

CHAPTER XII

WAGES AND EMPLOYMENT

1. MAIN DEVELOPMENTS¹

The recovery in the labor market, which began in 1977, continued to gain strength in 1978. The signs of weakness which prevailed from 1974 to 1976 (and which still continued in 1977 in some segments of the business sector) disappeared, and most indicators point to an upswing. There was a rapid growth in the number of employed in the business sector, and its labor output, which was frozen during the last four years, went up at a rate similar to the growth in the number of employed – 3.6 percent. The civilian labor force participation rate rose appreciably; despite this, male and female unemployment declined, and the number of part time positions decreased. Requests for workers and unfulfilled job vacancies increased, while the number of persons seeking work fell off. The number of workers from the administered areas employed in Israel, which had been dropping until 1977, turned up sharply in 1978.

¹ There is a big discrepancy this year in the data on wages and employment, which are obtained from various sources. The biggest discrepancy is in the figures for employment in public services, where labor force surveys show a 9.5 percent growth compared to 4.5 percent according to National Insurance Institute data, which are used in calculating GNP (during the three years 1976–78 the cumulative growth in the public services was only 1.2 percent higher according to labor force surveys than according to the National Insurance Institute). In the business sector the increase is 1.2 percent higher according to the labor force surveys. A similar problem exists in the sectoral analysis. For example, industrial indexes indicate a growth of 1.7 percent in the number of employed and only 0.4 percent in the labor input, whereas according to the labor force surveys employment and the labor input in industry rose by 3.7 percent. National Insurance data point to a higher growth in industrial employment than do the labor force surveys. Because of these differences in the sources, there are also large discrepancies in the calculations of wages per employee.

The sampling error for the total economy and for the business sector in the labor force survey is not large, and so the survey can serve as a reliable source for describing changes in manpower, employment, and unemployment over time. We have therefore preferred to use survey data for analyzing developments in the entire economy and in the private sector. The discussion of specific sectors is modified by additional nonlabor wage data.

TABLE XII-1
POPULATION, EMPLOYMENT, AND WAGES, PRINCIPAL DATA, 1972-78
 (percent annual increase)

	1972	1973	1974	1975	1976	1977	1978
Average population	3.3	3.3	3.0	2.3	2.3	2.3	2.2
Population to age 14	3.0	2.8	3.0	3.4	3.0	2.6	2.5
Working-age population	3.4	3.6	2.9	2.0	1.9	2.1	2.0
Civilian labor force	4.2	3.9	0.6	1.5	1.9	3.2	4.2
Israeli employed	5.0	3.9	0.3	1.5	1.3	3.9	4.7
Total man-hours of Israelis	6.3	1.9	-1.9	0.7	0.9	0.7	4.6
Workers from the administered areas	55.0	17.0	12.1	-3.5	-2.3	-2.9	9.2
Total employed in Israel	6.6	4.6	0.8	1.2	1.1	2.6	4.8
Total man-hours of working abroad	7.7	-2.5	1.7	1.3	0.7	0.6	4.9
Wages per employee post in Israel	13.7	27.4	36.3	39.0	32.9	48.0	54.0
Consumer price index	12.9	20.0	39.7	39.3	31.3	34.6	50.6

SOURCE: Central Bureau of Statistics.

The growth of employment in the business sector in 1976 and 1977 had its origin in the expansion of export production and tourism, while production for the domestic market slowed down; this year employment in the sector rose because of the growth in production for all uses, except construction. In the construction industry the number of workers continued to decline in 1978, but the drop in labor input came to a halt. The stronger demand for the output of this branch was reflected in a rise in the number of hours worked per employed, a growth of employment in construction-related industries,² and renewed growth in the number of employed from the administered areas, along with the continued withdrawal of Israeli workers from the branch.

² Nonmetallic minerals, wood and wood products, and trucks.

The rising trend in public services personnel continued and even accelerated in 1978, despite the declared policy of the government. The labor input rose at the same rate as the number of employees; this contrasts with the zero growth of the labor input in 1977 despite an increased employment. The steep jump in employment in the public services from 1974 to 1977 contributed to the expansion of domestic demand, and also prevented the creation of unemployment; it is a reasonable assumption that this precluded any moderating influence on real wages and hence on the rate of inflation. On the other hand, there is no conclusive evidence that during this period the expansion of employment in the public sector hampered the recruitment of workers by the business sector in general and export industries in particular.

The situation was different in 1978: the growth in public services coincided this year with economic recovery and an increased demand for manpower by the business sector. Demand pressure in the labor market, which became stronger during the year, was expressed partly in a significant growth in unfilled job vacancies. The mounting demand for workers by the business sector competed for part of the labor force absorbed in public services.

Nominal wage increments in 1978 were high, as was the advance of prices. The average real wage per employee post rose modestly, with the quarterly fluctuations being far sharper than those in 1970--73. This had a negative influence on individuals' and employers' considerations and behavior, i.e. on labor relations and consumption: it is reasonable to assume that these fluctuations contributed to the accelerated rise of wages and prices. Real wages per employee held their ground this year (calculated on a cash basis), or even rose mildly on an accrual basis (i.e. including payments to be made in 1979), while real wages per unit of output (adjusted for the change in factor prices) declined this year. The domestic product of the business sector rose in 1978 by 5--6 percent, labor input by 3.6 percent, and product per hour of work (defined below as labor productivity) by only 1--2 percent.

It is difficult to reconcile the contradiction between the growth in employment and existence of demand pressures in the labor market on the one hand, and the sluggish growth in productivity and unutilized production capacity in the business sector on the other. There are a number of possible explanations for this contradiction: the low productivity may stem from the structural change which occurred in the economy during recent years, which, until 1977, brought up the share of the export branches at the expense of domestic production, and especially construction. In those branches where production climbed sharply, the number of workers rose at a low rate, so that there was an increase in productivity, whereas in those branches where production rose to only a slight extent, or declined, workers were not discharged at a corresponding rate,

TABLE XII-2
 SOURCES OF GROWTH OF LABOR FORCE AND EMPLOYMENT BY SECTOR, 1972-78
 (in thousands, rounded numbers)

	Annual increase						
	1972	1973	1974	1975	1976	1977	1978
A. Growth of labor force							
	Total population - Israelis						
Total increase	43.7	41.4	6.9	16.8	21.5	37.6	50.9
Population growth ^a	34.5	38.1	32.9	22.7	21.5	23.8	23.6
Change in age composition ^b	2.5	0.5	-0.3	-3.8	0.9	1.5	1.9
Specific participation rates ^c	6.6	2.8	-25.7	-2.1	-0.9	12.3	25.4
	Men						
Total increase	21.4	23.0	-2.8	4.7	10.1	18.7	17.4
Population growth ^a	23.8	25.7	21.8	15.1	13.9	14.5	16.0
Change in age composition ^b	2.1	1.0	0.0	-0.3	0.8	2.5	1.6
Specific participation rates ^c	-4.5	-3.7	-24.6	-10.1	-4.6	1.7	-0.2
	Women						
Total increase	22.3	18.4	9.7	12.1	11.4	18.9	33.5
Population growth ^a	10.7	12.4	11.1	7.6	7.6	9.3	7.6
Change in age composition ^b	0.4	-0.5	-0.3	-3.5	0.1	-1.0	0.3
Specific participation rates ^c	11.1	6.5	-1.1	8.0	3.7	10.6	25.6

B. Growth of workers from administered areas ^d							
Total	18.6	12.7	7.1	-5.9	1.5	-1.9	5.8
C. Absorption by domestic sectors							
Total	62.0	54.2	14.0	10.9	20.9	35.4	56.7
Business sector ^e	58.1	41.6	-4.6	-5.9	5.5	19.5	30.1
Excluding construction and related branches	44.1	31.8	-1.4	-7.0	12.5	26.3	28.3
Public services – employees	10.5	12.2	14.0	15.5	7.9	11.1	29.1
Israeli unemployed	-6.6	0.4	4.6	0.8	7.5	4.8	-2.5
Men							
Total	39.8	35.8	4.3	-1.2	8.6	16.8	23.2
Business sector	42.9	32.6	2.0	-4.5	-1.5	12.3	16.9
Of which: Construction	(19.4)	(4.1)	(-2.6)	(-1.4)	(-7.7)	(-5.4)	(-2.7)
Excluding construction and related branches	28.9	23.4	3.2	-2.8	8.5	21.1	15.1
Public services – employees	2.2	2.2	2.4	2.7	4.9	2.4	9.1
Israeli unemployed	-5.3	1.0	-0.1	0.6	5.2	2.2	-2.8
Women							
Total	22.2	18.4	9.7	12.1	11.5	18.6	33.5
Business sector	15.2	9.0	-6.6	-1.4	7.0	7.2	13.2
Public services – employees	8.3	10.0	11.8	12.8	3.0	8.5	20.0
Israeli unemployed	-1.3	-0.6	4.5	0.7	1.7	2.8	0.3

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

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

^c The difference in the specific participation rates multiplied by the current year's population.

^d To eliminate the effect of the war, in 1973 the data are exclusive of the last quarter, and in 1974 exclusive of the first quarter.

^e Including self-employed in public services.

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

so that productivity fell. The relatively small number of dismissals can be attributed to the difficulty of firing workers, as well as to the desire to retain skilled manpower until business picks up.

An additional reason for the slack rise in productivity lies in the development of employment in the construction industry, with the livelier demand for housing and the arresting of the decline in the industry's product. The exit of Israeli building workers continued, but there was a renewed absorption of workers from the administered areas, even though the reduction in the number of workers during the recession year was less than warranted by the drop in output. Apparently, it is difficult to change work patterns which have taken root during a period of slack activity, so that with the resumption of growth it is not possible to return to a state of full utilization of the existing manpower. It is also likely that that part of construction output which is hard to measure (renovation, maintenance, etc.) increased as well.

Another reason for the aforementioned contradiction lies in the absorption of workers in the business sector, in anticipation of the growth of the economy and an expected manpower shortage. These hirings were reflected in labor input, but have not yet been fully reflected in output. The decline in the real price of labor to producers, for the second year in a row, made it easier for them to absorb the nonincrease in productivity.

The government's wage policy for 1978-79 was apparently based on too low an estimation of the expected rate of inflation, and the protracted wage negotiations added fuel to the fire, so that the policy became unrealistic even before the agreements were signed. Pressures, promises, strikes, and partial settlements — these are what, in the final analysis, dictated the wage agreements, with official policy being drawn along in their wake.

Nominal wages per employee post grew in 1978 by about 54 percent (on a cash basis) and on an accrual basis (including increments deferred until 1979) they went up faster yet. The cost-of-living adjustment and the end-1977 "tail effect" accounted for about two-thirds of the growth in wages, with the rest attributable to the wage agreements. These agreements, in both the business and the public sector, deviated widely from the government's declared wage restraint policy.

The rise in the private sector wages in 1978 was an outcome of stiff wage demands, which were based on expectations of a continued rapid increase in prices but with considerable uncertainty about its pace, and realization that the cost-of-living allowance arrangement offered only partial compensation. In practice, employers acceded to these demands with no strong opposition. The number of strikes this year was lower than in 1977, and the private sector was the first to sign wage agreements, which actually deviated from the government's policy. At the same time, it appears that wage-increases

in the sector were somewhat higher than warranted by the growth in demand for workers; this is evidenced by the fact that by the end of the year the actual average wage rise per worker in some branches fell short of the level fixed in the agreements. The high wage hikes in turn intensified expectations of an acceleration of inflation and of the upping of prices by producers in the domestic market; these increases were also greater than justified by the extra demand for goods.

In the public sector, the government continued a policy aimed at creating certain differentials in favor of wage-earners in the productive branches; but after prolonged negotiations, accompanied by labor disputes, sanctions, and strikes on a much larger scale than in previous years, wage agreements were signed with most groups of employees at the end of 1978 and the beginning of 1979. The increases provided for in these agreements did not lag behind those awarded in the private sector.

The agreements signed during 1978 called for increases in 1979 in line with the growth of labor productivity — 6.2 percent. The escalation of inflation at the end of 1978 and beginning of 1979 prompted demands for wage hikes beyond those fixed in the agreements, whether through a change of the cost-of-living allowance arrangement or in the form of some other extraordinary increments. In the public sector pressure was exerted to reopen wage agreements with those groups which were the first to sign and now saw themselves discriminated against in comparison to those groups whose agreements were concluded later.

The real wage level per employee was preserved in 1978, despite the accelerated inflation. This stability stands out against the substantial increases in 1976 and 1977 in the business sector, and in 1977 in the public sector, when the real wage climbed by 13–15 percent. The data on wage increases in 1978 have a downward bias, since some of the wage agreements, especially those in the public sector, were signed only toward the end of the year, with wage differential payments continuing in 1979.

The implicit price deflator for GNP went up faster this year than consumption prices; as a result there was a decline of about 1 percent in real costs per hour worked in the business sector, following a similar decrease in 1977. The real drop in costs, (for the second year in a row), the growth in product per hour worked, and the expectations for a continued rise in demand, all help to explain the demand for manpower in the business sector almost in step with the growth of output, so that there was only a small gain in output per worker.

The Israeli civilian labor force grew by about 51,000 in 1978. Population growth contributed most of the increment among men, while among women the change in the specific participation rates accounted for about three-fourths of the increment. The contribution of the specific participation rates stands out in light of their negative con-

TABLE
ISRAELI LABOR FORCE,
(in

	Annual average					
	1973	1974	1975	1976	1977	1978
Average population	3,278	3,378	3,455	3,533	3,613	3,691
1. Working-age population	2,272	2,339	2,386	2,432	2,482	2,532
2. Civilian labor force	1,124	1,131	1,148	1,169	1,207	1,258
3. Participation rate (percent)	49.5	48.3	48.1	48.1	48.6	49.7
4. Total employed	1,094	1,097	1,113	1,127	1,159	1,213
5. Unemployed	30	34	35	43	47	45
6. Unemployment rate (percent)	2.6	3.0	3.1	3.6	3.9	3.6
Men						
1. Working-age population	1,127	1,159	1,182	1,204	1,227	1,251
2. Civilian labor force	765	762	767	777	796	813
3. Participation rate (percent)	67.9	65.7	64.9	64.6	64.9	65.0
4. Total employed	747	744	748	753	770	790
5. Unemployed	18	18	19	24	26	23
6. Unemployment rate (percent)	2.4	2.4	2.5	3.1	3.3	2.9
Women						
1. Working-age population	1,145	1,180	1,204	1,228	1,256	1,281
2. Civilian labor force	359	369	381	392	411	444
3. Participation rate (percent)	31.4	31.3	31.6	31.9	32.7	34.7
4. Total employed	348	353	364	374	390	423
5. Unemployed	12	16	17	13	21	22
6. Unemployment rate (percent)	3.2	4.3	4.4	4.7	5.1	4.8
Workers from administered areas ^a	65.1	72.2	66.3	64.8	62.9	68.7

^a To eliminate the effect of the war, the data for 1973 exclude the last quarter; and for 1974 they exclude the first quarter.

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SELECTED DATA, 1973-78

(thousands)

Annual average 1974 compared to 1970	Percent annual increase					
	1973	1974	1975	1976	1977	1978
3.3	3.3	3.0	2.3	2.3	2.3	2.2
3.4	3.4	2.9	2.0	1.9	2.1	2.0
3.7	3.7	0.6	1.5	1.8	3.3	4.2
4.1	4.0	0.3	1.5	1.2	2.9	4.6
3.3	3.3	2.8	2.0	1.9	1.9	2.0
2.8	2.9	-0.4	0.7	1.3	2.4	2.2
3.2	3.1	-0.4	0.5	0.7	2.3	2.6
3.6	3.6	3.1	2.0	2.0	2.3	2.0
5.8	5.7	2.8	3.3	2.9	4.8	8.1
6.5	6.3	1.4	3.1	2.7	4.3	8.5
6.2	10.5	10.9	-8.2	-2.3	-2.9	9.2

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

tribution until 1976 and the relatively moderate growth in 1977. The rise in the participation rate was connected with the increase in the actual real wage in 1976 and 1977 and the wage expected in 1978, as well as with the improved prospects for finding work, due chiefly to the renewed expansion of production, the decline in real wage outlays by employers, and the accelerated growth of public services. More than half of the additional workers in the Israeli work force in 1978 were absorbed by the business sector, and nearly half by the public services, while the number of unemployed declined.

The past few years have seen a significant change in the age structure of the population. The 20–29 age group, the principal contributor to the growth of the labor force and of demand for housing and durable goods, increased by an average of 35,000 persons a year between 1970 and 1973, which was a period of large immigration and economic boom. From 1973 to 1976 the increment came to about 17,000 and in 1977 to only some 5,000.

The extreme age groups, 0–14 and 65+, accounted for 68 percent of the population increase in 1978, compared to 44 percent in the period 1970–73. The growth of these two groups, the principal beneficiaries of public services, cannot explain the substantial rise in public sector employment in 1978. The negative impact of the age composition of the population on the manpower supply will find increased expression in the coming years, when those aged 15–24 today enter the job market.

2. THE POPULATION

The population grew by 2.3 percent in 1978, similar to the rate during the five preceding years. The contribution of net immigration was about 9,000 persons higher than in 1977, while natural increase declined in absolute terms for the second year in a row.⁴

The 20–29 age group, which accounts for the largest share of the addition to the labor force and the incremental demand for housing and durable goods, increased between 1970 and 1973 by about 35,000 on an annual average, as a result of the age structure of the population in previous years and the age composition of immigration. In 1973–76 this group grew by some 17,000 on an annual average, while in 1977 the figure was only about 5,000, with most of the increment coming from immigration. This constitutes a basic alteration of the demographic structure of the population, and helps to explain the changes which have occurred in the labor supply and the cyclical fluctuations in economic growth in the past and which are expected in the future. As can be seen from Table XII-2,

³ Immigration to Israel, less emigration.

⁴ A decline, in addition to that for 1977, in the birth rate for Jews, and a continuation of the downward trend among non-Jews.

TABLE XII-4

SOURCES OF GROWTH OF ISRAEL'S PERMANENT POPULATION, 1973-78

	1973	1974	1975	1976	1977	1978
1. Permanent population at beginning of year (in thousands)	3,225	3,338	3,422	3,493	3,575	3,653
2. Total natural increase (in thousands)	63.2	69.2	71.2	74.7	70.5	67.2
3. Rate of natural increase ^{a, b}	19.3	20.5	20.6	21.2	19.5	18.2
4. Rate of natural increase among Jews, ^{a, b}	16.7	17.2	17.6	18.0	16.4	15.2
5. Rate of natural increase among non-Jews ^a	39.5	39.5	37.0	38.4	36.3	35.1
	In thousands					
6. Immigration (gross) ^c	56.5	33.5	20.6	20.4	22.2	28.8
7. Emigration (net) ^d	6.6	19.3	20.2	13.0	14.6	12.0
8. Migration balance (6-7)	50.0	14.3	0.3	7.4	7.6	16.8
9. Total-growth of population (2+8)	113.2	83.4	71.6	82.1	77.8	84.0
10. Permanent population at end of year (1+9)	3,338	3,422	3,493	3,575	3,653	3,737
	Percent					
11. Annual increase of (10)	3.5	2.5	2.1	2.3	2.2	2.3
12. Thereof: Share of natural increase	55.9	82.9	99.4	91.4	90.4	80.0
13. Thereof: Share of net migration	44.1	17.1	0.6	9.0	9.6	20.0

^a Per thousand of the relevant permanent average population. The figure for 1972 was calculated for the census population.

^b In calculating the rate of natural increase fatal war casualties are not included in the deaths in 1973.

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

^d 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.

SOURCE: Central Bureau of Statistics.

the contribution of the age composition of the population to labor force participation is negligible.

Immigration grew this year by 6,600 (about 30 percent), after a small rise in 1977 and a very large drop in 1974–76. The increase in immigration and reduction of emigration resulted in a net migration balance of about 17,000, equivalent to approximately 0.5 percent of the population – double the previous year's rate. Even though the absolute level of immigration is still low compared to the early years of this decade, the very fact of its growth is a factor accelerating economic activity, just as the contraction of immigration contributed to the previous decline in economic activity.

Nearly 80 percent of the new immigrants were from the Soviet Union, while 12 percent came from Iran, which became a land of distress. Immigration from Argentina and South Africa, which in a sense are also lands of distress, declined this year in comparison to 1977. The share of the principal working-age groups, 20–64, among immigrants was about 5 percent higher than for the Jewish population at the end of 1977. The share of the 0–19 age group was 8 percent lower, and that of the 65+ group was 3 percent higher.

3. LABOR FORCE PARTICIPATION

Although the population expanded at a slow rate relative to the 1967–73 period, the civilian labor force rose in 1978 by 4.2 percent (compared to a low 1.3 percent annual average in 1974–76, and a 3.2 percent high in 1967–73). The substantial growth of the labor force in 1978 was made possible by the second straight year of rise in the participation rate for women, and stabilization of the rate for men, which, contrary to the trend, had gone up in 1977. About 6,000 persons from the administered areas were added in 1978, after their number had declined in 1977.

In 1974 and 1975 the changes in participation rates had a negative effect on the civilian labor force, and in 1976 an insignificant positive one, but since the middle of 1977 they have been making a steadily increasing positive contribution, indicating the strengthening of the economic recovery. Population groups with a relatively low participation rate, which are sensitive to changes in demand – such as the extreme age groups and women – reacted to the rise in demand by entering the labor market, just as in the absence of demand these groups refrained from entering the market and were the first to withdraw.

The stability in the male participation rate reflected offsetting rises and declines: in the young age group, 14–17, the level fell in line with the long-run trend connected with an increase in the school attendance rate and a growth in incomes; in 1977, however,

there was an upward deviation from the trend. In the older age group, 65 and over, the participation rate went up significantly for the first time this year – this too contrary to the tendency to leave the labor force because of the improved pension and allowance arrangements and the growth of incomes. The rise in the participation rate of the 65+ group stems from the deferral of retirement, as well as the entry into the labor market because of the existence of employment opportunities for the elderly. In the intermediate age groups, 18–64, which account for the lion's share of the labor force increment, the long-term downward trend continued in 1978, though there was a slight upturn in the 18–24 and 35–44 groups. The differential growth in the specific participation rates for men during the last two years testifies to the existence of demand pressures in the labor market, which at least in the short term outweigh the trend effect.

The overall labor force participation rate went up because of a sharp rise in the rate for women of all ages (except the 14–17 age group, where the 1977 growth rate was maintained in contrast to the long-run downward trend). In the 18–24 group the participation rate rose this year for the first time, apparently as a result of the broadening of the military draft exemption for women.

The increased participation by women exceeded the long-term trend. This is explained on the supply side, by the rise in the education level of women and on the demand side, by the expansion of public services; this development bears evidence of the strengthening of business sector demand pressure in the labor market. This year there was a greatly increased participation by women 45–64 years old with a lower educational level; the main factor here was the change in demand.

The number of female employees rose in most sectors of the economy. The biggest increases were recorded in public, financial, business, and tourist services, while the growth rate in the industrial branches was lower (although higher than in recent years). Of those who newly joined the ranks of employed, about 60 percent turned to the public services in 1978, compared to 45 percent in 1977. It is reasonable to assume that the employment opportunities available to educated women in the public services go a long way to explain this phenomenon. If it is desired to increase the share of the business sector in the increment of working women, it is necessary to create places and conditions of work suitable for women, particularly the better educated ones.

The number of hours worked per week per Israeli employed remained steady this year, following a decline of 2.6 percent⁵ in 1976–77. It should be noted that the emergence from the recession of the 1960's was accompanied by a rapid rise in the number of hours per employed; the most recent slowdown was apparently of a different character,

⁵ The figure is based on that part of the labor force survey made in 1978, using a questionnaire similar to that the year before.

TABLE XII-5

EMPLOYED, WAGE-EARNERS AND LABOR INPUT IN MAIN SECTORS OF THE ECONOMY, 1974-78

	(Jan.-Sept.)					Percent annual increase			
	1974	1975	1976	1977	1978	1975 ^b	1976	1977	1978
A. Employed (in thousands, annual average)									
1. Israelis	1,099	1,113	1,127	1,159	1,213	1.2	1.3	2.9	4.6
2. From the administered areas	72	66	65	63	69	-8.2	-2.3	-2.9	9.2
3. Total domestic employed (1+2)	1,171	1,179	1,192	1,222	1,282	0.7	1.1	2.6	4.9
4. In public services	288	302	310	323	350	4.7	2.8	4.1	8.5
5. In business sector (3-4)	883	877	882	900	932	-0.7	0.5	2.0	3.6
6. Of which: Construction and related branches ^a	177	175	165	157	159	-1.3	-5.6	-5.1	1.1
7. Business sector, less construction and related branches (5-6)	706	702	717	742	773	-0.5	2.0	3.7	4.1
B. Labor input of employed (millions of hours, weekly average)									
1. Israelis	42.31	42.63	42.95	43.24	45.23	0.8	0.8	0.7	4.6
2. From the administered areas	2.76	2.60	2.59	2.56	2.80		-0.4	-1.2	9.4
3. Total domestic labor input (1+2)	45.07	45.23	45.54	45.80	48.03	0.4	0.7	0.6	4.9
4. Labor input in public services	10.11	10.54	10.78	10.84	11.83	4.3	2.3	0.6	9.1
5. In business sector (3-4)	34.96	34.69	34.76	34.96	36.20	-0.8	0.2	0.6	3.5
6. Of which: Construction and related branches	7	6.95	6.60	6.10	6.29	-1.3	-5.0	-7.6	3.1
7. Business sector excluding construction and related branches (5-6)	27.92	27.74	28.16	28.86	29.91	-0.6	1.5	2.5	3.6

C. Wage-earners (in thousands, annual average)									
1. Israelis	839	850	855	885	932	1.3	0.6	3.5	5.3
2. From the administered areas	71	65	63	62	67	-8.3	-2.5	-1.9	8.7
3. Total domestic wage-earners (1+2)	910	914	918	947	999	0.5	0.4	3.1	5.5
4. In public services	273	287	295	306	335	5.0	2.8	3.7	9.5
5. In business sector (3-4)	637	628	623	641	664	-1.4	-0.7	2.9	3.6
6. Of which: Construction and related branches	140	138	129	121	120	-1.9	-6.7	-6.2	-0.8
7. Business sector, excluding construction and related branches (5-6)	496	490	494	521	544	1.3	0.9	5.3	4.6
D. Labor input of wage-earners (millions of hours, weekly average)									
1. Israelis	31.84	32.20	32.13	32.29	34.09	1.1	-0.2	0.5	5.6
2. From the administered areas	2.71	2.59	2.53	2.52	2.76	-4.4	-2.3	-0.4	9.5
3. Total domestic labor input (1+2)	34.55	34.79	34.66	34.81	36.85	0.7	-0.3	0.4	5.7
4. In public services	9.62	10.06	10.29	10.31	11.35	4.6	2.3	0.2	10.1
5. In business sector (3-4)	24.93	24.73	24.39	24.50	25.50	-0.8	-1.4	0.5	4.1
6. Of which: Construction and related branches	5.54	5.46	5.17	4.74	4.75	-1.4	-5.3	-8.3	0.2
7. Business sector, excluding construction and related branches (5-6)	19.39	19.27	19.22	19.76	20.75	-0.6	-0.3	2.8	5.0

a. Wood, nonmetallic minerals, and trucks.

b. Change in 1975 compared to first nine months of 1974.

SOURCE: Central Bureau of Statistics and Bank of Israel computations - rounded figures.

and was accompanied by a structural change in the economic sectors, with employment rising in branches expanding production and falling (by less than the decline in labor input) in shrinking branches. These changes had a damping effect on the number of hours worked per employed.

In the construction industry, the number of hours worked rose 2 percent, reversing the previous years' decline. There was also an increase in the public services, whereas in previous years the growth of employment had been accompanied by a smaller rise in hours worked.

In 1978 the number of males employed part-time declined, as against a rise in 1977, but temporary absences from work increased. Among women the percentage rise in part-time jobs was similar to that for all working women. The fact that, despite the growth of employment among women and in the extreme age groups, part-time work declined after rising appreciably in past years, testifies to a tighter labor market situation. The sharply higher rate of temporary absences from work stemmed from better vacation conditions, the larger number of persons going abroad, and perhaps also from an increase in "moonlighting", which is unreported and develops under conditions of manpower shortages. The growth in temporary absences diminishes the weekly number of hours worked per employed.

4. EMPLOYMENT BY ECONOMIC SECTOR

Fully 57 percent of the addition Israeli labor force was absorbed in the public services, and about 70 percent of the increment consisted of women. In the business sector employment rose by about 30,000 persons (3.6 percent), of whom approximately 24,000 were Israelis and the rest from the administered areas: all of the latter were taken on by the business sector. The number of women employed in the business sector expanded rapidly, whereas the number of men edged up by only about 1.5 percent.

In 1977 the growth of employment was not accompanied by a corresponding rise in the labor input in the business sector, while in the year under discussion the labor input moved up almost in step with employment,⁶ a development bearing witness to the strengthening of the economic recovery. Excluding the building industry, the number of employed in the business sector climbed even more, to reach 4.4 percent, while the labor input increased by 4.2 percent.

⁶ In 1977 the labor input may be somewhat understated because of fewer possible working days.

In 1978 both employment and the labor input rose in construction-related industries, while the withdrawal of Israeli workers from construction itself continued. At the same time the industry absorbed workers from the administered areas, but their number was lower than that of the Israelis who left. The labor input in construction did not grow this year. The number leaving the industry was proportionally smaller than the decline in output, so it may very well be that production capacity is adequate to increase output without hiring additional workers. With the drop in the number of Israeli workers and the increase in those from the administered areas, there was probably some change in the standard of work.

The comparison of developments in employment and labor input in 1975–78, and that between the entire business sector and the sector excluding construction and related industries show that during the recent slowdown the business sector excluding construction was only slightly affected as regards both the degree and duration of the harm, whereas the construction industry was hit for a much longer period: in the business sector the recovery got underway at the end of 1976, but the construction industry was still in a slump in 1977.

The employment picture in personal services, trade, and business services in the present business cycle indicates that the beginning of the slowdown in these branches dates from 1974, in consequence of the decline in private consumption and tourism. But they also pulled out of the recession before the other sectors, due to the recovery of tourism which began in 1975. In 1978 the number of hours worked per employee in the service branches trailed behind the rise in the number of employees, due to the slacker growth of tourism and the increased proportion of female workers in these branches.

Employment and labor input in industry rose at a moderate rate in 1978 relative to the growth of output, bringing up the productivity level.⁷

The expansion of personnel in the public services was in glaring contrast to declared government policy. Most of the increase occurred in education, welfare services, and local authority administration, with the other branches also experiencing an appreciable rise. In the local authorities this reflected the larger volume of resources at their disposal due to the elections, and the greater possibility of mobilizing funds overseas in the wake of the exchange rate liberalization. Another reason was apparently the increased financial resources available to nonprofit institutions, which benefited from the steep rise in the official exchange rate. The above-mentioned changes in the demographic structure undoubtedly also contributed to the stronger demand for public services, but the latter

⁷ According to labor force surveys and National Insurance data, there was a very large growth in the labor input, so that the measured productivity was lower.

TABLE

TOTAL EMPLOYED IN ISRAEL AND LABOR INPUT

	(Jan.-Sept.)	
	1974	1975
A. Employed (in thousands)		
Total business sector	883	877
Business sector, excluding construction	754	751
Business sector, excluding construction and related branches ^a	(706)	(702)
Construction	129	126
Industry	293	286
Agriculture	83	81
Transportation	84	80
Trade and personal and business services	240	246
Financial services	37	41
Electricity and water	10	11
Unknown	7	6
B. Labor input (millions of hours, weekly average)		
Total business sector ^b	34.96	34.69
Business sector, excluding construction	29.86	29.72
Business sector, excluding construction and related branches ^a	(27.92)	(27.74)
Construction	5.10	4.97
Industry	11.81	11.54
Agriculture	3.23	3.17
Transportation	3.44	3.29
Trade and personal and business services	9.33	9.50
Financial services	1.45	1.60

^a Wood, nonmetallic minerals, and trucks.

^b The figures do not add up, due to the omission of electricity and water and "unknown".

IN BUSINESS SECTOR, BY SECTOR, 1974-78

1976	1977	1978	Percent annual increase			
			1975 ^c	1976	1977	1978
882	900	932	0.7	0.5	2.0	3.6
763	785	821	-0.4	1.6	3.0	4.4
(717)	(742)	(773)	-0.5	2.0	3.7	4.1
119	114	111	-2.2	-5.9	-4.2	-2.4
287	291	300	-2.3	0.0	1.5	3.2
82	83	86	-2.4	1.9	0.7	3.4
79	80	83	-4.4	-2.1	2.2	2.9
258	265	276	2.5	4.8	2.8	4.2
40	46	51	10.1	-2.5	15.2	11.7
12	14	13				
7	9	13				
34.77	34.96	36.20	-0.8	0.2	0.5	3.6
30.10	30.56	31.86	-0.5	1.3	1.5	4.3
(28.16)	(28.86)	(29.98)	-0.6	1.5	2.5	3.9
4.67	4.40	4.40	-2.5	-6.0	-5.8	0.0
11.51	11.37	11.75	-2.3	-0.3	-1.2	3.2
3.29	3.27	3.49	-1.9	3.8	-0.6	6.7
3.21	3.20	3.35	-4.4	-2.4	0.0	4.7
9.83	10.16	10.31	1.8	3.5	3.4	1.5
1.55	1.71	1.96	10.3	-3.1	10.3	14.6

^c Change in 1975 compared to the first nine months of 1974.

SOURCE: Central Bureau of Statistics.

far exceeded the rate of growth of the population. It should be noted that in 1978 the labor input in the public services went up to about the same extent as employment, whereas in the previous year the input did not grow despite an increase in the number of workers.

This increase in personnel and the labor input in the public services concurrently with the expanded demand for labor in the business sector during the period of recovery is somewhat surprising: during a period of economic slowdown an increase of employment in the public services may not harm production in the business sector, but during a recovery phase, and given the manpower restraints in the productive sector, it definitely impedes the growth trend. Moreover the rise in employment in the public services proves that declarations about freezing staff are insufficient if unaccompanied by a budget cut and direct supervision of the number of employees.

The expansion of the labor supply in the public services was apparently linked to the rise in real wages in this sector in 1977 and the anticipated growth in 1978, after their reduction in 1975-76. To this should be added the effect of the rise in the educational level of women.

The financial segment of the business sector greatly increased its labor force and labor input with employment doubling during the last two years compared to the 1967-76 period. The economic recovery contributed to this, as did the liberalization of foreign currency control, in the wake of which financial institutions expanded their foreign currency transactions.

The additional workers from the administered areas were absorbed in all sectors of the economy, including the construction industry, which leads the economy into both a slump and the subsequent recovery. The input of labor from the administered areas exceeded the growth of employment. Average earnings per manday for area residents rose to about the same extent as wages in Israel, with the highest increase being recorded in industry.

5. UNEMPLOYMENT

The unemployment rate for Israeli workers fell this year, for the first time, by 0.3 of a percentage point. Among men the rate reached 2.9 percent, only half a point above the level during the 1972-73 boom years. Among women the picture was different in 1978 than in the previous year; whereas in 1977 the increase in the participation of women went hand in hand with an increase in unemployment, in 1978 their participation continued upward at an even faster pace, while unemployment declined.

TABLE XII-7

EMPLOYMENT SERVICE ANNUAL DATA, 1975-78
(in thousands)

	1975	1976 ^a	1977	1978	Percent annual increase		
					1976	1977	1978
Job seekers							
Total (adults)	17,186	19,649	18,795	18,518	14.3	-4.3	-1.5
Males	9,056	10,972	10,610	10,056	21.2	-3.3	-5.2
Females	8,130	8,677	8,185	8,462	6.7	-5.7	3.4
Daily average of unemployed							
Total	1,000	1,444	1,484	1,361	44.4	2.8	-8.3
Males	551	882	934	787	60.1	5.9	-15.7
Females	449	562	550	574	25.2	-2.1	4.4
Job openings	25,083	24,651	23,102	25,466	-1.7	-6.3	10.2
Unfilled job openings	7,554	6,569	5,984	8,065	-13.0	-8.9	34.8
Unplaced job seekers ^b	3,809	4,367	4,381	3,954	25.6	0.3	-10.0

^a Excluding April and October, due to strikes in the employment service.

^b Since January 1978 the figure for unplaced job-seekers does not include job-seekers referred to professional counselling. The data for 1976 and 1977 were adjusted for purposes of comparison.

The number of persons temporarily out of work increased, while long-term employment dropped. Until 1976 the rise in the unemployment rate was an indicator of the sluggishness of demand, but in 1977 unemployment rose because part of those joining the labor force did not find work immediately and were recorded as unemployed. Both the participation rate and unemployment in 1978 point to the further recovery of the economy; the unemployment apparently stemmed from increased job mobility and the search for better opportunities, while those joining the labor force obtained employment with greater ease. The drop in the number of initial claims for unemployment compensation from the National Insurance Institute, for the second straight year, is another indicator; this year for the first time there was a decline in the number of repeat claims as well.

TABLE

EMPLOYMENT SERVICE

(in

	1977			
	I	II	III	IV
Job seekers				
Total	18,172	17,721	18,952	20,334
Males	11,021	10,304	10,346	10,768
Females	7,151	7,417	8,606	9,566
Daily average of unemployed				
Total	1,512	1,391	1,477	1,555
Males	1,032	902	898	902
Females	479	490	579	653
Job openings	22,559	22,178	22,292	25,380
Unfilled job openings	5,581	5,921	5,821	6,615
Unplaced job seekers	4,279	3,925	4,613	4,705

^a Due to seasonal fluctuations, it is preferable to compare each quarter to the corresponding period in previous years.

Most Employment Service indicators also reveal demand pressure in the labor market. There was a decline in the number of men seeking work, in addition to that in 1977; for the first time there was a drop of 16 percent in male jobless; there was a steep rise in job openings and in unfilled openings, and a decline in the number of job seekers who were not referred to work. Among women a small increase in those seeking work and unemployed was registered, owing to the sharply higher participation of women. In the fourth quarter of the year this rise also vanished. During 1978 the number of unfilled job vacancies increased, which also testifies, to a certain degree, to the intensification of demand pressures.

XII-8

QUARTERLY DATA, 1977-79

(thousands)

1978				1979	Percent change in 1978 compared to same quarter in 1977 ^a				Percent change in 1979 I compared to 1978 I
I	II	III	IV	I	I	II	III	IV	
18,289	16,579	20,777	18,425	17,773	0.6	-6.4	9.6	-9.4	-2.8
10,418	9,498	10,737	9,569	9,702	-5.5	-7.8	3.8	-11.1	-6.9
7,872	7,081	10,040	8,856	8,071	10.1	-4.5	16.7	-7.4	2.5
1,449	1,219	1,435	1,342	1,241	-4.2	-12.4	-2.8	-13.7	-14.4
902	747	786	713	695	-12.6	-17.2	-12.5	-21.0	-22.9
547	472	648	629	545	-14.2	-3.7	11.9	-3.7	-0.3
23,655	23,272	27,097	27,839	27,990	4.9	4.9	21.6	9.7	18.3
6,343	7,506	8,454	9,956	10,131	13.7	26.8	45.2	50.5	59.7
4,024	3,355	4,454	3,945	3,850	-6.0	-14.5	-3.5	-16.2	-4.3

6. WAGES

(a) Wage Policy

The rapid price increases in 1977 and those expected in 1978 made it imperative to crystallize a wage policy to guide employers, the government, and the Histadrut in signing the biennial wage agreements (1978-79), which would be able to prevent sharp fluctuations in real wages and perpetual unrest in the labor market. The importance of a wage policy of this sort was emphasized by the approaching local authority elections, the fact

that different political parties dominated the government and the Histadrut, and the expected growth in demand for workers in the private sector.

In formulating its position at the end of 1977 and beginning of 1978 for the renegotiation of wage agreements, the government underestimated the price increase expected as a consequence of the reform and the economic recovery, and favored production over public service workers in the awarding of wage hikes. Governmental policy was based on the continuation of the cost-of-living allowance arrangement in its existing form (which compensates for only 70 percent of the increase in prices), the freezing of wages in public services except for the updating of special allowances and wage drift, and a 6 percent wage rise for production workers. The original wage policy of the Histadrut laid down that wage agreements would be signed for one year only, that there would be a wage increase of 10–15 percent, and that agreements would be concluded with individual enterprises as well.

The wage negotiations were preceded by a number of steps:

1. The date wage agreements in the business sector were to go into force was shifted from January 1 to April 1, 1978, in order to permit negotiations to be conducted parallel to those in the public sector. 10 percent of the wage increase was paid in the interim in branches where negotiations were postponed.

2. A 12 percent advance on the cost-of-living allowance was granted in January 1978 in view of the substantial price increases which occurred after the reform.

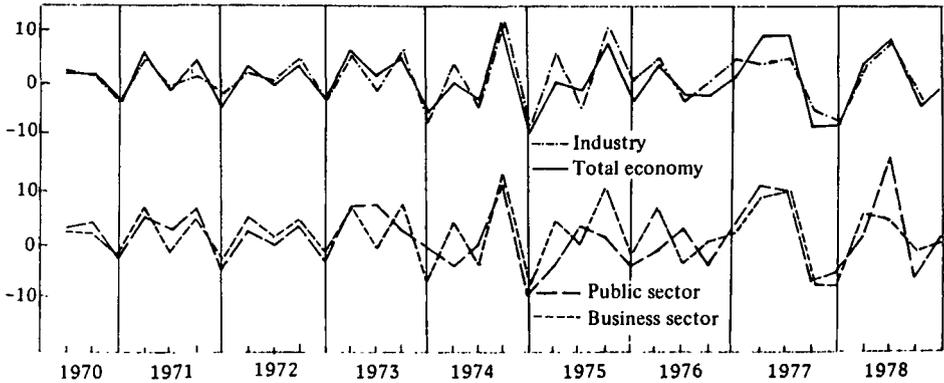
3. Tax brackets were linked 100 percent to the cost-of-living index, beginning on April 1, 1978.

4. Before general wage negotiations got underway, and while they were going on, certain facts were established as a result of promises, linkages, and arbitration, mainly in the public service. It should be noted that implementation of the government's official wage policy, when the actual inflation rate was higher than forecast, would have led to a substantial drop in real wages, principally in the public services, even according to the most conservative estimates, which prevailed at the beginning of the year, of the probable rate of inflation.

At the end of March 1978, a framework agreement was signed by the Coordinating Bureau of Economic Organizations and the Histadrut, which provided for a 12.5 percent wage increase beginning in April 1978 and an additional 2.5 percent in October, an improvement in pension arrangements, and compensation of 10 percent of the overall wage for the period January-March in those branches where the date of signing agreements was deferred. In the wake of the framework agreement, wage pacts were signed in the business sector, where the increases awarded by individual firms is estimated at about 7 percent.

FIGURE XII-1

CHANGE IN REAL QUARTERLY WAGES IN SELECTED SECTORS, 1970-78
(Percent quarter-to-quarter change)



Most of the wage agreements in the business sector were signed and implemented during 1978, with no serious labor disputes, save for a very few instances. In contrast, negotiations in the public service dragged out for a long time, during which the rise in prices accelerated, so that the wage increment proposed was also revised.

Preservation of the real wage level in the public sector was not the fruit of deliberate wage policy which was adjusted for the acceleration of inflation, but was the outcome of a whole string of unsettling developments, such as strikes, sanctions, sharp fluctuations in real wages, increased uncertainty about future wages, etc. These resulted in the payment of an advance *c-o-l* increment in January in addition to the regular adjustments in April and October; the granting of a high wage increase to the workers of the Airport Authority, which set the tone (at a lower rate) for all public sector employees because of the linkage of wages of different groups of workers in the past and an arbitrator's ruling in the present; the granting of advances to the majority of public sector employees for part of the period of the new agreement; the signing of some public sector agreements in the final part of 1978, with partial implementation by the end of the year; and submission to the demands of strongly entrenched groups of workers. Wage data for 1978 also reflect the updating of special allowances (on April 1, 1978) for the rise in the cost-of-living index since April 1976, and to some extent also the decision to establish an Advance Study Fund for employees in the unified grade scale. In September 1978 the local authorities and National Institutions signed an agreement with their personnel in the unified grade scale without government participation. Even though this agreement violated governmental wage policy, it was eventually adopted by the government, and served as a model for the

TABLE XII-9
ANNUAL INCREASE IN AVERAGE WAGE PER EMPLOYEE POST, 1973-78
 (including workers from the administered areas in Israel)
 (percent)

	1973	1974	1975	1976	1977	1978
1. Total economy	27.4	36.3	36.5	32.9	47.2	54.0
2. Public services ^a	29.8	34.0	28.0	25.6	54.2	51.8
3. Business sector	26.1	37.4	41.2	36.9	44.0	55.3
4. Business sector, excluding construction	26.6	37.4	41.3	36.2	44.8	55.4
5. Business sector, excluding construction and related branches	26.7	36.8	41.7	36.2	45.3	55.4
6. Agriculture, afforestation, and fishing	30.0	43.1	52.3	32.2	36.4	51.5
7. Industry	24.3	37.2	43.8	39.4	41.6	55.4
8. Electricity and water	29.2	23.0	51.0	19.3	70.3	65.1
9. Construction	22.3	37.2	40.2	40.2	33.9	52.5
10. Trade, restaurants, and hotels	21.1	38.1	38.0	37.3	44.1	56.1
11. Transportation, storage and communications	28.5	35.1	35.8	30.5	49.3	58.2
12. Financial and business services ^a	26.5	35.6	37.4	35.4	49.6	50.1
13. Other personal services	27.5	38.3	37.9	41.7	42.1	56.8
Rate of change in the consumer price index	20.0	39.7	39.3	31.3	34.6	50.6

^a Substantial wage differentials on account of 1978 were recorded in these sectors at the beginning of 1979.

SOURCE: Central Bureau of Statistics.

conclusion of a general framework agreement with public sector employees (this agreement also extended the benefits previously accorded to postal workers to all employees). By the end of 1978 only those in the unified grade scale, technicians, and those in the humanities and social sciences had joined the framework agreement; at the beginning of 1979 higher wage agreements were signed with some of the public sector staff, and this prompted those in the unified grade scale to demand the reopening of their wage agreement, besides leading to a general demand for a higher cost-of-living adjustment than the partial one paid at present.

The government's acquiescence in wage demands in excess of official policy is explained by the weakening of its bargaining power due to a number of factors: the conclusion of agreements in the private sector providing for increases in excess of official policy, an attempt to avoid a general confrontation with the Histadrut, elections to the local authorities, the granting of exceptional increases to workers in an especially strong position, and the prolongation of negotiations during a period of mounting inflation, in the light of the government's low opening offer considering the expected rate of inflation.

Those groups which are the first to sign biennial wage agreements generally get lower increases; past experience shows that part of the difference is regained, retroactively, in the second round through linkage to the agreements of those groups which sign at a later stage. As a result, a comparison of the relative wage for 1978, the first year in the biennial agreement, does not give a complete picture.

(b) Changes in Wages

Implementation of part of the nominal wage agreements and the acceleration of inflation resulted in a wage rise per employee post of about 1.5 percent in 1978; or zero growth in real terms (i.e. deflated by the rise in private consumption prices), along with large nominal changes and very sharp quarterly fluctuations. Real wages per employee in the business sector were up about 2 percent, similar to the rise in labor productivity, while in the public services wages per employee post edged up about 1 percent.⁸ It should be remembered that the measurement of wages from National Insurance sources is on a cash basis, and does not include the sums which under the 1978 agreements will be paid in the following year. Likewise, the wage per post has a downward bias because of

⁸ A standstill when the nominal wage is deflated by the consumer price index. Deflated by the consumption price index, the real wage in the business sector held steady, while in the public services it declined by about 2 percent.

the accretion of marginal workers, a development that is more pronounced in the public service.⁹

In an analysis of wage differentials it is necessary to distinguish between payments officially attributable to the previous year but which are actually made in the current year, and deferral of payments on account of an agreement which will go into effect the next year. The former are, for all practical purposes, payments in the current year, and attributing them to the previous year serves only to camouflage wage hikes in excess of official policy; their impact on prices and consumption is felt principally at the time of payment. On the other hand, the deferral of payments under an agreement already concluded is likely to affect consumption, and perhaps prices as well, as soon as the agreement is signed and not merely when the payments are made. Deferral of the implementation of wage agreements has a dampening effect on the real wage, even if it is paid during the same year, since retroactive payments have a lower real value. Examination of the agreement for the unified grade scale in 1978 indicates a real loss of about 2 percent of the wage rise in consequence of the lag between the actual payment and the date when the agreement should have been signed, despite the payment of advances. In the other grades the lag and the differential were higher.

Examination of wages per employee post in the various sectors (see Table XII-9) shows a zero growth in the real wage in construction, despite the much longer demand for its output. This is explained by the replacement of Israeli workers (whose wage is relatively higher) by workers from the administered areas, who earn less. The low rise in agriculture and the zero increase in the financial sector were apparently connected with the significant growth in employment, which generally reduces the average wage, and with the postponement of payment of part of the wage agreements in the financial sector to the beginning of 1979.

⁹ National Insurance sources measure wages on a cash basis. A measurement on an accrual basis affects both the numerator and the denominator, so that it is difficult to determine the magnitude of the bias and its direction at the time the differential is paid and in the following year. Therefore difficulties may also arise in understanding the development of the relative wage and the connection between the wage in a certain year and output that year. Added to these problems is a basic deficiency in the index of wages per employee post, which assigns an equal weight to part- and full-time posts. The greater the proportion of workers in the marginal age groups and women in the number joining or leaving the labor force, the bigger the gap between the wage per employee and that per post is likely to be. In 1977 and 1978, when wage rises, deferral of payments, and retroactive differentials were extremely high, and there was an increase in employees in the marginal age groups and women, these problems became more acute.

Of the 53.9 percent nominal wage rise in the economy in 1978, 9.6 percent was on account of the previous year, 22.1 percent was due to the cost-of-living adjustment,¹⁰ and the remaining 15 percent results from the implementation of most of the wage agreements in the business sector, the partial implementation of agreements in the public sector, and wage drift in both sectors.

Analysis of nominal wages measured on a cash basis shows that the relative wage in the business sector improved slightly in 1978 compared to the public services (as opposed to a decline the year before), but with the addition of the wage differentials in the public services (which will be paid in 1979) this improvement will disappear. At the same time it should be emphasized that the payments in the public services were given belatedly, so their real value is lower.

The differential wage increases awarded to the various groups of public sector employees were larger than those between the business sector and the public service. The average change in 1978 masks a substantial pay rise in certain branches of the public sector and a decline in other branches, in consequence of the belated signing of agreements in some of the grades and the signing of higher agreements in select groups.

There were differential wage hikes in the business sector too, though to a lesser extent, since the majority of the agreements were concluded in the course of the year surveyed.

From Figure XII-1, which presents the quarterly changes in real wages in 1970–78, it can be seen that the large variance in wages before the conclusion of the collective agreement and during the period it was in force, together with the strong fluctuations in prices, generated substantial and unreasonable jumps in the real wage. Since 1974 this trend has intensified, and it is stronger in the public service. This creates perpetual labor unrest and additional pressure for wage hikes. Preservation of the average real wage, despite the high inflation during the year and the partial compensation provided by the cost-of-living allowance arrangement, can be credited to the wage agreements signed and implemented in the course of 1978, while the effect of wage drift was small or negative. The slow growth of real wages stands out against their substantial increase in 1976–77, when the real wage per employee in the business sector rose by a total of 13 percent. The growth in the real wage in 1976–77 and that expected in 1978 (even though it was not realized in full) explain the much bigger manpower supply in 1978. It may be that, despite the maintenance of the real wage level in 1978, there is likely to be heavy pressure for increases in 1979, due to the big variance in the wage increments advanced to the various branches.

¹⁰The January cost-of-living advance was 12 percent, in April a 7.4 percent adjustment was paid, and in October 12.9 percent.

From the point of view of employers, in 1978 there was a decline of about 3 percent in per unit real wage outlay (deflated by the index of productive factor prices) in the business sector; this followed a drop of about 1 percent last year and an 11 percent rise in 1976.¹¹

In the period from April 1974 to April 1978 the wage differential in the public services grew in favor of those grade scales with a higher level of education; the real earnings of part of the employees rose to a significant extent but declined for others. By contrast, the differential between the lower and the higher grades within the same scale seems to have diminished. The enlargement of the differential was the result of a wage policy based upon an increase in the weight of specific increments, such as the car maintenance allowance, global overtime, upgradings, etc., and a decline in the weight of basic pay increases;¹² the result was a wage gap among workers. Such a policy could be followed with relative ease during a period of high nominal wage increases. In 1978 as a whole there was a different development; a larger portion of the wage increments in the public services was given in the form of advances, which are of a more general character, and this somewhat reduced the aforementioned differential between employees.

¹¹ The decline in unit real wage outlay in 1978 stemmed from a drop of about 1 percent in the real wage per hour worked and a rise of about 2 percent in output per hour worked.

¹² I.e. the basic wage, seniority, cost-of-living increment, etc.