

CHAPTER IX

THE LABOR FORCE AND WAGES

1. MAIN DEVELOPMENTS

Full employment prevailed in 1971, and during the year demand pressure on the labor market grew more pronounced. Most of the additional demand for workers could be met, thanks to the big increase in the labor force and supply of workers from the administered areas. Hourly wages went up about 16 percent on an annual average, and employers' payroll outlay per man-hour by 17 percent. In the course of the year (mainly in the second half) the rise in employees' earnings exceeded the limits stipulated in the 1971 collective agreements, but their share in national income edged down slightly. The total rise in wages and salaries during 1971 amounted to about 15 percent.

The permanent population¹ of Israel numbered 3,094,000 at the end of 1971 — 3.1 percent more than at the end of the previous year. This growth, which was more rapid than in 1970, stemmed from both the expansion of immigration and a mildly higher rate of natural increase. A particularly noteworthy feature of 1971 was the sharp decline in emigration, which sank to its lowest level since the establishment of the State. After drifting downward for several years, the civilian labor force participation rate² tapered off at 49.2 percent during the last two years. This stability was maintained in spite of a further rise in the percentage of persons studying or serving in the defense forces.³ As the year progressed the civilian labor force participation rate turned upward.

The much more buoyant demand for workers in 1971 was reflected by a 3.5 percent rise in the number of Israeli employed. But the number of man-hours worked per employee declined somewhat, apparently because of an increase in temporary absences. The

1. The permanent population is the *de jure* population. It includes permanent residents abroad for less than a year, but does not include potential immigrants, temporary residents, and tourists. The *de facto* population is defined as the number of persons within the borders of the State at the date of the estimate. This chapter deals, in general, with the permanent population, as this concept is more appropriate for per capita measures of the national product and other economic magnitudes discussed in this Report which are calculated on a national basis. The remaining aggregates dealt with in this chapter (employment and wages and salaries) also will be presented, as a rule, on a national basis (i.e. total employment less workers from the administered areas, and wages and salaries of Israeli workers only).
2. The civilian labor force participation rate is defined as the percentage of persons aged 14 and over who are either employed or unemployed and actively seeking work. The source of these data is the Central Bureau of Statistics manpower surveys.
3. Persons serving in the armed forces are not included in the civilian labor force.

Table IX-1
POPULATION AND LABOR FORCE CHARACTERISTICS, 1969-71
(thousands)

	Annual averages			Percent annual average increase or decrease (-)		Half-yearly averages			Percent increase or decrease (-) in half-yearly averages	
	1969	1970	1971	1970	1971	July-Dec. 1970	Jan.-June 1971	July-Dec. 1971	From (6) to (7)	From (7) to (8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1. Average population	2,879.1	2,958.3	3,044.6	2.8	2.9	2,978.8	3,022.1	3,067.1	1.5	1.5
2. Working-age population	1,977.8	2,032.2	2,097.2	2.8	3.2	2,044.4	2,080.5	2,113.9	1.8	1.6
3. Civilian labor force	990.1	1,001.3	1,032.8	1.1	3.1	1,010.8	1,016.4	1,049.2	0.6	3.2
4. Percent of total population	34.4	33.8	33.9	—	—	33.9	33.6	34.2	—	—
5. Percent of working-age population	50.1	49.3	49.2	—	—	49.4	48.9	49.6	—	—
6. Total employed	945.8	963.1	997.1	1.8	3.5	971.0	982.4	1,011.8	1.2	3.0
7. Total employees	689.1	709.2	744.5	2.9	5.0	715.6	736.4	752.6	2.9	2.2
8. Wages per employee — excl. administered areas (IL)	630	688	793 ^a	9.2	15.3	706	767	818	8.6	6.6
9. Wages per employee — incl. administered areas (IL)	623	677	773 ^a	8.7	14.2	695	748	798	7.6	6.7
10. Unemployed job-seekers	44.3	38.2	35.7	-13.8	-6.5	39.8	34.0	37.4	-14.6	10.0
11. Percent of civilian labor force	4.5	3.8	3.5	—	—	3.9	3.3	3.6	—	—
12. Number of employed from administered areas	12.0	20.6	33.8	71.7	64.1	22.6	29.2	38.5	29.2	31.8
13. Total employed in the economy, incl. administered areas	957.8	983.7	1,030.9	2.7	4.8	993.6	1,011.6	1,050.3	1.8	3.8

^a Data for 1971 are based on actual figures for the first 10 months and provisional estimates for November and December.

SOURCE: Line 1 — *Statistical Bulletin of Israel*, Central Bureau of Statistics, February 1972; lines 2, 3, 6, 7, and 10 — CBS manpower surveys (covering the population of Israel only); lines 8 and 9 — CBS data from National Insurance Institute sources (the latter do not include fringe benefits); line 12 — CBS manpower surveys of the administered areas.

latter development can probably be ascribed to the high marginal income tax rates in force. The brisk demand for labor also led to the hiring of many more workers from the administered areas; their numbers reached 34,000, about 3 percent of total employed in the Israeli economy, and they accounted for about a quarter of the incremental employed from all sources. The unemployment rate⁴ slipped to 3.5 percent of the civilian labor force. The daily average of registered unemployed fell precipitately, and the number of unfilled job openings rose appreciably, pointing to an intensification of demand pressures the likes of which had not been seen even in the boom years of the early sixties.⁵ The long-term downtrend in agricultural employment continued, while the construction sector recorded the biggest increase in employment, reflecting a sharply higher output.

Earnings per Israeli employee rose by 15 percent, hourly wages by 16 percent, and total payroll expenditure per employee or man-hour by 17 percent. The large number of workers taken on from the administered areas, whose pay fell below the national average, brought down the average increase (for employees from both Israel and the areas) to about 14 percent. The differential between the average annual earnings in 1971 and those in 1970 stemmed from the following principal factors: the payment of a 3.6 percent cost-of-living increment, a gross pay increase of 2 percent in accordance with the "package deal", the wage and salary hikes granted during 1970, and the conclusion of wage agreements (mainly in the public sector) with effect retroactive from 1970 (no information is available on supplemental income in the form of car maintenance and telephone allowance, etc.).

The rise in earnings between the beginning and the end of the year was similar to the annual average increase. The level went up more in the first half of the year than in the second; however, in the first half most of the growth was of an institutional nature, whereas in the last six months the increases exceeded the limits set in the agreements (for the first time since the "package deal" was signed at the beginning of 1970) because of mounting demand pressure.

The biggest pay increases were in agriculture and public services; in the latter wage agreements were signed with effect retroactive from 1970, while agriculture enjoyed an especially prosperous year.

As in 1970, there was no regional unemployment; in fact, the problem of regional unemployment has disappeared since the Six Day War. On the other hand, the relative shortage of skilled labor — or the relative surplus of unskilled labor — became more acute. This is borne out by the fact that the ratio between unfilled job openings and the number of job-seekers for whom placements were not found rose more in the skilled than in the unskilled labor market.

Labor relations improved, with the number of days lost because of strikes falling to less than half of the 1970 figure. Hence there is reason to believe that during the first half

4. The unemployment rate is the percentage of unemployed job-seekers in the civilian labor force.

5. The daily average of unemployed and the number of unfilled job openings are obtained from the current registration at the labor exchanges of the National Employment Service. The daily average of registered unemployed is defined as the number of days of unemployment in a given period divided by the number of possible working days in that period.

of the year there was very little pressure for wage and salary hikes over and above those stipulated in the collective agreements and that in the second half the growth of profits made it easier to meet the workers' demands.

2. POPULATION AND CIVILIAN LABOR FORCE

(a) *Population and immigration*

At the end of 1971 Israel had 3,094,000 inhabitants, 3.1 percent more than at the end of 1970. The strong uptrend, which began after the Six Day War, thus carried over through the year reviewed.

This trend is explained primarily by the renewal of large-scale immigration since 1967 (in that year gross immigration totalled 14,000, while emigration⁶ reached a peak of approximately 11,000, so that the net figure was only about 3,000). After the war of June 1967, gross immigration went up and the number of emigrants decreased; in 1971 the former climbed from the previous year's level of 24,000 to about 30,000, and the number of emigrants dipped to the lowest level ever recorded – less than 2,000.

The upsurge of immigration has been accompanied by a mild growth in the rate of natural increase (this, too, reached its nadir in 1967 at 17.6 per thousand, moving up to about 21 per thousand in 1971). The Jewish population accounted for most of the rise in

Table IX-2
PERMANENT POPULATION AND SOURCES OF GROWTH, 1962-71^a

	1962-64	1965	1966	1967	1968	1969	1970	1971 ^b
Population at end of period (thousands)	2,525.6	2,598.4	2,657.4	2,776.3	2,841.1	2,919.2	3,001.4	3,094.1
Annual increase – thousands	96.9	72.8	59.0	118.9	64.8	78.1	82.2	92.7
Annual increase – percent	4.2	2.9	2.3	4.5	2.3	2.7	2.8	3.1
Thereof:								
Immigration	2.2	0.9	0.3	0.1	0.4	0.8	0.8	1.0
Natural increase	2.0	2.0	2.0	1.8	1.9	1.9	2.0	2.1

^a Data include East Jerusalem as of 1967.

^b Provisional data.

SOURCE: Immigration data – *Immigration Statistics*, 1970, Special Series No. 349, and *Immigration Statistics* (monthly bulletins), Central Bureau of Statistics. Data on population and natural increase – *Statistical Abstract of Israel*, 1970 and 1971, and *Statistical Bulletin of Israel*, No. 2, 1972, CBS.

6. The reference is to net emigration, i.e. the number of emigrants less the number of residents returning to Israel after a protracted absence (more than 13 months).

the rate of natural increase, whereas the rate for the non-Jewish population plateaued during the period under review, but at a much higher level than that of the Jewish population – in 1971 it came to about 39 per thousand vs. 18 per thousand for Jews.

In addition to the 30,000 new settlers in 1971, some 16,000 potential immigrants came to the country. This was similar to the number in 1970 and greater than the 1969 figure of 13,000.

In 1969 a potential immigrant was defined as a person entitled to receive an immigrant's certificate under the Law of Return and who desired to remain in Israel for at least three months. He was actually a temporary resident who came to Israel to examine the possibilities of settling permanently. The rights of potential immigrants are identical to those of immigrants. As might be expected, most of the potential immigrants are from the affluent countries, since immigrants from other countries generally do not live under political and economic conditions enabling them to investigate in advance the possibilities of settling in Israel.

As a rule, the potential immigrants are younger than the actual settlers and the percentage of unmarried persons among them is high; their emigration rate is also high, and therefore they constitute a borderline case between a temporary resident and an actual immigrant.

The proportion of immigrants from Asia and Africa has been on the decline since the Six Day War. Whereas in 1967 the figure was about 67 percent, in 1971 it dipped to only 21 percent. This has implications for the occupational structure of the immigrant population, for the proportion of immigrants with a profession is much higher among those hailing from Europe and America: in 1971, 45 percent of the immigrants in this group had a profession, while among Afro-Asians the figure was only 26 percent. About 38 percent of the European and American immigrant breadwinners were in the liberal and technical professions, compared with 18 percent for Afro-Asians.

(b) Working-age population and the civilian labor force

While the total population was up 2.9 percent in 1971, the working-age population grew by 3.2 percent. This reflects the high birth rates which prevailed until the second half of the fifties and which has resulted in recent years in a relatively large increase in the working-age population.

The labor force expanded by 3.1 percent in 1971, far more than the 1.1 percent recorded in the previous year. As in 1970, 49.2 percent of the working-age population belonged to the civilian labor force. The appreciable 3.6 percent difference between the civilian labor force participation rates in 1965 and in 1971 (52.8 and 49.2 percent respectively) is explained by several factors.

The first (although not the most important) is the change in the age structure that occurred between 1965 and 1971. The weight of the 14-17 age group went up, and since this group has a low participation rate, this shaved off 0.2 of a percentage point from the overall participation rate.

The second, and more telling, factor is the drop in specific participation rates. That of the 14-17 age group fell sharply, owing to the rise in the proportion of youths

studying. The rate for males aged 18 to 34 also slackened noticeably, mainly because there was a greater percentage continuing with their studies (higher education) or serving in the armed forces. The changes in these two age groups explains 3.1 percentage points of the total decrease in the overall participation rate from 1965 to 1971.

The residual is attributable to relatively small changes in the specific rates for other age groups. That for persons aged 65 or more inched down, probably because of the various laws enacted during the period which provided for better pension conditions.

The similarity in the overall participation rates of 1970 and 1971 was the net result of several mutually offsetting changes: the participation rate of the 14-17 age group fell

Table IX—3
CIVILIAN LABOR FORCE PARTICIPATION RATE,
BY SEX AND AGE, 1965-71^a

(percentages)

	All age groups	14-17	18-34	35-54	55-64	65+
Total						
1965	52.8	32.8	57.0	62.8	58.8	22.3
1966 ^b	53.1	31.3	58.1	63.4	57.9	23.8
1967	50.4	26.9	54.8	62.1	55.4	21.4
1968	50.3	28.3	55.1	62.3	54.9	18.3
1969	50.1	25.2	53.9	63.1	56.6	20.2
1970	49.3	22.8	53.2	62.8	55.1	19.5
1971	49.2	21.1	53.6	62.9	55.5	18.8
Males						
1965	76.1	38.1	76.2	96.4	91.0	39.7
1966 ^b	75.5	36.0	76.1	96.5	90.3	41.1
1967	72.1	30.7	71.7	95.4	88.1	37.1
1968	71.8	32.4	72.5	95.3	86.5	32.6
1969	70.4	29.2	68.6	95.4	89.0	35.0
1970	69.2	27.3	66.7	94.9	88.5	33.8
1971	68.8	25.1	66.8	94.7	87.8	33.2
Females						
1965	29.4	27.1	37.5	30.9	22.9	6.0
1966 ^b	30.6	26.3	39.6	32.2	23.5	6.7
1967	28.6	23.0	37.2	31.0	21.2	5.6
1968	28.8	24.0	37.2	31.5	21.6	4.5
1969	29.7	21.0	38.7	33.1	23.0	5.7
1970	29.3	18.1	39.1	32.8	22.1	5.0
1971	29.8	16.8	40.0	33.2	23.3	4.9

^a Including East Jerusalem as of 1968.

^b Data for 1966 have not been revised; the Central Bureau of Statistics published a correction of the overall rate, but since it was not broken down into its component elements, we have used unrevised data for that year.

SOURCE: Central Bureau of Statistics manpower surveys.

further, but on the other hand the downtrend in the rate for males aged 18 to 34 was checked, despite the increased percentage serving in the armed forces. At the same time, there was a rise in the participation rate of women.

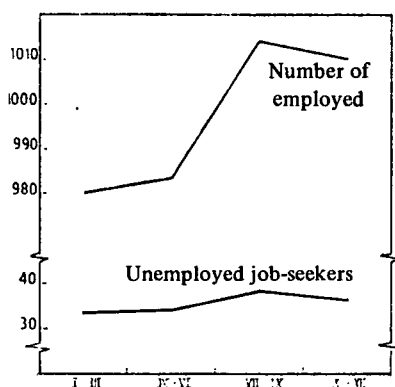
These changes in participation rates can be ascribed to both social and economic factors. Regarding the former, there is greater pressure for the acquisition of an education; this is clearly supported by Government policy, as witnessed by the extension of free compulsory education, graded tuition fees, and the like. In addition, the custom of going out to work has spread among wider groups of women. As to economic factors, as the standard of living improves, the demand for education grows faster than incomes. These social and economic factors influence the participation rates in the long run. In the short run, however, purely economic factors are of crucial importance. Experience shows that during boom periods the participation rates go up, particularly among such marginal labor force groups as women and the aged, with the reverse being the case in slump periods. Therefore, with the labor market heating up, the year reviewed saw a rise in the participation rates of women, in contrast to the fall at the height of the recession.

3. EMPLOYMENT

The mounting demand for goods and services in 1971 led to a much heavier demand for workers. The number of Israeli employed grew by 3.5 percent — a faster rate than for the civilian labor force — with the curve ascending more steeply in the second half of the year. The number of employed could not have increased by much more, because the unemployment rate fell from the preceding year's 3.8 percent to 3.5 percent, which is regarded as indicative of full employment. More telling evidence of the much larger demand for labor in 1971 is the respectable 65 percent increase in the number of persons from the administered areas working in Israel. This brought the level up from 20,600 in 1970 to 34,000, about a fifth of the total labor force of the areas (employed both there and in Israel). This growth in the number of workers from the areas took place against the background of full employment and rising wages in the areas themselves, with the wage differential between the areas and Israel steadily narrowing. The areas accounted for more than a quarter of the incremental employed in Israel in 1971, compared with over a third in the previous year.

The number of man-hours per employee edged down from 40.1 per week in 1970 to 39.9 in 1971, with the consequence that the rise in the total number of man-

Figure IX-1
NUMBER OF EMPLOYED AND
UNEMPLOYED JOB-SEEKERS, 1971^a
(thousands)



^a The data do not include the labor force from the administered areas.

SOURCE: Central Bureau of Statistics manpower surveys.

Table IX—4
AVERAGE NUMBER OF MAN-HOURS WORKED PER WEEK PER EMPLOYED
AND PER EMPLOYEE, INCL. AND EXCL. TEMPORARY ABSENCES, 1965-71

	Total employed			Employees		
	Average man-hours per week, excl. absences	Percent absences	Average man-hours per week, incl. absences	Average man-hours per week, excl. absences	Percent absences	Average man-hours per week, incl. absences
1965	42.6	5.7	40.2	42.1	6.1	39.5
1966	42.4	5.7	40.0	41.9	6.1	39.4
1967	41.7	7.4	38.6	41.4	7.8	38.2
1968	42.3	5.5	40.0	42.0	6.0	39.5
1969	42.5	5.4	40.3	42.4	5.7	40.0
1970	42.5	5.8	40.1	42.2	6.0	39.6
1971	42.5	5.9	39.9	42.3	6.4	39.6

SOURCE: Central Bureau of Statistics manpower surveys.

hours (3.1 percent) trailed behind the growth of employment. Such a decline at a time of buoyant demand in the labor market is surprising. It can probably be explained in part by the high marginal income tax rates applicable to a steadily growing portion of the tax-paying population. The reduction in the number of hours worked per employee stemmed entirely from an increase in temporary absences from work, which was especially striking in the case of wage earners.⁷ The negative effect of the high direct tax rates was one of the reasons for the appointment of a special committee to look into the possibility of tax reform. As a first step, collection of the Savings and Defense Loans on approved overtime was abolished from April 1971 and the exemption allowed a working mother was increased from IL 250 to IL 650.

4. WAGES

Earnings per Israeli employee were up 15 percent on an annual average,⁸ including workers from the administered areas, the rise was 14 percent. The difference is explained

7. In a number of branches the arrangements in force sometimes make it pay to stay away from work because of "sickness". This is because the difference in rates of tax deduction may result in the net income from a day's paid sick leave exceeding that from a normal day's work.
8. The data on employees' earnings are from the Central Bureau of Statistics and are based on employers' reports to the National Insurance Institute. In a number of branches data on wage and salary changes are available from other sources, and these reveal a more moderate advance in 1971. Thus, for example, the industrial indexes indicate an 11 percent rise in the hourly wages of industrial workers, whereas National Insurance Institute data, together with the figure on the number of hours worked per employee according to the manpower surveys, show a rise of about 14 percent in earnings per man hour (see Table IX-9).

by the relatively large number of persons hired in 1971 from the areas, whose earnings fell below the national average. Adding fringe benefits brings up the rise in total payroll expenditure per Israeli employee by an additional percentage point – i.e. to 16 percent. In the previous year earnings per Israeli employee rose by 9 percent, while total payroll expenditure per employee went up by 13 percent and per man-hour by 14 percent (as against 17 percent in the year reviewed).

The wage and salary data here are from employers' reports to the National Insurance Institute; data are also available on changes in fringe benefits. In no case do wages and salaries include payments for car maintenance, telephone allowance, travel abroad, meals in restaurants, etc., all or part of which should be treated as part of the income from employment. Payments of this sort, which are recognized as tax-deductible expenses, presumably became more widespread in 1971, as marginal tax rates rose with incomes. Such payments are opposed to the spirit of the income tax ordinances, with all that this implies concerning the sharing of the tax burden, income distribution, and public morale. Nor should the negative repercussions which these payments have on resource allocation be overlooked, for the benefit derived by the recipient is in most cases outweighed by the cost to the economy.

Analysis of the change in employees' earnings in 1971 shows that the increases were greater than what the collective agreements called for. At the beginning of the year the

Table IX-5
NUMBER OF EMPLOYEES, MAN-HOURS AND WAGES PER EMPLOYEE,
AND HOURLY WAGES, 1969-71

	1969	1970	1971 ^a	Percent annual increase or decrease (–)	
				1970	1971
1. Number of employees (thousands)	774.7	813.6	850.6	5.0	4.5
2. Average number of man-hours per employee per week	40.0	39.6	39.6	–1.0	0.0
3. Average monthly wages per employee, at current prices (IL)	630	688	793	9.2	15.3
4. Average monthly wages per employee, at 1971 prices	748	770	793	2.9	3.0
5. Hourly wages, at current prices (IL)	3.63	4.01	4.62	10.5	15.2
6. Hourly wages, at 1971 prices (IL)	4.31	4.49	4.62	4.2	2.9

^a National Insurance Institute data for 1971 are based on actual figures for the first 10 months and provisional estimates for November and December.

SOURCE: Lines 1 and 3 – Central Bureau of Statistics data based on employers' reports to the National Insurance Institute (excluding the administered areas).

Line 2 – CBS manpower surveys (excluding administered areas).

Lines 4 and 6 – Wages have been deflated to 1971 values by the consumer price index.

Line 5 – Obtained by dividing line (3) by the number of man-hours per employee, according to manpower surveys.

payment of a cost-of-living allowance increment added 2.5 percent to payrolls, the hiking of gross wages and salaries accounted for another 2 percent, and the revision of fringe benefit rates (paid mainly to the National Insurance Institute) for an additional percent. Employers also had to step up their purchases of the Savings Loan by 2 percentage points – from 4 percent of their wage and salary payments in 1970 to 6 percent (this was tantamount to a rise of half a percentage point in their total payroll outlays, since the interest on the Savings Loan was below the free market rate). All told, these changes should have brought up employers' expenditure by about 6 percent during the year. Part of the difference between this figure and the actual rise of about 14 percent can be attributed to the collective agreements signed in 1971, which awarded wage and salary hikes to a large percentage of the country's employees (in particular in the public sector), with effect generally retroactive from April 1970. Thus the actual increases in 1971 exceeded those stipulated in the agreements for this year.

Most of the increase occurred in the first half of 1971 (9 percent compared with the second half of 1970). There were three reasons for this. First, at the beginning of the year a 3.6 percent cost-of-living allowance increment was paid on basic wages and salaries up to a maximum of IL 700, with effect retroactive from December 1970; this added 2.5 percent to employees' earnings. Second, gross wages and salaries were raised by 2 percent. Third, the numerous wage contracts signed at the beginning of 1971, particularly in the public sector, increased employees' earnings in the first half of the year.

The wage curve rose less steeply in the second half of the year than in the first half, but all of the 7 percent increase during the second half exceeded what was stipulated in the collective agreements. There are no signs that the deviation stemmed from pressure on the part of the workers. To be sure, in some branches – mainly the public services – the agreements called for substantial pay hikes, but steep rises also occurred in other branches. Full and even overemployment prevailed in 1971, and the labor shortage grew more acute as the year progressed. Earnings per employee did not go up on an annual average more rapidly than prices or productivity, and even trailed somewhat behind. On the other hand, because of the strong growth of aggregate demand in the second half of the year, it is more reasonable to assume that the pay increases were the outcome of demand pressure on the commodity markets, and therefore they reflected the adjustment of wages and salaries to market conditions.

The pay increases decided upon for 1971 were too large in the sense that they ensured another turn in the wage-price spiral. It was clear at the time they were agreed upon that in 1970 neither employees' earnings nor employers' labor costs as a whole had lagged behind the rise in productivity and prices. (At this point labor agreements had not yet been concluded by most of the wage-earning public – the agreements were expected to be signed at the beginning of 1971.) If wages were not to push up the price level, they could have been increased by up to 5 percent, the anticipated 1971 gain in labor productivity. In view of the expected wage drift and the numerous agreements negotiated, wages and salaries should have been raised in other ways by 2 percent at the most. But they were actually raised by 6 percent by way of an increase in gross wages and salaries and the revision of fringe benefit rates.

Table IX-6
ANNUAL CHANGES IN HOURLY WAGES AND IN PRODUCT PER
MAN-HOUR OF ISRAELI WORKERS, 1965-71

(percentages)

	1965	1966	1967	1968	1969	1970	1971	Average ^a 1965-71
1. Change in NNP, at current factor prices	21.3	8.9	4.0	18.7	14.9	17.0	23.2	15.3
2. Change in total wage bill	22.4	15.1	1.9	10.6	12.4	19.9	21.2	14.6
3. Change in total man-hours of all Israeli employed	1.4	-0.8	-5.5	17.1	6.2	3.0	2.8	3.3
4. Change in total man-hours of all Israeli wage earners	2.2	-0.7	-5.8	19.5	9.4	4.0	4.6	4.5
5. Change in NNP per man-hour (1÷3)	19.6	9.8	10.1	1.4	8.2	13.6	19.8	11.6
6. Change in hourly wages (2÷4)	19.7	15.8	8.1	-7.5	2.8	15.3	15.9	9.6

^a Geometric average of annual rates of change.

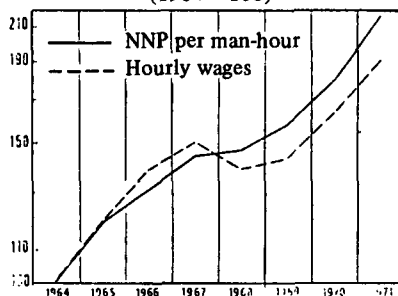
SOURCE: (1) Net national product – based on Central Bureau of Statistics data. (2) Total wage bill (including fringe benefits) – Central Bureau of Statistics. (3) The number of hours worked by all gainfully employed was calculated as follows: (a) In computing total employment, the number of wage earners was based on data from the National Insurance Institute, while the number of nonwage earners was taken from manpower surveys (by deducting the number of wage earners from total employed). (b) The average number of man-hours per employed according to the manpower surveys was multiplied by the number of employed as calculated above. (4) The total number of man-hours worked by Israeli wage earners was computed by multiplying the average number of man-hours per wage earner, according to manpower surveys, by the number of wage earners according to the National Insurance Institute. National Insurance Institute data for 1971 are based on actual figures for the first 10 months and provisional estimates for November and December.

It should be noted, however, that those negotiating the wage agreements had their hands tied to a considerable extent because of demands for wage increases spurred by the inflation in the second half of 1970, the shrinkage of employees' disposable income in 1970, and the fact that the upping of gross pay and the cost-of-living allowance had already been decided upon in the "package deal" of January 1970. Moreover, even though the consumer price index (less the housing item) went up by 6.2 percent in 1971, it was agreed to raise the cost-of-living allowance by only 3.6 percent, ignoring the effect on prices of the indirect tax hikes of August 1970. This elimination of the indirect tax increases from the calculation of the cost-of-living allowance increment represented a significant departure from previous practice.

Figure IX-2

NET NATIONAL PRODUCT^a PER
MAN-HOUR AND HOURLY WAGES,
1964-71

(1964 = 100)



Semilogarithmic scale.

^a At current factor prices.

SOURCE: See Table IX-6.

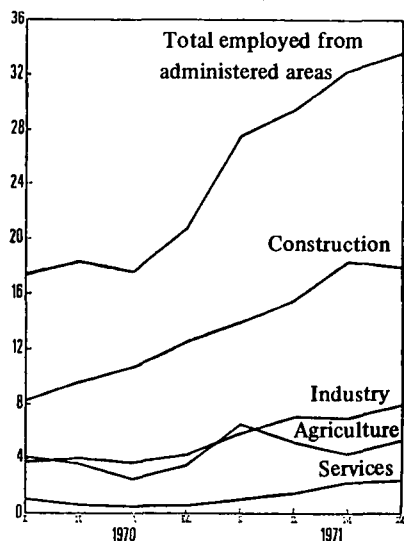
In viewing 1970 and 1971 together, it will be seen that earnings per employee deviated noticeably from what was called for under the "package deal". Total payroll expenditure per man-hour advanced by more than 30 percent from the last quarter of 1969 to the last quarter of 1971, whereas it should have gone up by about 20 percent.⁹ Most of the deviation occurred during 1971, from which it may be concluded that the "package deal" was more or less adhered to in 1970 and the beginning of 1971 but market forces led to its undermining in the course of 1971.

5. EMPLOYEES FROM THE ADMINISTERED AREAS

(a) *Employment*

The number of employed from the administered areas jumped 65 percent in 1971 to reach some 34,000 on an annual average;¹⁰ this came on top of the previous year's 70 percent growth. This strong upswing can be ascribed principally to the swelling demand for labor in the Israeli economy. On the supply side, full employment prevailed in the administered areas and wages went up faster there than in Israel. Since in 1970 about one-seventh of the labor force of the areas was already working in Israel, it apparently became necessary for newly hired workers to travel greater distances and to leave better jobs than was the case in 1970. All this suggests the existence of constraints on the expansion of the labor supply. At the same time, there were two developments in 1971 that tended to expand the supply of workers from the areas. The first was the suppression of terrorism in the Gaza Strip in the second half of 1971. This eliminated the fear of the terrorists among those seeking jobs in Israel, and hence most of the additional workers from the areas came from the Gaza Strip in the last six months of 1971. The second development

Figure IX-3
NUMBER OF WORKERS FROM THE
ADMINISTERED AREAS EMPLOYED
IN ISRAEL, BY SECTOR, 1971
(thousands)



SOURCE: National Employment Service.

9. On the increase in wages and salaries attributable to the 1970 "package deal" see Bank of Israel, *Annual Report 1970*, p. 183.

10. The figure on the number of workers from the administered areas is based on the Central Bureau of Statistics manpower surveys of the areas. In contrast to previous years, the information from other sources also shows roughly the same number of workers in 1971. These sources are CBS data based on employers' reports to the National Insurance Institute and National Employment Service data. On the other hand, they indicate a smaller growth in the number of employees in 1971 than do the manpower surveys.

Table IX-7
NUMBER OF EMPLOYEES FROM THE ADMINISTERED AREAS
AND AVERAGE DAILY WAGE PER EMPLOYEE, 1969-71

(number of employees in thousands; wage data in IL)

	Annual averages					Half-yearly averages				
	Absolute figures			Percent annual increase or decrease (-)		Absolute figures			Percent increase or decrease (-)	
	1969	1970	1971	1970	1971	July-Dec. 1970	Jan.-June 1971	July-Dec. 1971	From (6) to (7)	From (7) to (8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Employees working in the administered areas ^a	150.8	152.7	142.7	1.3	-6.6	147.4	145.8	139.6	-1.1	-4.2
In Judea and Samaria	100.4	99.8	91.2	-0.6	-8.6	93.9	93.2	89.2	-0.8	-4.3
In the Gaza Strip and Northern Sinai	50.4	52.9	51.5	5.0	-2.6	53.5	52.6	50.4	-1.7	-4.2
Employees from the areas working in Israel	12.0	20.6	33.8	71.7	64.1	22.6	29.2	38.5	29.2	31.8
From Judea and Samaria	9.5	14.7	25.6	54.7	74.2	16.8	22.5	28.8	33.9	28.0
From Gaza Strip and Northern Sinai	2.5	5.9	8.2	136.0	39.0	5.8	6.7	9.7	15.5	44.8
Net daily wage paid in the administered areas ^a	5.9	6.4	8.0	8.5	25.0	6.6	7.4	8.6	12.1	16.2
In Judea and Samaria	6.4	6.8	8.6	6.2	26.5	7.0	8.0	9.2	14.3	15.0
In Gaza Strip and Northern Sinai	4.9	5.8	7.1	18.4	22.4	6.1	6.6	7.7	8.2	16.7
Net daily wage of employees working in Israel	10.3	11.8	13.4	14.6	13.6	12.2	12.8	13.9	4.9	8.6
From Judea and Samaria	10.1	11.8	13.5	16.8	14.4	12.3	13.0	14.0	5.7	7.7
From Gaza Strip and Northern Sinai	10.9	11.7	12.9	7.3	10.3	11.9	12.1	13.5	1.7	11.6

^a I.e. excluding persons working in Israel.

SOURCE: Number of persons from the administered areas working in Israel in 1969 - Bank of Israel Research Department, *The Economy of the Administered Areas 1970*, August 1971; 1969 wage data - CBS, *Statistical Abstract of Israel*, 1970 and 1971; data for 1970 and 1971 - CBS, *Labor Force Surveys of the Administered Areas*.

was the allowing of free movement in Israel to West Bank residents. Previously, those interested in working in Israel had to obtain an entry permit from the Military Government. The abolition of the need for such a permit removed an obstacle to the expansion of the labor supply.

As in 1970, more than half of all persons from the areas employed in Israel were engaged in the building trades. There was a slight rise in the weight of those employed in industry. The distribution of the workers from the areas by economic sector is dictated both by sectoral changes in demand in Israel and by the occupational structure of the labor force of the areas. Since most of the workers from the areas are unskilled, and since in recent years there has been an inordinately heavy demand for labor in the building trades (which can absorb many unskilled workers), it is natural that the workers should have gravitated primarily to this sector. Finally, it should be noted that, thanks to the vocational training program introduced by the Military Government, workers from the areas are entering industry on a growing scale.

(b) *Wages*

Daily earnings of workers from the administered areas amounted in 1971 to IL 13.4 (net) per employee, 14 percent more than in the previous year. This rise took place despite the greatly increased number of employed from the areas, which apparently slowed the average growth of wages.¹¹ In 1970 the figure had gone up 15 percent.

Workers from the areas could earn more in Israel than in the areas themselves, where the net daily wage averaged IL 8 in 1971. This differential, however, has been narrowing steadily, suggesting that the pool of available manpower from the areas is gradually drying up. But it may also be that there is a wide dispersion around the average wage in the areas, so that for a sizable portion of the workers there is still a large differential between what they are earning in the areas and what they could earn in Israel.

6. EMPLOYMENT, BY ECONOMIC SECTOR

In 1971, a year of full employment, the sectoral breakdown of the incremental employed was similar to that of other years of full employment. The number engaged in agriculture continued to drift downward, while in construction the figure again moved up at a rate above the national average. In industry and in transport and communications the increases were close to the national average.

Earnings per employee and per man-hour went up at an above-average rate in electricity and water, agriculture, and public services. Farmers enjoyed an especially prosperous year, and this accounts for the strong rise in that sector; in the public services, electric power generation, and water wage agreements were concluded with effect retroactive from 1970. Since retroactive payments are included, under the present method of employers' reporting to the National Insurance Institute, in the year in which they are executed, the 1971 wage data for these sectors include payments on account of 1970. Civil

11. No information is available on the wages of persons who started to work in Israel in 1971, but it can be assumed that they received less than the veteran workers.

servants won substantial rises in 1971, but this was after the increase in their pay had lagged behind the national average for a number of years.

Table IX-8
EMPLOYMENT, BY ECONOMIC SECTOR, 1969-71
(percentages)

	Sectoral distribution			Average annual increase or decrease (-)	
	1969	1970	1971	1970	1971
Agriculture, forestry, and fishing	9.7	8.8	8.5	-7.1	-0.4
Industry (incl. mining and quarrying)	24.0	24.3	24.1	3.2	2.6
Electricity and water	1.1	1.2	1.1	6.6	1.8
Construction and public works	8.1	8.3	8.9	5.4	10.2
Trade, restaurants, and hotels	13.3	13.0	12.7	-0.1	1.0
Transportation, storage, and communications	7.9	7.5	7.4	-3.5	2.5
Financing and business services	5.1	5.2	5.7	2.5	13.8
Public services	22.7	24.0	24.3	7.6	4.7
Personal services	8.1	7.7	7.3	-3.9	-1.0
Total	100.0	100.0	100.0	1.8	3.5
Total in thousands	945.8	963.2	997.1	17.4	33.9

SOURCE: Central Bureau of Statistics manpower surveys for 1971 (covering the population of Israel only).

7. UNEMPLOYMENT

Manpower surveys reveal that the unemployment rate edged down in 1971 from 3.8 percent of the civilian labor force to 3.5 percent. Another indicator – the daily average of registered unemployed (adults and youth) – points to a steeper drop in the number of jobless.

These two measures of unemployment have yielded widely disparate results in recent years, with the latter showing a more pronounced contraction of unemployment. The reasons for the divergences were discussed in the *Annual Reports* for the two preceding years. When the economy is at full employment and the unemployment rate cannot decline further, it loses its sensitivity as an indicator of demand pressure. Another, more sensitive, indicator of the situation in the labor market is the number of unfilled job openings. This moved up steadily in the course of 1971 and the beginning of 1972.

As in the previous year, there was no regional unemployment in 1971; most of the unemployment was frictional (caused by the time consumed in finding work by those changing jobs or those newly joining the labor force) and structural. The latter arises

Table IX-9

**NUMBER OF ISRAELI EMPLOYEES AND MONTHLY AND HOURLY WAGES,
BY ECONOMIC SECTOR, 1971 AND CHANGES IN 1969-71**

	Number of employees			Average monthly wages per employee			Hourly wages		
	1971 ('000)	Percent annual average increase or decrease (-)		1971 (IL)	Percent annual average increase or decrease (-)		1971 (IL)	Percent annual average increase or decrease (-)	
		1970	1971		1970	1971		1970	1971
Agriculture, forestry, and fishing	34.1	-1.3	-9.3	490	7.7	24.7	2.75	9.0	20.1
Industry (incl. mining and quarrying)	232.0	4.9	4.2	771	8.4	14.7	4.27	8.9	16.3
Electricity and water	8.6	0.0	-1.1	1,407	12.6	32.6	7.79	12.2	38.6
Construction and public works	67.3	5.3	2.3	807	14.3	14.6	4.44	14.2	15.0
Trade, restaurants, and hotels	75.6	4.1	6.6	689	10.6	9.9	3.80	11.1	8.6
Transportation and communications	59.5	5.3	6.4	1,161	10.9	16.6	6.27	11.6	14.0
Financing and business services	59.1	8.6	6.7	877	7.1	11.6	5.06	5.2	12.7
Public services	273.1	3.7	5.6	808	8.0	16.8	5.08	9.8	16.8
Personal services	41.3	20.3	9.0	463	7.6	5.0	3.22	9.3	5.2
Total economy	850.6	5.0	4.5	793	9.2	15.3	4.62	10.5	15.2

SOURCE: Number of employees and wage payments – CBS data based on employers' reports to the National Insurance Institute (the calculations for 1971 were made on the basis of actual data for the first 10 months of the year and provisional data for November and December); average man-hours per employee – CBS manpower surveys. Both sources exclude the administered areas.

when the wage received by unskilled workers is higher than the equilibrium wage, at which level some unskilled workers are left without jobs. The earnings of skilled labor are too low, and this results in a nonoptimal utilization of the labor force. To take one example, an engineer may be employed on a job where the value of his output is less than what it would be were he suitably employed. A wage increase to skilled labor would result in a technician replacing the engineer, freeing the latter for a position more suited to his qualifications.¹² It is also possible that because of insufficient pay many skilled workers may prefer to shift to other occupations (e.g. in trade) or to remain outside the labor force (e.g. housewives). In a period of full employment, such as prevailed in 1971, the problem of unemployment among unskilled workers is not as serious as that of distortions in the allocation of manpower due to the relatively low wages of skilled labor.

12. It should be mentioned in this context that, apart from wage distortions, other obstacles are encountered in changing places of work, such as a possible loss of pension rights under company plans or the payment of land registration fees on the transfer of dwellings.

Table IX-10
REGISTERED UNEMPLOYMENT, RELIEF PROJECTS
EMPLOYMENT, AND UNFILLED JOB VACANCIES, 1962-71

	Daily average of registered unemployed adults	Daily average of registered unemployed youth	Daily average of all un- employed (1+2)	Daily average on relief work ^a	Unfilled job vacancies (adults and youth)
	(1)	(2)	(3)	(4)	(5)
Absolute numbers					
Annual averages					
1962-65	3,809	1,372	5,181	2,481	1,875 ^b
1966	7,930	2,063	9,993	3,830	2,133
1967	13,525	2,213	15,738	12,635	857
1968	5,709	1,194	6,903	5,245	3,503
1969	2,395	750	3,145	1,542	4,598
1970	1,595	616	2,211	1,085 ^c	5,317
1971	938	409	1,347	—	8,567
Half-yearly averages					
1970 January-June	1,587	454	2,041	1,136	5,364
July-December	1,602	778	2,380	982 ^d	5,269
1971 January-June	980	373	1,353	—	8,049
July-December	896	445	1,341	—	9,085
Percent increase or decrease (—)					
Average 1971 as against average 1970	-41.2	-33.6	-39.1	—	61.1
Average second half of 1971 as against average first half of 1971	-8.6	19.3	-0.9	—	12.9

^a Persons working a full day only.

^b The datum relates to 1965 only.

^c Average for nine months.

^d Average for July to September.

SOURCE: Unemployment and unfilled job vacancies — National Employment Service; relief work — Central Bureau of Statistics.

National Employment Service data on unfilled job vacancies and job-seekers for whom placements were not found can serve as an indicator of the relative excess demand for skilled and unskilled labor. When there is excess demand for skilled workers, the number of unfilled job vacancies may be expected to be greater in the skilled than in the unskilled labor market; while as regards unplaced job-seekers, their number will be greater in the unskilled labor market. Therefore, the ratio of unfilled job vacancies to unplaced job-seekers will be higher in the skilled labor market. The use of such a ratio also eliminates the influence of market size. However, caution should be exercised in comparing the ratios for a particular year, for skilled workers tend to turn less to the labor exchanges (on the other hand, it is possible that employers also have less need of the labor exchanges for obtaining skilled workers). For this reason, the change in the ratio over time is statistically more reliable. In recent years the ratio has risen more rapidly among the skilled workers.

A breakdown of wage and salary increases by skilled and unskilled categories is not available. However, Table IX-12 indicates that on strictly economic grounds a relatively higher increase could have been awarded to skilled workers. In this context it is important to recall that wage policy, as embodied in the "package deal" and the wage contracts signed during the last two years, called for a higher increase for the lower income groups (who are generally unskilled). Such a policy may be justified from the social viewpoint, but its economic price should not be ignored.

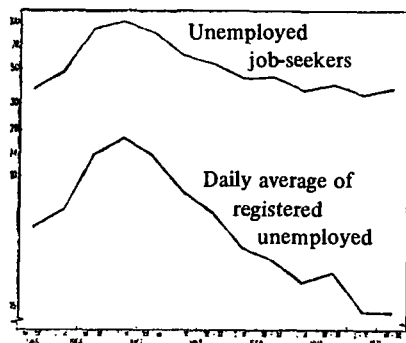
Examination of Table IX-12 reveals that the growth of demand pressure in the skilled labor market in recent years led to a sharply higher demand for skilled building workers and a milder increase in the case of skilled industrial workers.

8. LABOR RELATIONS

The labor market remained tight in 1971, but this was not fully reflected in the number of total and partial work stoppages. Some of the workers' claims may have been met before a strike was declared, since in booming demand conditions it is easier for employers to satisfy their workers' demands. This should be taken into account when dealing with strike data as an expression of labor unrest. Whereas in 1970 the number of strikes soared 43 percent compared with the previous year, in 1971 it went up by only 4 percent.

Figure IX-4

**INDICATORS OF UNEMPLOYMENT:
DAILY AVERAGE OF REGISTERED
UNEMPLOYED^a AND UNEMPLOYED
JOB-SEEKERS, 1965-71**
(thousands)



Semilogarithmic scale.

a Adult and youth.

SOURCE: Daily average of registered unemployed—National Employment Service; unemployed job-seekers—Central Bureau of Statistics manpower surveys.

Table IX-11
UNFILLED JOB VACANCIES AND JOB-SEEKERS FOR WHOM PLACEMENTS WERE NOT FOUND,
BY SKILL LEVEL, 1961-71

	All skill levels			Skilled workers			Unskilled workers		
	Total unfilled vacancies	Total unplaced job-seekers	(1) ÷ (2) (%)	Unfilled vacancies	Unplaced job-seekers	(4) ÷ (5) (%)	Unfilled vacancies	Unplaced job-seekers	(7) ÷ (8) (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1961	2,181	7,341	29.7	1,100	2,530	43.5	1,081	4,811	22.5
1962	2,583	7,606	34.0	1,132	2,864	39.5	1,451	4,742	30.6
1963	2,633	6,751	39.0	1,217	2,340	52.0	1,416	4,411	32.1
1964	4,016	6,159	65.2	2,107	2,209	95.4	1,909	3,950	48.3
1965	3,834	7,404	51.8	2,126	2,810	75.7	1,708	4,594	37.2
1966	1,707	15,392	11.1	1,047	6,827	15.3	660	8,565	7.7
1967	674	22,339	3.0	451	9,637	4.7	223	12,702	1.8
1968	2,621	12,197	21.5	1,428	5,078	28.1	1,193	7,119	16.8
1969	3,669	6,463	56.8	2,047	2,281	89.7	1,622	4,182	38.8
1970	4,282	5,733	74.7	2,440	1,824	133.8	1,842	3,909	47.1
1971	7,135	4,050	176.2	4,033	1,176	342.9	3,102	2,874	107.9

SOURCE: National Employment Service.

Table IX-12
DAILY AVERAGE OF UNEMPLOYED, BY SKILL LEVEL, 1964-71^a
 (percentages)

	Total un- employed	Un- skilled	Skilled unemployed					
			Total	Con- struc- tion	Indus- try and crafts	Trans- porta- tion & comm.	Clerical workers	Profes- sional & service workers
Annual averages								
1964	100.0	63.0	37.0	4.6	7.5	3.5	18.0	3.4
1965	100.0	57.2	42.8	4.3	7.8	4.8	21.7	4.2
1966	100.0	49.7	50.3	9.9	12.2	5.4	18.8	4.0
1967	100.0	51.3	48.7	11.1	11.7	4.7	17.0	4.2
1968	100.0	52.1	47.9	7.4	7.4	5.0	23.2	4.9
1969	100.0	57.0	43.0	3.8	5.9	4.7	23.1	5.5
1970	100.0	60.4	39.6	2.2	6.0	4.8	22.0	4.6
1971	100.0	64.5	35.5	1.3	5.8	6.1	17.8	4.5
Half-yearly averages								
1970 July-Dec.	100.0	62.4	37.6	1.8	5.5	4.2	21.6	4.5
1971 Jan.-June	100.0	62.4	37.6	1.5	6.2	6.2	19.3	4.4
July-Dec.	100.0	66.7	33.3	1.0	5.4	5.9	16.3	4.7

^a Adult unemployed only.

SOURCE: National Employment Service.

The number of man-days lost because of strikes fell off by a respectable 54 percent in 1971, after soaring nearly 280 percent the year before.

The decline in 1971 is largely explained by the fact that the teachers' claims were met under the wage agreements signed with them. In 1970, it will be recalled, 198,000 working days were lost through the teachers' strike. Discounting this strike, a comparison of idle man-days over the past two years shows a decline of only 7 percent.

A sectoral breakdown reveals that, as in 1970, public services topped the list in respect of days lost through strikes. There was a sharp decline in the relative share of strikes in the agricultural, construction, and personal services sectors, and in the percentage of idle man-days in agriculture, industry, and personal services. On the other hand, the number of idle man-days rose in electric power generation and trade. As in the past few years, the largest number of disputes was over the issue of wages and fringe benefits.

Table IX-13

WORK STOPPAGES, BY MAJOR ISSUE, ECONOMIC SECTOR,^a AND AUTHORIZATION, 1969-71

	Number of strikes			Percent annual increase or decrease (-)		Number of strike-days			Percent annual increase or decrease (-)	
	1969	1970	1971	1970	1971	1969	1970	1971	1970	1971
Total	114	163	169	43.0	3.7	102,162	390,344	178,612	282.1	-54.2
Major issues										
General wage claims and fringe benefits	44	85	64	93.2	-24.7	50,936	328,745	82,925	545.4	-74.8
Withholding of wages	9	7	16	-22.2	128.6	1,661	412	2,640	-75.2	497.1
Dismissal of workers	12	8	9	-33.3	22.5	3,758	1,019	3,233	-72.9	217.3
Job classification	7	0	20	- ^b	- ^b	840	0	48,652	- ^b	- ^b
Breach of or refusal to sign labor agreements	8	13	14	62.5	7.7	1,125	13,550	6,784	1,104.4	-49.9
Other causes and lockouts	34	50	46	47.1	-8.0	43,842	46,618	34,558	6.3	-25.9
Economic sectors										
Industry (including mining and quarrying)	29	45	36	55.2	-20.0	22,652	69,616	36,538	207.3	-47.5
Public and business services	43	72	75	67.4	4.2	64,349	288,592	110,298	348.5	-61.8 ¹
Other sectors	42	46	58	9.5	26.1	15,161	32,136	31,776	112.0	-1.1
Authorized and unauthorized strikes										
Percent authorized strikes	43.6	45.9	44.4			52.9	80.2	53.9		
Percent unauthorized strikes	56.4	54.1	55.6			47.1	19.8	46.1		
Total ^c	100.0	100.0	100.0			100.0	100.0	100.0		

^a Sectoral data for 1969 and 1970 are according to the 1960 sectoral classification, and those for 1971 are according to the 1970 classification.^b Not calculable, since the figure fell to zero in 1969 and 1970.^c Excluding lockouts.

SOURCE: Department of Labor Relations, Ministry of Labor; Histadrut Institute for Economic-Social Research.

This sparked 64 work stoppages (38 percent of the total) and accounted for 46 percent of all idle man-days. These figures, however, are lower than in 1970.

In recent years the work-to-rule dispute has been looming ever larger in labor relations. Under this heading are partial stoppages of services or functions, discontinuance of overtime, slowdowns, and other sanctions. It is difficult to collect data on such disputes, since it is hard to identify them and to measure such conventional characteristics of a declared strike as the duration of the dispute, the numbers of workers involved, etc. In 1971 there were 57 work-to-rule disputes, involving 12,000 employees, as against 64 disputes and 14,000 participants in 1970. Like the declared strike, this type of dispute was concentrated mainly in the public sector.