

CHAPTER XII

THE LABOR FORCE, EMPLOYMENT, AND WAGES

1. MAIN DEVELOPMENTS

The downward trend in labor input which began in 1974 continued in 1975: there was a drop in the recorded number of man-hours which was accounted for by the business sector.¹ Apart from fluctuations caused by special events, labor input in 1975 was lower than in the years 1972-73. At the same time, there was a slight rise in the number of employed and, contrary to expectations, unemployment did not rise. Unemployment remained constant because the reduced demand for workers was offset by a decline in labor supply: the growth rate of working-age population slowed due to a weakened stream of immigration; on top of this, labor force participation rates fell at a rate of 3 percent in the last two years (after maintaining relative stability in the previous three years). In addition, there was a 6 percent drop in the average hours per worker in 1975 as compared to 1972, resulting from transitions to part-time jobs, organized temporary leaves, and a reduction in overtime. The growth in product per man-hour worked shows a drastic slowing down in the last two years. This deceleration indicates that actual labor input was in fact greater than that required by the level of economic activity.

It is possible to discern various stages in the adjustment of labor supply to the reduction in labor demand. In 1974 the factors which contributed to the drop in labor supply were the reduction in the labor force participation rate and the slowed growth of population. In 1975, the decelerating growth of working-age population continued but labor force participation rates seemed to become stable and the continuing reduction in work input stemmed mainly from a further drop in work hours per employee, as well as from a

1. In the entire economy, excluding public services.

decline in the number of workers from the administered areas.

Manpower surveys indicate a considerable stability (with slight downward fluctuation) in the number of males employed and a continuing increase in the number of women employed in the services sector. The data bear out the adjustment of labor to developments of the various demand components, a phenomenon that also revealed itself (but in an opposite direction) during the prosperity years. The factors which enable this adjustment to take place are: changes in migration patterns, adaptation in the propensity to work among marginal age groups, flexibility in the intensity of employment,² and an increased mobility of workers from the administered areas employed both in the Israeli economy and outside it. All these explain the unusual phenomenon of a slowdown of the GNP to the point of stagnation, without any significant rise in unemployment. Although some reservation may be made concerning the estimate of unemployment, there can be no doubt that the low rate of unemployment in 1975 reflects correctly the absence of a situation of socio-economic distress which unemployment often brings in its wake. Nevertheless, however positive this phenomenon may have been in a social sense, it brought about negative economic results: the policy of economic restraint, which brought economic growth to a halt, did not achieve the desired structural changes in economic activity and employment.

**CHANGES IN EMPLOYMENT TRENDS, 1975 COMPARED TO
PREVIOUS YEARS^a**
(percent)

	Total Israeli em- ployed	Total em- ployed from the adminis- tered areas	Total local em- ployed	Total working- hours	Total working- hours in the business sector	Total work- ing- hours in the public services
1975 compared to 1974	1.3	-3.5	1.0	1.25	0.5	8.0
1975 compared to 1974(9)	1.0	-8.2	0.4	-0.6	-1.8	3.5
1975 compared to 1973(9)	1.7	1.8	1.7	-2.0	-5.0	8.7
1973(9) compared to 1971	8.8	92.6	11.5	10.4	11.4	7.2

^a Quarterly averages. 1974(9) refers to last 9 months, 1973(9) refer to first 9 months.
SOURCE: Central Bureau of Statistics.

The table above shows development trends in employment during recent years. The comparison with the calendar years of 1973 and 1974 are not particularly significant because of the influence of the war and extensive mobilization at the end of 1973 and the beginning of 1974. When this period is excluded, there is only a scant rise in the number of employed, reflecting a substantial rise in the number of workers employed in the public

2. A part-time or full-time job, average number of work-days and work-hours per employed.

sector, and a drop in the number of employed in the business sector. In terms of work hours, a significant drop is notable also in the economy as a whole. Within the last two years, the employment trend has reversed from an annual growth of 5 percent and more in labor input between the years 1971 and 1973 to an absolute decline in 1974 and 1975. Although there were fluctuations during the last two years, mainly in reaction to special events, such as the war and the economic policy declared in November of 1974, the general trend is a falling level of employment in the business sector. There were a number of factors which increased demand for labor during the second half of 1975, among them, the recovery in export. However, the rise in employment towards the end of 1975 is noticeable only in relation to the particularly low level at the end of 1974 and the beginning of 1975, with the announcement of the new restraining economic policy. Although an improvement in demand for labor resulting from rising exports may continue, it seems that the dampening effect of local demands has not yet petered out.

Table XII-1
POPULATION, EMPLOYMENT, AND WAGES — PRINCIPAL DATA, 1971-75
(in thousands, unless otherwise stated)

	Annual averages					Percent annual increase or decrease (-)			
	1971	1972	1973	1974	1975	1972	1973	1974	1975
1. Population ^a	3,045.6	3,167.8	3,278.0	3,377.5	3,456.7	4.0	3.3	3.0	2.3
2. Working-age population	2,097.2	2,169.1	2,247.1	2,314.4	2,357.8	3.4	3.6	3.0	1.9
3. Civilian labor force	1,032.8	1,076.1	1,117.1	1,122.8	1,137.8	4.2	3.9	0.5	1.4
4. Participation rate (3÷2)	49.2	49.6	49.7	48.5	48.3	—	—	—	—
5. Israeli employed	997.1	1,047.0	1,088.2	1,089.1	1,102.8	5.0	3.9	0.1	1.3
6. Unemployed Israeli job-seekers	35.7	29.1	29.5	33.7	35.0	-18.5	1.4	14.2	3.9
7. Unemployment rate (6÷3)	3.5	2.7	2.6	3.0	3.1	—	—	—	—
8. Number of employed from administered areas	33.8	52.4	61.3	68.7	66.3	55.0	17.0	12.1	-3.5
9. Total locally employed ^b (5+10)	1,030.9	1,099.4	1,149.5	1,157.8	1,168.9	6.6	4.6	0.7	1.0
10. Israeli employee posts ^c	842.0	870.0	886.3	896.7	932.0 ^e	3.3	1.9	2.1	3.2
11. Total hours of locally employed (weekly million hours)	41.14	44.32	43.23	43.95	44.51	7.7	-2.5	1.7	1.3
12. Total hours of Israeli employed in the business sector (weekly million hours)	31.84	34.60	33.36	33.49	33.67	8.7	-3.6	0.4	0.5
13. Monthly earnings per Israeli employee post ^d excl. fringe benefits (IL)	801	912	1,163	1,584	2,178 ^e	14.6	27.6	34.6	36.1
14. Daily average adult unemployed	938	744	879	844	1,201	-20.7	(18.1)	(-4.0)	(42.3)
15. Unplaced job-seeker	4,051	3,710	2,789	3,129	3,809	-8.4	(-24.8)	(12.2)	21.7

^a From 1972 on, potential immigrants are also included in the population. They were not yet included in computations of working-age population and other employment data.

^b Including workers from the administered areas.

^c Employee posts include part-time and additional posts.

^d 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.

^e Absolute data cannot be compared to previous years because of changes in the series.

SOURCE: Central Bureau of Statistics.

Table XII-2
SOURCES OF GROWTH OF ISRAEL'S PERMANENT POPULATION, 1974-75
(In thousands, unless otherwise stated)

	1964	1965	1966	1967 ^a	1968	1969	1970	1971	1972	1973	1974	1975 ^b
1. Permanent population at beginning of year	2,430.1	2,525.6	2,598.4	2,657.4	2,776.3	2,841.1	2,929.5	3,022.0	3,120.5	3,225.0	3,338.2	3,421.6
2. Total natural increase	48.2	50.0	50.8	47.3	53.3	56.2	59.8	64.6	63.1	63.2	69.2	70.9
3. Rate of natural increase ^{c,§}	19.4	19.5	19.2	17.6	18.3	19.5	20.1	21.1	20.0	19.3	20.5	20.5
4. Rate of natural increase among Jews ^{c,§}	16.1	16.2	16.1	14.9	15.9	16.3	16.9	17.9	16.6	16.7	17.2	17.5
5. Rate of natural increase among non-Jews ^c	45.0	44.6	43.4	38.7	39.0	38.7	39.0	39.3	39.5	39.5	39.5	37.0
6. Immigration ^d	55.0	31.1	16.0	14.5	21.0	38.0	41.1	44.4	57.6	56.5	33.5	21.5
7. Emigration ^e	7.7	8.3	7.8	11.5	9.4	5.8	8.4	10.6	12.6	6.6	19.3	21.2
8. Migration balance (6-7)	47.3	22.8	8.2	3.0	11.6	32.2	32.7	33.8	44.9	50.0	14.3	0.3
9. Total growth of population (2+8)	95.5	72.8	59.0	118.8	64.9	88.4	92.5	98.5	104.5 ^f	113.2	83.4	71.2
10. Permanent population at end of period (1+9)	2,525.6	2,598.4	2,657.4	2,776.3	2,841.1	2,929.5	3,022.0	3,120.5	3,225.0	3,338.2	3,421.6	3,492.8
11. Percent increase in permanent population of (10)	3.9	2.9	2.3	4.5	2.3	3.1	3.2	3.3	3.3	3.5	2.5	2.1
12. Thereof: Share of natural increase (%)	50.5	68.7	86.1	94.0	82.1	63.5	64.6	65.6	58.4	55.9	82.9	99.6
13. Thereof: Share of net migration balance (%)	49.5	31.3	13.9	6.0	17.9	36.5	35.4	34.4	41.6	44.1	17.1	0.4

^a Since 1967 the population of East Jerusalem is included in Israel's permanent population.

^b Provisional data.

^c Per thousand permanent population. For 1972 the census population is used.

^d Immigrants, potential immigrants, tourists changing their status to immigrants, immigrating citizens (children born to Israeli citizens abroad), persons returning under the family reunion scheme.

^e Israelis residing abroad for 13 months or more, less Israeli citizens returning from abroad, after an absence of 13 months or more, and migrants via the Jordan River bridges.

^f Including discontinuity due to population census.

[§] War dead are not included in the deaths of 1967 and 1973, in calculating the rate of natural increase.

SOURCE: Central Bureau of Statistics.

The reduced level of labor force participation rate and of labor input per employed was made possible, to a large extent, by the marked expansion of the income supplementation system (National Insurance allowances, welfare support, and complete or partial exemptions from obligatory fees and licences). Although the trend was apparent from the mid-sixties, it received a significant boost from 1973 onwards. At present, while the general slump in the demand for workers continues, the positive effect of these payments is evident. However, should this trend continue, there may be room for concern about the potential influence it may have on the willingness to work, when the demand for labor recovers.

Excluding public services (where the initial data available are particularly unreliable), wages per employee rose by 42 percent in 1975 on an annual average, in comparison with 1974. In view of the 40 percent rise in consumer prices, disposable income increased in real terms by only 1 or 2 percent. The tax reform apparently led to an additional rise in real disposable wages (i.e., net of taxes and obligatory loans), however no definitive data are available to date.

Cost-of-living allowance had a predominant effect on wage rises during the last two years. The decline in real wages, which began at the end of 1974 with the devaluation and the implementation of the government's restraining policies, continued, though at a somewhat slower rate in the first half of 1975. In the third quarter, the cost-of-living allowance (and perhaps also the stipend following implementation of the tax reform), produced a rise in real income. As prices rose during the last quarter, real wages were forced downward, but remained at a higher level than in the first half of the year.

In addition to the rise in real gross wages during the second half of 1975, the tax and obligatory loan burden was lessened so that the rise in real disposable wages during this period is even more significant. The outcome of this development appears to be reflected in the increase of private consumption during the second half of the year.

Structural changes in employment also tended to raise wages, both in industries that expanded (such as steel works and electronics, producing for defense and for export), and industries which contracted, in which the composition of manpower has changed: marginal workers who had earned low wages were laid off. Thus, average wages increased while wages were not raised. This may also explain the rise beyond the mean in agriculture and industry.

2. THE POPULATION

The population growth rate fell gradually, from 4 percent annually in 1972 to 2.3

percent in 1975. The contribution of the balance of migration to population growth, which in some years exceeded 40 percent, fell to zero in the year reviewed as emigration equalled immigration.

The experience of immigration cycles in the history of the Jewish settlement including the depression period in the 1960s indicates a combination of external circumstances such as free or hindered emigration from areas of hardship and internal factors such as the attraction of the economic situation in Israel, particularly in terms of employment opportunities. Job opportunities appear to affect emigration more than immigration. The absolute level of emigration from Israel is influenced, of course, by the absolute size of the population. Another factor which apparently increased the level of emigration since 1968 is the rising proportion of immigrants coming from western countries. Among this group could be found many who define themselves as temporary residents and whose tendency to return to their countries of origin is greater. (Travel between Israel and the countries of origin makes it difficult to distinguish between a visit and true emigration for the purpose of assessing migration.)

Changes in the population growth rate and in the composition of the increase in population, apart from their influence on labor supply, also have a considerable effect on the direction and extent of economic activity. The small increase in households due to reduced immigration and/or increased emigration is reflected in a lower demand for products and services in general, and for dwellings and durables in particular.

3. THE CIVILIAN LABOR FORCE

In the last two years, the labor force grew by 10,000 annually. This, however, represents a decline when compared to the addition of more than 35,000 in the three previous years, from 1971 to 1973.

Table XII-3, which analyzes the changes in labor force, shows that this drop is due to the slowdown in population growth (reduced immigration and increased emigration), yet even more outstanding is a reduced tendency for participation in the labor force.³

The decline in the participation rate was not continuous during the last two years. It was concentrated rather in the two sub-periods - at the end of 1973 and at the beginning of 1974 - corresponding to the war period with its protracted mobilization also one year

3. Actually the data presented in this table do not show the full effect of the fall in immigration and the intensified emigration. Among immigrants the participation rate as well as the unemployment rate is higher and apparently the same applies to emigrants. The resulting drop in participation was attributed in the table to changes in the specific participation rates.

Table XII-3
SOURCES OF INCREASE IN LABOR FORCE PARTICIPANTS, 1971-75
(in thousands)

	1971	1972	1973	1974	1975
Change in participants					
Total	31.4	43.7	41.4	5.1	19.9
1. Due to change in population ^a	31.1	34.5	38.1	32.2	21.1
2. Due to change in age and sex composition ^b	1.2	2.5	0.5	-2.1	-2.6
3. Due to change in participation rate of each age group ^c	-0.9	6.6	2.8	-25.0	-3.5
Males	16.6	21.4	23.0	-6.0	2.5
1. Due to change in population ^a	20.8	23.8	25.7	20.4	14.3
2. Due to change in age composition ^b	1.3	2.1	1.0	-1.7	-2.0
3. Due to change in participation rate of each age group ^c	-5.5	-4.5	-3.7	-24.7	-9.8
Females	14.8	22.3	18.4	11.1	12.6
1. Due to change in population ^a	10.3	10.7	12.4	11.8	6.8
2. Due to change in age composition ^b	-0.1	0.4	-0.5	-0.4	-0.6
3. Due to change in participation rate of each age group ^c	4.6	11.1	6.5	-0.3	6.3

^a Assuming general participation rates of the previous year.

^b Assuming specific participation rates of the previous year.

^c The difference in the specific participation rates multiplied by the population of the year in question.

SOURCE: Central Bureau of Statistics and computations of the Bank of Israel.

later, the end of 1974 and the beginning of 1975, apparently in reaction to the announcement of the new economic policy in November 1974. It seems that in both of these sub-periods there occurred an overreaction to special events, which created pessimistic expectations regarding future economic developments. In consequence, there began a pronounced fall in the demand for workers, and at the same time the participation rate declined as well.⁴ Afterwards a partially counter-balancing rise occurred (see Table XII-4).

The sharp decline in the participation rate came after several years of stability in the general participation rate. There is a long-term downward trend in this rate correlated to the rise in standard of living, which leads to longer periods of study among young people, as well as to early retirement of elderly and handicapped persons. This trend is particularly distinct among men, whereas among women it is outweighed by an additional trend - the propensity of young and educated women to join the labor force is increasing, most of them turning to public services.

During the prosperity years, the intensive demand for workers weakened the long-term

4. The drop in the participation rate was not necessarily a direct and immediate reaction to the contraction in demand for labor and in job opportunities open to potential members of the labor force. At the end of 1973 and the beginning of 1974 it was chiefly the protracted military service, both regular and reserve, which apparently lessened the participation rate in the 18-34 age group; however, the gradual demobilization was not accompanied by a parallel increase in the participation rate as it gradually became apparent that there was no adequate demand for additional workers.

Table XII-4
LABOR FORCE PARTICIPATION RATE, BY SEX AND AGE, 1967-75
(percentages).

	All age groups	14-17	18-24	25-34	35-44	45-54	55-64	65+
Total								
1967	50.4	26.9	48.4	61.4	60.8	63.6	55.4	21.4
1968	50.3	28.3	49.1	61.8	61.1	63.7	54.9	18.3
1969	50.1	25.2	47.1	61.8	62.3	64.1	56.6	20.2
1970	49.3	22.8	45.4	61.2	61.7	63.9	55.1	19.5
1971	49.2	21.1	45.3	63.1	62.1	63.7	55.5	18.8
1972	49.6	21.6	45.5	63.9	63.3	64.2	54.4	18.3
1973	49.7	20.4	45.9	64.5	63.1	64.0	54.6	18.8
1974	48.5	16.4	41.3	65.1	64.7	64.0	52.9	18.7
1975	48.3	15.7	40.7	65.5	66.5	64.0	51.3	17.1
Population								
1975 (thousands)	2,358	257	448	477	336	318	252	270
Males								
1967	72.1	30.7	51.9	93.3	95.3	95.5	88.1	37.1
1968	71.8	32.4	53.7	93.9	95.4	95.3	86.5	32.6
1969	70.4	29.2	48.7	92.1	95.4	95.4	89.0	35.0
1970	69.2	27.3	46.0	91.1	94.8	95.1	88.5	33.8
1971	68.8	25.1	45.8	91.0	94.8	94.6	87.8	33.2
1972	68.5	25.3	45.5	90.0	95.0	94.3	86.2	31.5
1973	68.3	24.2	46.0	89.9	93.6	94.1	86.2	32.6
1974	66.0	19.9	40.4	88.0	94.1	93.5	85.9	31.5
1975	65.0	19.1	40.8	86.8	94.0	93.1	83.9	28.7
Population								
1975 (thousands)	1,171	132	228	241	162	153	119	136
Females								
1967	28.6	23.0	44.7	29.7	31.0	31.0	21.1	5.6
1968	28.8	24.0	44.1	30.0	30.3	33.0	21.6	4.5
1969	29.7	21.0	45.3	31.4	32.7	33.6	23.0	5.7
1970	29.3	18.1	44.9	32.6	31.9	33.9	22.1	5.0
1971	29.8	16.8	44.7	34.7	32.9	33.5	23.3	4.9
1972	30.8	17.6	45.5	36.3	34.4	35.3	22.9	5.5
1973	31.3	16.3	45.7	38.4	35.2	35.3	24.1	5.5
1974	31.3	12.7	42.3	41.7	37.7	36.1	22.5	6.0
1975	31.7	12.1	40.6	44.0	41.0	37.1	21.8	5.4
Population								
1975 (thousands)	1,187	125	220	236	174	165	132	134

SOURCE: Central Bureau of Statistics, Labor Department, manpower surveys.

trend, and the participation rate remained stable even among marginal age groups. In the last two years, when the demand for workers in the business sector ceased to grow, the participation rate declined sharply, first among the marginal age groups, and in 1975 among other age groups as well (excepting men in the middle-age group of 35-44, and women of the 25-54 age group).

Other factors which contributed to the declining participation rate in the last two years are a certain increase in the size of the regular army and an accelerated rise in the tendency to study both among the 14-17 age group, and within the framework of advanced education. Although the higher education rates were influenced more by economic and social

factors, as well as by the 1973 improvements in the educational system, the growth in this rate should not be viewed as totally independent of developments in employment opportunities open to young people. In any event, even after discounting the growth in the number of persons drafted and the number of students, there remains a decrease in the participation rate among young people. This development can only be attributed to a decline in the demand for workers, which was larger than the decrease in the otherwise "autonomous" labor supply.

It is difficult to place the participation rates in 1975 within the long-term trend, although significant changes were observable since 1973, which are related to the decreasing demand for workers on the one hand and to the development of the income supplementary support system on the other hand.

In comparison to the mid-sixties, a definite change has occurred in the system of supplementary income payments (child allowance, welfare allowance, invalid allowance, exemptions from obligatory payments, etc.). This support accelerated, as stated, in 1973 and took a sprinting rise in 1975, such that income from support relative to income from economic activity grew extensively in the last two years. This process is borne out by the findings of the income surveys of urban wage-earning families.

The portion of income from property and supplementary benefits in total income rose from 4 percent in 1970 to 8 percent at the beginning of 1975. There is no doubt that these developments are interrelated; that is, the increase in supplementary benefits even if it did not in itself bring about the trend described, certainly made it easier for marginal workers (such as youths, handicapped, and elderly people) not to join the labor force, when their chances of finding employment lessened.

Income surveys also indicate a decrease in the share of income earned by the head of the family and a rise in the share of income earned by his wife. This development corresponds to what has been previously said about the reduction in the male labor force, as opposed to the significant increase in female employment. Incidentally, this coincides with a well-known phenomenon, whereby wives and other members of the family tend to seek work more vigorously when job opportunities for the main breadwinner decline. Evidently, for women with the appropriate skills, a corresponding demand existed in the services sector.

The structure of the support system, which imposes a "marginal tax" of 100 percent or more on the recipient of support when his earned income rises (by means of reduction in allowances and benefits), is such that it encourages the reduction of the labor supply, particularly among low-paid wage earners, who in general are less educated and tend to

Table
SURVEYS OF ISRAELI MANPOWER

	Working-age population	Civilian labor force	Employed	Unemployed	Labor force as percentage of population aged 14 and over	Employed as percentage of population	Unemployed as percentage of civilian labor force	Civilian labor force
	(Thousands)			Both sexes (percent)				
Annual averages								
1970	2,032	1,001	963	38.2	49.3	47.4	3.8	704
1971	2,097	1,033	997	35.7	49.2	47.5	3.5	720
1972	2,169	1,076	1,047	29.1	49.6	48.3	2.7	741
1973	2,247	1,118	1,088	29.5	49.7	48.4	2.6	765
1974	2,315	1,123	1,089	33.7	48.5	47.1	3.0	759
1975	2,358	1,138	1,103	35.0	48.3	46.8	3.1	761
Quarterly data								
1973 I	2,218	1,099	1,072	26.7	49.5	48.3	2.4	751
II	2,236	1,108	1,085	22.4	49.4	48.5	2.0	762
III	2,256	1,130	1,097	32.6	50.1	48.6	2.9	779
IV	2,278	1,135	1,099	36.3	49.8	48.2	3.2	767
1974 I	2,293	1,115	1,080	34.5	48.6	47.1	3.1	752
II	2,307	1,131	1,097	34.6	49.1	47.6	3.1	760
III	2,323	1,133	1,099	33.7	48.8	47.3	3.0	770
IV	2,335	1,112	1,080	31.8	47.6	46.3	2.9	753
1975 I	2,334	1,116	1,081	35.3	47.6	46.1	3.2	744
II	2,351	1,133	1,100	33.3	48.2	46.8	2.9	762
III	2,361	1,153	1,115	37.6	48.8	47.2	3.3	773
IV	2,374	1,148	1,114	34.5	48.4	46.9	3.0	765

SOURCE: Central Bureau of Statistics, Labor Department.

concentrate in production branches. In the course of the last two years, the support system continued to expand, likewise the principle of fully linking support to the consumer price index was adopted (whereas the cost-of-living allowance is only partly linked to increases in the price index). With this in mind, there is reason to fear that given the current conditions, many wage-earning heads of families can reduce the scope of their work, without this affecting their economic situation, as they will receive the full support and benefits to which they are entitled.

In conclusion, we should note that the marked reduction in the growth of the labor force is the main reason why open unemployment was avoided in spite of the stagnation in economic growth. In addition to all the reasons discussed above for lack of participation in the labor force and for reduction in the man-hours per employed, it is possible that changes in the manpower survey questionnaire (from the beginning of 1974) may cause, under

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— MAIN EMPLOYMENT DATA

Employed (Thousands)	Unemployed (percent)	Labor force as percentage of population aged 14 and over	Employed as percentage of population aged 14 and over	Unemployed as percentage of civilian labor force	Civilian labor force	Employed (Thousands)	Unemployed (percent)	Labor force as percentage of population aged 14 and over	Employed as percentage of population	Unemployed as percentage of civilian labor force
580	23.8	69.2	66.9	3.4	298	283	14.4	29.3	27.9	4.8
698	22.5	68.8	66.7	3.1	313	299	13.2	29.8	28.5	4.2
724	17.2	68.5	66.9	2.3	335	323	11.9	30.8	29.7	3.5
746	18.2	68.3	66.7	2.4	353	342	11.3	31.3	30.3	3.2
740	18.1	66.0	64.4	2.4	364	349	15.5	31.3	29.9	4.3
742	18.9	65.0	63.4	2.5	377	360	16.6	31.7	30.3	4.4
733	17.3	67.9	66.3	2.3	348	339	9.4	31.3	30.5	2.7
747	14.9	68.4	67.0	2.0	346	339	7.5	30.9	30.2	2.2
759	20.1	69.4	67.6	2.6	350	338	12.5	30.9	29.8	3.6
746	20.6	67.6	65.8	2.7	368	352	15.7	32.2	30.8	4.3
733	19.2	66.0	64.4	2.6	363	347	15.3	31.4	30.1	4.2
741	18.7	66.3	64.7	2.5	372	356	15.9	32.0	30.6	4.3
752	17.6	66.7	65.2	2.3	363	347	16.0	31.1	29.7	4.4
736	16.6	65.0	63.5	2.2	359	344	15.1	30.5	29.3	4.2
725	19.6	64.0	62.3	2.6	372	356	15.8	31.5	30.2	4.2
745	17.4	65.2	63.7	2.3	371	355	15.7	31.4	30.0	4.2
753	20.1	65.9	64.2	2.6	380	362	17.7	32.0	30.5	4.7
747	17.6	64.9	63.4	2.3	383	366	16.9	30.6	30.6	4.4

certain assumptions, a statistical bias.⁵ This bias results mainly from classifying more unemployed persons seeking work as non-participants in the labor force, rather than as participants who are unemployed.

4. EMPLOYMENT

In spite of the zero-growth in the GNP in 1975, following two years of decelerated growth,⁶ an increased of 1/2 percent was nonetheless noted in the number of locally employed (an increase of 1 percent among employed Israelis cancelled out an 8 percent drop

5. See discussion in paragraph 4c below.

6. Because of the disruptions during the war and the extensive mobilization which also continued into the first quarter of 1974, the main comparison focuses on 1975 and the last 9 months of 1974 and the first 9 months of 1973. In the tables, however, data for the whole period is of of course also presented.

among workers from the administered areas). The increase in the number of unemployed was negligible, amounting to 1/2 percent. At first glance this may seem surprising, since under such circumstances a rise in unemployment should have been expected (and indeed this had been the forecast in the national budget for 1975). However, a more careful appraisal reveals that although the open unemployment with all its social significance was small, the low rate of unemployment does not reflect the true employment situation. When overall labor is measured in terms of man-hours worked rather than persons employed, one finds that the 1/2 percent increase previously observed becomes in reality a drop of one percent. Moreover, in comparison to the first 9 months of 1973, the total labor input in 1975 fell by 2 percent, a return to the level of 1972. Worse yet, in the business sector (excluding public services, in which employment continued to expand), labor input was down 2 percent in 1975 as compared to 1974(9) and about 5 percent down compared to 1973(9) and about 3 percent even if we go back as far as 1972.

**DISTRIBUTION OF LABOR FORCE, ISRAELIS, BY INTENSITY OF
EMPLOYMENT, 1970, 1972 AND 1975**
(percentages)

	Total labor force	Employed full-time	Employed part-time	Temporarily absent	Unemployed
Both sexes					
1970	100	74.9	15.7	5.6	3.8
1972	100	75.5	16.1	5.7	2.7
1975	100	70.1	18.7	8.2	3.1
Males					
1970	100	82.1	9.5	5.0	3.4
1972	100	83.0	9.4	5.3	2.3
1975	100	78.3	11.2	8.1	2.5
Females					
1970	100	57.9	30.4	6.9	4.8
1972	100	58.8	30.9	6.8	3.5
1975	100	53.4	33.7	8.5	4.4

SOURCE: Central Bureau of Statistics, Labor Department, Manpower surveys.

**AVERAGE WEEKLY WORKING HOURS PER EMPLOYED (INCLUDING
ABSENTEES), ISRAELIS, 1970, 1972, AND 1975**

	Total	Agriculture	Industry	Construction	Trade and entertainment	Transport and communication	Public services	Financial and business services	Personal services
1970	40.1	39.9	42.1	42.2	42.8	42.8	40.8	36.5	34.9
1972	40.4	39.6	42.6	42.8	43.0	43.6	40.5	36.7	35.2
1975	38.0	38.3	40.0	39.5	40.5	40.2	38.8	34.7	33.9

SOURCE: Central Bureau of Statistics, Labor Department, manpower surveys.

Table XII-6

TOTAL EMPLOYMENT IN ISRAEL, ISRAELIS AND WORKERS FROM THE ADMINISTERED AREAS, AND WORKING HOURS, 1970-75

	Average hours per employee	Total branches	Public services incl. electricity and water	Financial services	Other branches ^c	Agriculture	Industry	Construction	Trade	Transportation and communication	Personal services	Unknown and rounded numbers	Business sector ^d
Employed													
(thousands)													
1970	40.1	983.8	242.2	49.7	691.9	89.8	235.7	91.3	125.6	72.5	74.0	3.0	741.6
1971	39.9	1,030.9	253.6	56.7	720.6	92.0	244.6	106.0	127.5	74.6	73.4	2.5	777.3
1972	40.3	1,099.4	263.1	60.2	776.1	95.6	257.4	125.4	138.7	77.6	77.1	4.3	836.3
1973 (9) ^a	39.5	1,149.9	278.5	67.0	804.4	92.3	280.5	131.0	142.8	77.7	77.4	2.7	871.4
1974 (9) ^b	38.5	1,164.3	297.0	70.1	797.2	81.7	289.1	128.3	132.3	85.3	73.1	7.4	867.3
1975	38.1	1,168.9	310.6	75.6	782.7	80.5	280.8	124.8	139.1	81.7	69.8	6.0	858.3
Change in 1975 compared to 1973 (9) (percent)													
		1.7	11.5	12.8	-2.7	-12.8	0.1	-4.7	-2.6	5.1	-9.8		-1.5
Weekly working hours (millions)													
1970		39.41	8.93	2.03	28.45	3.55	9.92	3.81	5.38	3.10	2.59	.10	30.48
1971		41.14	9.30	2.30	29.54	3.59	10.17	4.40	5.52	3.24	2.62		31.84
1972		44.32	9.72	2.44	32.16	3.74	10.94	5.24	5.97	3.38	2.72	.17	34.60
1973 (9) ^a		45.43	9.97	2.65	32.81	3.62	11.64	5.35	6.07	3.35	2.66	.12	35.46
1974 (9) ^b		44.77	10.47	2.71	31.59	3.16	11.65	5.06	5.47	3.49	2.52	.25	34.30
1975		44.51	10.84	2.93	30.74	3.07	11.24	4.89	5.63	3.30	2.37	.24	33.67
Change in 1975 compared to 1973 (9) (percent)													
		-2.0	8.7	10.6	-6.3	-15.2	-3.4	-8.6	-7.2	-1.5	-10.9		-5.0

^a January-September.^b April-December.^c All branches, excluding public and financial services.^d All branches, excluding public services, electricity and water.

SOURCE: Central Bureau of Statistics. Israeli manpower surveys and family surveys in the West Bank and Gaza, and Bank of Israel computations.

The development in opposite directions between the public services and other branches of the economy is also reflected in different trends between employment of males as opposed to that of females. Among men, the number of employed stabilized at the level of 1973, while among women, there was an increase of 21,000 between 1973 and 1975. Here too, this results from an increase of 32,000 women employed in services, combined with a decline of 11,000 women in the productive branches.

Development of labor input in the last two years corresponds therefore to the stabilization in the GNP. The explanation for the steadiness in the number of males employed and the decline in total labor input, as opposed to the non-growth of open unemployment, can be found in different adjustment processes: on the supply side, a decrease in additional population, a reduction in the tendency to work expressed in a falling rate of participation in the labor force, and in the number of working hours per employee, as well as a change of direction in employment trends among workers from the administered areas; on the demand side, apart from the increased growth of the services sector, the uneven and hesitant nature of the decline in demand for workers in the private sector should be noted. Special events in the last two years brought about irregular and discontinuous developments, which created uncertainty regarding future developments. Therefore, employers preferred to reduce the number of work hours and work days by relying on natural wastage and a reduction in recruitment of new workers, rather than large scale layoffs. The transition from full-time work to part-time and the increase in temporary absenteeism from work, partly in the form of organized vacations, amounts to a decrease of 6 percent in the average work hours per employee between 1972 and 1975.⁷ This reduction is equivalent to the employment of 60,000 workers. If one adds to this the effect of the decline in the participation rate between 1973 and 1975, which totals 30,000 workers, one arrives at a general reduction of 90,000 potential workers, without a significant rise in the apparent unemployment. This calculation does not take into consideration an increment of numbers employed that would have been generated by a greater immigration and the pool of workers from the administered areas, had the demand for workers continued to expand as it had done in previous years.

7. It includes, of course, the continued growth in part-time employment of women, in the social services. As opposed to this, the table clearly shows that the decline in the number of hours per employee exists to the same extent in the productive branches as well. A withdrawal of young people, elderly, and women occurred in these branches. All these tend to work less hours, and their withdrawal from the labor force in itself should have raised the average of man-hours per employee.

(a) *Background to Developments in 1974-75*

The war caused great upheavals, much beyond the immediate influence on production and employment, because of the extended period of mobilization. The world wide economic crisis hit exports badly, and the growing tax burden and rise in prices of imported items cut sharply into real disposable income, and thereby into consumption and investments. In contrast, however, a renewed growth of defense demands began in the industrial branches, in construction, and in transport. For different reasons, an unpredicted growth also occurred in publicly sponsored residential construction during the budget year 1974/75, which moderated and slowed the downward trend of activity in the building sector.

On demobilization, economic activity once more swelled, partly in answer to the demands that had been postponed during the war period. The sharp price rise encouraged hoarding of stocks and in general in mid-1974 it looked as though economic activity had returned to its previous growth pattern.

The new economic policy declared in November 1974 once more brought about pessimistic expectations for a slowdown in economic activity. The period which includes 1974 and the beginning of 1975 was dominated by these expectations, on top of which came the restraining influence of the depression in world demand. In the second half of the year reviewed, a change was once more noted, whose main feature was a rise in export from the traditional branches and an improvement in tourism to Israel. But as opposed to this, in the course of the year there was a sharp decline by up to half in the number of housing starts. Likewise, a renewed slowdown was noted in the local defense demand from the industrial, construction, and transport branches. In general appraisal, it can be said that the economic development of the last two years was continuously marked by significant changes in demand, sharp price surges, and announcements of restraining government policy, accompanied by payments of cost-of-living allowances and tax reductions.

The development described above is reflected in employment in two ways: the first was in the preference for a reduction in work-hours and work-days as opposed to large-scale layoff (this was assisted by the fact that the slowdown and reductions were spread across a wide range of areas, although in most cases there was no substantial drop in production). The second phenomenon was apparently that new workers ceased to be absorbed into the labor force during this period of particularly pessimistic expectations - at the end of 1973 and the beginning of 1974, and at the end of 1974 and the beginning of 1975. This was expressed in the employment statistics as a particularly sharp drop in the labor input in the business sector and a decline in the participation rate, when participants in the labor force had difficulty finding appropriate work.

Table XII-7
LABOR INPUT OF EMPLOYED IN ISRAEL BY BRANCH, 1970-75
 (million weekly working-hours, yearly and quarterly averages)

	Total	Public Services	Electricity	Finances	Agriculture	Industry	Construction and public works	Trade	Transport, Storage and Communication	Personal Services
Annual data										
1970	39.41	8.44	0.49	2.03	3.55	9.92	3.81	5.39	3.10	2.59
1971	41.14	8.44	0.46	2.30	3.59	10.17	4.40	5.52	3.24	2.62
1972	44.32	9.35	0.37	2.44	3.74	10.94	5.24	5.97	3.38	2.72
1973 (9) ^a	45.43	9.53	0.43	2.52	3.62	11.64	5.35	6.07	3.35	2.66
1974 (9) ^b	44.77	10.05	0.42	2.71	3.16	11.65	5.06	5.47	3.49	2.52
1975	44.51	10.41	0.46	2.93	3.07	11.25	4.89	5.63	3.30	2.37
Quarterly data										
1972 I	44.10	9.90	0.39	2.50	3.75	10.95	5.00	5.50	3.25	2.65
II	43.27	9.38	0.32	2.30	3.85	10.35	5.10	5.85	3.25	2.80
III	44.55	8.40	0.37	2.40	3.80	10.95	5.50	6.35	3.60	2.80
IV	45.38	9.66	0.39	2.55	3.55	11.55	5.35	6.20	3.45	2.65
1973 I	46.01	10.17	0.45	2.72	3.37	11.84	5.19	5.90	3.34	2.94
II	45.44	9.85	0.44	2.29	3.74	11.35	5.21	6.10	3.33	2.67
III	44.84	8.58	0.41	2.55	3.74	11.73	5.66	6.21	3.37	2.38
IV	36.64	9.18	0.38	2.25	3.09	8.67	3.27	4.94	2.48	2.18
1974 I	41.50	9.99	0.41	2.55	3.21	10.45	3.73	5.55	2.89	2.51
II	45.25	10.52	0.42	2.66	3.27	11.52	4.90	5.68	3.42	2.56
III	44.02	9.15	0.43	2.68	3.21	11.84	5.28	5.22	3.43	2.54
IV	45.04	10.49	0.41	2.80	3.01	11.60	5.00	5.51	3.61	2.45
1975 I	44.45	10.71	0.50	2.98	3.10	11.15	4.67	5.59	3.36	2.12
II	45.05	10.73	0.51	2.87	3.15	11.61	4.74	5.55	3.36	2.31
III	43.12	9.09	0.41	2.90	3.25	10.88	5.22	5.46	3.23	2.44
IV	45.42	11.09	0.42	2.96	2.80	11.33	4.94	5.93	3.23	2.59

^a January-September.

^b April-December.

^c The columns do not total because of rounding off and unknown.

SOURCE: Central Bureau of Statistics, manpower surveys, and family surveys in the administered areas, and Bank of Israel computations.

As stated, it appears that at the beginning of 1975 there occurred an overreaction on the part of employers, and during the year the demand for workers grew again in comparison with the first quarter. This improvement was also due to changes for the better which began in certain branches, in particular, export and tourism.

The uneven development in demand between the various branches, and in certain cases between different plants in the same branch, creates, in the final analysis, a greater demand for workers in comparison with the labor input as measured by the total man-hours worked. While in places of work where the demand for output declines, employers do not hasten to lay off workers and prefer to reduce the number of work-hours and days; in branches and plants where the demand for their product was great and the outlook optimistic, the recruitment of new workers continued at full rate. A striking example of this can be seen in the steel and electronics branches specializing in defense equipment. In these branches, the number of employees rose by 30 percent between the eve of the war and the end of 1975.

In addition, the intentional activity of the employment agencies in placing the Israeli labor force was quite notable, as in efforts to return women and young people to harvesting jobs and distributing places of work among most of the youth seeking jobs during the summer vacation.

(b) Employment in the Various Branches

A stability in overall employment was noted in the various economic branches, as a result of the drop in the productive business sector and from the continuous growth of the public, business, and financial services. Among the productive branches, a sizable decrease occurred in agriculture (20 percent in total man-hours between 1973(9) and 1975), in spite of the continuing growth in production and export, which resulted from the technological improvements and in the changing composition of production. An interesting experiment which met with partial success in 1975 was the efforts of the employment services to return Israelis to work in citrus harvesting and grape-picking activities, which had gradually been taken over by Arabs from the administered areas.

In the building branch an 8 percent drop in labor input occurred, a considerable lag behind expectations. After more than two years in which there pervaded a general feeling that the period of prosperity in construction had ended and that a depression was expected, the drop in the number of employed in 1975 as compared to 1973 totaled only 5 percent. This decrease was mainly expressed in that this sector ceased to recruit new workers from the administered areas, and in 1975 - also experienced a slight withdrawal of

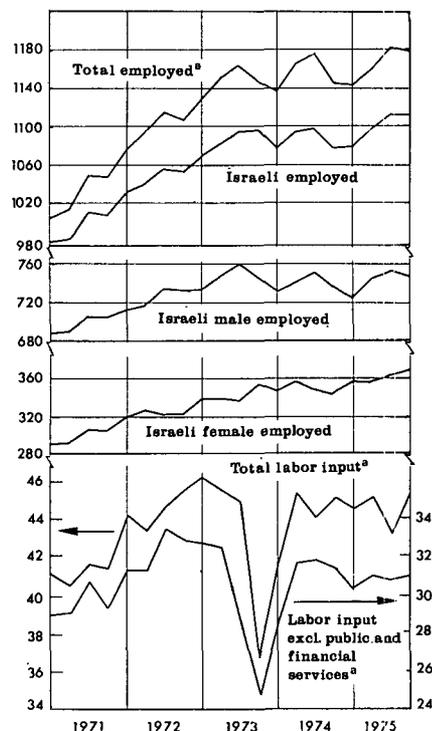
these workers. In addition, the work-hours per employee declined by 3 percent, and disguised unemployment expanded.

In commerce, hotels, and catering there was a 7 percent drop in the number of employed, compared to 1973. In the course of 1975 employment steadied, and towards the end of the year, it even rose, probably as a result of a certain recovery in tourism. A slight decrease was recorded in transportation (1.5 percent), as compared to 1973(9), following the special circumstances in 1974 when there was an intensified demand by defense for transportation. Judging from information on a slump in trucking, it appears that this branch experienced disguised unemployment of some magnitude. A larger than average fall in employment was recorded in the personal services (10 percent).

In industry, the overall data indicate a moderate drop of 3.5 percent in the number of employed, while showing changes in the composition as well. In the metal and electronics branches, which enjoy an extensive demand from the Defense Ministry and from export, the large increase in production and employment is particularly outstanding. These branches witnessed a 30 percent growth in the number of employees between the third quarter of 1973 and the end of 1975. By contrast in other branches in which employment and production declined (textiles, food), the scope of this decrease was much smaller, so that natural wastage of workers made major layoffs unnecessary. These reductions focused on employment of women who have a lesser tendency to remain unemployed in the labor force, and yet there began an upward turn in female unemployment during the last two years.

Much attention has been placed on the continuing growth of employment in the services. It has even been argued that workers needed in the production branches have moved to the public services. The facts are as follows: the increase in the services was concentrated in the employment of women. The number of women employed in the services increased by 32,000 between 1973 and 1975. Of these, 6,000 were in financial services and commerce, and 26,000 in public services where they concentrated in education and science, 14,000;

Figure XII-1
LABOR INPUT, 1971-75
(employed in thousands; labor input in million hours per week)



^a Includes workers from the administered areas.
SOURCE: Central Bureau of Statistics.

Table XII-8
EMPLOYED FROM THE ADMINISTERED AREAS IN ISRAEL, 1970-75

	Average weekly hours per worker	All branches	Thereof: main branches		
			Agriculture	Industry	Construc- tion
Employed (thousands)					
1970	38.4	20.6	5.0	2.4	11.2
1971	40.2	33.8	7.5	5.0	17.7
1972	38.6	52.4	12.2	9.1	26.1
1973 (9) ^a	39.3	65.1	12.4	11.6	34.1
1974 (9) ^b	38.2	72.2	12.6	12.6	39.1
1975	39.5	66.3	9.5	12.2	36.1
Weekly working-hours (millions)					
1970		0.79	0.17	0.10	0.43
1971		1.36	0.27	0.20	0.69
1972		2.02	0.44	0.36	0.99
1973 (9) ^a		2.56	0.46	0.46	1.30
1974 (9) ^b		2.76	0.44	0.51	1.47
1975		2.62	0.35	0.50	1.40

^a January-September.

^b April-December.

SOURCE: Central Bureau of Statistics: Family surveys in the administered areas, and Bank of Israel computations.

medicine and public health, welfare, religious, and other community services, 7,000, and 5,000 were added to the managerial and defense services.

Correspondingly, the number of women employed in the productive branches fell by 11,000. Data on women's participation in and departure from the labor force indicate an increased entry of educated women in the 25-44 age group, and on the other hand, withdrawal of the very young and less educated elderly women. These data are consistent with employment patterns in the various branches, where the relatively young and educated women compose the major element of additional staff employed in education, health, welfare, etc. While among the teenagers and less educated elderly women in the industrial branches, such as textiles and food, we find that employment is reduced. Everything stated on this topic has not dealt with the question of whether the intensified absorption of workers into the public sector during recent years is in fact a desirable phenomenon. The discussion here deals only with the influence that increased employment in the public sector had on the ability of the productive sectors in recruiting workers.

With respect to the phenomenon of continued growth of employment in the public sector at a rate similar to that in recent years, apart from the lesser dependence on the market, there exists the recurring cycle where the availability of appropriately skilled workers encourages the expansion of new public services, which in turn create a greater demand for additional workers. The way to restrain this pattern and to adjust it to the needs and

capacity of the economy is by limiting the public budget earmarked for services. This objective has often been proclaimed but has not been put into practice in recent years.

(c) *Unemployment*

During the last two years, there was a slight increase in the number of unemployed and in the rate of unemployment. The extent of this increase is insignificant, and it falls below the expected level of unemployment, given the stagnation in the economy. Because of the public's interest in unemployment data, we shall deal with it here in some detail.

As an indicator of the existence or nonexistence of socio-economic plight, it appears that the measured rate of unemployment describes the situation as it really is: there is no unemployment in the accepted sense. This assertion seems correct even though there may be some doubt concerning the absolute rate of unemployment in the last two years, as compared with the rate in previous years and during the 1960s. On this matter we shall make three observations.

1. It has already been stated in earlier reports of the Bank of Israel and in other economic publications that the structural and frictional unemployment component declined significantly between the 1960s and the current period. Among the factors which have contributed to this are: (a) the sharp reduction in the share of new immigrants in the labor force, (b) improvements in the absorption of new participants in the labor force (ulpan, absorption centers, professional courses, and special funds established for assisting new immigrants to find employment, as well as improved procedures in order to ease the entry into the labor force of young people who have completed their national service), (c) reorganization of the employment agencies (inter-area coordination and greater geographic mobility), (d) the welfare support system, which allows workers of limited capacity not to depend entirely on the job market, (e) greater average seniority in places of work, including the rising cost of mobility due to the existing retirement agreements - all these and additional factors reduce the "hard core" of unemployment.

2. It may be that due to changes made at the beginning of 1974 in the manpower survey questionnaire, unemployed workers seeking jobs not by means of employment exchanges (the number of these has risen in recent years) are more inclined to describe themselves as non-participants in the labor force (as compared to the questionnaire in its previous form), and not as participants in the labor force who are out of work.

3. The unemployment insurance system is strict in its definition of eligibility for unemployment benefits, in comparison with the system of supplementary payments. There is no incentive in the structure of the unemployment insurance system that would encourage

Table XII-9
LABOR EXCHANGE DATA^a

	Job-seekers	Unplaced job-seekers	Daily average of unemployed	Unemployed 7 days and more	Job openings	Unfilled job openings	Help wanted advertising lineage
Annual data			Seasonally adjusted data				Original data
1972	18,330	3,620	740	380	34,960	8,420	38,250
1973 (1-9)	16,730 ^b	2,550 ^b	840 ^b	250	31,180	6,990	44,020
1973	(16,900)	(2,770)	(880)	(290)	(30,400)	(6,810)	(38,090)
1974	(16,930)	(3,130)	(850)	(330)	(26,040)	(7,260)	(41,900)
1974 (4-12)	16,860	3,120	830	320	25,500 ^c	7,630 ^c	43,060
1975	16,970	3,800	980	470	24,760	7,500	32,290
Quarterly data							
1973 I	16,990	2,520	810	230	32,230	7,390	43,650
II	16,160	2,510	850	250	29,360	6,600	43,370
III	17,020	2,610	860	280	31,440	6,990	45,040
IV	17,420	3,420	990	420	28,070	6,260	20,330
1974 I	17,130	3,140	910	360	27,660	6,160	38,430
II	17,130	3,170	830	300	26,820 ^c	7,830 ^c	50,260
III	16,550	2,960	820	330	24,010	7,360	42,540
IV	16,890	3,240	830	340	25,660	7,700	36,390
1975 I	16,500	3,450	900	380	24,900	7,670	26,570
II	17,330	3,870	960	460	24,970	7,230	36,860
III	17,500	3,970	1,020	490	24,570	7,330	35,920
IV	16,530	3,750	1,050	530	24,670	7,770	29,830
1976 I	18,570	4,370	1,230	650	25,930	7,800	25,000

^a Excluding help-wanted advertising data received from the advertiser's union.

^b From 1973 on a new registration system was introduced.

^c From April 1974 on a new registration system was introduced.

persons to define themselves as unemployed. On the other hand, the introduction of unemployment insurance since 1973 was accompanied by a more careful registration of unemployed.

It may be stressed once again that even if there is a certain amount of truth to these claims that the present unemployment rate is not comparable to the rates of the 1960s and even the early 1970s, this does not undermine the use of this item as an indicator of the absence of significant growth in the number of those unemployed seeking employment for their livelihood in the last two years.

In the past, the unemployment statistic played a special and at times singular role in the absence of direct statistical measures of employment. Today, such data exist, and they are unequivocal; there is a stability in the number of employed and a drop in labor input (the number of work hours), which is expressed in the decreasing intensity of employment (part-time employment instead of full-time, and proliferation of temporary absenteeism). For the purpose of this discussion, it is of secondary importance whether the unemployed participate in the labor force and actively seek employment, or whether they withdrew from

the labor force (or, for that matter, have not yet joined it). Of importance is the reduction in labor input supplied by the working-age population.

In earlier sections we discussed at length the other factors of employment adaptation - the balance of migration, workers from the administered areas, and the reduction in the participation rate and in employment intensity. These explain the way in which employment adjusted itself to the slowdown in economic activity. However, in spite of this, it remains difficult to assess the manpower pool that would be available for employment, should the appropriate demand exist. Employment did indeed decline, apparently corresponding to a decreased demand; however, the circumstances that instigated this reduction, without it manifesting itself as open unemployment, suggest the possibility that a renewed growth in demand would not necessarily raise the participation rates or increase the intensity of employment. In the discussion on the labor force, we noted that long-term trends exist, indicating a downward turn in the rate of participation among the marginal age groups. This tips the balance, among men in particular, to a reduction in the overall participation rate. It was further noted that the participation rates for 1975 may probably correspond to the long-term trend described, and that the higher participation rates, which remained stable between the years of 1971 and 1973, were in fact the extraordinary ones. If this is the case, then it should not be expected that a growth in the demand for workers will raise the participation rates. Moreover, even if the 1975 participation rates were lower than the long-term trend stemming from a lack of demand (and from an expansion of the system of supplementary payments), it is possible that as long as no change occurs in the trend to improve the supplementary support system, even an increase in the demand for workers will not succeed in raising the labor force participation rate.

We may say, in conclusion, that during 1975 Israel was not struck by the socio-economic plight associated with unemployment, although nongrowth of unemployment does not necessarily indicate that the employment situation is good. In fact, the opposite seems to be the case. The direct data available point to a stagnation and even a backslide in employment. Furthermore, it is not clear to what extent a future rise in the demand for workers in the business sector will bring about an increased tendency to work.

(d) *Statistics from the Labor Market*

In Table XII-9, series of data are presented on the supply and demand for workers. Most of the data is supplied by the employment services and added to them is a series of newspaper advertisements of job vacancies. The difficulty of utilizing the data provided

by the labor exchange because of the continuous changes in these series was discussed in detail in the 1974 Bank of Israel Report. Procedures for recording job-openings and unfilled job-openings changed from the beginning of 1974: instead of making do with recording demands on the part of employers, contact with them was initiated on the part of the employment exchanges. The intensity of these applications varies from exchange to exchange and from month to month and also apparently depends on the expectations and apprehensions of the employment service itself with respect to potential developments in the labor market. During 1975, a gradual change began in the series "the daily average of unemployed," when the various exchanges gradually became more liberal in recording "unemployed days" for job seekers. This change, which persisted until 1976, explains at least partially the rise in the "daily average of unemployed." In the two remaining series, "unplaced job-seekers" and "unemployed 7 days and more", there were no changes in procedural methods of recording. The rise in these series can, with greater certainty, be attributed to the active increase of employment problems. It should be pointed out that the changes are limited in their absolute size, and they merely reflect that the contraction in demand is greater than that in supply. They do not indicate a significant rise in the apparent unemployment. Thus, the statistics of the employment service are in agreement with the general data showing a small rise in the number of unemployed that emerged from the labor force surveys.

In contrast to the statistics of the employment service the data concerning newspaper want ads for workers reflect only the activity of employers. Examination of the data reveals that this series corresponds closely to the data gathered by the labor force surveys relating to developments in employment and the labor force that have emerged in the past two years. Likewise, there is compatibility between these statistics and the explanation presented here regarding changes in expectations, the overreactions to such, and the return to the previous condition, as well. Fluctuations in the series are manifold, in relation to the various events and circumstances already mentioned (the war, various political and economic measures taken in its wake, etc.). According to the want ads in the first quarter of 1976 there was an additional drop in the demand for workers.

5. WAGES

The introduction of the tax reform makes it difficult to analyze developments in wages. This is caused both by the break in statistical continuity, due to changes in definition of wages for tax purposes, and by the delay in collection and interpretation of the data.

In the business sector, wages per employee rose by 42 percent. In estimating the rate of change, changes stemming from the revised wage definitions for tax purposes and supplementary payments were deducted.

Contrary to certain appraisals, the changes in the revised wage definitions brought about only a .4 percent rise in the wage bill as reported to the National Insurance. It may be that even prior to the reform, employers included various benefits, which were exempt from tax, in their report on wages for statistical purposes.

The tax reform is supposed to increase the propensity to work in that it reduces the marginal tax rate at medium and high wage levels (but it negatively affects additional and special jobs, whose incomes were previously subject to a reduced tax).

The reform paves the way for a simplification of the wage system, which until now has been composed of many complicated elements whose purpose, among others, was to avoid high tax payments. Meanwhile, there remains a good deal of complication in the calculation of wages and in the calculation of compulsory payments. For the reform did not deal with the payments for National Insurance, which are calculated on a different basis and at different rates.

Since April 1975, a 4 percent tax was levied on employers. This represented from the employer's point of view an additional rise in wage expenses. Both the employer's tax and the employer's payments to the National Insurance for wages he paid out (17 percent up to a ceiling which was raised to IL3,500), because they are levied at a uniform rate for overall wages, make the work of the lower paid workers relatively more expensive.

Corresponding to the implementation of the tax reform, a reform in the cost-of-living allowance was also instituted. The crucial aspect of this change is a simplification of the allowance arrangements and the establishment of permanent norms for calculating the allowance in the coming years. Simplification of the calculating procedures includes a transition from a base-wage standard to a gross wage standard while raising the ceiling, with the eventual aim of abolishing it. (In contrast to the accepted assumption, the ceiling in the previous arrangement did not have a particularly effective significance.) Likewise, the exemptions from income-tax payments on the cost-of-living allowance were abolished and were replaced by alterations in the taxation thresholds corresponding to rises in the consumer price index.

An essential change in the new arrangement is a constant linkage formula of the cost-of-living allowance to the consumer price index: a coefficient of 0.7. This alteration also constitutes a simplification of past procedures, which had neutralized on an ad-hoc basis various price rises that stemmed from devaluations, from the levying of

indirect taxes, and rises in the cost of housing (since most wage earners own their homes), etc. This estimate that 30 percent of the rise in prices stems from price rises where no compensation should be forthcoming from cost-of-living payments (and from this, the compensation factor of 0.7) may reflect the long-range average. However, the new arrangements were implemented just when such price rises, which should not be compensated for, constitute the major portion of general price rises (devaluations, removal of subsidies, levying of indirect taxes, and world price rises). Consequently, the new format of the cost-of-living supplementary payments makes the required changes in relative prices and desired reduction in personal incomes more difficult.