

CHAPTER IX

THE LABOR FORCE AND WAGES

1. MAIN DEVELOPMENTS

EMPLOYMENT ROSE by an appreciable 6.6 percent in 1972, even though it seemed that the potentialities for further rapid growth had been exhausted in the two preceding years. The increase in 1972 is explained primarily by the much larger immigration from Russia (which is characterized by a higher labor force participation rate than Western immigration or the local population); another factor was the increased supply of workers from Israel and the administered areas.

The labor force participation rate (expressed as a percentage of the total Israeli population of working age) went up to 49.6 percent, reversing the declining trend of the preceding years. Unemployment fell to an all-time low of 2.7 percent (the trough in the previous boom period was 3.3 percent). The number of job vacancies and the percent unfilled continued upward, while the number of job-seekers for whom placements were not found fell. The average number of man-hours per employed went up, and there was an accelerated increase in the number of persons from the administered areas working in Israel—a development reflected both in the reduced volume of employment in the areas themselves and in the greater tendency for those who did not previously belong to the labor force to actively seek work, as well as a decline in unemployment (the low point in unemployment in the areas even fell below that in Israel).

The incremental employment was concentrated in the construction industry, trade, and business services; in agriculture, industry, and transportation and communications the increases were below average. According to several indicators, in the course of the year the rapid upward trend in employment reversed direction (see Table IX-7), although the principal indicator—the unemployment rate—pointed to a sustained growth. At this stage it is difficult to say whether there was a change of trend in the labor market, or whether there were merely some random signs of weakness due to special factors. At any rate, it is clear that the rapid expansion of the labor supply during the year somewhat blunted the pressures prevailing in this market.

Wages and salaries per employee post went up 14 percent on an annual average, according to the data from various sources. This was accompanied by an accelerated rise in fringe benefits, which brought the level up by another

2–3 percent, while the smaller collection of compulsory loans added a further percent or so.

According to national accounts data, average compensation of employees (wages and salaries plus fringe benefits) rose 15–16 percent in nominal terms, and less the 13 percent advance in prices, by 2–3 percent.

The above data relate to wage and salary payments actually made in 1972; because of the long delay in renegotiating wage agreements, the total increase for 1972 (i.e. including payments made in 1973 on account of 1972) will be even greater.

The wage and salary hikes awarded in 1972 exceeded those stipulated in the framework agreement concluded at the beginning of the year, which covered the cost-of-living allowance increment, basic pay scales, and the minimum wage. The higher rises granted in the branchwide collective agreements were, however, consistent with the data pointing to a new peak in employment and excess demand for labor, a low unemployment rate, and the rapid mounting of prices since the end of 1970. But in view of the signs of some slackening of employment growth during 1972, the wage and salary increases agreed upon in the second half of 1972 may be less a reflection of the direct demand pressure prevailing in the labor market at the time the agreements were concluded than a response to the pent-up pressures (which reached their peak at the end of 1971 and the beginning of 1972) and the rapid advance of prices and expectations of its continuation—out of a desire to boost real wages in the face of sharply rising prices.

2. POPULATION AND CIVILIAN LABOR FORCE

(a) *Population and immigration*

At the end of 1972 Israel had 3,200,000 inhabitants, 3.4 percent more than at the end of 1971; this compares with a 3.1 percent increase in 1971.

The accelerated expansion of population, evident since the end of the Six Day War, thus carried over through the year reviewed. The main source of growth since 1967, and especially in 1972, has been the impressive increase in immigration. Whereas in 1967 net immigration amounted to only 3,000, by 1971 it reached 29,000 and in 1972 the migration balance¹ hit 43,000, despite a greatly increased emigration (provisionally estimated at about 6,000).

The rate of natural increase also picked up after the recession. Compared with a low of 17.6 per thousand average permanent population in 1967, in 1972 it reached 20 per thousand, which was a shade lower than in the previous year (about 21 per thousand). Most of the growth during this period occurred

¹ The migration balance, or net immigration, refers to the total number of immigrants, plus potential immigrants who acquire immigrant status and returning citizens, less emigrants.

Table IX-1

POPULATION, EMPLOYMENT, AND WAGES—PRINCIPAL DATA, 1971-72

(in thousands, unless otherwise stated)

	Annual averages		Percent annual average increase or decrease (-)		Half-yearly averages, 1972		Percent increase or decrease (-) in half-yearly averages, 1972	
	1971	1972	1971	1972	I	II	I	II
1. Average population ^a	3,045.6	3,147.4	3.0	3.3	3,120.6	3,174.2	1.7	1.7
2. Working-age population ^a	2,097.2	2,169.1	3.2	3.4	2,149.6	2,188.6	1.7	1.8
3. Civilian labor force ^a	1,032.8	1,076.1	3.1	4.2	1,065.8	1,086.4	1.6	1.9
4. Labor force participation rate ^a (2÷3)	49.2	49.6	—	—	49.6	49.6	—	—
5. Israeli employed	997.1	1,047.0	3.5	5.0	1,037.8	1,056.3	2.6	1.8
6. Israeli employees	744.5	787.2	5.0	5.7	780.6	793.8	3.7	1.7
7. Total weekly man-hours of Israeli employed (million hrs.)	39.83	42.29	3.1	6.2	41.76	42.82	4.6	2.5

8. Unemployed Israeli job-seekers	35.7	29.1	-6.5	-18.5	28.0	30.1	-25.1	7.5
9. Unemployment rate (3÷8)	3.5	2.7	—	—	2.6	2.8	—	—
10. Number of employed from administered areas	33.8	52.4	64.1	55.0	49.2	55.6	27.8	13.0
11. Total employed in Israel ^b (5+10)	1,030.9	1,099.4	4.8	6.6	1,087.0	1,111.9	3.5	2.3
12. Israeli employee posts ^c	842.0	867.6	4.2	3.0	856.4	878.8	0.5	2.6
13. Total employee posts in Israel ^b	875.3	909.3	5.6	3.9	897.2	921.4	1.3	2.7
14. Monthly earnings per Israeli employee post, excl. fringe benefits ^d (IL)	801	916	16.4	14.4	890	942	8.1	5.8
15. Monthly earnings per employee post in Israel, ^b excl. fringe benefits (IL)	781	892	15.4	14.2	866	918	8.0	6.0
16. Daily average adult unemployed ^a	938	744	-41.2	-20.7	726	763	-19.0	5.1

^a The reference is to Israel only—i.e. excluding the administered areas.

^b Including workers from the administered areas.

^c Including part-time and supplemental work.

^d Wages and salaries calculated on a cash basis—i.e. payments for work performed in the past or advance payments on account of future work are included in the data for the period in which they were actually paid and not for the period to which they relate.

SOURCE: Line 1—Central Bureau of Statistics, *Statistical Bulletin of Israel*, February 1973; lines 2-9—CBS manpower surveys; line 10—CBS labor force surveys of the administered areas; lines 12-15—CBS data from National Insurance sources (the National Insurance data for 1972 are based on final figures for the first 11 months of the year and provisional estimates for December); line 16—National Employment Service.

Table IX-2
SOURCES OF GROWTH OF ISRAEL'S PERMANENT POPULATION, 1964-72

(in thousands, unless otherwise stated)

	1964	1965	1966	1967 ^a	1968	1969	1970	1971	1972 ^b
1. Permanent population at beginning of year	2,430.1	2,525.6	2,598.4	2,657.4	2,776.3	2,841.1	2,919.2	3,001.4	3,095.1
2. Total natural increase	48.2	50.0	50.8	47.3	53.2	56.2	59.7	64.7	63.4
3. Rate of natural increase ^c	19.4	19.5	19.2	17.6	18.3	19.2	20.1	21.2	19.9
4. Rate of natural increase among Jews ^c	16.1	16.2	16.1	14.9	15.9	16.2	16.9	18.0	16.8
5. Rate of natural increase among non-Jews ^c	45.0	44.6	43.4	38.7	39.0	40.5	39.1	39.3	37.1
6. Gross immigration ^d	55.0	31.1	16.0	14.5	21.0	26.6	24.8	31.2	49.1
7. Thereof: Number of immigrants ^e	55.0	31.1	16.0	14.5	20.7	24.9	21.2	26.1	43.4
8. Net emigration ^f	7.7	8.3	7.8	11.5	9.4	4.7	2.3	2.2	5.8
9. Migration balance (6-8)	47.3	22.8	8.2	3.0	11.6	21.9	22.5	29.0	43.3
10. Total growth of population (2+9)	95.5	72.8	59.0	118.9	64.9	78.1	82.2	93.7	106.7
11. Permanent population at end of period (1+10)	2,525.6	2,598.4	2,657.4	2,776.3	2,841.1	2,919.2	3,001.4	3,095.1	3,201.8
12. Percent increase in permanent population	3.9	2.9	2.3	4.5 ^g	2.3	2.8	2.8	3.1	3.4
13. Thereof: Share of natural increase (%)	50.5	68.7	86.1	94.0	82.1	72.0	72.6	69.1	59.4
14. Thereof: Share of net immigration (%)	49.5	31.3	13.9	6.0	17.9	28.0	27.4	30.9	40.6
15. Potential immigrants ^h	—	—	—	—	—	13.2	15.5	15.8	12.5

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

^b Provisional data.

^c Per thousand permanent population. The rate of natural increase among non-Jews in 1967-69 does not include East Jerusalem.

^d Immigrants, tourists changing their status to immigrants, potential immigrants who acquire immigrant status, immigrating citizens (children born to Israeli citizens abroad), persons returning to East Jerusalem under the family reunion scheme since 1968.

^e Immigrants and tourists acquiring immigrant status.

^f Declaring emigrants plus citizens residing abroad for 13 months or more, less Israeli citizens returning from abroad after an absence of 13 months or more.

^g Since 1967 includes the population of East Jerusalem (no separation is made for natural increase and the migration balance).

^h In 1969 a potential immigrant was defined as a "person entitled to an immigrant visa or an immigrant certificate under the Law of Return and who intends to enter Israel and to stay there for more than three months". They are really temporary residents who come to explore the possibilities of settling in Israel, and hence are not included in the permanent population or in the sources of its growth.

SOURCE: Lines 1-5 and 9—Central Bureau of Statistics, *Monthly Bulletin* and *Statistical Abstract*; lines 6-8—*Monthly Bulletin* and unpublished data of the CBS.

among the Jewish population (apart from those of Afro-Asian origin, who experienced a declining birth rate), while among non-Jews the rate of natural increase remained steady, but at a much higher level than for Jews (37.1 as against 16.8 per thousand). In 1972 the rate of natural increase fell in both groups.

As regards immigration, 1972 saw a continuation of the previous year's trends. The number of new arrivals jumped 33 percent to 56,000 (43,400 actual and 12,500 potential immigrants).² The inflow from the U.S.S.R. continued to grow, while that from other countries fell off. The turning point in Russian immigration came in 1971, and in the year reviewed more persons arrived from the U.S.S.R. than during the entire period from the establishment of the State until the end of 1971. Some 32,000 came to Israel during 1972, compared with 13,000 the year before, and they accounted for about 70 percent of total immigration in the year reviewed.

The number of immigrants from Western Europe and the Afro-Asian countries declined, for the third consecutive year, and came to only about half its peak level in 1969 (approximately 11,000 in 1972 as against 22,000 in 1969). As to North America, the figure fell off in 1972, ending the uptrend begun after the Six Day War.

The drop in Western immigration can apparently be attributed chiefly to conditions in the countries of origin, such as an improvement in economic conditions, and partly to conditions in Israel.

(b) *Working-age population and the civilian working force*

The working-age population went up 3.4 percent in 1972, as against 3.2 percent the year before. As in 1971, the rise here was a shade faster than for the average population (3.3 percent).

The labor force expanded more rapidly than the working-age population—by over 4 percent; this reflects a rise in the labor force participation rate from 49.2 percent of the total working-age population in 1971 to 49.6 percent.

The growth of the labor force derived from three sources: an increase in the working-age population, a change in the sex and age structure of the population, and changes in the specific rates for the different age and sex groups.

In 1972 the civilian labor force expanded by some 43,000 persons. The growth of population explains about 80 percent of this increase; that is, about 35,000 persons were added to the labor force as a result of immigration³ and

² A potential immigrant is defined as a person entitled to receive an immigrant certificate under the Law of Return and who desires to remain in Israel for at least three months; he is actually a temporary resident who comes to Israel to examine the possibilities of settling permanently.

³ According to Ministry of Absorption estimates, some 20,000 of those who immigrated during the past three years joined the labor force in 1972.

Table IX-3

SOURCES OF GROWTH OF THE ISRAELI LABOR FORCE, 1972

	Total		Males		Females	
	Thou- sands	Per- cent	Thou- sands	Per- cent	Thou- sands	Per- cent
Total increase in labor force in 1972	43.4	100.0	21.2	48.8	22.2	51.2
Increase due to growth of working-age population ^a	35.1	80.9	24.1	55.5	11.0	25.4
Increase due to change in sex-age distribution of population ^b	-0.3	-0.7	-0.9	-2.1	0.6	1.4
Increase due to change in specific rates of sex and age groups ^c	8.6	19.8	-2.0	-4.6	10.6	24.4

^a Obtained by projecting the population differences (total males and females) on the sex-age distribution of 1971 and multiplying by the participation rates according to 1971 age and sex groups. In other words, the increase assuming that the sex-age distribution and the specific participation rates remained unchanged between 1971 and 1972, and that the only change was in the overall growth of the working-age population.

^b Obtained by multiplying the differences in the sex-age distribution between 1971 and 1972 by the total 1972 population and by the 1971 participation rates. In other words, the increase assuming that there was no change in the total population or in the specific participation rates, and that the only change was in the sex-age distribution of the population.

^c Obtained by multiplying the difference in the participation rates between the two years by the actual 1972 population classified by sex and age.

natural increase. In addition, the year reviewed witnessed several changes in the age distribution of the population. The 18-34 group increased while the 55-64 group declined. Since the participation rate among males is lower in the 18-34 group than in the 55-64 group (67.3 vs. 86.2 percent in 1972), this change in itself somewhat depressed the overall male participation rate. Among women the situation is reversed, the participation rate in the 18-34 group being higher than in the 55-64 group (41 as against 22.9 percent in 1972). The net effect of these changes on the overall participation rate was negligible.

The changes in the specific rates for the various age and sex groups account for the remaining 20 percent of the 1972 labor force increment, as well as for the difference between the overall participation rates in 1971 and 1972. The participation rate for females went up 1 percent (all age groups except one shared in the increase), reflecting both the long-run rising trend in their rate and the economic boom, which has encouraged marginal labor groups to go out and work. Another contributory factor was the relatively large number of female immigrants from Russia who joined the labor force (their participation rate is very high). Altogether, some 11,000 women joined the labor force in the year reviewed.

Table IX-4

CIVILIAN LABOR FORCE PARTICIPATION RATE, BY SEX AND AGE, 1965-72^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
1972	49.6	21.6	54.4	63.7	54.4	18.2
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
1972	68.5	25.3	67.3	94.7	86.2	31.4
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
1972	30.8	17.6	41.0	34.8	22.9	5.5
Age distribution of working-age population						
1972	100.0	11.3	38.1	28.5	11.8	10.3

^a The reference is to Israel only (i.e. excluding the administered areas); includes East Jerusalem since 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.

Among males there is a long-run declining trend in the participation rate, which in 1972 was partly offset by an increase in the 18–34 age group. The higher rate here can apparently be attributed to the Russian immigration, which is characterized by a relatively higher participation rate in most age groups, and especially those aged 18–34.

(c) *Labor force characteristics of the new immigrants*

Of the new immigrants aged 18 or more who in 1972 had been in the country at least one full year, 57 percent belonged to the labor force—a slightly higher rate than in the previous year and higher than that for the total population (53 percent). The rate for Russian immigrants is especially high—66 percent (52 percent for all other immigrant groups).

The number of unemployed new immigrants actively seeking work in 1972 amounted to 8 percent of the labor force (again the reference is to the first year of immigration), as contrasted with 12 percent in 1971. In spite of this improvement, the figure was still far higher than for the rest of the Israeli population.

The situation was especially serious in the groups aged 55 or more. Here the unemployment rate reached 17 percent,⁴ and part-time workers accounted for another 36 percent. Difficulties also cropped up in the absorption of the academically trained. This problem was particularly acute among Russian immigrants, owing to the lack of demand in Israel for certain professions, and certain differences in professional standards in Israel and abroad. To help overcome this problem, several funds were established for the purpose of training unskilled immigrants and to provide retraining courses. In some cases the Government pays part of the salaries and wages of the new immigrants during their initial period of employment in the country, until they can adjust to conditions here.

A noteworthy characteristic of the new immigrants is the high percentage of academic and professional workers—40 percent, as against 16 percent for the overall population.

3. EMPLOYMENT

Employment was up 6.6 percent on an annual average in 1972. The labor input apparently rose to about the same extent, for the increase in the average number of man-hours per Israeli employed according to manpower survey data (from 39.9 per week in 1971 to 40.4) was offset by the increased share of workers from the administered areas in Israel, who put in relatively fewer days per month. This respectable growth of employment is somewhat surprising,

⁴ Compared with an unemployment rate of only one percent for the same group in the total population.

Table IX-5

AVERAGE NUMBER OF MAN-HOURS WORKED PER WEEK PER EMPLOYED AND PER EMPLOYEE,^a INCL. AND EXCL. TEMPORARY ABSENCES, 1965-72

	Total employed			Employees		
	Average man-hours per week, excl. absentees	Percent absences	Average man-hours per week, incl. absentees	Average man-hours per week, excl. absentees	Percent absences	Average man-hours per week, incl. absentees
1965	42.7	5.9	40.2	42.1	6.1	39.5
1966	42.4	5.7	40.0	41.9	6.0	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	5.3	40.3	42.4	5.7	40.0
1970	42.5	5.6	40.1	42.2	6.0	39.6
1971	42.5	5.9	39.9	42.3	6.4	39.6
1972	42.8	5.7	40.4	42.5	6.0	40.0

^a The reference is to Israel only (i.e. excluding the administered areas).

SOURCE: Central Bureau of Statistics manpower surveys.

since it was generally thought that the potentialities for a further rapid expansion of the labor supply had been exhausted in previous years.

The incremental employed in 1972 numbered about 69,000 (6.6 percent, as already noted). The sources of this increase were as follows: the expansion of the Israeli labor force accounted for 61 percent (50 percent derived from demographic changes and some 10 percent from a rise in specific participation rates); the decline in unemployment accounted for 12 percent; while the contribution of the administered areas came to 27 percent.

The newly hired workers were employed mostly in construction and to a lesser extent in trade and business services; the increases in industry and in transportation and communications were below average (for the sectoral distribution of the incremental employed see Table IX-6).

The following analysis of employment will be based, as in previous years, on manpower survey data for Israel and labor force survey data for the administered areas, even though these sources apparently overstate the percentage rise in the number of employees, and part of the measured increase in the number of workers from the areas may have stemmed from an improvement in statistical coverage. There is a big difference between National Insurance and

Table IX-6
EMPLOYMENT IN ISRAEL, BY SECTOR, 1971-72
(in thousands)

	Number of employed in 1972		Percent year-to-year change in annual average level				Percentage distribution of employed			
	Total	Israelis	Total		Israelis		Total		Israelis	
			1971	1972	1971	1972	1971	1972	1971	1972
1. Agriculture, forestry, fisheries	96.0	83.8	2.3	4.1	-0.5	-1.1	8.9	8.7	8.5	8.0
2. Industry (incl. mining and quarrying)	258.4	249.3	3.7	5.4	2.6	3.8	23.8	23.6	24.1	23.8
3. Electricity and water	8.8	8.8	-2.7	-20.0	-2.7	-20.0	1.1	0.8	1.1	0.8
4. Construction	125.8	99.7	16.1	18.5	10.2	12.7	10.3	11.4	8.9	9.5
5. Trade, restaurants, and hotels	139.3	137.6	1.4	9.0	1.0	8.6	12.4	12.7	12.7	13.2
6. Transportation, communications, and storage	77.9	77.2	2.9	4.1	2.5	4.0	7.3	7.1	7.4	7.4
7. Finance and business services	60.5	60.5	13.8	6.5	13.8	6.5	5.5	5.5	5.7	5.8
8. Public services	255.4	253.7	5.1	5.0	4.8	4.8	23.6	23.2	24.3	24.2
9. Personal services	77.3	76.4	-0.8	5.0	-0.9	4.7	7.1	7.0	7.3	7.3
Total	1,099.4	1,047.0	4.8	6.6	3.5	5.0	100.0	100.0	100.0	100.0

SOURCE: Israeli employed—Central Bureau of Statistics manpower surveys; workers from the administered areas employed in Israel—CBS labor force surveys of the administered areas.

manpower survey data on the number of Israeli employees—3 as against 5.7 percent respectively—and on the total number of persons employed in Israel (i.e. including workers from the areas)—3.9 vs. 7.8 percent. The high marginal income tax rates in force may have prompted some of the workers holding more than one job to refrain from reporting this to the National Insurance Institute on the one hand, and caused some of the self-employed to list themselves as hired workers in the manpower survey data on the other. It may therefore be concluded that the actual increase in the number of employees probably lies somewhere between these two figures.

Product per worker grew somewhat less rapidly in 1972. One possible explanation of this is that there may have been a qualitative change in the incremental employed (the accession of workers with a lower skill level—women, new immigrants, youths, and workers from the West Bank and Gaza Strip—on a comparatively large scale compared with the number of veteran workers). But data on the growth of employment and other economic aggregates during the year (to be discussed below) tend to support the view that the supply of labor was not necessarily the factor limiting the expansion of the gross national product during the year. The slacker growth of product per worker may reflect the “hoarding” of workers at the beginning of the year in the expectation that economic activity would continue at a vigorous level.

While the data for 1972 as a whole point to a strong increase in employment, a decline in the unemployment rate to an all-time low, a high level of unfilled job vacancies, and a small number of job-seekers for whom placements were not found, signs of a slowdown and even the ebbing of excess demand for workers appeared in the course of 1972 and the beginning of 1973.

This change of trend may be seen in some of the findings presented in Table IX-7. On an annual average, total employment (including workers from the areas) rose 6.6 percent, but the curve went up more slowly from quarter to quarter. In the first quarter it rose 2.8 percent, in the second quarter 1.6 percent, in the third quarter 1.2 percent, and in the final quarter it edged down 0.1 percent.

As regards job vacancies, the uptrend came to an end in 1972, plateauing at the level of the previous year; at the end of 1972 and the beginning of 1973 the curve even turned rather sharply downward. There was a similar development in the number of job openings which the National Employment Service could not fill—stabilization and signs of a downturn in the course of 1972 and early 1973, after an unbroken rapid rise in 1970-71. These changes were, of course, reflected in the percentage of unfilled job openings: after advancing from 13.6 percent in 1970 to 20.4 percent in 1971, the figure hit a high of 26.1 percent in the first quarter of 1972; but subsequently it reversed direction and fell to 22-23 percent in the middle of 1972 and the beginning of 1973 (apart from a random increase to 25.3 percent in the final quarter of 1972, which was still below that recorded at the beginning of the year).

Table IX-7

INDICATORS OF EMPLOYMENT, 1970-72

(monthly data, seasonally adjusted)

	Index of job openings (31,093= 100)	Index of unfilled job openings (3,955= 100)	Percent of unfilled job openings (2 ÷ 1)	Index of job- seekers (24,480= 100)	Index of unplaced job- seekers (5,625= 100)	Percent of unplaced job- seekers (5 ÷ 4) ^a	Unemployment rate (as a percent of labor force)	Index of total employment ^b (969,200= 100)	Index of man-hours of industrial workers	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1970										
Annual average	100.9	107.3	13.6	97.4	101.7	24.0	96.2	3.8	101.5	100.4
1st quarter	100.0	100.0	12.8	100.0	100.0	23.0	100.0	3.9	100.0	100.0
2nd quarter	93.8	101.5	13.9	97.4	103.7	24.5	102.7	3.9	101.2	100.3
3rd quarter	100.9	103.5	13.2	100.0	106.9	24.6	97.7	3.7	101.9	98.2
4th quarter	109.0	124.1	14.6	92.0	96.2	24.0	84.5	3.8	102.9	103.2

1971

Annual average	112.7	179.0	20.4	79.5	72.1	20.8	56.8	3.5	106.4	105.4
1st quarter	109.7	140.4	16.4	84.0	78.9	21.6	68.6	3.5	104.1	103.4
2nd quarter	115.2	171.1	19.1	77.6	73.8	21.8	57.1	3.6	104.9	104.0
3rd quarter	115.3	190.0	21.2	81.0	71.9	20.4	53.7	3.5	108.1	107.1
4th quarter	110.7	214.6	24.9	75.5	63.9	19.5	47.7	3.3	108.4	107.2

1972

Annual average	114.3	212.8	23.9	76.5	65.8	19.8	45.0	2.7	113.4	112.1
1st quarter	115.4	234.7	26.1	73.3	68.6	21.5	45.6	2.6	111.4	109.0
2nd quarter	115.3	196.0	21.8	80.7	67.7	19.3	48.1	3.0	113.2	113.9
3rd quarter	115.1	201.4	22.5	74.1	68.5	21.2	47.0	2.8	114.6	113.9
4th quarter	111.5	219.3	25.3	78.0	58.4	17.2	39.3	2.4	114.5	111.5

1973

1st quarter	104.0	184.9	22.8					—	—	—
-------------	-------	-------	------	--	--	--	--	---	---	---

NOTE: All National Employment Service data relate to adults only (columns 1-7).

^a Calculated on the basis of absolute seasonally adjusted data and not the indexes.

^b Israeli employed and workers from the administered areas employed in Israel.

SOURCE: Columns 1-7—National Employment Service; columns 8-9—Central Bureau of Statistics manpower surveys; column 10—CBS Industry Division.

Data on the number of job-seekers and on the number for whom placements were not found reveal a less distinct picture. But here, too, the downward drift apparently slowed in the course of the year reviewed.

Nor do the unemployment data reveal a clear picture at this stage. The National Employment Service figures on average daily unemployment accord with the other data cited above which point to a change of trend in the second quarter of 1972. Except for a temporary downturn in the final quarter of 1972, the increase in the number of jobless apparently carried over through the first quarter of 1973 (the change in the method of recording introduced in January 1973 makes it difficult to interpret this datum unambiguously). The conventional indicator of unemployment—the percentage of jobless in the civilian labor force (according to manpower surveys)—also fell to an unprecedented low in the first quarter of 1972 (2.6 percent); but in the final quarter the curve began to rise (no data are yet available on the first quarter of 1973). From the unemployment data alone it is very difficult to draw conclusions about a turnaround in the course of 1972. They tend to support the view that there was some faltering of demand in the middle of 1972, after which the pressure in the labor market again grew sharper. However, from the above data, together with other National Employment Service data, the manpower survey figure on unemployment, and information from other sources (such as industrial indexes and the labor force survey of the administered areas), it would seem that the transient feature was not the rise in the unemployment rate in mid-1972 but the further decline in the percentage of unemployed in the final quarter.

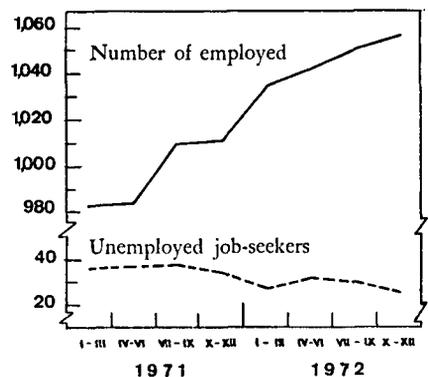
Other indicators of employment (see Table IX-7) likewise point to a sagging of the growth rate. Industrial indexes show that the number of man-days worked in industry actually levelled off in the second quarter of the year and turned downward in the final quarter.

According to labor survey data on Judea, Samaria, and the Gaza Strip, the number of persons from the areas employed in Israel fell about 10 percent in the final quarter of 1972, reversing the uptrend that had prevailed since the war.

Finally, it should be noted that the Ministry of Absorption reported growing difficulties in placing new immigrant academics and professional and technical

Figure IX-1
NUMBER OF EMPLOYED AND UNEMPLOYED JOB-SEEKERS, 1971-72

(thousands; seasonally adjusted data)



SOURCE: Central Bureau of Statistics manpower surveys.

workers. The Ministry's participation in the financing of employment for newcomers was considerably enlarged in 1972, and covered almost 30 percent of all those who started to work.

In assessing the 1972 trends in the light of the various indicators, it should be added that the pacesetter in overall economic activity in general and in employment in particular during the year was residential construction. Here employment jumped 18 percent, compared with a national average of less than 7 percent. But in the course of the year the volume of building starts tapered off and even turned downward. Because of the long gestation period in construction, a change in the volume of starts makes itself felt only after a considerable time-lag in factor utilization in the sector itself and in the demand for inputs from other sectors. But the trends in this sector are definitely determined by the changes in the volume of starts in previous periods, and here, as already mentioned, the level stabilized in the course of 1972 and the beginning of 1973, or even fell off somewhat.

To sum up this discussion of employment, the buoyant growth that marked the period 1968-71 slowed in the course of the year reviewed. It is still too early to say whether the level has actually stabilized and started to turn downward.

4. WAGES

Payroll expenditure (including fringe benefits) went up in 1972 by an annual average of 15-16 percent in nominal terms,⁵ or by 2-3 percent in real terms.

Because of the long drawn-out renegotiation of the wage agreements for 1972-73, the actual increase in 1972—that is, including all the retroactive increments to be paid in 1973 on account of this year—will be even greater. The negotiations were especially protracted in the public sector, but even in the private sector, where most of the agreements were concluded in the second half of 1972, not all the retroactive increments for the period before the conclusion of the agreements had been paid by year's end.

From the individual point of view, the average change in earnings had even less significance in 1972 than in previous years. The big increase in employment in itself tended to dampen the average percentage change, since new workers generally earn much less than veteran employees. In the absence of more detailed data, we can only cite the example of the workers from the administered areas: their below-average pay, combined with their growing

⁵ The increase ranged from 14 percent according to National Insurance Institute data (which cover wages and salaries per employee post, excluding fringe benefits) to 16 percent (the increase in total payroll outlay including fringe benefits, according to the national accounts, divided by the increase in total employee posts, according to the National Insurance Institute) .

Table IX-8

ANNUAL CHANGES IN HOURLY EARNINGS AND PRODUCT PER MAN-HOUR OF ALL WORKERS EMPLOYED IN ISRAEL,^a 1965-72

(percentages)

	1965	1966	1967	1968	1969	1970	1971	1972
1. Net domestic product, at current factor prices	21.2	9.2	4.4	18.5	15.4	18.0	25.2	24.9
2. Total payroll outlay ^a	24.7	15.2	1.6	10.0	12.8	20.8	22.4	20.9
3. Total man hours of all persons employed in Israel ^a	1.4	-0.8	-5.2	12.4	7.0	3.3	3.7	4.9
4. Total man hours of all employees in Israel ^a	2.3	-0.7	-5.7	13.3	10.5	4.3	5.7	4.8
5. Net product per man-hour (1÷3)	19.6	10.0	10.1	5.5	7.8	14.2	20.7	19.0
6. Hourly earnings (2÷4)	21.9	16.0	7.7	-2.9	2.2	15.8	15.8	15.4

^a Including workers from the administered areas.

SOURCE:

- (1) Central Bureau of Statistics national accounts.
- (2) CBS national accounts.
- (3) In calculating the total number of man-hours, the number of employees was taken from National Insurance Institute data, and the number of self-employed was taken from manpower survey data for Israel and labor force survey data for the administered areas. 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 number of employees used in the calculations is, as mentioned above, from National Insurance Institute data, which are based on actual figures for the first 11 months and provisional figures for December.

weight in the total number employed in Israel, depressed the rate of increase in average wages, even though they themselves received a 28 percent rise.

The actual wage hikes far exceeded those stipulated in the framework agreement, which represented an attempt to continue the policy of wage restraint. Under this agreement the average annual wage level was expected to go up approximately 10 percent. This consisted of a 3 percent rise in gross wages, an increase in the minimum wage, which should have added 1.5 percent to average wages, and the payment of a cost-of-living allowance increment at the beginning of 1972, which added about 5 percent to average annual earnings.

However, the actual measured increase was not much greater than what might have been expected after the conclusion, from the second half of the year onward, of the branch and company agreements, which provided for a rise of 30 percent or more for the two-year period 1972-73.

Another noteworthy development in recent years has been the growing tendency to pay employees partly in the form of various nontaxable benefits, be-

Table IX-9

ANNUAL CHANGES IN EMPLOYEE POSTS, EARNINGS PER POST,
AND HOURLY EARNINGS, 1969-72

(percentages)

	1969	1970	1971	1972
Employee posts				
All ^a	9.2	5.3	5.6	3.9
Israeli	7.9	4.6	4.2	3.0
Average earnings per employee post				
All ^a	5.2	8.5	15.4	14.2
Israeli	6.1	9.0	16.4	14.4
Average hourly earnings				
All employees ^a	3.9	9.7	15.2	13.2
Israeli employees	4.6	10.2	16.4	13.2

^a The reference is to both Israelis and workers from the administered areas employed in Israel. SOURCE: Employee posts and average earnings per post—Central Bureau of Statistics data based on employers' reports to the National Insurance Institute. The National Insurance data are based on actual figures for the first eleven months of the year and provisional estimates for December; they do not include fringe benefits.

Average hourly earnings—obtained by dividing the average earnings per employee post by the number of man-hours per employee, according to manpower surveys and labor force surveys of the administered areas.

cause of the high marginal income tax rates in force. The reference is to car maintenance, per diem, and telephone allowances, medical care, travel abroad, meals in restaurants, and loans on easy terms for buying cars and homes. The proportion of such payments (which are not accurately covered in the statistical reporting) in total payroll income is generally thought to be on the rise.

In boom periods there is also a greater blurring of the boundaries between wage earners and self-employed. Many workers prefer to be listed as wage earners, even if a growing share of their income both from their main place of employment and from supplemental sources is paid on a contract-labor basis.

Finally, the discontinuation of collection of the Savings Loan in April 1972 brought up average disposable wage income in 1972 by another percent.

In analyzing the changes in earnings by sector (Table IX-10), the fact that the new wage agreements were signed at different dates greatly obscures the picture. To cite one example, the 10 percent reported increase in the public services obviously does not fully reflect developments in this sector, as the agreements for 1972-73 had not yet been signed by May 1973.

The wage developments in 1972 must be viewed against the backdrop of what happened in previous years: (1) the inflationary process, which has been

gathering momentum since mid-1970, and the energetic measures adopted in 1972 to restrain the growth of the money supply; (2) the steady expansion of demand in general and for workers in particular during the past five years—in some sectors at an accelerated rate (construction) and in others at a slackening rate (industry and transportation and communications); (3) the 6.6 percent larger supply of labor in 1972, even though it seemed that the pool of available manpower had dried up in previous years; (4) the persistent effort to limit the rise of wages since 1968—after the freeze of 1968–69 came the “package deal” (1970–71) and (at the beginning of 1972) the framework agreement for 1972–73. In 1968–69 the freeze was actually effective also with respect to prices, since demand did not outpace the real growth of product, so that there were no steep price rises. But during the period covered by the “package deal” prices advanced along with the vigorous growth of the money supply. The accelerated mounting of prices at a time when the increase in employees’ earnings (even if not in the employers’ wage bill) was limited by the “package deal” resulted in growing pressure to raise wages and salaries, and not merely to preserve their real value.

Developments in the cost-of-living allowance arrangement illustrate how the rapid price rise affects the chances of restraining wages, even when the advance of prices is due mainly to developments abroad. After the imposition of the import levy in August 1970 it was agreed to eliminate the price rise attributable to this levy in calculating the cost-of-living allowance increment at the beginning of 1971. It was also decided that, since the full effect of the import levy had not yet been fully reflected in the price level, its residual influence would also be eliminated from the calculation of the next c-o-l allowance increment. In August 1971 the Israeli pound was devalued (in addition to the rise in world prices and the upward revaluation of various currencies). Although the price increases attributable to these changes should also have been sterilized, the cost-of-living allowance agreement concluded at the beginning of 1972 did not provide for the elimination of the remaining influence of the import levy of 1970, in spite of the explicit decision to this effect, nor was there any discussion of the possibility of sterilizing the influence of the August 1971 devaluation. It appears that all parties concerned shared the feeling that the price rises in 1971 generated strong pressure for increasing employees’ pay in order to at least prevent the erosion of their real earnings.

At the beginning of 1972 an attempt was made, as already mentioned, to continue the policy of general wage restraint; the framework agreement provided for a 6 percent increase in basic wages in 1972–73, in addition to the hiking of the minimum wage and the payment of a cost-of-living allowance increment. Because of the prevailing belief that wages had lagged behind the advance of prices in the two preceding years—a feeling that grew sharper after the devaluation of August 1971—and in the light of the aggravation of the inflation in the first half of 1972, the renegotiation of wage agreements began

Table IX-10
EMPLOYEE POSTS AND MONTHLY EARNINGS PER POST, BY SECTOR, 1971-72

	Employee posts in 1972				Average earnings per post in 1972			
	Number ('000)		Percent change from 1971		Amount (IL)		Percent change from 1971	
	All ^a	Israeli	All	Israeli	All	Israeli	All	Israeli
Agriculture, forestry, fisheries	38.3	32.1	-6.4	-6.7	520	558	16.6	13.9
Industry (incl. mining and quarrying)	245.8	235.0	2.9	1.7	861	885	13.9	14.3
Electricity and water	9.9	9.9	-1.0	-1.0	1,510	1,510	13.4	13.4
Construction	87.7	67.7	7.1	1.2	809	917	14.8	15.9
Trade, restaurants, and hotels	73.3	71.9	1.0	0.7	810	819	16.5	16.5
Transportation, communications, storage	60.1	59.5	2.6	2.8	1,347	1,357	16.3	16.0
Finance and business services	64.0	64.0	6.8	6.8	1,080	1,080	19.7	19.7
Public services	293.7	291.9	6.6	6.6	899	903	10.7	10.8
Personal services	36.5	35.6	-1.9	-2.7	542	547	15.3	15.4
Total	909.3	867.6	3.9	3.0	892	916	14.2	14.4

NOTE: The data for 1972 are based on final figures for the first eleven months of the year and provisional estimates for December. The wage data do not include fringe benefits; they are calculated on a cash and not an accrual basis.

^a Including workers from the administered areas.

SOURCE: Central Bureau of Statistics, based on National Insurance reports.

to bog down, and the framework agreement was abandoned. Many of the new agreements were signed only in the second half of the year and others at the end of the year, while some were still pending.

The retroactive clause in the wage agreements was introduced in the past out of a desire to avoid as far as possible labor unrest, thereby permitting the conducting of protracted negotiations in relative quiet even after the expiration of the existing agreements. The prolongation of negotiations is connected primarily with the system of interlinking the wages and salaries of the various groups of employees—which in Israel is quite extreme, with every group waiting to see what will be attained by the others to which it is linked.

Nevertheless it seems that in 1972, even though workers were sure that eventually their wages would go up considerably and with effect retroactive, so long as they were not actually raised, the feeling that they were trailing behind prices induced workers to press for higher wage increases.

If we compare 1972 as a whole with preceding years, we find that the wage increases actually awarded were no greater than what might have been expected, given the peak levels in employment and in the indicators pointing to demand pressure in the labor market (see the annual averages in Table IX-7). The high annual average excess demand for labor is clearly reflected in the extremely low unemployment rate (2.7 percent) as compared with the last few years and with the previous boom period (3.3 percent in 1964). Besides the strong demand for labor, the rapid rise of prices during the past two years is generally regarded as a telling factor in determining the wage increases. Nonetheless, there is reason to believe that the hikes awarded in 1972—in the main those that had already been agreed upon but were not yet fully implemented by year's end—did not necessarily reflect a greater demand for labor during the period in which the agreements were concluded.

In view of the fact that the indicators point to some easing of demand pressure in the labor market in the course of 1972 (as distinguished from the annual average in 1972 compared with previous years), it is a plausible assumption that the increases agreed upon in the second half of 1972 and early 1973 were more a response to pent-up pressures than a reflection of current market conditions. One of the factors contributing to the lag in adjusting wages to market conditions was undoubtedly the attempts made in recent years to hold the lid on wages, including the framework agreement at the beginning of 1972. In these circumstances, when the wage hikes were a response not only to the stronger current demand for workers but also to the rise of prices (in this case due also to a steep jump in foreign prices) and pent-up demand for labor, the raising of wages is in itself liable to generate upward pressure on prices, even if there has been some cooling-off of the inflationary demand trends.

5. THE ADMINISTERED AREAS

(a) *Employment*

The continued overemployment prevailing in Israel naturally resulted in the gravitation of an increasing number of workers from the administered areas. By the end of the year reviewed their numbers reached 52,000, about 55 percent more than in 1971. The contribution of the areas to Israel's available manpower is on the rise: whereas in 1969 they accounted for only 1 percent of total employment in Israel and in 1971 to about 3 percent, by 1972 the figure reached 5 percent. This year they contributed nearly 27 percent of the incremental employment.

This marked upswing can be credited to the growth of population in the administered areas, a rise in their participation rate, and a decline in both unemployment and in the number employed in the areas themselves. The growth of employment in Israel was largely at the expense of employment in the areas: it is estimated that of the total increase of some 19,000 workers from the administered areas in the past two years, about 7,000 was at the expense of employment there.⁶

Table IX-11

EMPLOYMENT IN THE ADMINISTERED AREAS AND AVERAGE DAILY EARNINGS PER EMPLOYED, 1970-72

(annual averages; employment in thousands, wage data in IL)

	1970	1971	1972	Percent annual increase or decrease (-)	
				1971	1972
Employees working in the administered areas ^a	152.7	142.7	136.3	-6.5	-4.5
In Judea and Samaria	99.8	91.2	90.3	-8.6	-1.0
In the Gaza Strip and Northern Sinai	52.9	51.5	46.0	-2.6	-10.7
Employees from the areas working in Israel	20.6	33.8	52.4	64.1	55.0
From Judea and Samaria	14.7	25.6	34.9	74.1	36.3
From the Gaza Strip and Northern Sinai	5.9	8.2	17.5	39.0	113.4
Net daily wage paid in the administered areas ^a	6.4	8.0	11.1	25.0	38.8
Net daily wage of employees working in Israel	11.8	13.4	17.2	13.6	28.4

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

SOURCE: Central Bureau of Statistics labor force surveys of the administered areas.

⁶ Of the total increase, about 5,000 can be attributed to a raise in the participation rate, 4,000 to the growth of population, and 3,000 to a drop in the unemployment rate.

Table IX-12

**SECTORAL DISTRIBUTION OF WORKERS FROM ADMINISTERED AREAS
EMPLOYED IN ISRAEL, AND THEIR SHARE IN TOTAL EMPLOYMENT
IN THE SECTOR, 1970-72**

(percentages)

	Sectoral distribution			Share in total employment in sector		
	1970	1971	1972	1970	1971	1972
Agriculture	24.3	22.2	23.3	5.5	8.1	12.7
Industry	11.7	14.8	17.4	1.0	2.0	3.5
Construction	54.3	52.3	49.8	12.2	16.7	20.7
Other sectors	9.7	10.7	9.5	0.4	0.6	0.8
Total	100.0	100.0	100.0	2.1	3.3	4.8

SOURCE: Central Bureau of Statistics manpower surveys of Israel and labor force surveys of the administered areas.

It is therefore clear that the proportion of those working in Israel in the total number of employed in the areas is growing: in 1972 the figure reached 28 percent, compared with only 12 percent in 1970.

About half the workers were engaged in the building trades, as in previous years, and their weight in this sector rose from 17 percent in 1971 to 21 percent. The proportion working in industry is increasing but is still relatively low.

Employment in the areas was down about 4 percent in 1972, with agriculture being most affected. This sector is losing workers both because of the increased mechanization of farming and the introduction of more efficient labor-saving methods of cultivation. One of the reasons for this process is the dearer cost of labor.

Employment in Israel did not change at a uniform pace over the year. The peak was reached in the third quarter, while in the final quarter the level fell off by an appreciable 10 percent, ending an unbroken uptrend evident since the end of the Six Day War. The percentage decline was similar in all the sectors. Because of relatively large sampling errors, the data for any single quarter must be accepted with caution, so that it is still too early to conclude whether this was a random, seasonal, or trend change.

(b) *Wages*

The hunger of the Israeli economy for workers induced employers to redouble their efforts to attract additional manpower from the areas, by granting

substantial wage hikes. Presumably those recently coming to Israel from the areas have a higher skill level than those who came in earlier years, left much better places of work in the areas, and commute over a greater distance. The Israeli employer has had to compensate them for all these. Thus, whereas in 1971 the workers from the areas received a smaller wage increase than Israelis—13.6 as against 16.4 percent—in 1972 their wages were upped by a respectable 28.4 percent (compared with 14.4 percent for Israelis) and amounted to IL 17.2 net a day, according to labor force survey data.⁷

This narrowed the gap between the two categories of workers, although it is still fairly wide.⁸ Farm workers in Israel enjoyed an especially big pay hike, and this helps to explain the sharp decline in agricultural employment in the areas themselves.

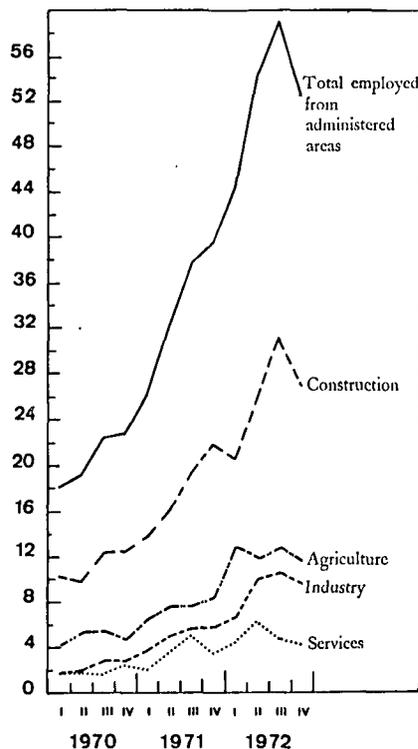
In an attempt to stem the flow of workers to Israel, employers in the areas awarded substantial wage increases, which came to more than 50 percent in the major sectors: agriculture, industry, and construction.

From the foregoing it would seem that the labor market has achieved a greater degree of perfection with respect to workers of equal training and skill level in the various groups—viz. Israelis, Arabs from the areas working in Israel, and those working in the administered areas themselves.

⁷ On the various sources of wage data for workers from the areas employed in Israel, see Bank of Israel, "Economy of the Administered Areas 1971", December 1972. While various indicators show that the wage data cited in this chapter are biased downward, they nevertheless give a reasonable picture of developments over time.

⁸ The average monthly gross wage of workers from the areas employed in Israel came to IL 492, as contrasted with IL 916 for Israelis. This is based on National Employment Service data, adjusted for the number of working days. The differential pay is apparently due entirely or overwhelmingly to differences in the skill and training levels of these two categories of labor.

Figure IX-2
NUMBER OF WORKERS FROM THE ADMINISTERED AREAS EMPLOYED IN ISRAEL, BY SECTOR, 1970-72
 (thousands)



SOURCE: Central Bureau of Statistics labor force surveys of the administered areas.