

CHAPTER IV

EMPLOYMENT AND WAGES

The labor market was a little stronger this year. The number of Israeli employed rose 3.2 percent, compared with 1.4 percent in 1982, and the unemployment rate edged down from 5 to 4.5 percent. The labor force participation rate also went up, after sagging in 1982 because of the war in Lebanon, and the labor force expanded by 2.6 percent, as against 1.4 percent the year before. Despite the better tone of the labor market, the economy remained slack, a trend evident since 1980.

Developments in the labor market revealed a contrasting pattern in the year reviewed: in the first three quarters employment rose and unemployment dropped to 4 percent. But following the change in economic policy shortly before the fourth quarter, employment fell off and the unemployment rate again reached 5 percent.

In contrast to the rapid rise in the number of locally employed (3.5 percent vs. 1.6 percent in 1982), the number of hours worked per employed inched down 0.8 percent, continuing the previous year's trend. The labor input thus grew by 2.6 percent,¹ following increases of 2.6 percent in 1981 and 0.3 percent in 1982.

These developments point to some recovery in the first three quarters of the year. However, it was of a special character, which raises doubts as to its strength: the growth of employment was accompanied by a further decline in manhours per employed—which is not consonant with the rebounding of economic activity. As a rule there is initially an increase in labor input, while the number of workers increases at a later stage. Moreover, in 1983 the number of manhours per employed was expected to rise even without any recovery of economic activity: last year the number of manhours per employed fell steeply because of the war-related increase in reserve duty, and the easing of this burden should in itself have brought up the labor input. The combination of the substantial rise in employment and the decline in manhours per employed is reflected in the composition of this year's incremental employment: more than four-fifths of the additional employed were Israelis engaged in part-time work and residents of Judea-Samaria and the Gaza Area. It follows that the expansion of employment was predominantly of a temporary nature, reflecting a marginal change in the structure of the labor force—its supplementation by these two categories of workers.

¹ In the business sector the number of Israeli employed rose 4.3 percent this year and the number of hours worked per employed declined by 1.1 percent; the labor input thus grew by 3.2 percent.

Table IV-1A
POPULATION, EMPLOYMENT, AND WAGE PER EMPLOYEE POST, 1976-83
(Percent annual increase)

	1976	1977	1978	1979	1980	1981	1982	1983
Working-age (14+) population	3.2	2.1	2.0	2.6	2.5	1.8	1.8	2.0
Civilian labor force	1.9	3.2	4.2	1.6	3.2	2.3	1.3	2.6
Israeli employed	1.3	2.8	4.6	2.3	1.1	2.0	1.4	3.2
Total manhours of Israelis	0.8	0.7	4.6	4.0	-1.1	2.6	0.0	2.3
Residents of Judea-Samaria and Gaza Area employed in Israel	-2.2	-2.9	8.2	8.7	-3.0	0.9	4.4	8.3
Total employed in Israel	1.1	2.5	4.8	2.6	0.8	2.0	1.6	3.5
Total manhours worked in Israel	0.7	0.6	5.1	4.4	-1.3	2.6	0.3	2.6
Real wage per employee post ^a	1.4	10.6	1.5	9.5	-3.2	10.4	-0.4	6.0

^a CBS data based on employers' returns to the National Insurance Institute; deflated monthly by the consumer price index.

SOURCE: Central Bureau of Statistics—*Monthly Bulletin of Statistics*, labor force surveys, and surveys of families in Judea-Samaria and the Gaza Area.

Table IV-1B
GROWTH OF WAGE EXPENDITURE IN THE BUSINESS SECTOR, 1976-83
(Percent annual increase)

	1976	1977	1978	1979	1980	1981	1982	1983
1. From employee's viewpoint ^a	8.7	8.0	5.0	3.4	-1.0	11.8	2.4	4.9
2. From employer's viewpoint ^b	11.4	2.3	5.2	5.1	-2.6	2.6	5.5	6.6
3. Real wage cost ^c	11.5	2.7	5.5	4.1	-7.3	2.0	6.1	7.8
4. Relative price of business sector product $P_y/P_c = [1+(1)]/[1+(2)]$	-2.5	5.6	-0.2	-1.6	1.6	9.0	-3.5	-1.6
5. Labor productivity $[1+(2)]/[1+(3)]$	-0.1	-0.4	-0.3	0.9	4.9	0.6	-0.6	-1.1

^a In purchasing-power terms: hourly wage expenditure (including indirect taxes on employers' wage bill) deflated by the consumer price index.

^b In real product terms: hourly wage expenditure deflated by the implicit price index of the net domestic business sector product (at factor cost).

^c Like (b), less change in labor productivity.

SOURCE: Central Bureau of Statistics.

Table IV-1C
ANNUAL INCREASE IN LOCAL ACTIVELY EMPLOYED PERSONS BY
FULL- AND PART-TIME EMPLOYMENT AND SEX, 1979-83

(Thousands)

	1979	1980	1981	1982	1983
1. Israeli employed	27.0	13.9	25.6	18.2	41.1
2. Temporarily absent from work	-6.7	7.0	-1.5	20.2	-6.6
3. Residents of Judea-Samaria and Gaza Area employed in Israel	6.2	-2.3	0.7	3.3	6.6
4. Total actively employed (1-2+3)	40.2	4.6	27.8	1.3	54.3
Thereof: Males	21.7	-5.3	18.7	-7.5	35.9
a. Full-time Israeli employed	22.4	-16.6	29.8	-0.6	9.9
Thereof: Males	17.2	-12.9	19.9	-9.2	10.9
b. Part-time Israeli employed plus residents of Judea-Samaria and Gaza Area	17.8	21.2	-2.0	1.9	44.4
Thereof: Males	4.5	7.6	-1.2	1.7	25.0

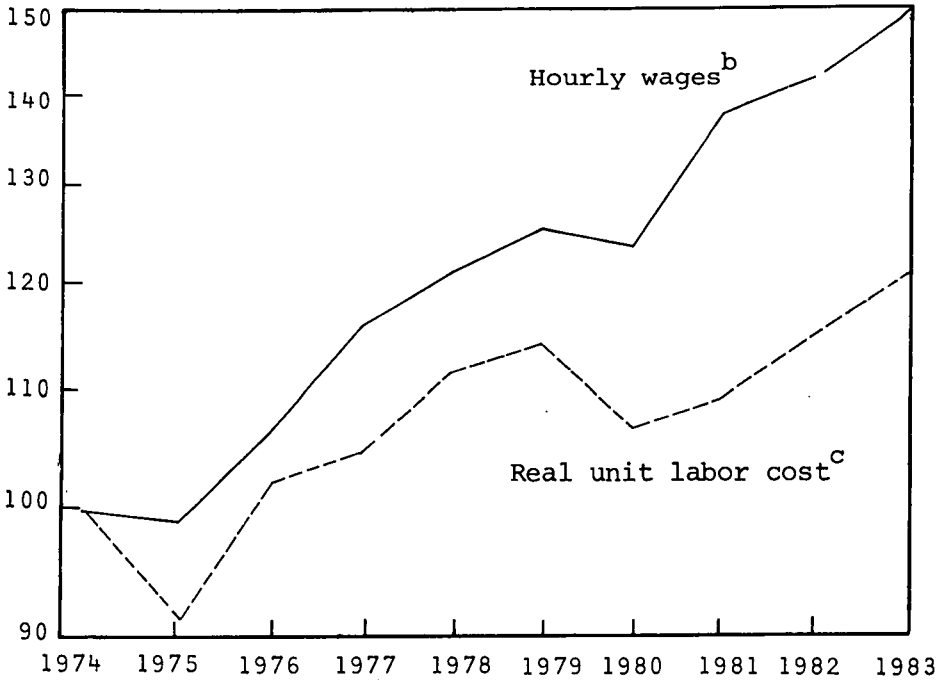
SOURCE: Central Bureau of Statistics labor force surveys and surveys of families in Judea-Samaria and the Gaza Area.

One possible explanation of this development was the continued call-up of reservists for extended spells of duty and the sharp swings in economic activity this year. Since the outbreak of the Lebanese war there has been a big increase in the number of persons temporarily absent from work (in most cases without sufficient advance notice), and this has disrupted production in many enterprises. The expectation at the beginning of the year that the extra reserve duty burden would be eliminated did not materialize. Another factor was the fluctuating level of economic activity: in the second quarter, when demands expanded, the labor market situation improved, but in the fourth quarter there was a reversal of trend and economic activity again contracted. There is reason to believe that the changing conditions forced employers to adjust their workforce so as to temporarily use it in a more flexible manner, even at the expense of its quality and productivity. While this improved the employment situation in the economy, the contribution of the incremental labor input to the product was apparently relatively small.

Real wages per employee post averaged 6 percent higher in 1983, after declining somewhat the year before. Here too trends were mixed during the year: in the first three quarters wages rose 9.8 percent above their average level in 1982, but after the economic policy shift at the end of the third quarter wages began to erode as a result of accelerating inflation, and in the fourth quarter they retreated 14 percent in real terms below their level in the first nine months of the year. At the beginning

Figure IV-1
HOURLY WAGES AND REAL UNIT LABOR COST IN THE BUSINESS
SECTOR, 1974-83^a

(Indexes: 1974=100)



^a See Table IV-1B.

^b Hourly wage expenditure in the business sector, deflated by the consumer price index.

^c The return to labor relative to the net domestic business sector product at current factor prices.

SOURCE: Central Bureau of Statistics.

of 1984, however, they went up 5 percent to regain their average level in 1982.² In the business sector wages per manhour rose 4.9 percent from the employees' viewpoint (in purchasing-power terms), and by 6.6 percent from the employers' viewpoint (in terms of business sector product at factor cost). Given the 1 percent drop in labor productivity,³ real wage costs rose 7.8 percent, following a 6 percent increase the year before. Here too the upswing was probably faster in

² It should be noted that in 1982 wages were on average 11 percent above their average level in 1978-79.

³ In this chapter estimates of the business sector product and labor productivity are based on the Central Bureau of Statistics' national accounts data. According to this calculation, which is performed from the uses side, the business sector product grew 2 percent. An alternative measurement based on sectoral origin shows a 4 percent gain. The discrepancy between these two figures stems from errors and omissions in each of the measures (see also Chapters II and VI).

the first three quarters of the year, followed by a slackening in the fourth quarter.

Real labor cost is defined as the weight of labor compensation in the total value added of the firms (the business sector product at factor cost). An increase in labor cost implies a decrease in the return to employers and in the profitability of production; it therefore affects growth and employment trends, as well as the country's competitive strength in foreign markets.⁴ A protracted rise in real labor cost and a shrinking profitability of production have characterized a number of western economies since the energy crisis of the 1970s, and contributed to the arresting of growth and to mounting unemployment. It is therefore reasonable to assume that the marked uptrend in real labor cost in Israel in the second half of the 1970s was one of the reasons for the slackening of real growth at the beginning of the present decade.⁵

Real labor cost is influenced by several factors.⁶ One is the relation between wages and labor productivity: if wages go up faster than labor productivity, this will increase both the weight of wage expenditure in the product and the cost of labor to the employer. A number of other factors influence the relation between the value of a unit of product and the cost of living, thereby changing real labor cost. To take one example, a deterioration in the country's terms of trade because of rising imported input prices will depress the value of the product relative to the increase in the consumer price index and will push up real labor cost.⁷ Changes in taxation, subsidy, and exchange rate policies can have a similar effect. For instance, increasing the net tax burden (taxes less subsidies) on the business sector product will lower the value of a unit of product relative to the cost of living and will increase real labor cost, if real wages do not decline and labor productivity does not grow.

⁴ A change in real labor cost reflects a change in the supply of business sector product, which influences the level of economic activity. The last is also influenced by other important factors originating in the demand for the sector's product.

⁵ The relatively mild impact on unemployment in Israel is explained by the large weight of public sector employment, which is not directly affected by the profitability of production.

⁶ We denote P_c —price of the consumption basket; P_y —price of the business sector product at factor cost; W —hourly wages; Y —real business sector product per manhour (labor productivity); C —real labor cost.

Employers' labor cost will therefore be:

$$C = \frac{W}{P_y Y} = \left(\frac{W}{P_c} \right) \times \left(\frac{P_c}{P_y} \right) \times \left(\frac{1}{Y} \right)$$

Wage
Price
l/labor
per
ratio
productivity
worker
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business

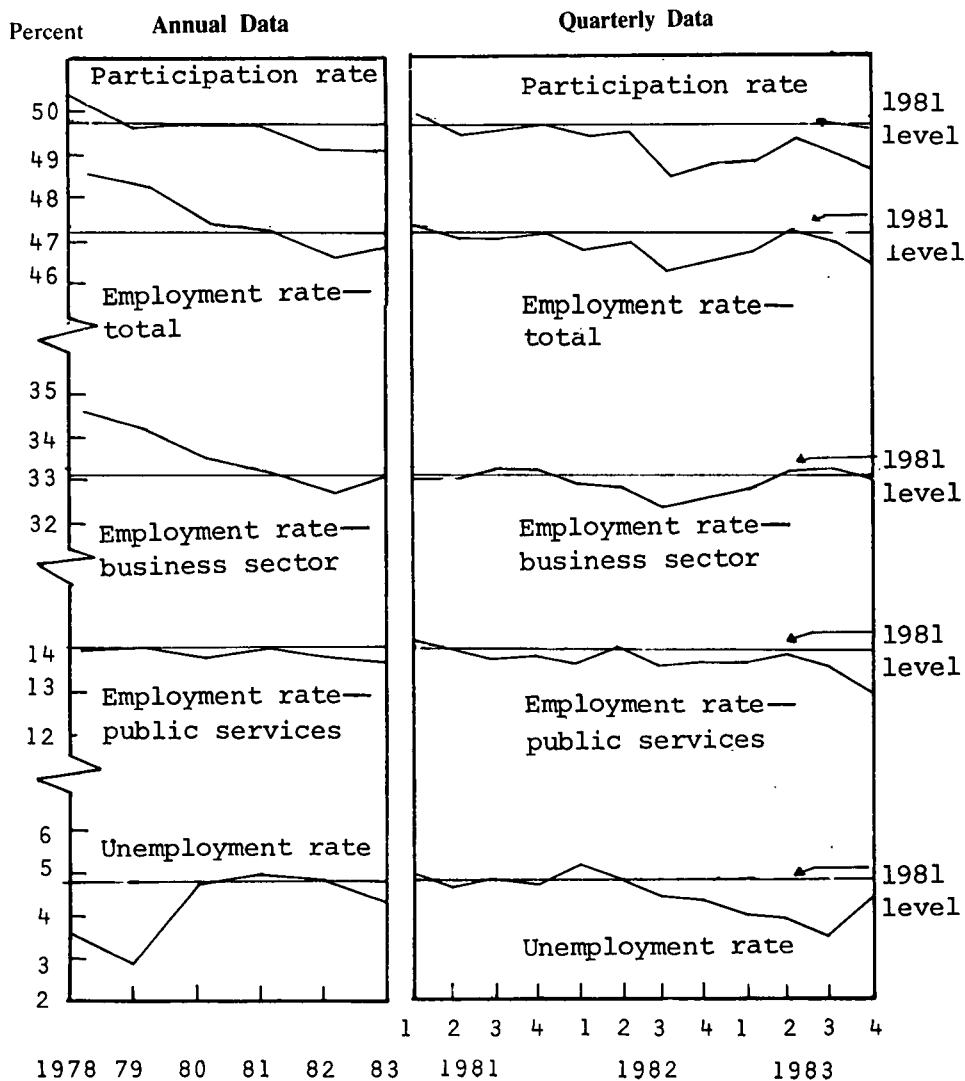
power)
sector
product)

⁷ This effect will be averted if it is offset by a decline in real wages (in purchasing-power terms) or, alternatively, by a growth in labor productivity.

Figure IV-2

LABOR FORCE PARTICIPATION AND EMPLOYMENT RATES ADJUSTED FOR EFFECT OF CHANGES IN AGE, EDUCATION, AND SEX COMPOSITION OF THE POPULATION, AND THE UNEMPLOYMENT RATE, 1978-83

(Percentages)



^a Seasonally adjusted.

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

On the other hand, subsidizing the consumption basket more heavily or, alternatively, lowering its cost by a real appreciation of the currency reduces the cost of living relative to the value of a unit of product and makes it possible to temporarily increase real wages at the expense of government subsidies, even without an improvement in labor productivity.⁸ It is therefore clear that as long as real wages per worker are downwardly rigid and labor productivity is stagnating, the subsidy and price policy will have an asymmetrical effect: the hiking of subsidies finances the growth of wages per worker, thereby widening the gap between wages and labor productivity, while the stiffening of the tax burden adds to employers' labor cost. Because of this asymmetry, frequent shifts in policy can be expected to lead to a cumulative rise in labor cost. In recent years the government's tax, subsidy, and exchange rate policies have had a marked effect on wages and labor cost: in 1980 an improvement in labor productivity, along with a wage moderation policy, greatly reduced real labor cost, after it had reached an exceptionally high level the year before. In 1981 an expansionary policy led to a heavy subsidization of the consumption basket and a sharp drop in the cost of consumption relative to the business sector product. However, advantage was not taken of this change to further reduce real labor cost; it found full expression in the growth of real wages per worker (12 percent) despite the stagnation of labor productivity. In 1982 government policy again changed direction: because of the war in Lebanon, the net tax burden on the business sector product was increased, with the consequence that the consumption basket again became dearer relative to the business sector product. In view of the rigidity of real wages to a downward movement (in terms of the consumer price index) and a slight drop in labor productivity, this shift in government policy pushed up real labor cost. At the beginning of 1983 a heavier subsidization of basic goods and services, along with a real appreciation of the sheqel, again depressed the relative price of the consumption basket and sharply drove up real wages per worker. Similarly, another reversal of exchange rate and subsidy policy at the end of the year resulted in the sagging of real wages. This frequent veering of government policy in the last few years has unquestionably attenuated the connection between wages and labor productivity, and has not helped to improve the profitability of production or the country's ability to compete abroad.

In the long run real wages are determined by market forces, which reflect the influence of government policy and social pressures, while the fluctuations typical of wages in the short run are influenced by institutional factors, such as the timing of wage pacts and the cost-of-living allowance arrangement. In the last few years, the variations in the annual level of real wages per employee post have stemmed mainly from the aforementioned changes in the government's policies, and in public services they have also been influenced by the biennial wage agreements.

⁸ Alternatively, such a change in relative prices can be exploited to reduce real labor cost by limiting the growth of real wages per worker.

Table IV-2
SECTORAL COMPOSITION OF ISRAELI EMPLOYED, 1970-83
 (Percent)

	Total	Public services	Business sector		
			Thereof:		
			Total	Fin. & bus. services	Industry
Composition					
1970	100.0	23.9	76.1	5.2	24.2
1975	100.0	26.9	73.1	6.9	24.4
1977	100.0	27.8	72.2	7.2	23.9
1979	100.0	29.2	70.8	7.8	24.0
1980	100.0	29.3	70.7	8.2	23.5
1982	100.0	29.8	70.2	9.0	22.7
1983	100.0	29.3	70.7	9.4	22.7
Average annual rate of change					
1970-73	4.2	4.9	3.9	10.1	5.0
1973-75	0.7	5.9	-1.1	5.7	-0.2
1975-82	2.3	3.6	1.8	6.9	1.0
1983	3.2	1.3	4.0	8.7	2.9

SOURCE: Central Bureau of Statistics labor force surveys.

Since 1978-79 average real wages per employee post have gone up 17.6 percent—about 20 percent in the business sector and 13 percent in public services.⁹

Short-term developments in the labor market reflect the cyclical impact of demand and supply factors. The interaction of these factors can be discerned in the labor force participation, employment,¹⁰ and unemployment rates. A comparison of these indicators in Figure IV-2 highlights the nature of the developments affecting the labor market over time. To isolate the cyclical influences, we adjusted the participation and employment rates for the effect of changes in the composition of the population according to personal characteristics.¹¹ These indicators too show that the labor market experienced only a mild recovery this year; the increase in the employment rate was small compared with the sharp decline from the end of

⁹ The average wage level in 1983 compared with that in 1978-79.

¹⁰ The employment rate is defined as the percentage of employed in the working-age population (the total number of employed or, alternatively, the number employed in the various sectors).

¹¹ Participation in the labor force is determined primarily by personal characteristics—sex, education level, and age—while cyclical developments in the economy affect specific participation rates in these various categories. To estimate the effect of these factors one must first discount the changes in the participation rates caused by variations in the composition of the population according to the aforementioned characteristics. We have done so using the standardization method, which involves

the 1970s. The rise in the participation rate can be attributed to the growing weight of groups with a high participation rate.¹² No change was discernible in the specific participation rates of the various groups (which indicate their tendency to participate in the labor force). The quarterly data show that the labor market recovery occurred mainly in the second and third quarters of the year. The rise in the business sector employment rate stands out all the more when viewed against the relative contraction in public services: the downtrend in the latter became more pronounced toward the end of the year, whereas in the business sector employment fell off only fractionally.

In 1983 the number of employed rose 4.3 percent in the business sector, as against 1.3 percent in public services, bringing up the weight of the former in total employment. This positive structural change has marked the last two years, but it should be borne in mind that the weight of public services in total employment is still very high: 29 percent compared with 25 percent in the first half of the 1970s.

estimating the participation rates that would have obtained had the specific participation rates of the different groups not varied from year to year—i.e. assuming that the sole change during these years was in the distribution of the population by these characteristics. For a formal exposition of this adjustment method see the Bank of Israel Annual Report for 1980, p. 76. Following are the adjusted and unadjusted participation rates for 1979–83 (in percentages; base year for adjustment—1981):

Labor force participation rate	1979	1980	1981	1982	1983
Unadjusted	49.2	49.5	49.8	49.6	49.9
Adjusted	49.7	49.8	49.8	49.2	49.2

¹² The increase in the participation rate this year was due to the rising proportion of educated women and of men in the age groups with a high participation rate.