Chapter 5

The Labor Market

- Employment increased during the year by 3.4 percent, the participation rate continued to increase, and the unemployment rate stabilized.
- GDP growth moderated during the year, as reflected mainly by a decline in demand for labor, a reduction in the average number of weekly work hours in the second half of the year, and just a moderate increase in wages per employee post.
- A deterioration in employers' expectations regarding their future activity was reflected in a gradual slowdown in the creation of new jobs that began during the second quarter of 2011, as well as by an increase in the proportion of companies in which workforces contracted and a decline in the proportion of companies in which it expanded.
- Following changes in methodology in the Labor Force Survey, the employment situation in Israel, when compared internationally, is better than previously thought, and the participation rate in the main employment ages is higher than the average among OECD countries.
- The most significant factor in the growth of the labor force participation rate in Israel is the increase in the level of education of the general population—the result of marked investment in expanding the higher education system, particularly during the 1990s.
- Cumulative structural changes in the Israeli economy which led to a decline in the natural unemployment rate contributed to its decline to historically low levels over the past two years.
- Small businesses' contribution to total employment in the business sector is large, and very close to the contribution of large businesses. The sensitivity of small businesses to the business cycles in terms of employment is lower than that of large businesses.

1. MAIN DEVELOPMENTS

The expansion in the labor market continued in 2012.

The expansion in the labor market continued in 2012. Employment increased, the participation rate continued to climb, and the unemployment rate remained stable throughout the year, thanks to new participants being absorbed into employment (Table 5.1). Even though the growth rate of the economy slowed during the year, the main labor market indices did not show signs of weakness. An analysis of past data shows that thanks to the activity of adjustment mechanisms that characterize a flexible labor market, employment is the last thing to be negatively impacted, and only to a smaller degree. The slowdown in growth during the year was reflected mainly in a decline in demand for new workers, a decline in the average number of weekly work hours during the second half of the year, and in just a moderate increase in wages per employee post, which left the real payment per work hour almost unchanged, and at a lower level than in 2007–08.

Employment expanded by 3.4 percent, and additional employment was mainly in full-time positions. The employment of Israelis expanded in the trade, hospitality and food services, business services and banking, as well as in public services—primarily in education, health, welfare and social services. The rapid increase in the number of employees in public services is a continuation of the trend from previous years. When there are signs of a slowdown in growth in the business sector, expansion of employment in public services serves as a countercyclical factor contributing to stability in the labor market.

The trend of increase in the labor force participation rate continued in 2012. Additional workers were absorbed into employment, which maintained the stability of the unemployment level during the year. The measurement of the participation rate

Table 5.1
Principal Labor Market Variables, 2011 and 2012
(percent, seasonally adjusted)

	2011				2012			
	I	II	III	IV	I	II	III	IV
Participation rate[a]	62.7	62.7	62.6	62.6	62.8	63.6	64.2	63.8
Employment rate[a]	58.1	58.3	58.3	58.3	58.5	59.2	59.8	59.4
Unemployment rate[a]	7.6	7.0	7.0	6.8	6.8	6.9	6.8	6.9
Increase in number of employed persons[b]	0.5	0.9	0.4	0.5	0.5	1.6	1.5	-0.2
Increase in number of salaried employees[b]	0.5	0.8	0.5	0.1	-0.1	1.3	2.1	-0.2
Increase in number of employee posts[b]	0.9	0.9	1.2	0.4	0.4	1.0	0.2	-0.1

[a] Actual level, relating to those aged 15 and over.
[b] Rates of change compared to the previous quarter.
SOURCE: Central Bureau of Statistics.

Table 5.2
Principal Labor Market[a] Indicators, 2008–12
(Average increase or decrease compared to the previous year, percent)

	2008	2009	2010	2011	2012
1. Population (yearly average)[b]	1.9	1.8	1.9	1.9	1.8
2. Working age population	1.8	1.8	1.7	1.8	1.6
3. Labor force participation rate[c] - total	62.0	62.1	62.6	62.6	63.6
Men	68.5	68.0	68.5	68.6	69.3
Women	55.9	56.6	57.0	56.9	58.1
4. Labor force	2.2	2.0	2.4	1.8	3.2
5. Employment rate[c]	57.4	56.6	57.6	58.2	59.2
Employment rate among those aged 25-64	71.6	70.7	71.8	72.8	74.0
6. Total employed persons[a]	4.0	0.5	3.1	3.1	3.4
Israelis	3.5	0.3	3.4	2.9	3.2
Those employed part-time	1.3	-0.1	5.1	0.9	-0.3
Non-Israelis[a]	9.7	2.1	-0.1	4.4	4.8
7. Public services employees[d]	3.9	1.3	3.6	4.9	4.0
Public services labor input	3.3	3.5	4.2	5.2	13.0
8. Business sector employees	4.1	0.1	2.9	2.2	3.1
Israeli workers	3.3	-0.2	3.3	1.9	2.8
Share of foreign workers and Palestinians among business sector employees[c]	11.7	11.9	11.6	11.8	12.0
9. Business sector labor input	4.4	0.2	2.6	3.3	4.0
Israelis	3.6	0.1	3.2	3.1	3.4
Foreign workers[a]	9.8	4.0	-2.0	3.4	9.4
Palestinians[a]	11.0	-9.4	2.8	8.7	2.2
10. Nominal wage per employee post[f]	3.8	0.7	3.4	3.8	2.7
11. Real wage per employee post[f]	-0.7	-2.6	0.7	0.4	1.0
In business sector	-0.7	-2.6	0.7	0.4	0.6
In public services[d]	-0.7	-2.4	0.7	0.3	1.7
In general government sector	0.0	-1.7	1.5	-0.3	1.3
12. Real minimum wage	-1.8	-1.4	-2.6	0.0	2.4
13. Gross unit labor costs in business sector	0.9	-4.3	2.5	-0.8	-1.0
14. GDP per labor hour in the business sector[e]	0.0	0.2	2.8	1.8	-0.5
15. Unemployment rate[c] - total	7.7	9.5	8.4	7.1	6.9
Men	7.5	9.9	8.9	7.3	6.7
Women	7.8	9.2	7.9	6.8	7.0

[a] The number of foreign workers and workers from the Palestinian areas includes both those reported and not reported to the National Insurance Institute, but does not include work-seeking infiltrators from across the Sinai border. Employment estimates of non-Israelis are less reliable than those of Israelis, which are based on Labor Force Surveys.
[b] The data as of 2009 are based on the Population Census of 2008.
[c] Actual levels, not rates of change.
[d] Public service industries include public administration, education, health, and so forth, a large portion of whose operations are financed by the government, but at times are carried out by private companies or non-profit institutions.
[e] Constant prices.
[f] The data for 2012 are for January to October, due to the change in classification of industries by the Central Bureau of Statistics.
SOURCE: Central Bureau of Statistics, Labor Force Surveys, and National Accounts data.

The participation rate among those aged 25 to 64 is higher than the average among OECD countries.

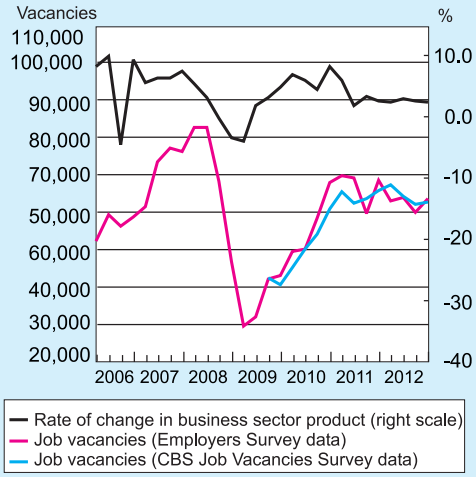
was affected by changes of methodology in the Labor Force Survey: the inclusion in the labor force of those serving IDF army service—both compulsory and permanent—and the expansion of the survey's sample to include 100 additional localities. According to the new measurement, the participation rate reached 63.6 percent in 2012. The participation rate among the prime working age group—those aged 25 to 64—reached 78.7 percent, which is higher than the average among OECD countries.

The moderation in GDP growth rate during the year was reflected in the slowdown in the hiring of new workers.

The moderation in GDP growth rate during the year was reflected in the slowdown in the hiring of new workers. The rapid growth in the number of job vacancies in the business sector expressed the economy's recovery from the recession—a recovery which began in the second half of 2009, moderated in 2011 and halted during 2012. The number of job vacancies did not return to the record level of the growth that prevailed during the first half of 2008 (Figure 5.1). The gradual downward trend in the creation of new positions, which began in the second quarter of 2011, strengthens the estimation that the slowdown in the GDP growth rate is the reason for the decline in demand for new employees. In 2012, employers' expectations regarding their future activity deteriorated. This was apparently reflected by an increase in the proportion of companies in which the workforce contracted and a decline in the proportion of companies in which it expanded.

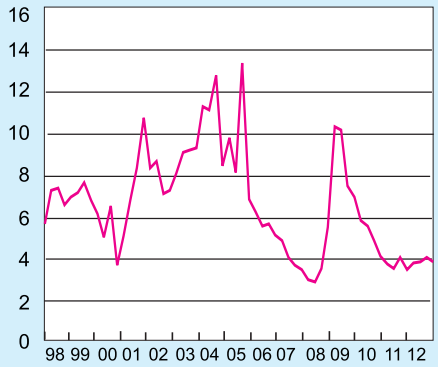
The ratio of the number of unemployed people to the number of job vacancies in the business sector (the labor market tightness index) is only about 3.9 unemployed people per job vacancy. This is similar to the level at the height of the boom in 2008 (Figure 5.2). Even so, the increase in the nominal wage per employee post in the business sector was moderate. The rate of growth in this item, which accelerated toward the middle

Figure 5.1
Growth of Business Sector Product and Job Vacancies in the Business Sector, 2006-12
(seasonally adjusted)



SOURCE: Ministry of Industry, Trade and Labor Employers Survey; Central Bureau of Statistics Job Vacancies Survey; Central Bureau of Statistics National Accounts data.

Figure 5.2
Ratio of Unemployed to Job Vacancies in the Business Sector, 1998-2012
(seasonally adjusted)



SOURCE: Based on Central Bureau of Statistics Labor Force Surveys and Ministry of Industry, Trade and Labor Employers Survey.

of the year, moderated from August onward, in parallel with the growing signs of a slowdown in growth. In real terms, business sector wages remained stabile. The increase in wages in public services is a reflection of the implementation of labor agreements signed in recent years (the public sector framework agreement, agreements with teachers, doctors, social workers, and others), some of which include a significant increase in the number of work hours.

Table 5.3
Principal Labor Market Indicators[a], 2008–12

(annual averages, thousands)

						Change from the previous year			
	2008	2009	2010	2011	2012	2009	2010	2011	2012
1. Population[b]	7,349.8	7,482.1	7,620.8	7,763.1	7,902.2	132.3	138.8	142.2	139.1
2. Working-age population[c]	5,305.2	5,398.7	5,488.6	5,584.9	5,672.0	93.5	89.8	96.3	87.1
3. Labor force[c]	3,287.6	3,352.5	3,433.5	3,495.8	3,606.0	64.9	81.0	62.3	110.2
4. Employed persons - total[d,e]	3,314.2	3,330.0	3,434.4	3,539.4	3,650.9	15.8	104.4	105.0	119.1
Israelis	3,044.0	3,054.1	3,158.6	3,251.5	3,359.0	10.1	104.5	92.9	107.4
Of whom: Part-time	893.2	892.2	937.3	946.0	943.6	-1.0	45.1	8.7	-2.4
Men	1,638.7	1,625.4	1,679.0	1,735.4	1,788.3	-13.3	53.6	56.4	52.8
Women	1,405.2	1,428.4	1,479.4	1,516.0	1,570.7	23.2	50.9	36.6	54.8
Non-Israelis	270.2	275.9	275.8	287.9	299.9	5.7	-0.1	12.1	13.7
Of whom: Foreign workers	211.3	220.2	215.2	222.0	235.7	8.9	-5.0	6.9	15.0
Palestinians	58.9	55.7	60.6	65.9	64.2	-3.1	4.9	5.2	-1.3
5. Business sector employees[d,e]	2,293.5	2,295.8	2,363.2	2,416.0	2,484.9	2.3	67.4	52.8	73.8
6. Public service employees[d,e]	1,020.7	1,034.2	1,071.2	1,123.4	1,166.0	13.5	37.0	52.2	45.3
7. Number of unemployed[c]	251.0	319.3	287.6	247.2	247.1	68.2	-31.6	-40.4	-0.2
8. Claims for unemployment benefits	59.8	88.7	75.9	71.9	76.0	28.9	-12.8	-4.0	4.1
Of which: New claims	13.3	17.8	14.7	14.8	16.2	4.5	-3.2	0.1	1.4
9. Job vacancies in the business sector[f]	71.4	37.5	57.1	67.6	63.5	-33.9	19.5	10.5	-3.9
10. Nominal wage per employee post (NIS/month)[g]	7.9	8.0	8.2	8.6	8.8	0.1	0.3	0.3	0.2
Public services	8.1	8.1	8.4	8.7	8.9	0.1	0.3	0.3	0.2
Of which: in the government sector	7.6	7.6	7.9	8.2	8.5	0.1	0.3	0.3	0.3
Business sector	8.5	8.6	9.0	9.2	9.3	0.1	0.4	0.3	0.3

[a] The number of foreign workers and workers from the Palestinian areas includes both those reported and not reported to the National Insurance Institute, but does not include work-seeking infiltrators from across the Sinai border. Employment estimates of non-Israelis are less reliable than those of Israelis, which are based on Labor Force Surveys.
[b] The data as of 2009 are based on the Population Census of 2008.
[c] Labor Force Survey data.
[d] National Accounts data, including attribution from the education and health industries to business sector industries.
[e] Israeli and non-Israeli employed persons.
[f] Employers Survey data.
[g] The data for 2012 are for January to October, due to the change in classification of industries by the Central Bureau of Statistics.
SOURCE: Central Bureau of Statistics - Labor Force Survey, wage statistics, and National Accounts data; National Insurance Institute data; Ministry of Industry, Trade and Labor Employers Survey.

The natural unemployment rate apparently declined.

The GDP growth rate was lower in 2012 than in previous years, and was also slightly lower than the average long-term growth rate. In light of the marked expansion of the labor force, it was reasonable to expect an increase in the unemployment rate. However, this rate stabilized at its lowest level in the past 30 years. This low level apparently reflects a decline in the natural unemployment rate, the result of structural changes that took place in the economy during the past two decades and have contributed to making the labor market more flexible—particularly an increase in the rate of educated persons among the population, a tougher unemployment insurance policy, the transition to temporary employment which enables the replacement of workers, and streamlining the job search process, inter alia through the widespread use of the Internet and outsourcing the candidate search and screening process to companies that specialize in manpower recruitment.

2. THE DEMAND FOR LABOR

A decline in the creation of new jobs strengthens the assessment that the slowdown in the growth rate led to the decline in the demand for labor.

The moderation of the growth rate during the year was reflected in a slowdown in hiring new workers. The total demand for labor, which is measured as the number of employed persons plus job vacancies, continued to expand during the first three quarters of the year, but contracted in the fourth quarter. The growth in demand for new employees which has characterized the economy since its recovery beginning in the second half of 2009 also halted. The number of job vacancies in the business sector, which reflects the demand for labor, remained relatively high, but during the year it showed a downward trend (Figure 5.1)—which is shared by most industries (Table 5.4), and is in line with the slowdown in the growth rate.[1] The decline in the number and rate of job vacancies[2] in 2012, despite the high level of demand for labor, could perhaps have been attributed to full employment in the economy, where the expansion slows down naturally, but the analysis below shows a gradual and prolonged decline in the creation of new positions, and strengthens the assessment that the slowdown in the growth rate is the factor that led to the decline in the demand for labor.

In order to assess the connection between the demand for labor and the level of activity, we must distinguish between positions intended to increase the workforce (the creation of new positions) and positions intended to replace workers who have left—been dismissed or resigned (the replacement of workers without creating new positions). The distinction between the two reasons for the vacancies is important,

[1] The number of job vacancies in the business sector is positively correlated with growth in business sector product: the correlation coefficient between the change in business sector product and the change in the number of job vacancies (according to the Employers Survey) is 0.41. The strongest correlation is concurrent, meaning that demand for labor responds to changes in growth within the same quarter. A similar conclusion is reached in a study by J. Djivre and Y. Yakhin (2011), "Business Cycles in Israel 1987–2010: The Facts," Hebrew University of Jerusalem, Maurice Falk Institute for Economic Research in Israel, Discussion paper 11.02.

[2] The job vacancy rate is calculated as the number of job vacancies divided by the sum of job vacancies and employed persons.

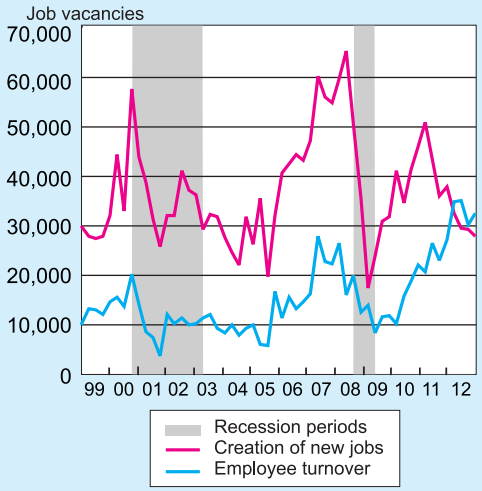
Table 5.4
Job Vacancies in the Business Sector, by Industry

	Number of vacancies, 2012	Rate of change vis-à-vis 2011 (percent)	Ratio of vacancies to employed persons
Total	64.8	-0.4	1.9
Manufacturing, electricity and water supply	7.1	-10.7	1.6
Construction	10.4	-4.4	6.4
Wholesale trade	8.4	-8.9	2.0
Hospitality and food services	6.7	-3.0	4.4
Transportation and communications	3.6	-23.2	1.7
Banking, insurance and finance	1.2	-31.4	1.0
Business services	16.0	9.4	3.4
Education	2.5	32.6	0.6
Health, welfare and social work services	6.3	26.0	1.9
Community, social and personal services	2.7	18.4	1.6

SOURCE: Central Bureau of Statistics.

since the replacement of workers, as opposed to newly created positions, does not affect total employment. A worker leaving his employer will also not cause a contraction in the workforce if a new worker is employed in his stead. Replacement, whether at the initiative of the worker or the employer, generally dissolves an unsuccessful match between the worker and the position, and enables the creation of a better match, which will increase productivity.

Figure 5.3
Job Vacancies for Increasing the Workforce vis-a-vis Replacing Departing Workers, 1999-2012 (seasonally adjusted)



SOURCE: Based on Ministry of Industry, Trade and Labor Employers Survey.

Data from the Ministry of Industry, Trade and Labor's Employers Survey enable us to distinguish between "new" job vacancies (which are intended to increase the workforce) and "vacated" positions (which are intended to replace departing workers). Figure 5.3 presents the developments in these two series over time, providing us with two interesting findings. First, the two series are pro-cyclical, meaning that the number of job vacancies of both types declines

during recessions and increases during booms.[3] During recession periods, employers frequently avoid hiring new workers in place of those that have resigned or retired, and prefer to eliminate the position. Workers themselves are also not interested in resigning during periods of recession, since there is less likelihood of finding a better job. An examination of the correlations between the series of job vacancies and the number of employed persons in the business sector, the number of unemployed and the unemployment rate, shows that the pro-cyclical nature of vacated positions is even stronger than that of new positions.[4]

Second, since the beginning of the Survey[5], the creation of new positions has been a much more important factor than replacement in the demand for labor. But in 2012, the number of replacement positions equaled, and even exceeded, those of the creation of new positions, as a result of the decline in the creation of new positions in the second quarter of 2011, and the continued increase in replacement up to the middle of 2012. An examination by industry shows that, in most of the industries, more than half of job vacancies in 2012 were vacated positions (Figure 5.4). The principle industries differ in the share of replacement job vacancies out of total job vacancies. The highest rate of replacement was in the trade industry and the hospitality and food services industry (about 41.5 percent of job vacancies on average between 1999 and 2012). These industries have relatively low human capital requirements, and employees receive little professional training at their workplace. Moreover, many positions in these industries are intended for the temporary employment of young people, including students. In contrast, in the manufacturing and business services industries, the rate of replacement job vacancies is relatively low—about 29 percent on average between 1999 and 2012, due to the concentration of high technology sub-industries among these industries. The required human capital in high technology industries is high, training at the place of employment often reflects obtaining specific human capital, and the match between the worker and the job is apparently more successful, which may extend the duration of employment. (The existing data do not enable an examination of the survivability of employee-job matches.) Indeed, the rate of vacated positions is relatively low in high technology industries[6]—22.6 percent on average between 1999 and 2012.

In 2012, the strong demand for labor in the construction professions continued. Its share of total demand for new workers was between 10 percent according to the Central Bureau of Statistics Job Vacancies Survey and 16 percent according to the Ministry of Industry, Trade and Labor's Employers Survey, while the number of

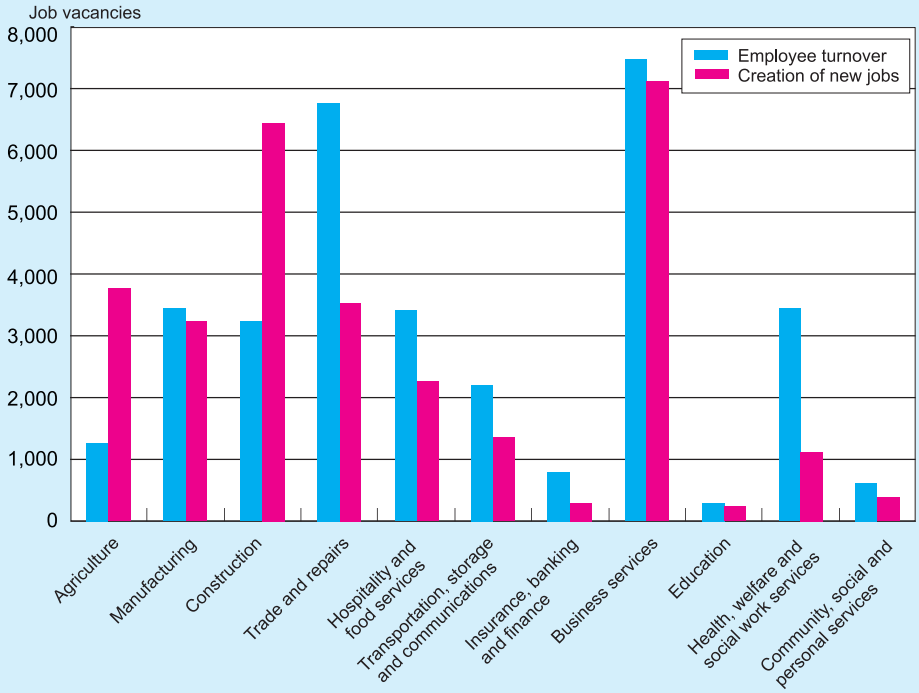
[3] The pro-cyclical nature of the creation of new positions is clear enough. The pro-cyclical nature of substitution has been documented in the American economy as well (Lazear, E.P., and J.R. Spletzer (2012), "Hiring, Churn and the Business Cycle," NBER, Working Paper 17910).

[4] The correlation coefficient between the number of vacated positions and the unemployment rate is -0.76, and between vacated positions and the number of employed persons in the business sector, it is 0.65. The same coefficients applied to the series of the number of new job vacancies are -0.41 and 0.27, respectively.

[5] There is data on the designation of job vacancies since 1999.

[6] In accordance with Central Bureau of Statistics definitions.

Figure 5.4
Job Vacancies in the Business Sector for Increasing the Workforce vis-a-vis Replacing Current Workers, by Industry, 2012
(quarterly average)



SOURCE: Based on Ministry of Industry, Trade and Labor Employers Survey

employed persons in the construction industry was just 7 percent of total employed persons in the business sector. At the same time, beginning in the first quarter of 2012, the demand for such labor declined gradually, in line with the decline in total building starts. Another profession in which the shortage of workers is increasing is institutional and household long-term care professionals.[7] There is currently distress in filling existing positions in the institutional long term care industry. (Up to now, permits for employing foreign workers at institutions were not issued, but the Association of Nursing Homes has already presented a demand for 2,000 foreign workers.)[8] The worsening shortage of long term care professionals is a result of a number of factors: difficult working conditions and low salaries, which make it difficult to recruit

Strong demand for employees continued in the construction industry, and the shortage of long term health care professionals worsened at institutions and for households.

[7] According to Central Bureau of Statistics data, the number of job vacancies in this profession increased by about 50 percent in 2012, compared to the previous year. According to Employers Survey data, the demand for long-term care professionals had already doubled in 2011 compared to previous years.

[8] From G. Nathan (2012), "Government and Employer Activity to Encourage the Employment of Israelis in Foreign-Worker-Intensive Professions," Knesset Research and Information Center (in Hebrew).

new workers, an increase in the age of people employed in this profession[9] and the retirement of older professionals, a constant increase in the number of those needing care[10], and the decline in the number of foreign workers employed in household long term care services between 2010 and 2012.[11]

3. THE SUPPLY OF LABOR: THE WORKING AGE POPULATION AND THE LABOR FORCE

a. Israeli workers

In 2012, the Central Bureau of Statistics changed the definitions and sampling methods of the Labor Force Survey to meet international definitions. This was reflected in the inclusion of those serving compulsory and permanent army service into the labor force (such that the term "labor force" now includes the total labor force, and not just the civilian labor force) and the addition of about 100 localities to the survey.[12] These changes led to a jump in the participation rate from 57.4 percent to 62.5 percent in the fourth quarter of 2011. In order to allow for a comparison over time, historical data were adjusted to the new definitions, and according to these concatenated data, the long-term growth trend in the labor force participation rate continued in 2012, reaching 63.5 percent (Table 5.2). An observation of the transition coefficients between the old and new series indicates that according to the new method, the number of unemployed is higher by 36 percent, and the number of employed persons is 7.5 percent higher. Among those aged 25–64, the prime working ages, the differences are smaller—because this group is not affected by the inclusion in the labor force of those serving in the military, among other things.

Following the changes in the Labor Force Survey, which increased the participation rate, it became clear that, in an international comparison, the state of the economy is better than previously thought. Figure 5.5 presents the participation rates in two age groups in a number of OECD countries where, like Israel, those serving in compulsory and permanent military service are included in the labor force, and the aggregate participation rates of the OECD and the European Union. According to this comparison, the participation rates in Israel are relatively high, despite low participation rates in population groups unique to Israel (ultra-Orthodox men and Arab women).

In the past decade, there has been an upward trend in the participation rate of the older population, particularly among older women, and the participation rates of men

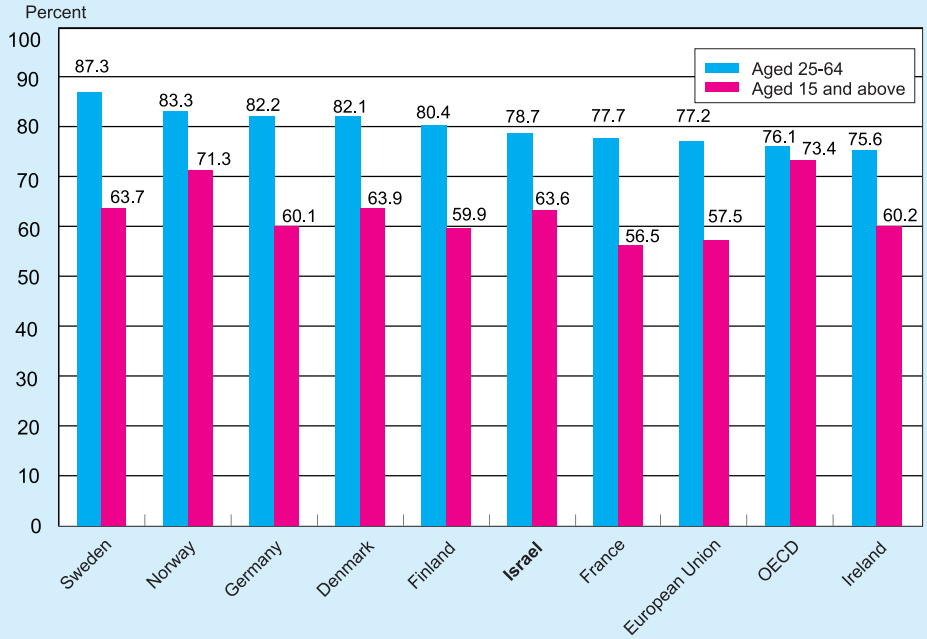
[9] The average age of those employed in institutions in 2010 was 49, and that of those employed in households was 40.

[10] For more on this issue, see the Bank of Israel Annual Report for 2011, Chapter 8, pp 352-360.

[11] As a result of the reform in the long-term care services, the number of approvals for employing foreign workers declined starting in 2010.

[12] For more information on the technical changes in the Labor Force Survey and its results, see the box in Recent Economic Developments 133, January–April 2012, Bank of Israel, pp. 8-9.

Figure 5.5
Labor Force Participation Rates, Israel (2012) and Selected Countries (2011)



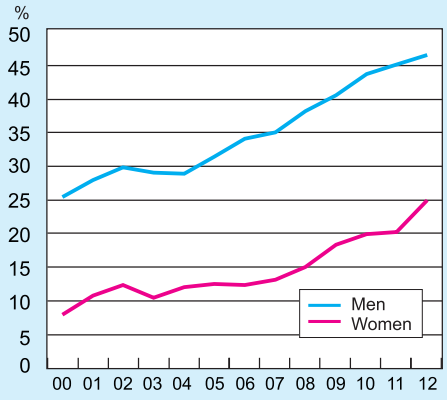
SOURCE: Labor Force Surveys: Israel - Central Bureau of Statistics; Other countries - International Labor Organization (ILO) from the Eurostat website; OECD from the OECD's website.

and women aged 55–64 in Israel are higher than the average among OECD countries. This is an important development, since the rate of growth of the older population is higher than that of the population in the prime working ages—a trend that is expected to continue. Between 1975 and 2011, life expectancy at age 65 rose by 5.2 years for women and by 4.6 years for men, but this increase was accompanied by a delay in the legally mandated retirement age by just two years: Between 2004 and 2009, the retirement age for women was raised from 60 to 62, and the retirement age for men was raised from 65 to 67 in a gradual process. The increase in life expectancy without a parallel extension in the working lifetime places greater pressure on the transfer payments and pension systems. Thus it is necessary that it be accompanied by increased employment. In the past decade, there has been a clear upward trend in the participation rates among those aged 65–69 as well, both men and women (Figure 5.6). The upward trend is stronger among men, since those aged 66–67 were directly affected by the increase in the retirement age[13], but the trend had clearly begun even before 2004. In 2012, the share of those aged 65–69 who were participating in the labor force was 35 percent. The participation rate tends to be higher among those with

In the past decade, there has been a clear upward trend in the participation rates among those aged 65–69.

[13] For more information on the effect of the change in the Retirement Age Law on the participation of older people in the labor force, see Chapter 8 of this Report, and Box 5.1 of the Bank of Israel Annual Report 2010.

Figure 5.6
Labor Force Participation Rate of Those Aged 65-69, 2000-12



SOURCE: Central Bureau of Statistics Labor Force Surveys.

higher education, those who are married, and residents of the center of the country. Arabs aged 65 and over essentially do not participate in the labor force[14], while the participation rate among those who immigrated to Israel from 1990 onwards and are aged 65-69 is only slightly lower than that of more veteran residents and those born in Israel.

Most of the older population remaining in the labor force even after the official retirement age work as self-employed people, and are engaged in "white collar" occupations. The rate of self-employed individuals (including those who employ salaried workers) among those aged 65–69 is 24 percent, twice that among those aged 25–64.[15] One-third of older people participating in the labor force have an academic profession, are managers, or work as associate professionals and technicians, while 37.4 percent are clerks, agents, or sales and service people. Thirty-eight percent of workers aged 65–69 are employed in public services, mainly in health and education services, and about 35 percent are employed in business services, trade, and banking, insurance and finance. Forty percent of those aged 65–69 who are working are employed part time, at a volume of up to 30 weekly work hours. Others who may remain in the labor force beyond the official retirement age are older people who have no pension, which forces them to continue working to support themselves. This phenomenon is relatively widespread: About 40 percent of older people who worked and reached retirement age have no pension savings.

The mandatory retirement age for men and women is currently 67[16], and when a worker reaches that age, the employer is permitted to require him to retire. In this context, the National Labor Court's ruled that an employee has the right to request of the employer that he continue to work even after the retirement age, while "the employer is required to consider the employee's request with all due consideration while considering the relevant factors, including his personal situation."[17] This precedent provided an opening for an initiative to cancel the mandatory retirement age.

[14] This fact is not surprising, against the background of male Arabs leaving the labor force at a relatively young age (See. E. Yashiv and N. (Kaliner) Kasir (2009), "Arab Israelis: Patterns of Labor Force Participation," Bank of Israel, Research Department, Discussion Papers Series 2009.11.

[15] Average for 2010–2011.

[16] The Retirement Age Law, 5764-2004, raised the mandatory retirement age from 65 to 67.

[17] Labor Appeal 209/10, Libby Weinberger, the Law in Old Age Service organization, the "Yad Riva – Legal Assistance to the Elderly" organization, and the "Ken LeZaken – Promoting the Rights of the Elderly" organization vs. Bar-Ilan University.

b. Non-Israeli workers

Non-Israeli workers (not including work-seeking infiltrators) accounted for 12 percent of workers in the business sector in 2012.

In addition to the Israeli labor force, Israeli employers recruit foreign workers, Palestinians, and (work-seeking) infiltrators for physical labor at low wages. According to Central Bureau of Statistics data, non-Israeli workers (not including infiltrators) accounted for 12 percent of workers in the business sector in 2012, following a moderate but consistent increase over the years (Table 5.2). The precise number of non-Israeli workers living and employed in Israel is unknown due to the difficulty in locating workers whose status in Israel is not in order, and there are various estimates regarding this number. According to the Central Bureau of Statistics, the number of foreigners living in Israel in 2012 reached 236,000 (Table 5.3), while data from the Population and Immigration Authority show that there were 88,250 foreigners living in Israel in mid-2012, who had entered Israel at some point on a work visa, about a quarter of whom held a visa that had expired. In addition to these, about 95,000 foreigners had entered Israel on a tourist visa and remained in the country illegally. Due to the flow of work-seeking infiltrators from Africa via the Egyptian border, the foreign population with no proper status or permanent resident status in Israel has increased in recent years. The number of infiltrators claiming refugee status in September 2012 totaled about 64,500. In October 2012, about 42,300 Palestinians held work permits, but only about 35,100 of them were actually employed in Israel.[18]

4. EMPLOYMENT AND WAGES

The expansion of employment in the economy continued at a rapid rate in 2012, even when compared to the previous two years, when growth was very strong (Table 5.2). The expansion of employment among Israelis was in full-time positions. The number of employed persons in part-time positions remained stable, while there was a decline in the number of people whose part-time employment was involuntary (Table 5.2). The employment of non-Israelis expanded at a rapid rate, as a result of the large increase in the number of foreigners employed in the construction industry (Table 5.5). The increase in wages per employee post was moderate, despite the marked expansion of employment.

The rate of employment in the economy continued to climb in 2012, reaching 59.2 percent. The employment rate among the prime working ages of 25–64 reached 74 percent, which is already higher than the target set for 2013 by the committee assessing employment policy (2010)—73 percent.[19] With that, this target relates to the civilian labor force as measured in the previous format of the Labor Force Surveys, while the current data relate to the overall labor force. Therefore, policymakers should decide whether it is worth reassessing the targets and adjusting them to the

[18] From G. Nathan (2012), "The OECD Expert Group on Migration (Sopemi) Report: Immigration in Israel 2011–2012," Knesset Research and Information Center.

[19] The target for 2020, which was set in 2010, is 76.4 percent.

Table 5.5
Employed Persons by Selected Industries[a], 2009–12

	Employed persons							
	(thousands)				Rate of change (percent)			
	2009	2010	2011	2012	2009	2010	2011	2012
Total business sector[b]	2,295.8	2,363.2	2,416.0	2,490.5	0.1	2.9	2.2	3.1
Foreign workers	218.2	213.2	220.0	233.7	4.2	-2.3	3.2	6.9
Palestinians	55.2	60.1	65.4	63.7	-5.4	8.8	8.7	-2.0
Construction	195.4	209.2	214.5	228.6	-2.9	7.1	2.5	5.5
Of which: Israelis	131.1	143.7	148.4	150.3	-5.5	9.6	3.2	1.3
Palestinians	27.4	29.8	34.2	36.7	4.9	8.9	14.7	8.4
Foreign workers	36.9	35.7	32.0	41.6	1.3	-3.3	-10.4	32.9
Manufacturing	428.1	428.9	431.3	435.9	-5.5	0.2	0.5	-0.2
Trade and vehicle repairs	365.9	376.4	390.7	422.3	-2.3	2.9	3.8	7.9
Hospitality and food services	141.3	146.8	151.3	170.1	0.9	3.9	3.0	10.2
Banking, insurance and finance	100.7	106.5	108.9	116.4	6.7	5.8	2.2	7.2
Business services	458.8	473.0	475.3	492.1	3.0	3.1	0.5	4.0
Transport, storage and communications	212.2	221.1	227.8	211.8	4.0	4.2	3.0	-8.1
Public services	1,034	1,071	1,123	1,168	1.3	3.6	4.9	4.0

Employed persons and labor inputs by selected industries, 2012

	Employed persons						Labor inputs		
	Israelis	Foreign workers	Workers from Palestinian areas	Israelis	Foreign workers	Workers from Palestinian areas	Israelis	Foreign workers	Workers from Palestinian areas
	(thousands)			(rate of change vis-à-vis the previous year)					
Total business sector	2,193.1	233.7	63.7	2.9	6.9	-2.0	0.4	9.4	2.2
Construction	150.3	41.6	36.7	1.3	32.9	8.4	5.0	32.4	13.1
Manufacturing	424.5	4.2	7.2	1.5	1.6	-16.4	3.9	1.6	-12.8
Trade and vehicle repairs	406.9	9.1	6.3	9.1	-9.3	-23.8	8.5	-9.3	-20.6
Hospitality and food services	144.6	24.0	1.5	11.3	24.0	-23.8	11.0	24.3	-20.6
Banking, insurance and finance	116.4			6.9			6.2		
Business services	451.4	38.3	2.4	6.2	-17.7	-35.4	7.2	-16.5	-32.9
Transport, storage and communications	207.8		4.0	-7.0		-12.2	-7.5		-8.5
Public services	1,165.9	0.2	0.5	4.0	0.0	0.0	3.0	0.0	-0.2

[a] Includes foreign workers and workers from Palestinian areas, reported and not reported to the National Insurance Institute. Employment estimates for non-Israelis are less reliable than those for Israelis, which are based on Labor Force Surveys.
[b] The data do not add up to the total due to the removal of the "others" industry.

SOURCE: Central Bureau of Statistics, National Accounts Data.

new definitions, or whether to concentrate on achieving the secondary goals set for specific populations whose level of participation in the labor force is low.[20] In the past decade, the intention of government policy has been to encourage the integration of these population groups into the labor market through positive incentives (earned income tax credit, employment subsidies, etc.) and negative incentives (cutting back allowances, stiffening entitlement conditions). However, as shown by the analysis in Box 5.1, growth in the participation rate over time is mainly the result of an increase in the share of those with higher education among the population. Hence the importance of policy measures supporting entry into the labor market through the creation of conditions for obtaining higher education and human capital, particularly in the sectors in which the rate of those with a higher education is low, and in occupations relevant to the labor market.

Growth in the participation rate over time is mainly the result of an increase in the share of those with higher education among the population.

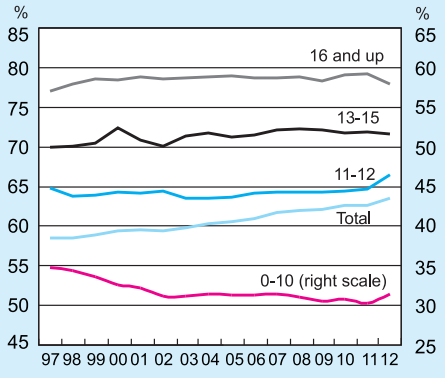
Box 5.1

The Effect of Education on the Labor Force Participation Rate in Israel

The labor force participation rate in Israel (the percentage of workers and those searching for work out of the population aged 15 and older) increased between 2002 and 2012 by about 4 percentage points, and contributed to an increase in the rate of employment in the economy. This increase was in line with government labor market policy in the last decade, which focused to a large extent on work force participation incentives, inter alia through "Welfare to Work" programs such as the "Orot LeTa'asuka" (Lights to Employment) program and the Wisconsin Plan, the reduction of allowances to people of working age and the provision of an earned income tax credit for employees, subsidizing child care in order to encourage employment among mothers, and raising the retirement age.

Alongside the effect of policy, labor force participation has been influenced to a great extent by the level of education among the working age population. Figure 1 indicates that groups with high levels of education are characterized by a relatively high participation rate. It also shows that the participation rate among all education levels does not increase over time[1], yet the overall participation rate continues to increase. This is because the average education of the working age population (Figure 2) has increased over time. The combination of these facts shows that the increase in the

Figure 1
Civilian Labor Force Participation Rate for Ages 15 and up, by Years of Education 1997-2012

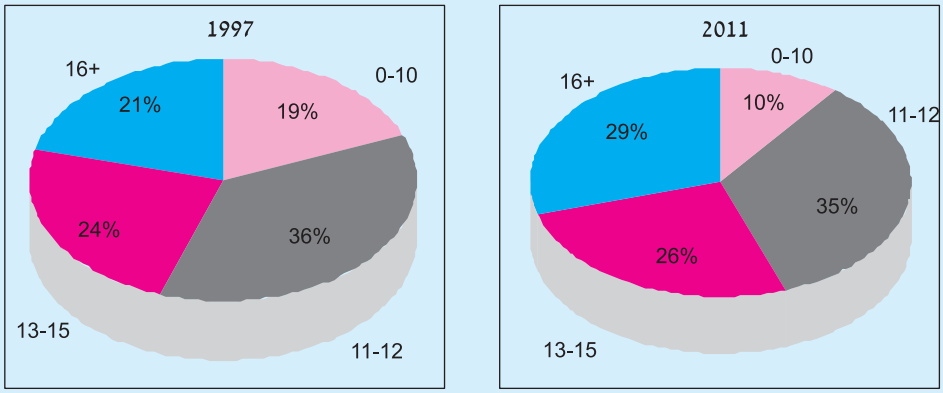


SOURCE: Central Bureau of Statistics Labor Force Surveys.

[1] The lowest education group is even characterized by a decline in the participation rate over time.

[20] For a list of these targets, see the Bank of Israel Annual Report for 2011.

Figure 2
Composition of the Labor Force by Years of Education, 1997-2011

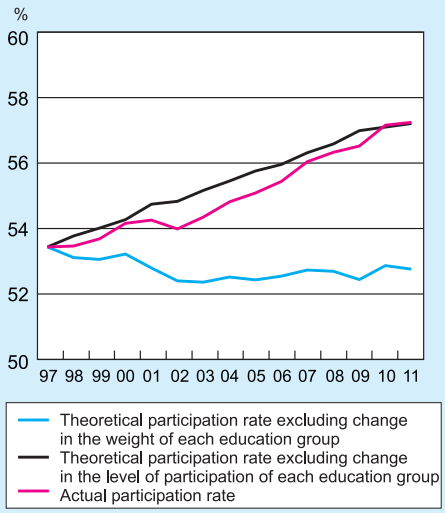


SOURCE: Central Bureau of Statistics data.

level of education is the main reason for the increase in the participation rate.[2]

For the purpose of assessing the effect of an increase in the average level of education on the participation rate, we estimated two theoretical participation rates. The first simulation (the blue line in Figure 3) presents only the effect of a change in the participation of each education group, while setting the weight of the education levels as they were in 1997. It thereby expresses the participation rate that would have been obtained had the level of education of the working age population in general increased since then. The second simulation (the black line in Figure 3) presents the effect of an increase in the level of education of Israeli society in general, sets the participation rate of each group, and expresses only the effect of the change in the weight of the education levels. The simulations show that since 1997, the theoretical participation rate excluding the effect of the general increase in the level of education declined slightly, and a change in the participation rate of each group separately did

Figure 3
Theoretical and Actual Labor Force Participation Rate, 1997-2011



SOURCE: Central Bureau of Statistics Labor Force Surveys.

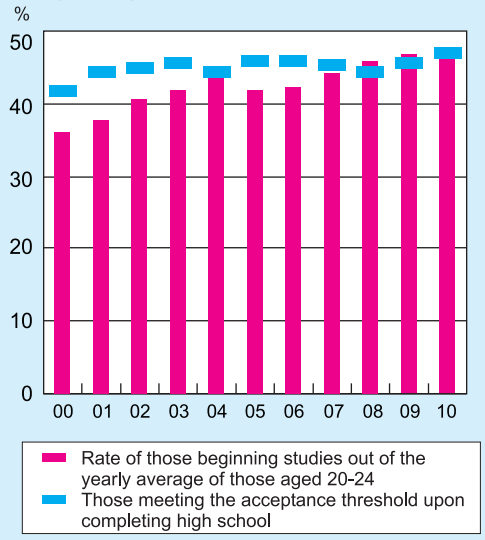
[2] An assessment of the employment rate rather than the participation rate presents a similar picture over the entire period, but higher volatility, since the employment rate is also affected by unemployment which is volatile over the business cycle and which is stronger as the level of education is lower.

not contribute to the overall level. Thus, the increase in the level of education of the general population is the dominant factor in the increase in the participation rate.

The increase in the level of education of the population reflects, to a great extent, the increase in the rate of students studying at academic institutions beginning in the 1990s, mainly due to an increase in the supply of student places at colleges. This increase moderated in recent years, and between 2009 and 2011, the rate of undergraduate students among the population has almost not changed. The halt of the increase in the rate of students overlaps the closing of the gap between the number of those completing high school who meet the threshold for being accepted into universities and the number of young people continuing with academic studies. The rate of high school graduates who meet the acceptance threshold and the rate of young people beginning studies at academic institutions[3] (Figure 4) increased moderately in the past decade, both reaching 46.6 percent in 2010. The closure of the gap and the moderation in the increase in the rate of students among the population show that the main roadblock to a continuing increase in the level of education of young people is not the number of available spaces in the higher education system. Therefore, we must currently act with increased vigor to increase the rate of high school graduates who are fit for academic studies, and in particular to increase the rate of matriculates who are fit for such studies among ultra-Orthodox Jews and Arabs, among whom the current rates (to 2010) are just 5 percent and 35.7 percent, respectively.

The analysis shows that the increase in the level of education among the population—the result of the significant investment in expanding the higher education system, mainly during the 1990s—is the most significant factor in increasing the Israeli workforce participation rate, and that the rate of students has increased markedly even before the noticeable changes in the government's work incentive policy. At the same time, over the long term, the appropriate incentives have tremendous importance in encouraging additional population groups to join the workforce and, for this purpose, to obtain the necessary education that will enable them to enjoy the high rewards of employment.

Figure 4
Rate of 12th Grade Graduates who Meet the Acceptance Threshold for Universities, and the Rate of Those Beginning Academic Studies, 2000-10



SOURCE: Council for Higher Education Budget and Planning Committee based on Central Bureau of Statistics.

[3] The rate of Israeli students beginning their studies from the yearly average of those aged 20–24, excluding those studying abroad.

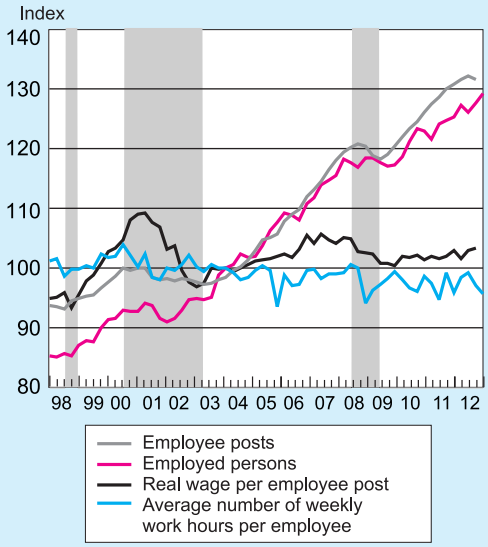
a. Employment and wages in the business sector

The labor market's response to moderation in the growth rate is mainly through changes in hiring new workers, in weekly work hours per employed person, and in wages.

Employment expansion in the business sector accelerated to a rapid rate of 3.1 percent, despite the slowdown in the rate of growth during the year. Labor input increased at a higher rate—reflecting the increase in the average number of weekly work hours per employed person in the first half of the year. The rapid expansion of employment in light of the many signals of moderation in the growth rate may apparently be considered as a lack of response on the part of the labor market to macroeconomic shocks. However, an analysis of additional data and long-term series indicates that the Israeli labor market actually responds quickly, although its response is mainly through changes in hiring new workers, in weekly work hours per employed person, and in wages. This way, many employers can avoid laying off workers.

During the last crisis (from the third quarter of 2008 until the second quarter of 2009), the number of employed persons in the business sector remained stable, and the number of employee posts declined at a relatively moderate rate (Figure 5.7). In contrast, the average number of weekly work hours per employed person in the business sector, as well as the real wage per employee post declined sharply, in parallel to the decline in job vacancies: Their level at the end of the crisis was much lower than at the beginning. The behavior of the Israeli labor market in adjusting output through work hours and not through the number of those employed is different than that of the American economy. Despite the expansion of temporary and indirect employment that began in the 1990s, it is still worthwhile for employers to reduce activity by reducing work hours and using employee dismissals only as a last resort. This is particularly true in industries that are human capital intensive, where the employee recruitment process is longer and more complex than in industries which mostly employ workers without higher education. Wage flexibility, which enables the reduction of employers' costs during crises (by reducing work hours, among other ways), protects their profitability from severe erosion and enables them to maintain their workforce. Estimates for the years 1995 to 2008 find that the elasticity of the share of wages in GDP (total wage payments) to the output gap in Israel is 0.86—which is high relative to the OECD average of 0.66. The elasticity in OECD countries ranges from 0.38 to 0.91, such that Israel is

Figure 5.7
Employment and Wage Indicators in the Business Sector, 1998-2012
(2004 = 100, seasonally adjusted)

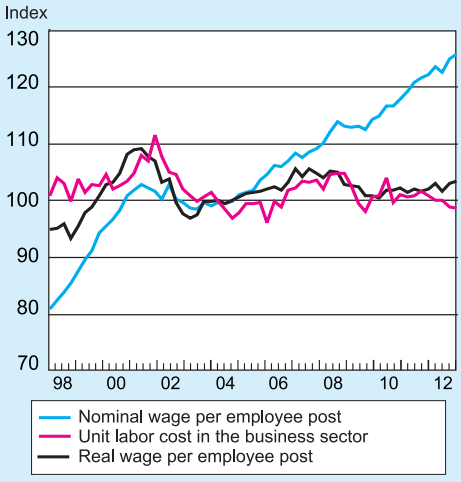


SOURCE: Based on Central Bureau of Statistics.

in the upper part of the distribution.[21] Since the changes in total employment are relatively small, the high elasticity of total wage payments is mainly the result of the high elasticity of wages per employee post.

Since the end of the last crisis in the second half of 2009, there has been a monotonic upward trend in the number of employee posts in the business sector, although this trend halted in the second half of 2012. The average number of weekly work hours per employed person increased in the first half of the year, but during the second half, it returned to its levels from the beginning of the year, which were relatively low when viewed against the long term. Real wages per employee post, which immediately declined sharply during the crisis of 2008–2009, did not return to their level of prior to the crisis, despite the high growth that characterized the economy in 2010 and 2011, and even though the current growth cycle has continued for three-and-a-half years. The moderate increase of wages continued into 2012 as well: nominal wages per employee post in the business sector increased by 2.4 percent[22], which translated into an increase of just 0.6 percent in real wages per employee post. This increase did not hurt employers' profitability. The real cost of labor per unit of business sector product even declined somewhat (Figure 5.8), due to the increase in business product prices.

Figure 5.8
Nominal and Real Wage per Employee Post in the Business Sector, and Unit Labor Cost in the Business Sector, 1998-2012
(indices, seasonally adjusted)



SOURCE: Based on Central Bureau of Statistics.

Long-term expansionary trends in the services and trade industries and a freeze in employment in manufacturing continued in 2012 (Figure 5.9 and Table 5.5).[23] Based on data on employee posts, the growth in employment in the services industry was led by computer services (6.3 percent) and research and development (5.4 percent)—exports of which increased at an impressive rate; insurance and provident funds (5.2 percent); public transport services (4.8 percent), apparently as a result of the increasing costs of the use of private vehicles due to increases in fuel prices; and food services (2.4 percent) and retail

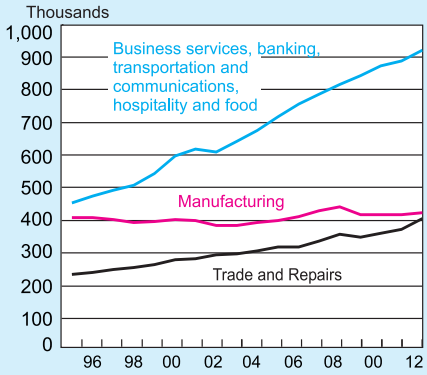
Long-term expansionary trends in the services and trade industries and stability in employment in manufacturing continued in 2012.

[21] For more discussion, see "Israel's Cyclically Adjusted Deficit," Recent Economic Developments 132, September–December 2011, Bank of Israel, pp. 26-33.

[22] Data on employee posts and wages per employee post for 2012 relate to the period from January to October, due to the change in classification of industries by the Central Bureau of Statistics. The comparison is to the parallel period in 2011.

[23] The phenomenon is discussed at length in the Bank of Israel Annual Report for 2011, Chapter 2, pp. 80-83.

Figure 5.9
Israeli Employed Persons in Selected Industries in the Business Sector, 1995-2012



SOURCE: Central Bureau of Statistics.

trade (2.2 percent), reflecting a substantial increase in current private consumption. Employment in the communications industry declined sharply (6.3 percent)—apparently due to the need for increased efficiency as a result of strong competition in the cellular industry, which developed as the number of operators grew. Most of the manufacturing industry contracted, although the mining and quarrying industry added employee posts (an increase of 10.4 percent), as a result of natural gas and oil exploration and production activities.[24]

A range of industry data on the changes in employee posts and in wages per employee post (Table 5.6) shows that the sharp growth in the number of employee posts in the construction industry was accompanied by just a moderate increase in wages per employee post, evidence of the elasticity of labor supply in the industry due to an increase in the number of Palestinian workers, and that in the banking, insurance and finance industry, which continued to absorb workers, wages declined—evidence of the expansion of the labor supply in the industry. In the trade, hospitality and food services, transport, storage and communications industries, and in some of the manufacturing and business services industries, wages per employee post were affected by the increase of the minimum wage, which is the wage of many of those employed in these industries. The minimum wage was raised significantly in 2011—from NIS 3,850 per month to NIS 4,100 per month, as a result of the annual update on April 1, and of the implementation of legislation.[25] In October 2012, the second round of increase in the minimum wage was implemented, raising it to NIS 4,300 per month. The increase should be reflected by an increase in the average wage per employee post in the industries where a high proportion of workers earn low salaries. It was also found[26] that an increase in the minimum wage contributes significantly to an increase in the wages of women in the bottom quintile, which are almost completely correlated with the minimum wage, and contributes less, although still markedly, to an increase in the wages of men whose salaries are relatively low.

The development of employment in exporting industries was in line with developments of Israeli exports. Significant growth in computer services and research and development exports was reflected in the sharp growth of the number of employee posts in these industries, while the real wage per employee post did not

[24] For more information on developments in these industries, see Chapter 2 of this report.
[25] The Minimum Wage Law (Raising Minimum Wage Amounts–Temporary Order), 5771-2011.
[26] Y. Mazar and O. Peled-Levy (2012), "The Minimum Wage, Wage Distribution, and the Gender Wage Gap in Israel, 1990–2009," Bank of Israel, Research Department, Discussion Papers Series 2012.01.

Table 5.6
Employee Posts and Wage per Employee Post[a], by Selected Industries[b], 2009–12

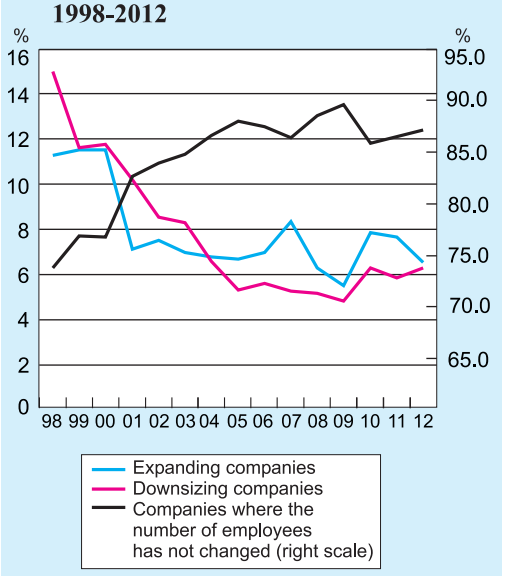
	Employee Posts					Real wage per Employee Post				
		Rate of change (percent)					Rate of change (percent)			
	Thousands 2012	2009	2010	2011	2012	Relative to the average salary	2009	2010	2011	2012
Total	3,249.2	0.3	3.9	4.1	2.9	1.0	-2.6	0.7	0.4	1.0
Israelis	3,109.9	0.2	3.9	3.9	2.6	1.0	-2.5	0.7	0.4	1.0
Business sector, total	2,198.4	-0.9	4.1	4.3	2.2	1.0	-2.6	0.7	0.4	0.6
Israelis	2,087.7	-1.0	4.0	3.9	1.7	1.0	-2.6	0.7	0.5	0.8
Agriculture, total	89.1	-1.7	1.6	6.2	1.7	0.6	-0.3	0.9	-1.0	0.4
Israelis	55.9	2.1	2.8	5.4	0.8	0.7	0.0	1.1	-1.0	0.5
Manufacturing - Israelis	371.3	-2.6	2.2	2.2	1.0	1.4	-2.2	1.8	0.5	1.0
Electricity and water - Israelis	17.6	1.5	2.3	2.0	0.6	2.6	-0.3	1.7	0.2	2.3
Construction, total	185.7	-0.6	4.9	7.9	5.5	0.9	-2.0	1.1	1.7	1.6
Israelis	155.0	-1.2	5.6	8.1	4.2	0.9	-1.9	0.7	1.0	1.7
Banking, insurance and finance - Israelis	104.0	5.4	4.2	4.5	1.9	1.8	-12.9	4.1	0.0	-1.9
Business services - Israelis	562.0	-3.1	4.6	4.4	2.7	1.1	-2.6	0.9	1.9	2.4
Trade and repairs - Israelis	428.3	-0.8	4.8	3.2	1.0	0.9	-2.5	0.2	0.0	-0.4
Transport, storage and communications - Israelis	173.5	0.6	3.6	2.8	0.0	1.1	1.2	-3.9	1.0	0.5
Hospitality and food services	179.9	1.7	4.0	6.7	3.1	0.5	-0.9	1.7	0.0	2.1

[a] The real monthly wage per employee post according to National Insurance Institute reports includes workers from the Palestinian areas and reported foreign workers, unless noted othewise.
[b] The sectors are defined according to the economic industry and not according to the employer classification.
Source: Central Bureau of Statistics.

increase—apparently as a result of the massive recruitment of new workers whose salaries are lower than those of long-standing employees. Most manufacturing export industries saw a decline in the number of employee posts due to the decline in exports from manufacturing industries that are not high technology industries. In some of them, real wages also declined.

Despite the increase in total employment, Employers Survey data indicate that in 2012, the share of companies with downsizing workforces increased, and the share of companies with expanding workforces declined (Figure 5.10). This is apparently a reflection of cautious behavior on the part of employers in hiring new workers (which is in line with the decline in expectations of activity and

Figure 5.10
Classification of Companies by Change in Workforce Size, 1998-2012



SOURCE: Based on Ministry of Industry, Trade and Labor Employers Survey.

In 2012, the share of companies with downsizing workforces increased, and the share of companies with expanding workforces declined.

of workforce totals during the year). These data are in line with the decline in the number of job vacancies intended to increasing the workforce, and with the apparent decline in the replacement of workers (for instance, foregoing the recruitment of a new worker to replace one who has resigned or retired). The decline in the number of companies with expanding workforces and the increase in the number of companies with downsizing workforces were more prominent among small businesses, whose share of total employment in the business sector is large. For more discussion on the contribution of small business to employment, see Box 5.2.

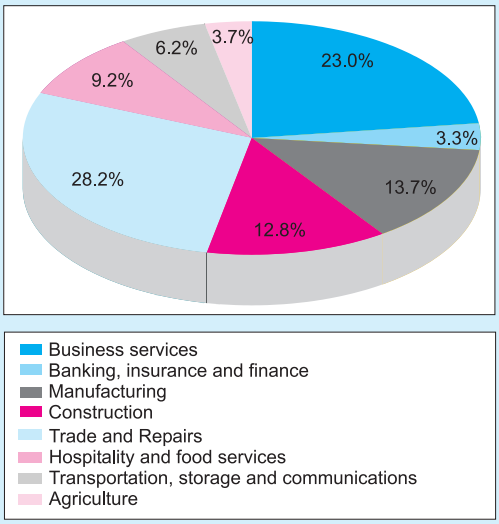
Box 5.2

The contribution of small businesses to employment

Against the background of public discourse regarding the encouragement of small businesses, the question regarding the contribution of small businesses to employment and economic growth arises. Small businesses contributed more than 40 percent of salaried positions created for Israelis in the business sector between 2003 and 2010 (net growth). Their contribution to employment was most prominent in the business services, trade, hospitality and food services, and construction industries.

The definition of a small business is generally comprised of two parameters: the number of employees and the volume of activity.[1] The analysis presented below relates only to the parameter of workforce size, which is measured by the number of salaried positions of Israeli employees per employer.[2] A small business is defined as a business that has up to 49 salaried positions. A medium business is defined as a business with between 50 and 100 salaried positions, and a large business is defined as a business with more than 100 salaried positions. This analysis is based on Central Bureau of Statistics data sourced from the business registry for the years 2003 to 2010.

Figure 1
Distribution of Employee Posts of Israelis in Small Businesses in the Private Sector, by Industry, Average, 2003-10



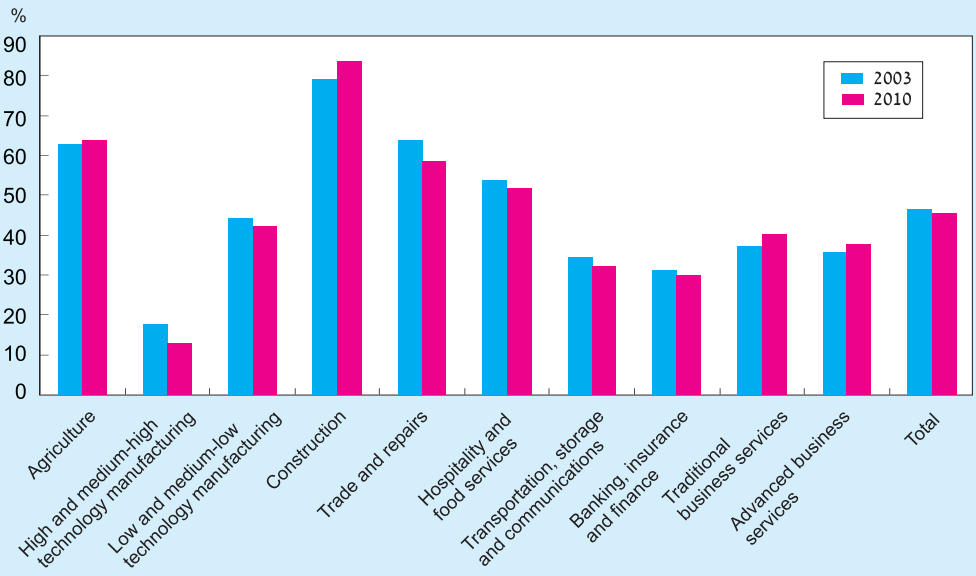
SOURCE: Based on Central Bureau of Statistics.

Small businesses in Israel constitute 97.5 percent of all registered businesses. They are active in all industries in the economy and contribute about 40 percent of product. Employment in small businesses is mainly concentrated in the trade and services industries (Figure 1). Small businesses accounted for between 14.7 percent of employment in the high technology and medium-high technology manufacturing industries and 81 percent in the construction industry between 2003 and 2010, on average. During this period, their

[1] In Israel, a small business is defined as a business that employs up to 50 people, and whose sales turnover is up to NIS 25 million. A medium business is defined as a business employing up to 100 people whose sales turnover does not exceed NIS 100 million.

[2] This definition does not include the self-employed who do not employ workers.

Figure 2
Small Businesses' Share of Employment in the Business Sector, by Industry, 2003 and 2010



SOURCE: Based on Central Bureau of Statistics.

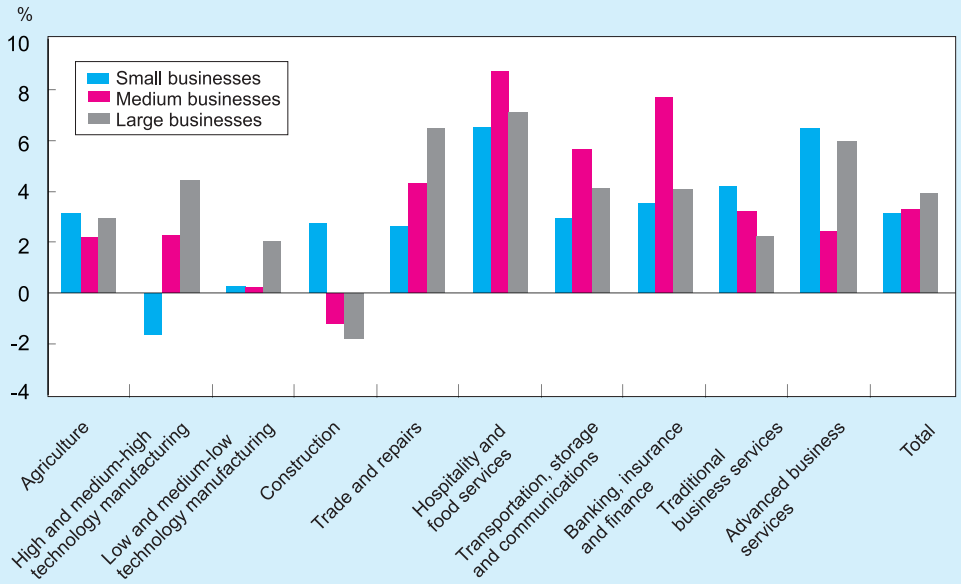
share of total employment declined slightly, from 46.5 percent in 2003 to 45.5 percent in 2010 (Figure 2).The average annual growth rate in the number of employee posts in small businesses was 3.1 percent between 2003 and 2010, lower than among large (3.9 percent) and medium (3.3 percent) businesses. At the same time, the general picture hides differences between industries. In the business services and agriculture industries, the increase in the number of salaried positions in small businesses was the most rapid, while employment in the construction industry grew only among small businesses and declined among large and medium businesses (Figure 3).

The contribution of small businesses to total employment in the business sector between 2003 and 2010 was large, and quite close to the contribution of large businesses. Out of 410,000 salaried positions added during this period, about 170,000 (about 41.5 percent) were created in small businesses. Large businesses created 201,500 salaried positions, while medium businesses created 38,500 positions. The marked contribution of small businesses was registered in the business services, trade, hospitality and food services, and construction industries (Figure 4).

Access to credit presents a problem for the activity and survivability of small businesses.[3] There are those who argue that this problem causes a lack of job security and a high level of sensitivity to periods of recession and emergency situations, due to the lack of financial reserves (Tzadik, 2007). However, an examination of comparative employment figures shows that the decline in the total number of salaried positions in small

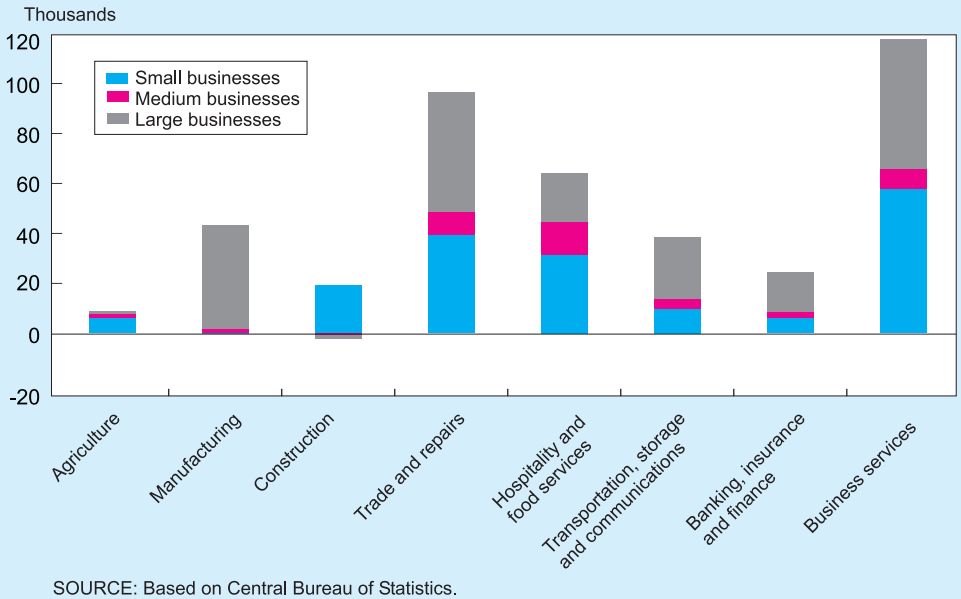
[3] A comprehensive review of the problem and the reasons for its development is presented in the interim report of the team assessing increased competition in the banking industry.

Figure 3
Average Annual Rates of Change in Salaried Positions of Israelis by Size of Business, 2003-10



SOURCE: Based on Central Bureau of Statistics.

Figure 4
Contribution to the Increase in Total Employment, by Size of Business, 2003-10



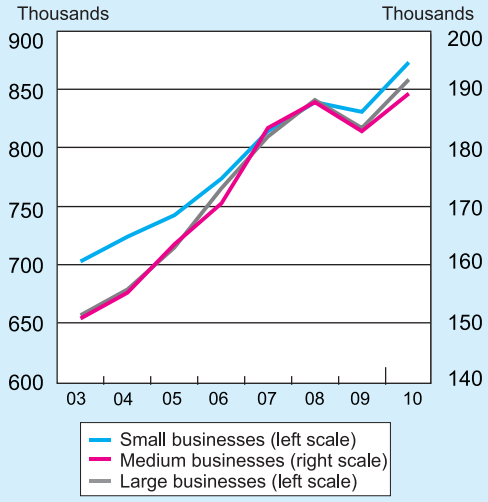
SOURCE: Based on Central Bureau of Statistics.

businesses during the most recent recession was much more moderate than among large and medium businesses.[4]

Figure 5 indicates that in 2008, the total number of employee posts in small businesses was similar to the total number in large businesses, but that starting in 2009, small businesses' share portion of total employment increased. This finding is consistent with the conclusions of the study by Moscarini and Postel-Vinay (2009), who found that large businesses' sensitivity to business cycles concerning employment is higher than that of small businesses. The findings of that study are based on an analysis of US data starting from the mid-1970s, encompassing four business cycles, as well as on data from other economies such as Denmark and Brazil. Indirect evidence of large businesses' higher sensitivity to business cycles comes from another finding: the consistency between their expectations regarding workforce size in the following quarter and macroeconomic developments is higher than those of large and medium businesses (Suhoy and Presman, 2009).

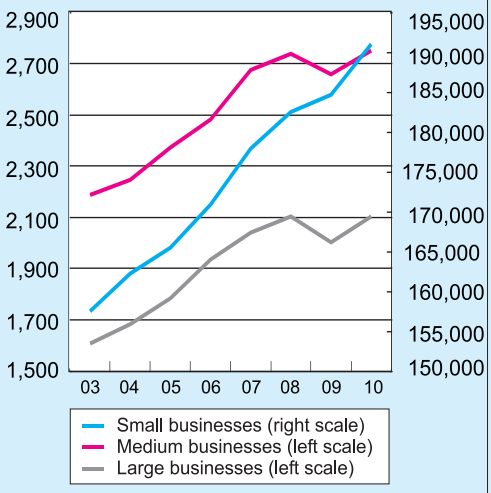
Large employers tend to lay off more during crisis periods and to create more positions during later stages of growth. Moscarini and Postel-Vinay (2009) explain this phenomenon: At the beginning of the growth process, more people are employed mainly from the pool of the unemployed, which is relatively inexpensive. Once the pool of the unemployed is depleted, employers are forced to raise salaries in order to attract employees who are interested in changing jobs. Since only businesses whose labor productivity is high can allow themselves to raise salaries, large businesses, which generally can pay higher salaries, attract workers leaving small businesses, where the salary is generally smaller. (According to Central Bureau of Statistics figures, the salary per salaried position increases with the size of the business.) In 2003, when growth was just beginning, the number of salaried positions in small businesses was about 46,000 higher than among large

Figure 5
Number of Employee Posts of Israelis by Size of Business, 2003-10



SOURCE: Based on Central Bureau of Statistics.

Figure 6
Active Businesses (Employers) by Size of Business, 2003-10



SOURCE: Based on Central Bureau of Statistics.

[4] The analysis presented herein assesses the net growth in employment in each of the size groups. Therefore, it does not deal with questions of small business survivability, the gross creation vs. elimination of positions, employee turnover, and so forth.

businesses. The gap began to close in 2005 after the economic recovery from the recession and the establishment of growth.

During the most recent crisis period, not only were small businesses harmed less, the number of small businesses did not decline. Rather, the rate of increase in small businesses slowed, while the number of large and medium businesses declined (Figure 6). This finding does not negate the fact that there were small businesses that failed and did not survive the crisis period. (This analysis cannot track individual businesses.) But the lack of decline in the total number of small businesses can show that during the crisis period, new businesses opened. We note that, theoretically, the growth in the number of small businesses during a crisis period can be the result of employment cuts in medium and large businesses, which is reflected in a reclassification bias between size groupings. In order to rule out this possibility, we tested the likelihood of a medium business becoming a small business based on the Ministry of Industry, Trade and Labor's Employers Survey. The test relied on a comparison between the number of employees at the beginning of a quarter and the number at the end of the quarter at the same company. We found that, between 1998 and 2012, the average quarterly likelihood of a medium business becoming a small business was just 0.08 percent, and that it was no different in 2009 (0.07 percent). The increase in the number of small businesses during the crisis year can therefore not be explained by declining workforce size in medium businesses.

Sources:

Bank of Israel, The Team to Examine Increasing Competitiveness in the Banking System (2012), Chapter 2, General Overviews, pp 112-122.

Suhoy, T. and N. Presman (2009), "Predictive Content of Employers' Expectations", Bank of Israel, Research Department, Discussion Papers Series 2009.01.

Tzadik, A. (2007). "Small and Medium Businesses in Israel and Developed Countries," Knesset Research and Information Center (in Hebrew).

Moscarini, G. and F. Postel-Vinay (2009), "Large Employers are More Cyclically Sensitive", NBER, Working Paper 14740.

b. Employment and wages in public services

In 2012, employment and wages increased more in public services than in the business sector.

In 2012, employment and wages increased more in public services[27] than in the business sector (Table 5.2). The number of Israeli employees in public services increased by 4 percent, and the number of employee posts of Israelis grew by 3.3 percent. Data on the number of employed persons and on the number of employee posts at the industry level are inconsistent: according to Labor Force Surveys, the number of employed

[27] Employment in public services (education, health, public administration, etc.) includes those employed in the government sector, in government companies, in private non-profit institutions, and sometimes in private companies as well. At the same time, a significant share of nongovernmental activities in these industries is financed by the government even if they are not directly operated by the government.

persons in public administration increased sharply (by 5.6 percent), while according to administrative data from the National Insurance Institute, there was a more uniform increase across the various industries and a more marked increase in education services (4.6 percent) and in health, welfare and social services (4.1 percent). The anomalous growth in the number of employed persons in public administration may be the result of a change in recording—those serving in the military are now included in this industry. Therefore, it is preferable to look at employee posts, which do not include them. The increase in wages in the public services is the result of the continued implementation of a number of agreements signed with the various sectors prior to 2012. Total wage payments in public services increased by 6 percent in 2012. About 57 percent of this increase can be attributed to the implementation of the agreements with doctors and teachers, and the framework agreement in the public sector. The increase in total wage payments in public services is in line with the growth in public consumption and with the fact that the GDP growth rate exceeded that of business sector product.

In the government sector—comprised of the central government, local authorities, and public nonprofit institutions (universities, public colleges, community centers, etc.)—the number of employee posts increased by a high rate of 4.8 percent and real wages increased by 1.3 percent (Table 5.7). The increase in wages in the government

Table 5.7
Employee Posts and Real Wage per Employee Post, by Sub-Sector in Public Services, 2010–12

	Employee posts				Real wage per employee post			
	Thousands	Rate of change (%)			In relation to the overall average wage	Rate of change (%)		
	2012	2010	2011	2012		2010	2011	2012
Public services, total	1,022.1	3.5	3.9	4.3	1.0	0.8	0.2	1.6
Government sector	560.0	1.6	3.9	4.8	1.1	1.4	-0.3	1.3
Of which: General government[a]	212.0	2.2	2.2	4.6	1.4	2.8	0.2	1.5
Local authorities	122.4	-2.1	3.6	3.4	0.9	-1.2	0.0	1.0
Public nonprofit institutions	225.6	3.1	5.5	5.7	0.9	0.7	0.3	1.6
Companies	269.7	4.1	3.1	4.6	1.1	3.0	1.4	2.0
Of which: Government corporations[b]	70.1	73.6	2.8	3.0	1.6	-5.3	2.9	5.4
Private companies	196.6	-0.6	3.2	5.2	0.9	-0.8	0.6	0.2
Of which: Health and social work	122.6	-2.8	4.8	5.5	0.5	-4.8	0.8	1.6
Households	27.6	3.3	9.7	4.4	0.4	-4.9	-0.4	2.2
Private nonprofit institutions	164.7	-2.7	4.2	2.3	0.6	-11.1	1.2	0.7

[a] Including the National Insurance Institute and the national institutions.
[b] Most of these companies are government hospitals.
SOURCE: Central Bureau of Statistics, Wage and Employment Monthly.

sector is a result of the implementation of the multiyear wage agreement signed with the Histadrut in 2010, which grants cumulative nominal wage increases of 7.25 percent between 2011 and 2013, of which 1.78 percent was in 2012. In addition, the "Oz Le'tmura" (Courage to Change) reform in the secondary schools continued, raising teachers' wages in exchange for an increase in the number of work hours per employed person, and implementation of agreements with the doctors and with the social workers also continued. (For details on these agreements, see Chapter 5 of the Bank of Israel Annual Report for 2011.) The cost of implementing these agreements together with raising the minimum wage totaled about NIS 4.15 billion in 2012.

At the beginning of December 2012, hospital nurses began a strike demanding improvements in their terms of employment. The strike lasted 17 days. A new salary agreement signed between the Ministry of Finance and the Nurses Association grants a salary increase of about NIS 1,300 over four years, worth an average raise of 13 percent. The agreement benefits those with lower salaries, since the salary increase is a uniform amount. Most of the increase will be given in the first two years—35 percent each year. One percent of the cost of the agreement will be allocated to solve problems in the profession.

5. UNEMPLOYMENT

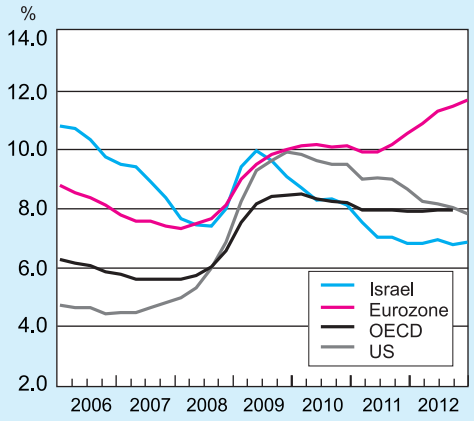
The unemployment rate in the economy was stable during 2012, the result of an increase in employment which was similar to an addition to the labor force.

The unemployment rate in the economy was stable during 2012 (Table 5.1). Over the year, the unemployment rate declined by 0.2 percentage points compared to the previous year, but this decline was affected by the high unemployment rate in the first quarter of 2011. Among those aged 25–64, the unemployment rate declined from 6.1 percent to 5.9 percent. The stability of the unemployment level over the year was the result of an increase in employment, which was similar to an addition to the labor force. The unemployment rate among men declined markedly, while the unemployment rate among women increased by one-tenth of one percent (Table 5.2). Between 2009 and 2011, the unemployment rate among women was lower than among men, but the relationship reversed in 2012.

The level of unemployment in Israel in 2012 was low when compared internationally.

The level of unemployment in Israel in 2012 was also low when compared internationally (Figure 5.11). Before the global financial

Figure 5.11
Unemployment Rates in Israel and Other Western Countries, 2006-12 (seasonally adjusted)

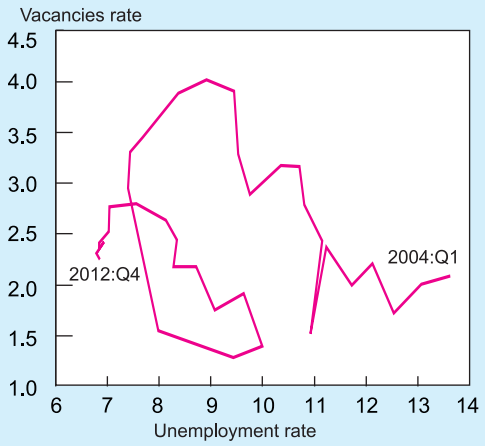


SOURCE: Israel - Central Bureau of Statistics; OECD - the OECD website; US and Eurozone - the Bloomberg website.

crisis, Israel was beset by high unemployment, but it declined rapidly and came close to the unemployment levels in the western world. The crisis, which hit many economies, caused an increase in unemployment in those countries, and the Israeli economy was also hit by a slowdown. However, since the second half of 2009, Israel's unemployment rate has been characterized by a continued decline, while in other OECD countries, unemployment has stabilized at high levels, and the crisis has deteriorated even further in the eurozone countries.

The Beveridge curve represents the relationship between the unemployment rate and the job vacancy rate.[28] Estimating the curve indicates that the response of job vacancies to the business cycle is more rapid and stronger than its response to the unemployment rate. The estimated slope of the Beveridge curve in Israel is –3, meaning that over the business cycle, a decline of one percent in the number of unemployed is associated with an increase of 3 percent in the number of job vacancies, on average.[29] The job vacancy rate reached a relatively high level of 2.8 percent of total demand for labor (measured as the sum of the number of employed persons and the number of job vacancies) in the middle of 2011, and has since declined gradually to 2.3 percent in the second half of 2012. This decline was accompanied by a decline in the unemployment rate, such that the entire curve shifted leftward (Figure 5.12).

Figure 5.12
Beveridge Curve - Unemployment Rate vs. Vacancies Rate in the Business Sector, 2004-12
(seasonally adjusted)



SOURCE: Unemployment rate - Central Bureau of Statistics Labor Force Surveys; Job vacancies rate - Ministry of Industry, Trade and Labor Employers Survey.

Those joining the labor market in 2012 found employment relatively quickly.

Data on job search duration indicate deepening unemployment: The number of unemployed who have been searching for jobs for up to two months declined in 2012, while the number of those searching for jobs for half a year or more increased. According to these data, those joining the labor market in 2012 found employment relatively quickly and easily. (Due to a change in the sampling of the Labor Force Survey, we cannot conduct a detailed examination that will track those searching for jobs.) In contrast, unemployed persons who have experienced a longer period

[28] There is an explanation of the curve in Box 5.1 of the Bank of Israel Annual Report for 2011.

[29] Y. Yakhin and N. Presman, (2013), "A Flow-Accounting Model of the Labor Market: An Application to Israel", to be published.

Table 5.8
Indicators of Labor Market Flexibility

	Percent of vacancies filled for replacement purposes out of total employed persons in the industry		Duration the position was vacant out of positions filled, in weeks		Percent of job vacancies unfilled for 3 months or more	
	1998–1999	2011–2012	1998–1999	2011–2012	1998–1999	2011–2012
Agriculture	1.1	2.4	1.9	5.1	9.8	6.0
Manufacturing	1.0	1.4	3.0	2.8	15.5	7.4
Construction	1.1	1.4	2.3	2.8	11.2	4.3
Trade and vehicle repairs	1.8	2.8	2.7	2.8	14.5	2.5
Hospitality and food services	3.0	4.3	1.9	2.5	6.7	1.0
Transport, storage and communications	1.1	1.4	3.1	2.9	11.2	6.1
Banking, insurance and finance	1.7	1.2	3.3	3.5	3.6	0.4
Business services	2.0	1.9	3.4	3.0	13.4	3.6

SOURCE: Based on Ministry of Industry, Trade and Labor Employers Survey.

of unemployment had greater difficulty finding a job.[30] There was also a moderate decline in the rate of unemployed who had not worked in the previous 12 months, which may indicate the absorption into employment of people newly joining the labor force. (Another explanation is the absorption into employment of those who had been unemployed for more than a year, but in light of data on the depth of unemployment, this is not a likely possibility.)

About half of the decline in the unemployment rate between 2004 and 2011 is explained through structural factors and not through cyclical factors.

Unemployment is currently low from a historical perspective, and it is possible that its current level indicates a decline in the natural unemployment rate due to structural changes that were made in the economy in previous decades. It seems that without these changes, the unemployment level today would have been higher. A study that estimated the Beveridge curve[31] with Israeli data indicates that at least half of the decline in the unemployment rate between 2004 and 2011 can indeed be explained through structural factors and not through cyclical factors. These structural factors acted in two channels—an effect on the labor supply and an effect on job search efficiency (both on the part of employers and on the part of the unemployed). Since the beginning of this century, the government has enacted a number of stringent changes to the unemployment insurance system, including reducing unemployment benefits, reducing the duration of eligibility, particularly for young unemployed persons, and extending the duration of the qualification period. In parallel, the terms for entitlement

[30] This phenomenon is known in the professional literature, which accepts the argument that the longer the period of unemployment, the stronger the erosion of the unemployed person's human capital, which prevents him from succeeding in the job search and leaving the circle of unemployment.

[31] Y. Yakhin and N. Presman (2013), "A Flow-Accounting Model of the Labor Market: An Application to Israel", Not yet published.

to income support benefits were made more stringent, and child allowances, which were a significant source of income for families with many children, were reduced. These created leverage for integration into the labor force of population groups that had relied on these grants. Based on an econometric estimate, the growth in the labor force acted to reduce the unemployment rate over the long term, and its effect can be credited with a decline of about 48,000 people in the number of unemployed persons between 2004 and 2011 (out of the total decline in the number of unemployed during this period of about 167,000). A decline of about 35,000 unemployed during these years can be attributed to increased job search efficiency due to, among other things, the wide use of the Internet—which lowers the cost of the job search both for those seeking employment and for employers—and to outsourcing the candidate search and screening process to external companies specializing in human resources recruitment.

The decline in structural unemployment is a result of increased flexibility in the labor market, which enables a more rapid adjustment of employment and wages to the changing conditions of the economic environment. This flexibility benefited from, among other things, a change in the composition of industries—a decline in employment in low technology industry and an expansion in the service industries, which are more flexible in terms of employing workers. Another contributory factor to the decline in the unemployment rate was the increase in the population's level of education, since unemployment among those with a higher education is lower. Table 5.8 illustrates some of these explanations. The comparison is between the years 1998–1999 (and for the replacement rate, 1999–2000[32], due to the absence of data from before 1999) and 2011–2012—periods with similar growth rates in the economy. The data in the table reflect different measures of labor market flexibility. In a flexible labor market, the replacement of workers is generally high, workers leave jobs relatively easily, and there are fewer restrictive arrangements (such as tenure arrangements that were customary in the economy in the 1970s and 1980s but have diminished since the 1990s).

The decline in structural unemployment is a result of increased flexibility in the labor market, which enables a more rapid adjustment of employment and wages to the changing conditions of the economic environment.

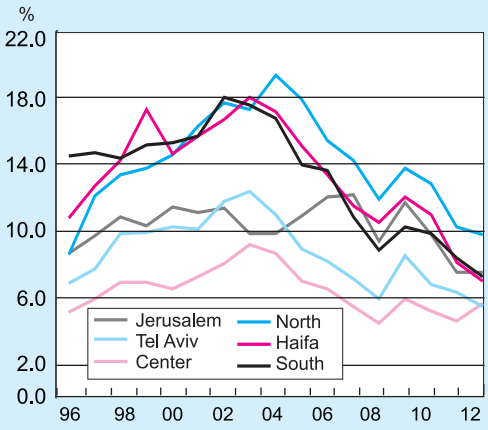
The replacement volume is calculated as the number of job vacancies in the business sector that were filled as a result of the replacement of workers compared to the number of employed persons in that industry. The data indicate that in most industries, replacement increased over the course of the decade, and that in the various services industries, replacement is higher than in manufacturing. Therefore, the replacement volume in the economy increased both as a result of an increase in replacement in individual industries and as a result of the relative expansion of employment in the trade and services industries and its decline in manufacturing.

The length of time during which a job vacancy "waited" to be filled became shorter in some of the industries, but longer in others. However, the time until being filled is short: positions are filled, on average, within less than one month. Another indicator that registered a significant decline in all industries is the rate of job vacancies that remain unfilled for three months or more. This data may indicate more rapid filling

[32] Not including the fourth quarter of 2000, when the intifada broke out and the recession began.

of vacancies, but it is also possible that the search for workers has become more dynamic: vacancies that are not filled within a reasonable amount of time are eliminated (about 30 percent of vacant positions indeed disappear from the Employers Survey without being filled), or are "renewed" (are cancelled and then republished) more frequently. More than 40 percent of positions that were cancelled return to the market within the next two quarters.

Figure 5.13
Unemployment Rate, by District, 1996-2012



SOURCE: Based on Central Bureau of Statistics.

The various trends in regional unemployment rates contributed to gaps between them shrinking.

Similar to many other economies, there are also large gaps between regional unemployment rates in Israel. In 2012, the downward trend of unemployment rates continued in four districts—Haifa, Tel Aviv, the South and the North—while the unemployment rate in the Jerusalem district stabilized, and it increased in the Central district (Figure 5.13). The various trends in the regional unemployment rates contributed to their convergence, which was reflected in the shrinking gap between them as measured by indices of dispersion, a process which began in 2005. This development is in line with the results of a study that examined the common changes in the regional unemployment rates and determined, based on data from 1970 to 2004, that despite the gaps, the regional unemployment rates show a tendency toward conditional convergence.[33] The districts that suffered from high unemployment rates over the years—the South, Haifa and the North—have managed to markedly reduce their unemployment rates. Possible explanations for the decline in unemployment rates in the periphery include: (1) growth in employment within these districts; (2) an increase in mobility or commuting among residents of those districts who have found work in the center; (3) residents moving from the center to the periphery due to the cost of housing in the center, while continuing to maintain their jobs in the center. (The move of unemployed persons from the periphery to the center should also reduce the unemployment rate in the periphery.)

A number of tests conducted in order to establish or reject these alternative assumptions indicate that there is no single clear cut explanation for the developments described above. An assessment of data on labor demand (the number of employed persons plus the number of job vacancies) in the business sector according to the

[33] This convergence is to the point of a fixed gap. N. Presman and V. Klepfish (2007), "Regional Unemployment Convergence in Israel," Bank of Israel, Research Department, Discussion Papers Series 2007.06.

Employers Survey indicates that between 1998–1999 and 2011–2012, there was an impressive increase of about 150 percent in the demand for labor in the North district, while the growth in the demand for labor in the South district (37 percent) and the Haifa district (17 percent) was relatively small. An assessment of commuting patterns between districts indicates that the rate of individuals living in the Haifa district and employed outside that district (mainly in the North, Central and Tel Aviv districts) increased gradually from 14 percent in 1997 to about 24 percent in 2011. The rate of those employed outside the district also increased in the South district (with individuals employed mainly in the Tel Aviv and Central districts), but at a smaller rate—from 12.5 percent in 1997 to about 16 percent in 2011. In the North district, where commuters living in the district work mainly in the Haifa district, the rate of commuters remained almost unchanged, increasing from 16.8 percent in 1997 to 18.6 percent in 2011. An examination of data on the net balance of internal migration found negative migration from the South district starting in 2003 on a consecutive basis, and negative migration from the North district almost every year during the period between 1995 and 2011. The negative migration moderated in the middle of the first decade of the 2000s only in the Haifa district, and in the years between 2009 and 2011, there was cumulative positive migration of about 3,600 people. Thus, the assumption regarding the transition of the working population to the periphery regions is not supported by data. We therefore see that the main reasons for the decline in the unemployment rates in the periphery are the expansion of employment there and the increase in commuting.

The main reasons for the decline in the unemployment rates in the periphery are the expansion of employment there and the increase in commuting.

6. GOVERNMENT POLICY IN THE LABOR MARKET

At the beginning of December 2012—nine months after a general strike in support of contract workers[34]—an agreement was signed arranging the terms of employment of security and cleaning workers employed in the public sector and the local authorities. The situation of these workers is expected to improve as a result of the implementation of the agreement, which grants them full social benefits, similar to those of government sector employees. It was agreed that their minimum/base wage would be raised to NIS 4,500 per month for a full-time position (with the differences paid retroactively from May 2012). In addition, their salary will be linked to public sector wage agreements, money will be allocated for them to training funds at a rate of 7.5 percent (of which 5 percent will be at the expense of the employer), their pension deductions will be increased by 2 percent (one percent at the employer's expense and one percent at the worker's expense)—and the pension deductions will be made from the first day of employment—they will be given a grant for excellence, their convalescent pay will be increased, and they will be granted holiday gifts and subsidized meals. To

An agreement was signed arranging the terms of employment of security and cleaning workers employed in the public sector and the local authorities.

[34] The Agreement in Principle was signed immediately upon the end of the strike, and negotiations over the details of the agreement have been conducted since then.

date, no similar agreement has been achieved regarding security and cleaning workers employed in the business sector.

In recent years, emphasis has been placed on strengthening enforcement of the labor laws.

In recent years, emphasis has been placed on strengthening enforcement of the labor laws, since without effective enforcement it will not be possible to improve the situation of the weaker workers. An important component of enforcement is deterring employers from harmful behavior toward workers. In June 2012, a law to strengthen the enforcement of the labor laws came into effect, adding administrative enforcement to the already existing criminal enforcement of the labor laws. The law allows opening administrative proceedings on the basis of complaints by workers regarding the contravention of their rights; increasing the efficiency and shortening the complaint inquiry process; and imposing financial sanctions on employers found to be in contravention of labor laws. Employers are also tasked with the responsibility for making sure that the rights of contract workers they employ are maintained.

During the year, the "Ma'agalim" fund was established for those in occupations that are physically draining, with a budget of NIS 600 million. The fund is meant to provide a response for elderly workers employed for at least 7 years in professions that erode their strength, and offers two tracks: fully financed professional training for workers aged 50 and above, or early retirement with a stipend for a period of up to one year for men aged 65–67 and women aged 60–62.

The year 2012 was characterized by a precedent-setting occurrence—the unionization of the workers at a company belonging to the business sector: employees of the "Pelephone" company established a representative committee and asked to join the Histadrut. Following a month of work disruptions, the National Labor Court ruled that the employer does not have the right to get involved or to express an opinion during the initial unionization process on the part of the employees, and that such involvement constitutes disproportionate harm to the internal democratic process of the workers. This precedent-setting ruling paves the way for the establishment of workers committees at other companies, which may have ramifications on labor relations in the economy and on the amount of flexibility in the labor market.

In classic labor market models, the establishment of workers unions leads to an improvement in the terms of employment of those already employed (insiders) at the expense of those not employed (outsiders) and to an increase in wages at the expense of creating new positions. However, the "flexicurity" method, which was developed in Denmark and recently adopted by the European Union, combines flexibility and competitiveness in the labor market with financial security for workers. The method is built upon tripartite agreements between the government, the employers and workers unions. This policy enables employers to be flexible in employment and termination and grants the unemployed generous benefits, together with an active labor market policy on the part of the government. We note that during the 2008–09 crisis in Israel, negotiation and agreement between employers and workers made it possible to avoid widespread dismissals and maintained a high level of employment at the cost of reducing wages. In the public sector, workers waived half of their convalescence payment for 2009.

In 2011 and 2012, the government delayed reducing the quotas for employing foreign workers in all industries[35], and even increased the number of permits for employing Palestinian workers in the construction and agriculture industries by 10,000[36]. This, in the absence of tangible progress in the training of Israeli workers for work in industries that rely on employing foreign workers.[37] There were significant steps taken to strengthen regulation, to eradicate the phenomenon of worker exploitation by manpower companies acting as agents in bringing them to Israel, and to enforce the labor laws in employing foreign workers. Thus, the government decided that in sectors where bilateral agreements to bring workers to Israel are signed with foreign governments, the employment of foreign workers from other countries will not be permitted. The first agreement of this kind, to bring agricultural workers to Israel, was signed between the Israeli government and the government of Thailand in 2011 with the participation of the International Organization for Migration (IOM), and its implementation began in April 2012. At the beginning of 2012, the first agreement in the construction industry was signed with the government of Bulgaria, and during the year, workers began arriving from there. Negotiations are also being conducted to bring construction workers from Moldova.

The number of permits for employing Palestinian workers in the construction and agriculture industries was increased.

Since 2010, two pilot programs have been conducted to assess the feasibility of bringing foreign workers and employing them in agriculture on a seasonal basis. During the program, it became clear that there were workers who attempted to leave their employers and remain in Israel illegally. It also became clear that most of the workers were pleased with their terms of employment in Israel and interested in returning the following season. However, employers claimed that the output of seasonal workers was lower than that of the "permanent" workers they employ, and did not express a desire to continue employing them.[38] On the basis of the conclusions formulated from the pilot program—the need to take limiting steps to prevent the foreign workers from remaining in Israel and adjusting their arrival cycles to the agricultural seasonal cycles—it was proposed to allow up to 1,000 seasonal workers to be brought in and employed in Israel.

[35] In the construction industry, the reduction in the allotment of foreign workers from 8,000 to 5,000, which should have come into force in 2011, was postponed until July 2014, and the cancellation of the allotment was delayed from 2013 to 2016 (Government Decision number 3453 of July 10, 2011). As a result of negotiations between the government and farmers, the allotment of foreign workers in the agriculture industry declined by only 600 in 2012, and now stands at 25,400, but it is not fully utilized. The number of foreign workers employed in agriculture, including those whose legal status is unclear, is about 22,000. For long-term care, there is no ceiling for the number of foreign workers.

[36] This is in accordance with two government decisions: number 4970 of July 25, 2012, and number 5164 of October 18, 2012.

[37] For more discussion, see G. Nathan (2012), "Government and Employer Activity to Encourage the Employment of Israelis in Foreign-Worker-Intensive Professions," Knesset Research and Information Center (in Hebrew).

[38] This information was obtained from questionnaires filled out by the farmers who participated in the pilot program and by the seasonal workers upon their departure from Israel. The data was collected by the Ministry of Agriculture in a joint effort with the Bank of Israel.

The government took significant steps to prevent work-seeking infiltration.

During the second half of 2011, the number of infiltrators through the border with Egypt increased rapidly. During the first half of 2012, the average number of infiltrators per month was 1,600, but during the year it declined significantly, to an average of about 200 per month in July–September, and to just a few dozen in October–December. The main reason for the decline in the number of infiltrators is the construction of the security fence along the Egyptian border, which was accelerated following the terrorist attack at Netafim in August 2011. Together with the construction of the fence along the Egyptian border, the Knesset approved amendments to the Infiltration Prevention Law, which came into force in June. The amendments allow the automatic detention of anyone entering Israel in an unregulated fashion. The law also allows the detention of infiltrators without filing an indictment and without trial for a period of up to three years, and possibly even longer. Since June, when the enforcement of the Infiltration Prevention Law began, hundreds of infiltrators have been sent to a number of prisons in Israel.

In January 2012, the Population and Immigration Authority announced that as of April 1, enforcement would begin against citizens of South Sudan who would not leave of their own will by the end of March 2012. In order to encourage their departure, each person leaving was promised a grant of €1,000. Between April and July, more than 1,000 citizens of South Sudan left Israel.[39] According to data from the Population and Immigration Authority, 20,500 people residing in the country illegally, left Israel as part of "encouraging voluntary departure" programs while more than three thousand were deported.

[39] The removal of South Sudan citizens was enabled after they lost the right to group humanitarian protection following the establishment of an independent state in South Sudan.