

CHAPTER IV

WAGES AND EMPLOYMENT

1. MAIN DEVELOPMENTS

The rebounding of economic activity in 1981 had only a slight impact on the employment situation, and the labor market, which began to weaken in the previous year, remained depressed.

The expansion of the civilian labor force slackened this year (2.3 percent as against 3.2 percent in 1980), mainly because of a negative migration balance, which slowed the growth of population. Employment was up 2 percent, following a 1.1 percent rise in 1980. Employment thus increased proportionately less than the labor force, and the labor market continued to be weak: the unemployment rate reached 5.1 percent on an annual average, after moving up from 2.9 percent in 1979 to 4.8 percent last year.

Real wages, in terms of consumers' purchasing power,¹ rose 10 percent this year, while employers' real labor costs per unit of output in the business sector² edged down 1 percent. This contrasting development of the value of wages to employees and its cost to employers can be attributed primarily to the marked difference between the increase in the price of the consumption basket (117 percent) and the increase in the factor cost of the business sector product (137 percent), as well as to a 2 percent growth in labor productivity. The stabilization of labor costs this year, following an 8 percent decline in 1980, must be viewed against the trends that emerged in the second half of the previous decade. In 1975-79 such costs outpaced the growth of labor productivity in the business sector by 29 percent; this sharply pushed up employers' real labor costs,³ dampening demand for this input. The sector's demand for

¹ Deflated by the consumer price index.

² The labor cost per employed in the business sector, deflated by the product per employed at factor cost. Labor costs also include nonwage expenditure on labor.

³ The growth of labor costs in the second half of the 1970s was due to the following factors: (a) unduly heavy taxes on labor, which discriminated against it compared with other factors of production, as well as the indirect tax burden; (b) a worsening of the terms of trade during the decade, whose effect was similar to the imposition of a tax on national income; and (c) institutional pressures, which pushed up real wages by more than was warranted by the gain in labor productivity, the growth of the tax burden, and the change in the terms of trade.

Table IV-1
POPULATION, EMPLOYMENT, WAGES, AND LABOR COSTS—PRINCIPAL
DATA, 1976-81
(Percent annual increase)

	1976	1977	1978	1979	1980	1981
Working-age population	1.9	2.1	2.0	2.5	2.5	1.8
Civilian labor force	1.9	3.2	4.2	1.6	3.2	2.3
Israeli employed	1.3	2.9	4.6	2.3	1.1	2.0
Total manhours of Israelis	0.9	0.7	4.9	4.1	-1.1	2.6
Workers from administered areas	-2.3	-2.9	8.4	9.1	-3.0	0.9
Total employed in Israel	1.1	2.6	4.7	2.7	0.8	2.0
Total manhours worked in Israel	0.7	0.6	5.1	4.4	-1.3	2.6
Real wages per employee ^a	1.4	10.6	1.5	9.5	-3.3	10.0
Real labor costs per unit of business sector product ^b	10.3	6.1	2.6	7.0	-8.2	-0.8
Unemployment rate (as a percent of civilian labor force—absolute figures)	3.6	3.9	3.6	2.9	4.8	5.1

^a Real wages per employee post, deflated by the consumer price index.

^b Labor costs per employed, deflated by the implicit price index for the business sector product per employee at factor cost. Labor costs include nonwage expenditure on labor.

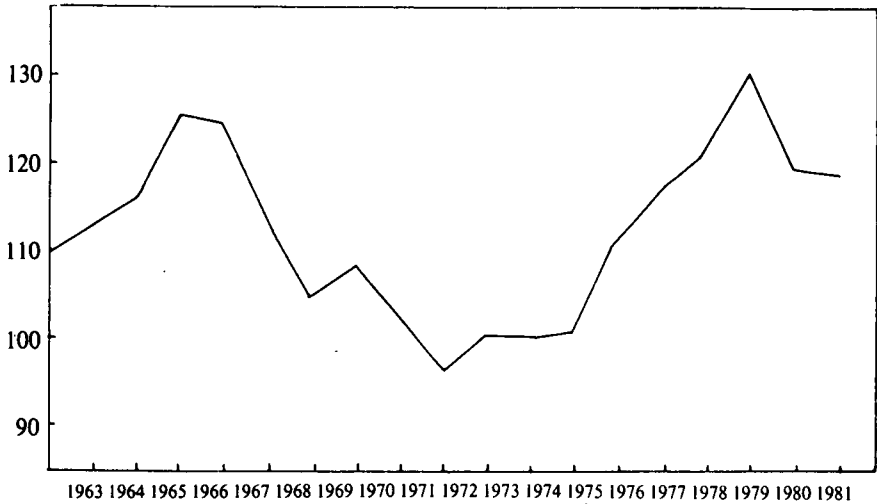
SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

labor is affected by its cost along with other important developments related mainly to the demand for the business sector product. The effect of labor costs on the employment situation grows stronger in periods of slackening aggregate demand and falling demand for workers in the public sector, as happened in 1980.

In analyzing labor costs since 1963 three distinct subperiods can be discerned (see Figure IV-1). The first covers the years 1963-66, which witnessed the mounting of real labor costs and culminated in a severe economic slump. During this period the increase in labor costs averaged about 3 percent higher per year than the growth of labor productivity. In 1967-72 labor productivity rose rapidly, exceeding the increase in labor costs by an average of some 4 percent a year, with the consequence that real labor costs fell steadily. This period was characterized by a relatively formidable expansion of the business sector product and a high level of employment. In 1975-79 the strong uptrend in labor costs reasserted itself, exceeding labor productivity by an average of 6 percent a year. Productivity moved up at a sluggish pace, while the expansion of the business sector product lost vigor compared with the period before 1973.

Against this background a connection can be found between the increase in real labor costs at the end of the 1970s and the turnabout in the labor situation

Figure IV-1
REAL LABOR COSTS PER UNIT OF BUSINESS SECTOR PRODUCT,^a 1963-81
 (Index: 1974=100)



^a Domestic labor costs relative to the net domestic product of the business sector at factor cost.
 SOURCE: 1970-81—Central Bureau of Statistics; 1963-69—rough estimates of the Bank of Israel.

in 1980. Labor costs remained high in 1981 even after the previous year's downswing, thus impeding economic recovery. It follows that a further drop in labor costs is needed in order to stimulate the growth of the business sector and to expand its workforce. To achieve this it would be desirable to introduce a policy of easing the indirect tax burden on labor, while keeping real wages from rising faster than the product per worker in the business sector. Such a policy could be implemented by restraining public sector spending.

The year reviewed witnessed a renewal of the rapid expansion of employment in the public sector and a further increase in its weight in the labor force, after the long-run trend had been arrested somewhat the year before. The number of public servants rose this year by 3.7 percent, compared with only 1.3 percent in the business sector; this followed increases of 8.5 and 3.4 percent respectively in 1978, 3.4 and 2.4 percent in 1979, and 1.7 and 0.5 percent in 1980 (see Tables IV-2 and IV-7). The slow recovery of economic activity in 1981 was reflected by a 1 percent growth in the number of manhours per employed in the business sector (see Table IV-3),⁴ as a result of which the sector's labor input went up 2.4 percent.

⁴ The estimates of the number of manhours per employed should be accepted with caution because of their low statistical reliability. According to industrial sample data, the number of hours worked per employed declined, whereas the labor force survey data presented here show an increase in this sector.

Table IV-2
EMPLOYMENT STRUCTURE (ISRAELI EMPLOYED), 1970-81
 (Percentages)

	1970	1975	1977	1979	1980	1981	Percent average annual increase		
							1970-73	1973-75	1975-81
Public services	24.0	27.3	28.0	29.5	29.6	30.0	4.9	5.9	3.9
Business sector	76.0	72.7	72.0	70.5	70.4	70.0	3.9	-1.1	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	4.2	0.7	2.4
Financial and business services	5.2	6.7	7.2	7.9	8.2	8.8	10.1	5.7	7.0
Rest of business sector	70.8	66.0	64.8	62.6	62.2	61.2	3.3	-1.6	1.2
Industry	24.3	24.8	24.1	24.3	23.7	23.5	5.0	-0.2	1.3

SOURCE: Central Bureau of Statistics labor force surveys.

Table IV-3
WEEKLY HOURS WORKED PER EMPLOYED, 1977-81
 (Annual averages)

	1977 ^a	1978	1979	1980	1981
Total	36.6	36.7	37.3	36.5	36.7
Business sector	38.1	38.2	38.9	38.1	38.5
Males	39.9	40.2	41.4	40.6	41.2
Females	32.2	32.1	32.6	31.6	31.8

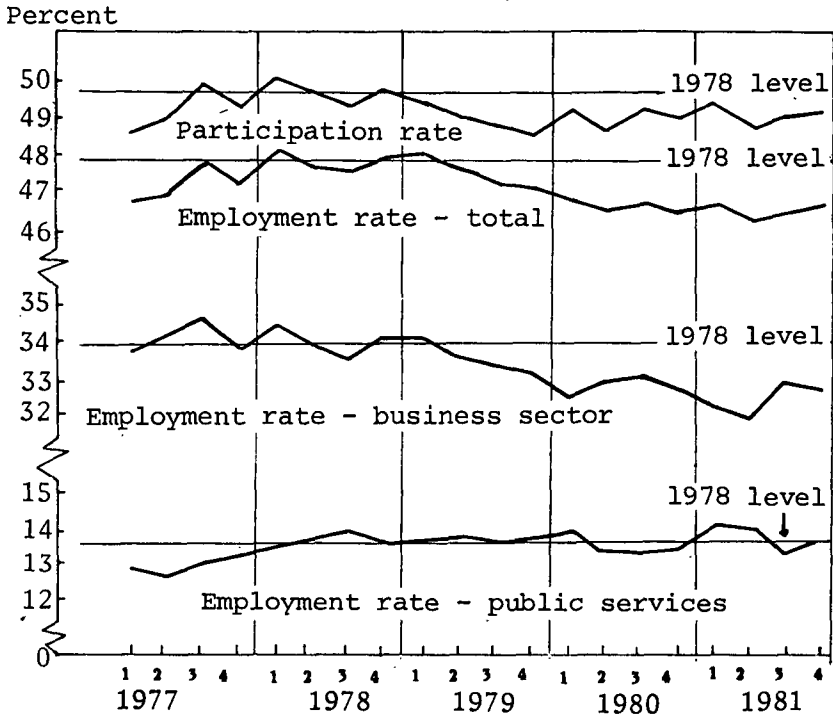
^a Data for 1977 are rough estimates adjusted to the new series introduced in 1978.

SOURCE: Central Bureau of Statistics labor force surveys.

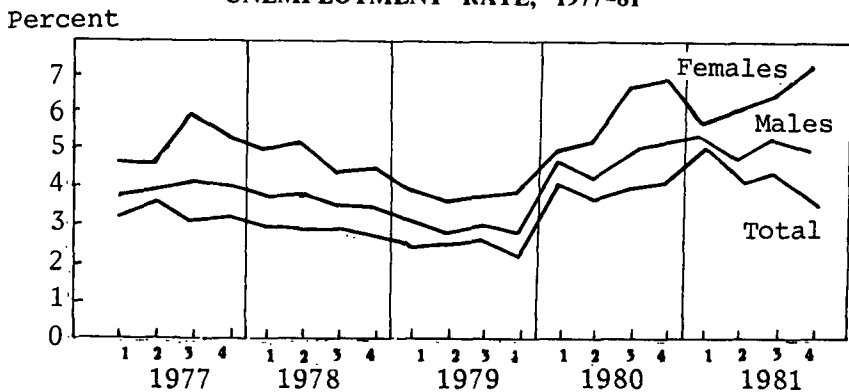
Figure IV-2

LABOR FORCE PARTICIPATION AND EMPLOYMENT RATES IN 1977-81, ADJUSTED FOR EFFECT OF CHANGES IN AGE, EDUCATION, AND SEX COMPOSITION OF POPULATION, AND UNEMPLOYMENT RATE IN 1977-81

(Percentages; quarterly seasonally adjusted data)



UNEMPLOYMENT RATE, 1977-81



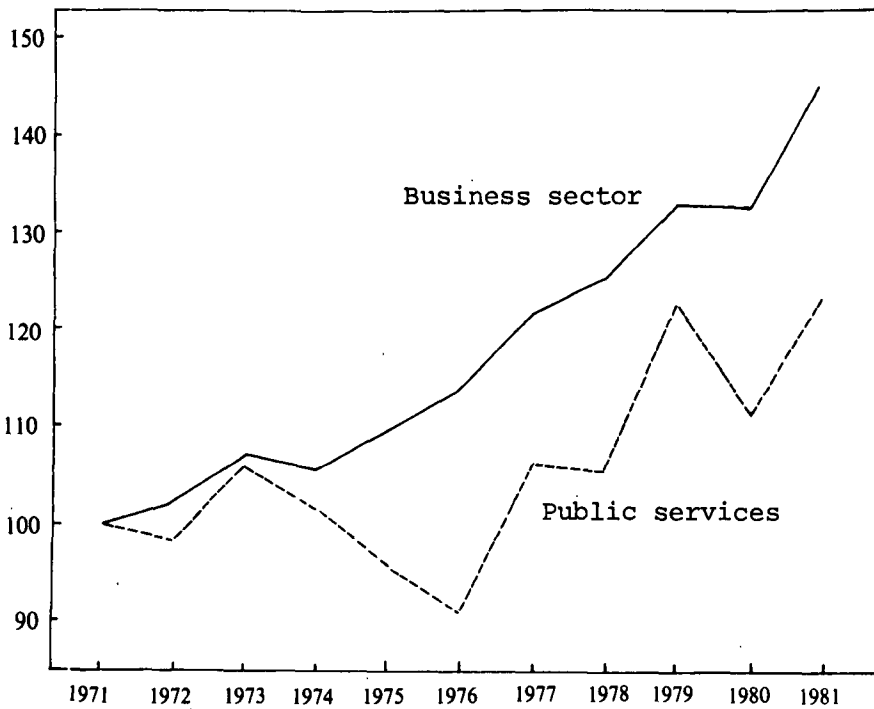
NOTE: The horizontal dimension reflects the increase in the number of labor force participants and in the number of employed at the following annual rates (in percentages):

	1977	1978	1979	1980	1981
Relative to previous year's average	—	3.1	3.0	3.0	2.3
During the year	3.3	3.1	3.1	2.9	1.8

SOURCE: Central Bureau of Statistics labor force surveys and Bank of Israel calculations.

The 10 percent rise in real wages in terms of purchasing power was due primarily to the hefty increases awarded in the first half of 1981. These were greater than justified by the cost-of-living adjustments and the formal framework agreements, and hampered the efforts to reduce the high rate of inflation. To some extent the real growth of wages stemmed from the unexpected slowing of inflation during the year, which under the existing wage indexation arrangements pushed up real wages by 3-4 percent. Disposable real wage income shot up 13 percent on average, which was 3 percent more than the increase in gross wages; this is explained by the easing of the direct tax burden on labor and a rise in the real value of national insurance allowances. The tax burden on wages was lightened as a result of the revision of the tax brackets after their severe erosion in recent years and the arrangement providing for their full adjustment four times a year. The real value of national insurance benefit payments appreciated because of the cooling of inflation (see also Chapter V).

Figure IV-3
REAL AVERAGE WAGE PER EMPLOYEE POST IN THE PUBLIC SERVICES
AND BUSINESS SECTOR, 1971-81
(Index: 1971=100)



SOURCE: Central Bureau of Statistics, based on National Insurance Institute data; deflated by the consumer price index.

Short-term developments in the labor market reflect the cyclical impact of supply and demand factors. The interactions of these variables can be discerned in the labor force participation, employment,⁵ and unemployment rates. The comparative presentation of these indicators in Figure IV-2 highlights the nature of the developments affecting the labor market over time. To isolate the cyclical influences, the participation and employment rates have been adjusted for the effect of changes in the composition of the population according to personal characteristics.⁶

The cyclical upswing in economic activity, which began in late 1977 and continued throughout 1978, was reflected by an increase in the national employment rate—the result of a rapid rise in business sector personnel and an even faster one in the public services. The strong demand for labor pulled up the labor force participation rate to some extent, but proportionally less than the growth of employment, with the consequence that the percentage of jobless drifted downward.

In early 1979 signs of a turnabout appeared in the labor market. Business sector employment began to lag behind the growth of the working-age population; in other words, the national employment rate started to sag. At the same time the slumping of domestic demands apparently depressed the participation rate below its peak cyclical level, with the result that the percentage of jobless did not rise that year. At the beginning of 1980 employment fell further, and with the participation rate now stable, overt unemployment climbed to approximately 5 percent.

⁵ The employment rate is defined as the percentage of employed in the working-age population (the total number of employed or, alternatively, the number employed in the various sectors—see Figure IV-2).

⁶ Participation in the labor force is mainly determined by personal characteristics—sex, education level, and age group—while cyclical developments in the economy affect specific participation rates in these various categories. To estimate the effect of these factors one must first discount the changes in the participation rates caused by variations in the composition of the population according to the above-mentioned characteristics. We have done so using the standardization method, which involves estimating the participation rates that would have obtained had the specific participation rates of the different groups not varied from year to year—i.e. on the assumption that the sole change during these years was in the distribution of the population by these characteristics. For a formal exposition of this adjustment method see the Bank of Israel Annual Report for 1980, p. 76.

Following are the adjusted and unadjusted participation rates for 1977-81 (in percentages, base year for adjustment—1978):

Labor force participation rate	1977	1978	1979	1980	1981
Unadjusted	48.6	49.7	49.2	49.5	49.8
Adjusted	49.2	49.7	49.0	49.1	49.1

Since early 1980 employment has stayed at a low level, reflecting primarily the continuing slack demand for labor in the business sector. Since the participation rate has remained relatively steady, unemployment has also plateaued, at a comparatively high level. The continued depressed demand for labor in 1981 was the result of a contrasting pattern in two sectors: the first half of the year saw a further weakening of demand for workers in the business sector, while the public sector experienced a renewal of labor demand growth. In the second half of the year these trends were reversed to some extent.

2. POPULATION

Immigration in the year reviewed plunged to its lowest level since 1953, with 15,000 new arrivals. This followed increases of 26,000 and 37,000 in 1978 and 1979 respectively and a decline to 20,000 in 1980. The contraction of immigration has been primarily due to the smaller number of Jews leaving the Soviet Union (51,000 in 1979, 21,000 in 1980, and 9,400 in 1981), the mounting rate of dropouts from this source (from 66 percent in 1979 and 65 percent in 1980 to 81 percent in 1981), and the cessation of the flow from Iran. Together with the shrinkage of immigration, emigration has risen steeply, reaching 26,000 in 1981, equal to 0.6 percent of the permanent population. No direct estimate of emigration is available. The Central Bureau of Statistics calculates it as the number of departing residents who have not returned to Israel after 12 months or more; hence the data for 1981 probably relate primarily to emigration during 1980.

For the first time, in 1981 there was a net negative migration balance—a reduction of 11,000 in the permanent population. As a result, population growth dipped to 1.4 percent, after standing at 2.6 percent in 1979 and 2.2 percent in 1980.⁷

These developments underline the relationship between the employment situation and emigration; the magnitude of actual emigration in 1980 was obviously influenced by the weakness in the labor market. A laggard growth of population tends to reduce the supply of labor, but eventually a decrease in net immigration will also dampen demand for housing and construction, thus depressing the level of economic activity in the future.

3. CIVILIAN LABOR FORCE

The civilian labor force grew this year by 30,000, compared with 40,000 in 1980. There was no significant change in the specific participation rates of either sex. As in 1980, the change in the composition of the population (the

⁷ The growth rates during the years concerned (i.e. in December levels).

Table IV-4
SOURCES OF GROWTH OF THE LABOR FORCE AND EMPLOYMENT BY
SECTOR, 1970-81

(Annual average increase in thousands, rounded figures)

	1970-73	1973-76	1977	1978	1979	1980	1981
A. Growth of labor force							
Total population—Israelis							
Total increase	38.8	15.1	37.2	51.0	19.9	40.2	30.2
Growth of population ^a	34.5	26.4	24.2	23.3	31.8	31.8	23.6
Change in age and schooling distribution ^b	7.2	3.6	12.0	13.5	3.8	6.5	6.8
Change in specific participation rates	-2.9	-14.9	1.0	14.2	-15.7	1.9	0.0
Males							
Total increase	20.3	4.0	18.6	17.5	5.7	17.6	16.2
Growth of population	23.4	17.4	15.0	15.7	20.2	19.8	15.3
Change in age and schooling distribution	0.0	-1.9	3.6	1.8	0.0	0.2	0.9
Change in specific participation rates	-3.1	-11.5	0.0	0.0	-14.5	-2.4	0.0
Females							
Total increase	18.5	11.1	18.6	33.5	14.2	22.6	14.5
Growth of population	11.1	9.0	9.2	7.6	11.6	12.0	8.6
Change in age and schooling distribution	7.2	5.5	8.4	11.7	3.8	6.3	5.9
Change in specific participation rates	0.2	-3.4	1.0	14.2	-1.2	4.3	0.0
B. Increase in workers from administered areas	14.8	-0.1	-1.9	5.3	5.9	-2.2	0.7
C. Absorption by domestic sectors							
Total domestic population							
Total increase	53.6	15.0	35.3	56.3	25.8	38.0	30.9
Business sector ^c	44.9	-1.7	19.4	29.9	23.5	5.8	14.7
Public services—employees	11.7	12.5	11.1	29.1	10.2	5.4	11.7
Israeli unemployed	-2.9	4.2	4.8	-2.7	-7.9	26.8	4.7
Males							
Total increase	35.1	3.9	16.7	22.8	11.6	15.4	16.9
Business sector	34.1	-1.3	12.1	16.7	13.9	1.1	9.3
Public services—employees	2.9	3.3	2.5	9.1	1.4	-0.8	5.5
Israeli unemployed	-1.9	1.9	2.1	-3.0	-3.7	15.1	2.1
Females							
Total increase	18.5	11.1	18.6	33.5	14.2	22.6	14.5
Business sector	10.8	-0.4	7.3	13.2	9.6	4.7	5.8
Public services—employees	8.8	9.2	8.6	20.0	8.8	6.2	6.2
Israeli unemployed	-1.0	2.3	2.7	0.3	-4.2	11.7	2.5

^a Assuming the average participation rates of the previous year.

^b Assuming the specific participation rates of the previous year.

^c Includes self-employed in public services.

SOURCE: Central Bureau of Statistics, labor force surveys and surveys of families in the administered areas.

Table IV-5

ISRAELI LABOR FORCE, SELECTED DATA, 1970-81

(In thousands unless otherwise stated: annual averages)

	Percent annual increase											
	1977	1978	1979	1980	1981	1970 as against		1977	1978	1979	1980	1981
						1973	1979					
Average population	3,613	3,693	3,786	3,877.7	3,950.9	3.3	2.5	2.3	2.2	2.5	2.4	1.9
1. Working-age population	2,842	2,532	2,596	2,660.8	2,708.5	3.4	2.3	2.1	2.0	2.5	2.5	1.8
2. Civilian labor force	1,207	1,258	1,277	1,318.1	1,348.3	3.7	1.3	3.2	4.2	1.6	3.2	2.3
3. Participation rate (%)	48.6	49.7	49.2	49.5	49.9							
4. Total employed	1,159	1,213	1,241	1,254.5	1,280.0	4.1	1.0	2.9	4.6	2.3	1.1	2.0
5. Unemployed	47	45	37	63.6	68.3							
6. Unemployment rate (%)	3.9	3.6	2.9	4.8	5.1							
Males												
1. Working-age population	1,227	1,251	1,282	1,312.6	1,336.6	3.3	2.2	1.9	2.0	2.5	2.4	1.8
2. Civilian labor force	796	813	819	836.6	852.8	2.8	0.5	2.4	2.2	0.7	2.1	1.9
3. Participation rate (%)	64.9	65.0	63.9	63.7	63.8							
4. Total employed	770	790	799	801.9	816.0	3.2	0.3	2.3	2.6	1.2	0.3	1.8
5. Unemployed	26	23	20	34.7	36.8							
6. Unemployment rate (%)	3.3	2.9	2.4	4.1	4.3							
Females												
1. Working-age population	1,256	1,281	1,314	1,347.9	1,372.1	3.6	2.4	2.3	2.0	2.6	2.6	1.8
2. Civilian labor force	411	444	459	481.2	495.7	5.8	3.0	4.8	8.1	3.2	4.9	3.0
3. Participation rate (%)	32.7	34.7	34.9	35.7	36.1							
4. Total employed	390	423	441	452.2	464.2	6.5	2.4	4.3	8.5	4.4	2.4	3.1
5. Unemployed	21	22	17	29.0	31.5							
6. Unemployment rate (%)	5.1	4.8	3.8	6.0	6.3							
Workers from administered areas	65.7	71.2	77.4	75.1	75.8		0.0	-2.9	8.4	8.7	-3.0	0.9

SOURCE: Central Bureau of Statistics, labor force surveys and surveys of families in the administered areas.

Table IV-6
SOURCES OF GROWTH OF ISRAEL'S PERMANENT POPULATION, 1974-81
(In thousands unless otherwise stated)

	1974	1975	1976	1977	1978	1979	1980	1981 ^a
1. Permanent population at beginning of year	3,338	3,422	3,493	3,575	3,653	3,738	3,836	3,922
2. Total natural increase	69.2	71.2	74.7	70.5	67.6	68.8	68.0	67.3
3. Rate of natural increase ^b	20.5	20.6	21.2	19.5	18.2	18.2	17.6	16.8
4. Rate of natural increase among Jews ^b	17.2	17.6	18.0	16.4	15.2	15.0	14.7	14.3
5. Rate of natural increase among non-Jews ^b	39.5	37.0	38.4	36.3	34.8	34.2	32.2	30.0
6. Gross immigration ^c	33.5	20.6	20.4	22.2	28.8	37.2	22.2	14.5
7. Net emigration ^d	19.3	20.2	13.0	14.6	12.0	7.7	4.7	25.9
8. Migration balance (6-7)	14.3	0.3	7.4	7.6	16.8	29.5	17.5	-11.4
9. Total population growth (2+8)	83.4	71.6	82.1	77.8	84.4	98.3	85.5	55.9
10. Permanent population at end of year (1+9)	3,422	3,493	3,575	3,653	3,738	3,836	3,922	3,978
11. Percent annual increase in permanent population at end of year	2.5	2.1	2.3	2.2	2.3	2.6	2.2	1.4
12. Thereof: Share of natural increase	82.9	99.4	91.4	90.4	80.0	70.0	79.5	120.4
13. Thereof: Share of net migration	17.1	0.6	9.0	9.6	20.0	30.0	20.5	-20.4

^a Provisional data.

^b Per thousand of the relevant permanent average population.

^c Immigrants, tourists acquiring immigrant status, immigrating citizens (children born to Israeli citizens abroad), and persons returning under the family reunion scheme.

^d Israelis residing abroad for 12 months or more (less Israeli residents returning from abroad after an absence of 12 months or more), potential immigrants who left for abroad, and residents who did not return from a visit to Jordan (see also CBS, *Statistical Abstract of Israel 1981*, pp. 114, 119-21).

SOURCE: Central Bureau of Statistics.

sustained rise in the education level) accounted for some 7,000 new participants. The smaller labor force increment this year (a decline equal to about 0.75 percent of the labor force) can be entirely ascribed to the more sluggish population growth, a result of the negative net migration balance. Over half of those joining the labor force⁸ during 1981 were males, in contrast to previous years, when females accounted for a larger share of the increase. Practically no change was registered in the number of persons from the administered areas working in Israel, following a drop from 77,000 in 1979 to 75,000 in 1980.

4. EMPLOYMENT BY ECONOMIC SECTOR

Table IV-4 shows that in 1981 some 26,000 new labor force participants found work, while about 5,000 joined the ranks of the jobless (both figures are annual averages). Of the total increment, approximately 15,000 were absorbed by the business sector—9,000 in business and financial services and only about 1,000 in industry. The public services hired approximately 12,000 new workers this year, as against 5,000 in 1980 and 10,000 in 1979. These trends are also reflected in the data of Tables IV-7 and IV-8: in contrast to the renewed rapid expansion of personnel in the public services (3.7 percent), industrial employment hardly grew at all, while financial and business services reported an increase of 8.8 percent. Table IV-2 reveals a long-term rising trend in the weight of the public services in total employed, at the expense of the business sector. In the business sector the most striking feature was an appreciable rise in the weight of financial and business services; the downturn in the rest of the business sector was therefore even more precipitate—from 66 percent of the total employed labor force in 1975 to 61 percent in 1981. The data also indicate that industry's share of total employment shrank steadily during the last three years.

5. UNEMPLOYMENT

In 1981 unemployment continued to be relatively high, standing at 5.1 percent as against 4.8 percent in 1980 and 29 percent in 1979. The level began to rise in early 1980 as a result of flagging demand for labor, which had already become apparent in early 1979. Demand picked up somewhat in the second half of 1980 and during 1981, but not enough to reduce the unemployment rate, which held steady (with minor fluctuations) throughout the year. (This stability reflected a downturn among males and an increase among females.)

While 5 percent unemployment is low compared with what most western nations have experienced in recent years, in the special conditions prevailing

⁸ In this section the increment to the labor force refers to the net increase—the number of persons newly joining the labor force minus the number leaving it.

Table IV-7
NUMBER OF EMPLOYED AND LABOR INPUT IN THE MAIN ECONOMIC SECTORS, 1977-81

	1977	1978 ^a	1979	1980	1981	Percent annual increase			
						1978 ^b	1979	1980	1981
A. Employed (in thousands, annual average)									
1. Israelis	1,160.0	1,213.0	1,241.0	1,254.4	1,280.0	4.5	2.3	1.1	2.0
2. From the administered areas	65.7	71.2	77.4	75.1	75.8	8.4	8.7	-3.0	0.9
3. Total employed in Israel (1+2)	1,225.7	1,284.2	1,318.4	1,329.5	1,355.8	4.7	2.6	0.8	2.0
4. In public services ^c	323.0	350.0	361.9	367.9	381.4	8.5	3.4	1.7	3.7
5. In the business sector (3-4)	902.7	934.2	956.5	961.9	974.4	3.4	2.4	0.6	1.3
B. Labor input of employed (millions of hours, weekly average)									
1. Israelis	43.3	44.4	46.3	45.8	47.0	4.9	4.2	-1.1	2.6
2. From the administered areas	2.7	2.9	3.2	3.0	3.1	8.8	9.3	-5.1	2.7
3. Total domestic labor input (1+2)	45.9	47.3	49.5	48.8	50.1	5.1	4.4	-1.3	2.6
4. In public services	10.8	11.6	12.1	12.0	12.4	9.1	4.7	-0.8	3.0
5. In the business sector (3-4)	35.1	35.8	37.4	36.8	37.7	3.9	4.4	-1.5	2.4

^a Data on manhours per employed and per employee are from part of a sample taken by a new method.

^b In 1978 a new sample was taken for the labor force survey and the questionnaire was altered. The comparison between 1977 and 1978 is based on the number of hours worked per employed and per employee as obtained from the half of the 1978 labor force survey that was carried out with the old questionnaire. The comparison between 1978 and 1979 is based on the half of the labor force survey that was carried out with the new questionnaire.

^c Excludes workers from the administered areas.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations (rounded data).

Table IV-8

TOTAL EMPLOYED IN ISRAEL AND LABOR INPUT IN THE BUSINESS SECTOR BY BRANCH, 1977-81

	1977	1978	1979	1980	1981	Percent annual increase			
						1978	1979	1980	1981
Employed (in thousands)									
Total business sector	903.4	934.1	956.5	961.9	974.4	3.4	2.4	0.6	1.3
Construction	115.2	112.3	117.8	114.8	117.0	-2.5	4.9	-2.5	1.9
Industry	291.5	300.9	315.9	310.0	311.5	3.2	5.0	-1.9	0.5
Agriculture	83.2	86.1	83.8	89.5	88.4	3.4	-2.6	6.8	-1.2
Transportation	80.4	82.7	84.5	86.0	84.4	2.9	2.2	1.8	-1.9
Trade, personal, and business services ^a	265.1	274.9	276.8	281.4	289.3	3.7	0.7	1.7	2.8
Financial services	45.5	50.8	53.4	56.9	61.6	11.7	5.1	6.6	8.2
Electricity and water	13.6	13.2	11.4	12.8	13.7				
Unknown	9.0	13.0	12.7	10.2	10.6				
Labor input (millions of hours, weekly average)									
Total business sector ^b	34.5	35.8	37.4	36.8	37.7	3.9	4.4	-1.5	2.4
Construction	4.4	4.3	4.7	4.5	4.7	-1.7	9.4	-4.0	3.8
Industry	11.2	11.6	12.5	12.0	12.3	3.2	8.2	-4.1	2.1
Agriculture	3.2	3.4	3.3	3.5	3.5	6.7	-2.4	3.3	0.3
Transportation	3.2	3.3	3.4	3.4	3.4	2.5	4.6	-0.7	-0.9
Trade, personal and business services ^a	10.2	10.4	10.5	10.5	10.9	1.6	1.6	-0.6	4.2
Financial services	1.7	1.9	2.0	2.1	2.3	12.0	7.4	5.0	7.5

^a Branches 50-59, 90-99, 73 include the rest of the workers from the administered areas.

^b The data do not add up owing to the omission of electricity and water and "unknown"; rounded data.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

in the Israeli economy it has serious implications: because Israel is an open economy, a worsening of the employment situation leads to a larger emigration and a smaller immigration,⁹ thus hampering the attainment of the basic social goals. In addition, the migration balance has prevented the unemployment rate from fully reflecting the weakness of the labor market, for were it not for emigration unemployment would be higher yet.

According to the various characteristics of the unemployed, in the past few years unemployment grew to roughly the same extent in all segments of the economy, and there were only marginal changes in the breakdown of the total number of jobless by sex, educational level, and sector of previous employment. Unemployment increased at a similar rate among the different population groups, with the exception of a fractionally higher rise among persons aged 25-34. The proportion of demobilized soldiers among the jobless has also remained virtually static (see Table IV-11). With the aggravation of unemployment at the beginning of 1980, the number of recipients of unemployment insurance benefits soared (see Table IV-9): the daily average number of persons receiving such benefits and not undergoing vocational training jumped from 500 in 1979 to 4,700 in 1980 and 7,500 this year.¹⁰ The value of the compensation payments was eroded by inflation in 1978 and 1979, but since April 1980 they are adjusted quarterly in accordance with the consumer price index. This has boosted their value relative to the average wage, restoring it to the level of the mid-1970s.¹¹

It has been claimed in the past that the system of benefit payments has contributed to the growth of unemployment since the beginning of 1980 by encouraging a tendency among the jobless to live on the allowance rather than accept work, while ostensibly remaining in the labor force. The available data do not support this contention, for several reasons:

⁹ This effect would be even greater were it not for the current recession in the western economies.

¹⁰ Of whom approximately 1,400 were demobilized soldiers.

¹¹ Unemployment benefit payments are determined for the various categories of eligibles as a specified percentage of the average wage in the economy (see National Insurance Institute publications). The average daily benefit payment as a percent of the average wage per employee post in 1975-81 was as follows:

1975	1976	1977	1978	1979	1980	1981	
38.0	40.1	36.3	34.5	28.6	35.1	40.9	
1980				1981			
I	II	III	IV	I	II	III	IV
26.2	32.4	37.0	37.4	38.0	40.9	41.6	43.5

Table IV-9
QUARTERLY EMPLOYMENT SERVICE AND NATIONAL INSURANCE INSTITUTE DATA, 1979-81
 (Monthly averages, except for daily average unemployed)

	1979				1980				1981			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Job-seekers	17,773	17,058	21,823	24,507	26,576	30,275	34,219	37,317	35,746	32,704	35,375	34,425
Males	9,702	9,499	11,233	12,904	17,030	18,831	20,611	21,230	22,255	20,106	20,854	20,523
Females	8,071	7,559	10,590	11,603	9,546	11,444	13,608	16,087	13,491	12,598	14,521	13,902
Daily average unemployed	1,241	1,157	1,467	2,044	5,724	8,176	10,704	12,075	13,110	11,243	10,924	11,034
Males	695	663	793	1,164	4,186	5,696	7,333	7,296	8,816	7,541	7,268	7,283
Females	545	494	674	880	1,536	2,480	3,370	4,779	4,294	3,702	3,656	3,751
Job openings	27,990	24,681	24,347	25,609	17,070	17,782	16,945	20,268	17,780	17,416	18,887	18,692
Unfilled job openings	10,131	8,887	6,203	5,680	2,866	2,514	2,385	2,709	2,305	2,636	2,382	2,517
Job-seekers not referred to work	3,850	3,818	5,564	7,439	13,359	15,332	19,369	20,563	20,787	17,994	19,322	18,426
Unemployed 7 days or more	671	552	772	1,430	6,855	9,568	12,827	14,127	15,800	13,165	12,916	12,898
Receiving unemployment compensation (not undergoing vocational training) ^a	500	363	468	645	1,823	4,035	5,306	7,493	7,968	7,844	6,781	7,129

^a Bank of Israel estimate based on National Insurance Institute data. An average of 1,400 demobilized soldiers were among the recipients of unemployment compensation between April and December, 1981.

Table IV-10
ANNUAL EMPLOYMENT SERVICE DATA, 1977-81
 (Monthly averages, except for daily average unemployed)

	1977	1978	1979	1980	1981	Percent annual increase			
						1978	1979	1980	1981
Job seekers	18,795	18,518	20,290	32,097	34,562	-1.5	9.6	58.2	7.68
Males	10,610	10,056	10,834	19,426	20,934	-5.2	7.7	79.3	7.76
Females	8,185	8,462	9,456	12,671	13,628	3.4	11.7	34.0	7.55
Daily average unemployed	1,484	1,361	1,477	9,077	11,577	-8.3	8.5	521	27.54
Males	934	787	829	6,128	7,727	-15.7	5.3	639	26.09
Females	550	574	648	2,949	3,850	4.4	12.9	355	30.55
Job openings	23,102	25,466	25,657	18,016	18,174	10.2	0.8	-29.8	0.9
Unfilled job openings	5,984	8,065	7,725	2,618	2,460	34.8	-4.2	-66.1	-0.04
Job-seekers not referred to work ^a	4,381	3,945	5,160	17,156	19,132	-10.0	31.0	232.0	11.52

^a Since January 1978 does not include job-seekers referred to vocational counseling.

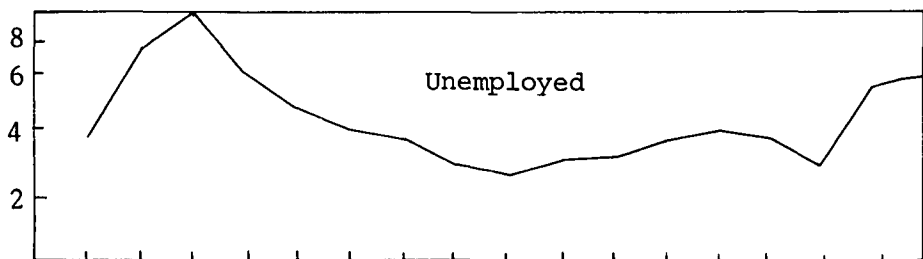
Table IV-11
CHARACTERISTICS OF THE UNEMPLOYED, 1978-81
 (Percent of total unemployed unless otherwise stated)

	1978	1979	1980	1981
1. Sought work for 5 weeks or more	59	57	72	72
2. Sought work through labor exchanges	39	43	57	57
3. Worked during last 12 months	48	51	48	49
Thereof:				
Lost jobs (percent of group 3)		23	46	51
Left jobs (percent of group 3)		34	18	25
Last job in industry (percent of group 3)		26	27	26
Last job in public services (percent of group 3)		19	20	19
4. Percentage of males	52	53	55	54
5. Number of years of schooling				
0-8	27.9	26.5	26.5	25.1
9-12	55.5	56.6	56.9	57.6
13+	16.6	16.9	16.6	17.3
6. Age				
14-24	50.6	48.4	47.0	46.7
25-34	29.3	32.3	30.3	31.9
35-54	15.9	15.8	17.9	18.4
55+	4.2	3.5	5.0	2.9
7. Completed military service but not yet found work		10	12	11
8. Geographical distribution of unemployed—percent				
Jerusalem District	4.3	3.3	4.9	5.6
Northern District	3.4	2.5	5.1	5.5
Haifa District	3.3	3.2	5.1	5.1
Central District	3.0	2.2	4.0	4.5
Tel Aviv District	3.7	2.8	4.6	4.6
Southern District	4.4	4.2	6.2	6.4
9. Duration of unemployment (weeks)				
a. Sex				
Males		11.5	16.1	17.4
Females		11.9	16.6	18.0
b. Number of years of schooling				
0-4		13.8	18.1	19.1
5-8		13.2	17.9	19.3
9-12		11.7	16.2	17.7
13+		9.2	14.3	15.3
c. Age				
14-17		10.9	14.0	14.7
18-24		11.2	16.1	16.2
25-34		10.8	16.7	19.1
35-54		12.8	17.5	19.3
55+		12.9	17.9	20.0

SOURCE: Central Bureau of Statistics labor force surveys (including some data not previously published).

Figure IV-4
INDICATORS OF UNEMPLOYMENT, 1965-81
 (Percent of civilian labor force)

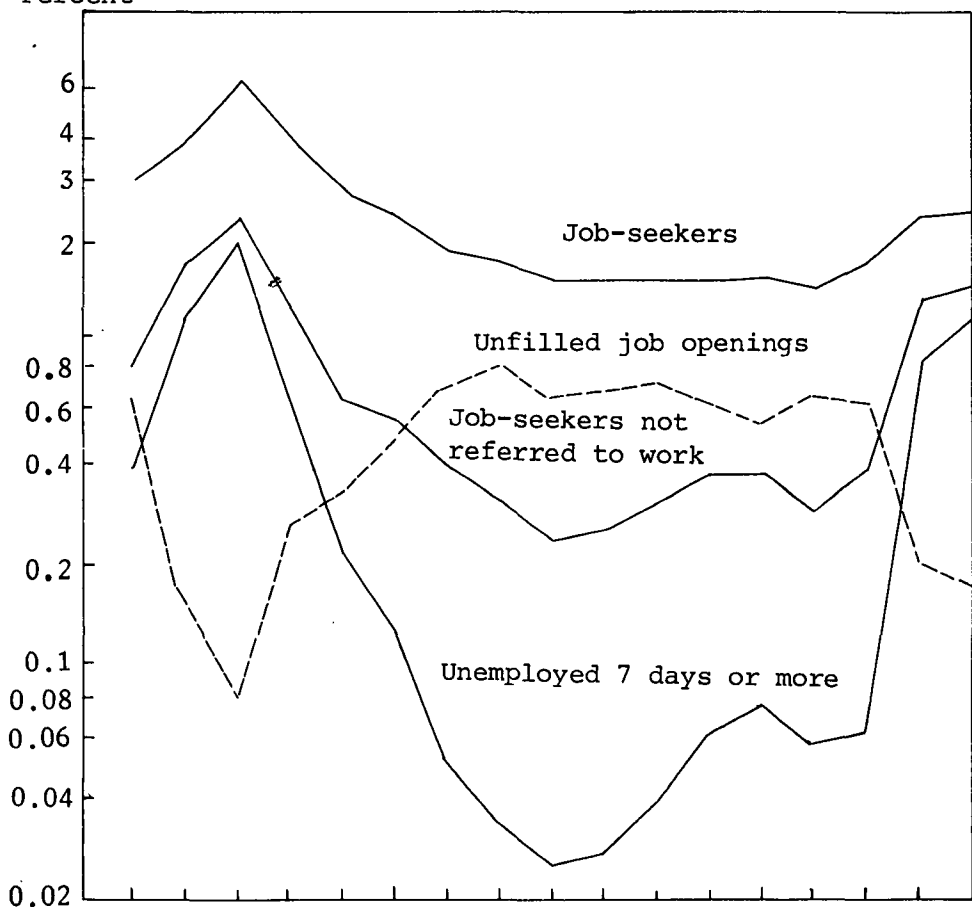
Percent



1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981

SOURCE: Central Bureau of Statistics labor force surveys.

Percent



1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981

SOURCE: Employment Service, Ministry of Labor.

(a) All the increase in unemployment is explained by the weakening demand for labor, and no rise in specific participation rates is evident.

(b) The number of unfilled job openings fell drastically in the past two years, both in absolute terms and as a proportion of total job openings (from one-third in 1978 and 1979 to one-seventh in 1980 and 1981). The number of workers from the administered areas, who are potential substitutes for Israelis (who, it is claimed, tend to avoid unskilled occupations), actually declined 3 percent in 1980. These findings indicate that the rejection of employment service job offerings has not been one of the principal factors in the growth of unemployment.

(c) The relatively uniform growth and deepening of unemployment among the various population groups suggests that there has been no widespread excessive reliance on the benefits within certain population groups (although the slightly greater deepening of unemployment among those aged 25-34 may be indicative of some tendency in that direction in this group).

To avert any such negative influences in the future, it would be desirable to avoid further increasing the real value of unemployment compensation (which appreciated greatly in 1981 as well) and to prevent unwarranted payments of the benefits, even to relatively small population groups.

6. WAGES

After a relatively restrained development of the wage structure in 1980, real wages in both the business sector and public services soared 10 percent in the year reviewed.

The excessive increases awarded in late 1978, which deviated from the formal agreements concluded, further fueled the inflationary spiral and sharply pushed up real wages in the following year. In 1980 they more or less tapered off in the business sector, and in the public services they dipped 8 percent. This can be attributed to a marked worsening of the employment situation in early 1980, which resulted in the moderation of wage demands and the maintenance of industrial peace.¹²

Another stabilizing influence in the labor market was the gradual adjustment of the wage indexation system to the escalating inflation: the payment since 1979 of the cost-of-living adjustments four times a year (instead of twice yearly), and in 1980 the raising of the indexation rate to 80 percent and the full updating of income tax brackets four times a year. In view of the employment situation, in 1980 the wage agreements, which were due to be renegotiated, were frozen. Instead, a framework agreement covering the entire

¹² The tempering of wage demands and the relatively smaller pay increases awarded in 1980 (similar to what happened in 1966) apparently reflected the short-term effect of substantially higher unemployment on wages.

Table IV-12
ANNUAL INCREASE IN AVERAGE REAL WAGE PER EMPLOYEE
POST,^a 1976-81
 (Percentages)

	1976	1977	1978	1979	1980	1981
Total economy	1.4	10.6	1.5	9.5	-3.2	9.8
Public services	-4.3	16.9	-0.8	15.6	-8.4	10.4
Business sector	4.6	6.9	2.9	5.9	-0.3	9.6
Agriculture, forestry, fishing	0.9	4.6	3.3	5.8	-1.7	6.8
Industry	6.2	6.3	2.9	6.2	-0.4	10.7
Electricity and water	-8.1	27.6	6.7	-1.7	2.0	20.6
Construction	7.4	-1.1	0.5	6.7	-0.9	7.7
Trade, restaurants, and hotels	5.0	6.5	3.5	4.9	-3.8	10.4
Transportation, communications, storage	-0.3	10.7	4.8	3.5	1.4	8.1
Financial and business services	3.5	11.6	-0.8	5.6	1.5	9.7
Other personal services	8.2	7.3	3.7	7.1	-4.3	3.2

^a Calculated from wage indexes, deflated by the consumer price index. Includes residents from the administered areas working in Israel.

SOURCE: Central Bureau of Statistics.

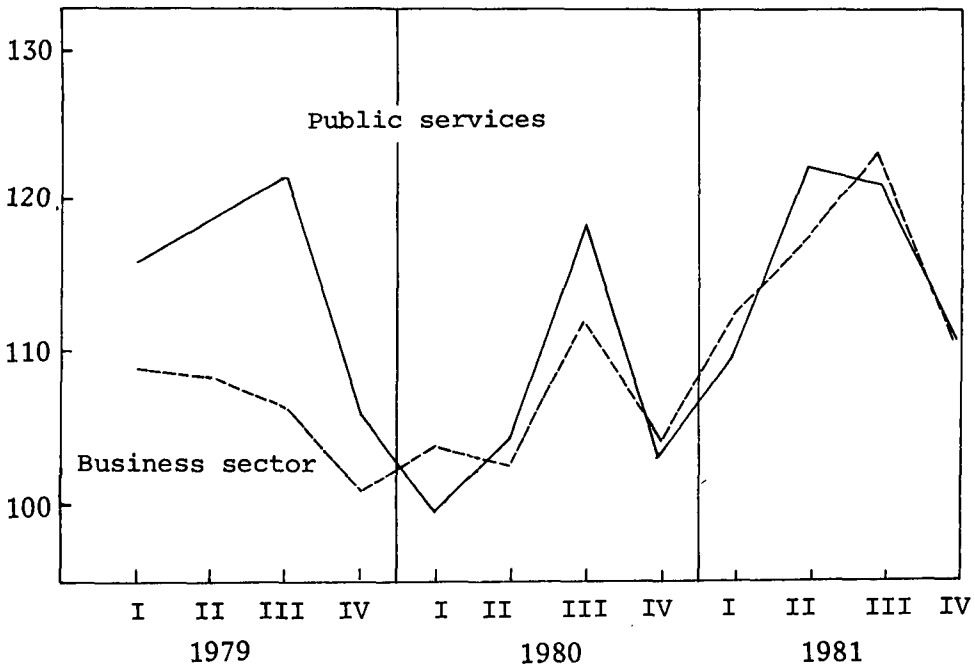
economy was signed by the Histadrut (General Federation of Labor), employers in the business sector, and the public sector, for a two-year period (until March 1982). This agreement provided for the payment of 5 percent increases in February and from April onward.¹³ Although there was no undue pressure in the form of industrial unrest, the increases granted in the first half of 1981 far exceeded what was warranted by the cost-of-living arrangement and the national framework agreement—by 8 percent in the business sector and 14 percent in public services.¹⁴ These deviant increases during the first

¹³ This agreement was signed on the assumption that in 1981 inflation would run at an annual average rate of 125 percent.

¹⁴ The nominal growth of wages per employee post from the final quarter of 1980 to the final quarter of 1981 was as follows (in percentages):

Period	Increases warranted by c-o-l adjustments and wage agreements	Actual increases given			Increase in consumer prices
		Business sector	Public services	Total	
1980 IV-1981 II	52.3	64.2	73.2	67.0	44.8
1981 II-1981 IV	29.5	32.3	28.2	30.9	41.3

Figure IV-5
INDEXES OF AVERAGE REAL WAGE PER EMPLOYEE POST IN THE
BUSINESS SECTOR AND PUBLIC SERVICES, 1979-81
 (Quarterly data: 1978=100)



SOURCE: Central Bureau of Statistics, based on National Insurance Institute data; deflated by the consumer price index.

half of the year were the main cause of the growth of real wages in 1981, and they hampered the effort to blunt the high rate of inflation (see Figures IV-3 and IV-5).

The unexpected weakening of inflation during 1981 also goes some way to explain the rise of wages. Had inflation run at the same pace as in the previous year—an annual average 133 percent rate—real wages would have gone up 6-7 percent according to our estimate,¹⁵ instead of the 10 percent actually

¹⁵ This figure was arrived at as follows: We estimated how much real wages would have gone up had prices risen during 1981 at the same rate as in the previous year, while nominal wages were taken to be the wages actually paid in 1981, adjusted for the increase in the cost-of-living allowance calculated according to the 1980 inflation rate. Under these assumptions, we obtained a 6 percent real wage increase. This is an underestimate, as it ignores the effect of accelerating inflation on wage drift. In addition, we assumed an average 133 percent inflation rate, while the wage agreements took into account a 125 percent rate.

recorded. The slowing of inflation was thus responsible for increasing real wages by 3-4 percent.

The expansionary effect of the cooling of inflation on real wages is explained by the lag (about four months under the present system) in adjusting the cost-of-living allowance increments. This lag causes real wages to go up when inflation slows and to decline when it accelerates, creating a sort of automatic stabilizer, which impedes the harnessing of inflation. It would therefore seem advisable in the present circumstances to reduce the time-gap in compensating employees for an increase in prices.

Disposable wage income averaged 13 percent higher in 1981, which was 3 percent greater than the rise in gross pay. This was due to the easing of direct taxes on wages and the upping of the real value of national insurance benefit payments. The tax burden on wages was lightened as a result of the basic revision of tax brackets, which had eroded greatly in recent years, and the decision to adjust them four times a year to the full extent of the price rise. The real value of national insurance allowances, which are included in wages, appreciated thanks to the lower rate of inflation this year (see also Chapter V).