.8	17.1	21.6	-6.5	6.3	13.7	
Industry	17,018	27.7	-0.5	0.9	4.6	6.0	7.8	5.8	3.8	
Agriculture	3,237	5.3	-1.0	-10.5	-10.6	1.6	11.9	4.3	7.5	
Transport	4,883	7.9	-2.3	2.7	2.9	8.3	4.2	6.4	6.0	
Trade and services	26,354	43.1	4.3	1.9	5.0	7.9	9.9	12.4	7.8	
Electricity and water	748	1.2	-1.4	15.0	-1.8	-10.6	12.0	11.0	2.7	
^a Because of changes in the classification method of the Central Bureau of Statistics, the 1995 data cannot be compared with those of previous years. ^b Thousands, annual average. ^c The rounded figures may not add, as 'not known' category has been omitted. SOURCE: Central Bureau of Statistics.										

The rate at which labor input rose in the business sector was less than that of business-sector product; thus labor productivity rose by a moderate 1 percent, after a cumulative decline of some 3 percent in 1992–94. The low productivity of recent years is surprising, particularly in view of the accelerated economic expansion. It appears to have been influenced by the decline in the capital/labor ratio in recent years, and by the high proportion of labor-force entrants, whose initial productivity is low. The extent of the phenomenon is reflected by the marked rise in business-sector employment in the last few years (Table 4.1); the share of new entrants in total employment rose even more, *inter alia* due to the substitution of foreign workers for workers from the Autonomy and the administered areas. The high proportion of employees who were trained abroad also helps explain the low labor productivity, while the conclusion of the training period of veteran immigrants in employment has the opposite effect, so that labor productivity rose in 1995. The higher capital/labor ratio in 1995 also helped to change the trend of labor productivity.

4. UNEMPLOYMENT

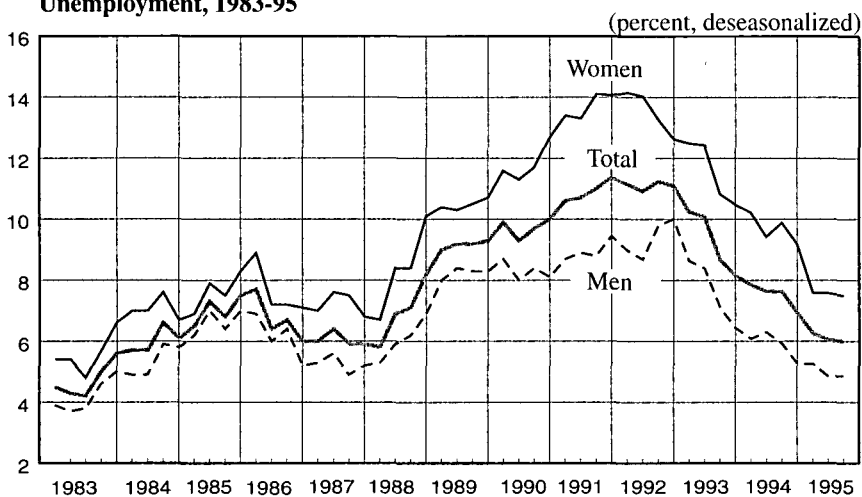
The unemployment rate, which reached a peak of 11.2 percent in 1992, continued to fall in 1995 and reached an annual average of 6.3 percent, i.e., 132,300 jobless. During the year the unemployment rate (seasonally adjusted) declined from 6.9 percent in the first quarter to 6 percent in the second half of the year, similar to the rate in 1984, before the mass immigration and the ESP.

The reversion of the unemployment rate to its mid-1980s level is a remarkable achievement in view of a long period (1989–93)⁴ in which it remained high and the influx of immigrants (which increased the proportion of individuals in the labor force whose skills did not match the needs of the economy). The experience of other countries indicates that when unemployment is persistently high the number of unemployed individuals who will not find work in the future rises, making part of the rise in the unemployment rate permanent. Furthermore, when unemployment remains high over time, individuals leave the labor force (the discouraged worker effect). Neither of these effects has been evident in Israel in the last few years, the unemployment rate falling even below its 1988 level, and the participation rate continuing to rise steadily.

Underlying the marked 16.4 percent decline in the number of unemployed persons in 1995 was the increased demand for employees arising from the expansion of both economic activity and public-services employment. Unemployment fell despite the notable rise in both the civilian labor force and the number of non-Israeli employees. Note, too, that since 1994 the unemployment rate has fallen consistently, even though the 1991–93 policy of subsidizing incremental employment has ceased.

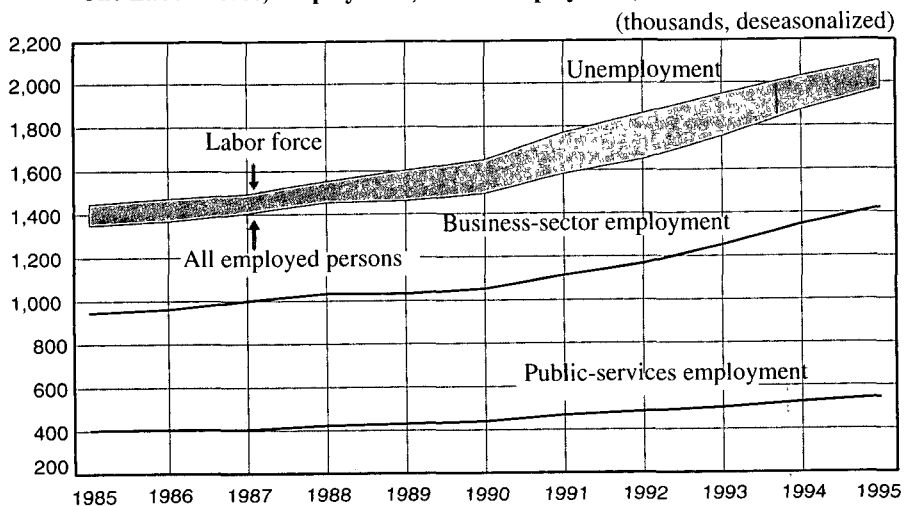
⁴ For the development of unemployment rates in the past see the 1992 and 1994 editions of this publication.

Figure 4.1
Unemployment, 1983-95



SOURCE: Labour Force Surveys of Central Bureau of Statistics

Figure 4.2
The Labor Force, Employment, and Unemployment, 1985-1995^a



^aData refer to Israelis.

SOURCE: Labour Force Surveys of Central Bureau of Statistics.

Unemployment fell among both the established population and immigrants, for men and women. Immigrants' unemployment declined from 13.2 percent in 1994 to 9.6 percent in 1995, as their share in the labor force grew. The reduction was also due to their longer average stay in Israel and from the fact that some of them left the labor force. Unemployment among the established population fell from 7.1 percent in 1994 to 5.8 percent in 1995. The proportion of women among the unemployed declined slightly in 1995, though women's share in the labor force continued to rise significantly.

Table 4.5
Indicators of the Depth of Unemployment, 1989-95

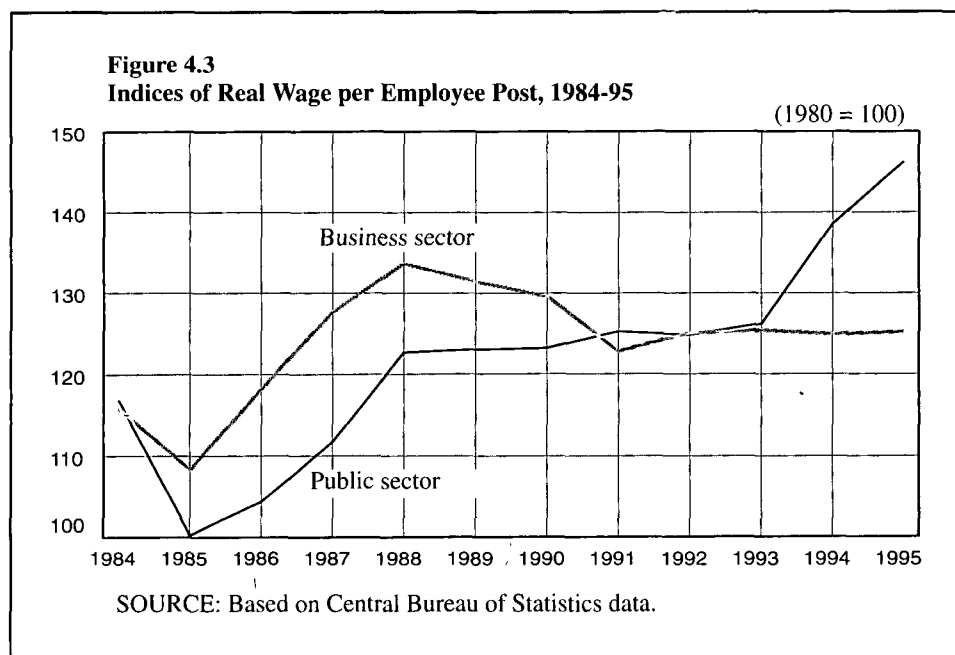
	1989	1990	1991 ^a	1992 ^a	1993 ^a	1994 ^a	1995
<i>Thousands</i>							
Work-seekers for 27 weeks or more	35.2	42.4	47.2	67.5	63.9	46.3	29.3
<i>of which</i> 27-52 weeks	27.6	33.2	35.4	48.8	37.5	28.3	18.7
53 weeks or more	8.3	10.4	12.9	19.9	25.9	18.1	10.6
Unemployed for last 12 months ^b	65.9	81.6	107.1	116.2	104.8	85.6	61.1
<i>Days</i>							
Average number of days unemployment benefit received	107	119	122	119	121	119	121
<i>Percent of all unemployment benefit recipients</i>							
Receiving unemployment benefit for entire period of eligibility	38.5	46.1	48.5	46.3	46.8	46.3	46.8
<i>Percent of all unemployed</i>							
Seeking work for 27 weeks or more	25.2	27.6	25.8	33.2	33.1	29.5	22.1
<i>of which</i> 27-52 weeks	19.4	2.1	18.9	23.5	19.2	17.4	14.1
53 weeks or more	5.8	6.6	6.9	9.6	13.3	11.2	8.0
Unemployed for last 12 months	46.2	51.7	56.7	56	53.7	54	46.2
^a Because a large proportion of immigrants have been in the labor force a relatively short time and have not worked during the last 12 months, some of the estimates of the depth of unemployment are biased.							
^b Figures may not add due to rounding.							
SOURCE: Central Bureau of Statistics and National Insurance Institute.							

Along with the fall in the unemployment rate in 1995, long-term unemployment also declined (Table 4.5). The proportion of unemployed persons seeking work for more than 27 weeks dipped from 30 percent in 1994 to 22 percent in 1995. This reflects the smaller share of jobless who have been seeking work between six months and a year, or longer. The proportion of unemployed persons who have not worked for a year also fell. At the same time, the share of persons seeking work for a short period (up to 8 weeks) rose, and their share in total unemployment went up from 34 percent in 1994 to 41 percent in 1995. Nonetheless, despite the reduction in the depth of unemployment, hard-core unemployment was higher than in the mid-1980s.

5. WAGES⁵

Nominal wages per employee post rose by an average of 12 percent in 1995—by 17 percent in the public services and by 10 percent in the business sector. These increases represent a rise in real wages (i.e., from the employee's point of view, deflated by the CPI) of 2.1, 5.6, and 0.2 percent respectively. Real unit labor costs (i.e., labor costs to the employer deflated by the implicit price index of GDP and the increase in labor productivity) rose by 1.3 percent in the business sector.

The marked increase in public-services wages is largely the result of the wage agreements signed with the unions in this sector, starting in the second half of 1993. The effect of the agreements, which awarded excessive wage hikes, has been evident primarily since the second quarter of 1994, and in the last two years real wages per employee post have risen by some 16 percent in this sector. These agreements are expected to further raise real wages in 1996, too.



⁵ Wages per employee post are calculated as wage payments *divided by* all employed persons (regardless of whether they work full- or part-time). Consequently, part of the change in wages per employee post is technical, and arises from changes in the full- or part-time nature of employee posts, number of man-days worked, etc.).

The public-sector wage agreements, whose original aim was to amend distortions regarding specific occupations, were rapidly rolled over to the entire public sector. Differences between groups of workers regarding the extent of past distortions and the intensity of the pressures exerted gave rise to differences in wage increases. Within the public services, particularly large wage hikes were granted in public administration (8.4 percent) and education (6.7 percent).

The nominal wage per employee post in the public sector rose by less in 1995 than it has each year since 1992, but due to the slowing of the inflation rate in 1995 the real wage remained stable, rising by a moderate 0.2 percent after declining steadily since 1989.

The real wage per employee post, excluding employees from the Autonomy and the administered areas, fell by a moderate 0.2 percent in the business sector. The real wage of workers from the Autonomy and the administered areas rose by a marked 0.6 percent, however. This appears to be because the diminished dependence on these workers was reflected largely by the reduction of the less skilled workers among them, for whom substitutes may easily be found, i.e., a decline in the proportion of employees earning a lower wage. Deflating for the rise in the number of hours worked, the real wage fell by 0.6 percent, for all employees and for Israeli employees alone.

The stability of the real wage in the business sector in 1995 is notable in view of the decline in unemployment, the shortage of labor in some occupations, and the exceptional wage increases in the public sector along with a marked rise in employment since 1994. Experience shows that wage hikes in the public services tend to trickle down to the business sector, especially by means of wage linkages (both formal and informal) in certain occupations and through the Minimum Wage Law.

In the last few years the linkage between wages in the private and public sectors has weakened. Since 1989 (when unemployment soared) real wages in the business sector have fallen. While wage restraint has been evident in the business sector in response to unemployment, in the public services the real wage has continued rising, even in years of high unemployment. Since 1994, it has even accelerated because of wage agreements in that sector. In 1989–95 the real hourly wage in the public services rose by some 18 percent (mostly since 1994), whereas the real hourly wage in the business sector fell by a cumulative 13 percent, bringing the gap between changes in the real wage in the two sectors to 36 percent.

The structural change in the labor market in the last few years has enabled firms to link wage-increments with the state of the market, productivity, and profitability to a greater extent than formerly. Israel's economic slowdown of 1988–89 (partly due to excessive wage increases in previous years), the high unemployment rate since 1989, and the entry into the labor force of a large number of non-unionized new employees, helped to weaken the bargaining power of the Federation of Labour (Histadrut) and to make the institutional basis of wage arrangements and agreements more flexible. Since 1988 no national or industry-wide wage increments have been granted. The Cost-of-Living Agreement (COLA) has also been amended, and only 85 percent of the rise in the cost of

Table 4.6**Change in Real Wage per Employee Post, all Employed Persons, 1981-95^{ab}**

	(percent change in real wage index) ^c								
	1990	1991	1992	1993	1994	1995 ^b	1981- 1985	1986- 1988	1989- 1994
Public services	0.1	1.6	-0.4	1.1	9.8	5.6 ^f	0.3	22.3	13.1
Business sector	-1.4	-5.2	1.8	0.3	-0.4	0.2	8.4	23.3	-6.7
Agriculture, etc. ^d	-4.6	-12.4	2.2	1.8	2.9	7.8	1.8	25.3	-11.3
Industry	0.0	-3.0	2.0	0.6	-0.4	2.1 ^f	13.8	18.8	0
Water & electricity	-1.7	0.9	4.8	-2.6	-0.2	5.8 ^f	7.5	19.9	2.7
Construction	-4.5	-13.6	9.8	4.6	4.4	-0.1	-1.9	35.7	-3.5
Trade, restaurants, hotels	-2.4	-2.5	1.3	0.5	-1.7	1.0 ^f	15.5	26.9	-7.2
Transport, etc. ^e	0.1	1.5	0.2	-0.7	-0.6	0.3	4.0	24.4	-3
Financial & business services	-0.9	-5.3	1.1	-0.7	-2.6		3.4	26.3	-12.8
Personal & other services	-3.5	-3.2	1.4	0.6	3.0	-2.9 ^{f,g}	6.0	43.2	-4.2
Total	-1.0	-3.0	1.2	0.6	2.3	2.1	5.9	23.3	-1.1

^a Central Bureau of Statistics data, from employers' National Insurance returns, deflated by monthly CPI.

^b Because of changes in the classification method of the Central Bureau of Statistics, the 1995 data cannot be compared with those of previous years. Consequently, the distinction between the public services and the business sector is based on the old definitions, while the changes in the various industries are based on the new ones.

^c Constant prices.

^d Including forestry and fishing.

^e Including storage and communications.

^f Because of the small number of employees from the Autonomy and the administered areas in these industries, wages excluding employees from these areas is an approximation for wages including them.

^g Because of the change in classification, the two categories have been combined.

living is paid, and that only for inflation of more than 3 percent in the preceding 6 months. Thus, the agreement fails to compensate for much of the inflation since 1989. The absence of national and industry agreements, and the change in the COLA have increased the importance of agreements at the level of the plant, helping to reinforce the link between wages and productivity. This development, together with the decline in profitability since 1993, prevented business-sector wages from rising in 1995, too, despite the large wage-hike in the public services and the marked decline in unemployment.

The greater flexibility of the labor market and the closer link between wage hikes and the position of the individual firm also increased resort to personal contracts and employment by means of private agencies (the share of employment via such agencies has risen consistently from 1.4 percent at the end of 1989 to 3.5 percent at the end of 1994).

Table 4.7
Change in Average Real Wage per Employee Post, Israelis, 1990-95^a

	(percentage change in real wage index) ^b					
	1990	1991	1992	1993	1994	1995 ^c
Business sector	-1.6	-3.5	1.9	-1.0	-1.3	-0.2
Agriculture, etc. ^d	-5.5	-5.9	2.5	0.3	1.0	5.6
Construction	-4.3	-3.3	9.8	0.5	1.0	-1.7
Total change	-1.1	-1.8	1.3	-0.3	1.9	1.9

^a Not including employees from the Autonomy and the administered areas. Central Bureau of Statistics data, from employer's National Insurance returns, deflated by monthly CPI.

^b Constant prices.

^c See note f in Table 4.6

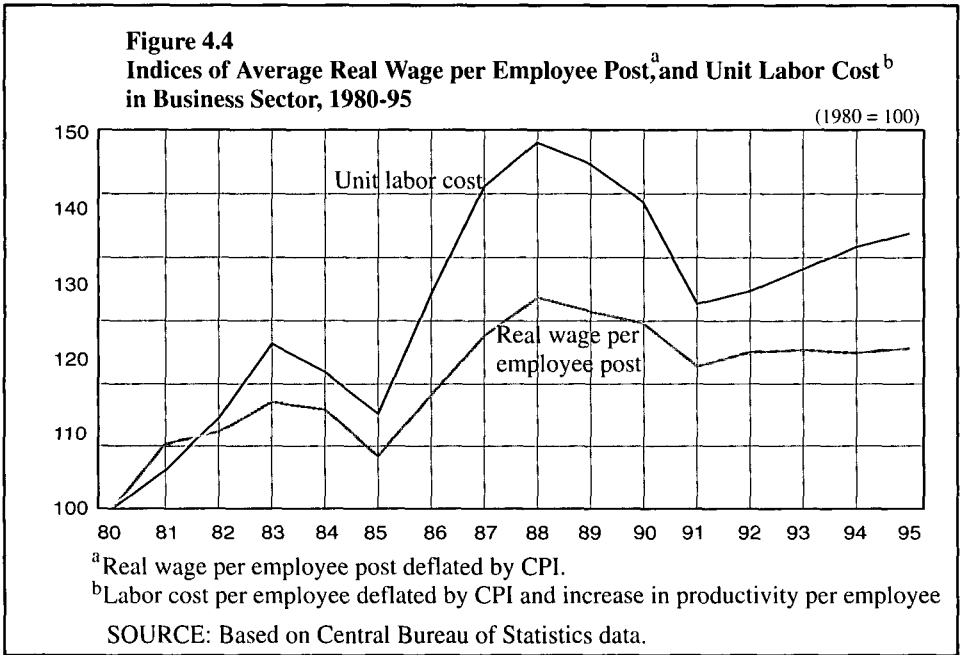
^d Includes forestry and fishing.

SOURCE: Central Bureau of Statistics data.

One of the channels through which public-sector wage agreements trickled down to the business sector in the past was government enterprises. The difficulties in which some of these have found themselves in recent years, and the abolition of linkage between wage agreements in loss-making government corporations and those in the public services, has acted to check part of that effect. The privatization of some government enterprises has also helped to sever the link with wage-agreements in the public sector.

The influence on the business sector of public-sector wage increases by means of the minimum wage has not yet come into effect because of the way the latter is updated. By law, the minimum wage is brought up to date in April each year, on a two-yearly basis—by the annual inflation rate in one year and to 45 percent of the average wage in the other. The latest update to 45 percent of the average wage was in April 1994, before the influence of the public-sector wage agreements was felt. Because public-sector wages have risen considerably since 1994, at the end of 1995 the minimum wage represented only 39 percent of the average wage. Consequently, when it is next updated; in April

1996, this should be by a significant amount—over 10 percent—having an adverse effect principally on unskilled-labor-intensive industries. This increase will make unskilled labor more expensive, but may also affect the wages of employees who earn more than the minimum wage because of wage scales and far-reaching wage-linkage agreements.



The large proportion of labor-force entrants, most of whom receive entry-level wages, again served to moderate business-sector wage increases in 1995. The distribution of entrants shows that most of the expansion of employment was in industries where wages are lower than average. Consequently, as has been the case since 1991, the change in the by-industry composition of employment acted to depress wages in 1995, too.

There is wide inter-industry variance within the business sector regarding the change in real wages per employee post (Table 4.6). Real wages declined in banking, insurance, and financial services, construction, and accommodation services and restaurants, and rose in the communications, electricity and water industries. In the latter industries, where wages are high, wage increases have been consistently excessive, due to their monopolistic nature and the activity of strong unions.

Real unit labor costs (to employers) in the business sector rose by 1.3 percent, after annual average increases of 3 percent since 1993. This rise reflects a slight increase in labor productivity and a rise of over 2 percent in real wages to employers—despite the

stability of the real hourly wage to employees, and reduction in labor costs due to the employer's lower contribution to health costs.

6. IMMIGRATION

Some 75,400 immigrants arrived in Israel in 1995. Since the influx of immigrants began in 1989 a gross total of 710,000 immigrants have come (most of them from the CIS—the former USSR), and by the end of 1995 these immigrants accounted for 12 percent of the population in Israel.

Although the number of arrivals in 1995 is 6 percent lower than in 1994, the rate of immigration evident since 1992 (an annual rate of between 75,000 and 80,000) has been maintained, despite the 10 percent annual reduction in the pool of potential immigrants (according to Ministry of Absorption estimates). The number of Jews leaving the CIS has dropped steeply over the years. This is indicated by their numbers reaching the other two principal destinations—the US and Germany—to which some 23,000 immigrants went in 1995, compared with 38,000 in 1994, 48,000 in 1993, and 56,000 in 1992.

The expansion of economic activity in the last few years, and the sharp drop in unemployment, appear to have made Israel more attractive to immigrants. Consequently, while the pool of potential immigrants in the CIS has shrunk, the rate of immigration to Israel is almost unchanged, a higher proportion of immigrants choosing Israel as their destination.

An analysis by country of origin shows that immigration from the Ukraine has continued to rise (to 35 percent of all immigrants from the CIS), while the proportion from Russia has fallen slightly (to about 30 percent of all such immigrants). These average rates are explained largely by instability and uncertainty in the Ukraine as opposed to economic stability in Russia.

The labor-force entry rate of the immigrants, which went up steadily as the length of time they had been in Israel rose, fell to 53.3 percent in 1995 (Table 4.8). This decrease reflects the declining entry rates among both men and women, bringing them into line with those of the established population. It can be ascribed to a growing proportion of immigrants in the 55 and over age-group in recent years, and to the fact that veteran immigrants have left the labor force because they were unable to find any work or jobs in their original occupations.

The immigrants' average unemployment rate is still higher than that of the established population, but the marked increase in immigrant employment over the years has reduced the gap. The unemployment rate has declined steadily from 39 percent in 1991 to 9.6 percent in 1995. To a great extent the reduction of unemployment reflects the process of the immigrants' absorption as their average period of residence in Israel has grown. Since 1993 it has also reflected the decline in the general unemployment rate which has accompanied economic expansion. In 1995 the declining unemployment rate among immigrants was influenced by their reduced rate of entry into the labor force.

Table 4.8**Immigrants in the Labor Market, Principal Indicators, 1991-95**

	Annual average				1995				
	1991	1992	1993	1994	Annual average ^a	I	II	III	IV
<i>Thousands</i>									
Total	317	422	500	578	658	634	651	671	677
<i>of which</i> Of working age	216	296	352	414	482	476	483	481	517
In labor force	98	154	193	229	257	262	251	255	269
<i>Percent</i>									
Participation rate									
Total	45.4	52.0	54.7	55.2	53.3	55.0	52.0	53.0	52.0
Men	55.5	62.1	64.3	65.1	62.3	65.0	61.0	62.0	61.0
Women	35.0	43.6	44.9	47.0	45.7	47.0	45.0	45.0	44.0
<i>Thousands</i>									
Total employed	60.0	109.8	155.4	198.4	232.3	237.0	228.0	229.0	243.0
Unemployed	38.0	44.0	37.3	30.2	24.8	25.0	23.0	26.0	25.9
<i>Percent</i>									
Unemployment rate									
Men	28.5	20.2	15.8	9.2	7.6	7.0	7.0	7.0	8.5
Women	53.0	38.6	23.6	17.8	12.0	12.0	11.0	13.0	11.0
Proportion of immigrants in									
Population	6.4	8.2	9.5	10.7	11.9	11.6	11.8	12.1	12.1
Working-age popn.	6.3	8.3	9.6	10.9	12.3	12.3	12.4	12.3	13.1
Labor force	5.5	8.3	9.9	11.3	12.2	12.6	12.1	12.0	12.7
Employed persons	3.8	6.7	8.9	10.6	11.8	12.2	11.6	11.5	12.3
Unemployed	20.3	21.2	19.1	19.1	18.7	18.2	18.9	18.8	19.5

^a Figures may not add due to rounding.

SOURCE: Based on Central Bureau of Statistics data.

Immigrants display upward mobility in their patterns of employment in Israel. Nonetheless, relatively few of them find work in their original occupations, even after they have lived in Israel for several years; in this respect the situation has deteriorated over time. More recent immigrants have less chance of finding work in their occupations than those who came earlier, despite the declining unemployment rate in Israel since 1993 and the shortage of employees in certain jobs; when the influx began, the immigrants' skills were better suited to Israel's needs.

	(percent)						
	Year of arrival						
	1990	1991	1992	1993	1994	1995	1990-95
Scientific workers	38.8	35.1	31.7	27.1	26.8	27.1	33.3
<i>of which</i> Physicians	6.2	4.3	3.8	3.4	2.8	3.0	4.4
Engineers	24.8	22.4	18.9	16.0	16.2	17.1	20.8
Other professional, technical, and related workers	34.4	32.9	32.3	33.2	33.6	33.9	33.5
Skilled and unskilled in industry	15.5	19.4	22.2	26.5	26.5	26.3	20.7
Other	11.3	12.6	13.8	13.2	13.1	12.7	12.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Thousands</i>							
Total ^b	96.1	79.7	33.8	33.2	33.4	32.4	308.6
<i>Years of education^c</i>							
9-12	32.0	34.2	37.8	43.0	43.5	44.2	36.9
13+	56.5	51.0	47.9	43.1	43.6	44.0	50.0

^a As declared by the immigrants upon arrival.
^b Total of all immigrants employed in the CIS.
^c Student proportion of those aged 15+.

SOURCE: Central Bureau of Statistics.

The CBS has undertaken employment surveys for three groups of immigrants: those who came at the beginning of 1990, who were surveyed between 6 and 15 months after arriving in Israel; those who came at the end of 1990, who were surveyed between 12 and 17 months after arriving in Israel; and those who came at the end of 1993, who were surveyed in the second quarter of 1995, i.e., between 15 and 22 months after arrival. Only 7 percent of the immigrants arriving in 1993 who had worked in an academic profession in the CIS found similar employment in Israel, compared with 20 percent of those who had arrived at the end of 1990, and about a third of those who had come at the beginning of 1990. The declining rate of those who found work in their original occupation was also evident among immigrants in the liberal and technical professions, irrespective of country of origin, age or sex. Since the immigrants who had arrived at the

end of 1993 were surveyed after a longer period in Israel than those who had come at the end of 1990, and even longer than those who had come at the beginning of 1990, the declining rate of employment in their original occupations can be regarded as an underestimate of the deterioration in this respect in the situation of immigrants who have been in Israel for the same amount of time.

Immigrants' average wages were far lower than those of the established population, even when groups with similar demographic characteristics were compared. The rate at which immigrants' wages rise is far faster than that of the established population, however, so that the gap is narrowing.