

CHAPTER XII

EMPLOYMENT AND WAGES

1. MAIN DEVELOPMENTS

Although this is the third straight year of slowdown in business activity¹ which has virtually come to a standstill, no significant increase in overt unemployment has taken place. At the end of 1976 only 4.1 percent of the labor force was unemployed (as compared with 2.6 percent in 1973 and 3.1 percent at the beginning of 1976).

The development of employment since 1974 differs markedly from the earlier period of 1970-73: the rapid growth in the years 1970 to 1973 turned into a standstill and then

TABLE XII-I
MAIN DEVELOPMENTS IN EMPLOYMENT, 1970-1976
(percent)

	1973 compared to 1970 ^a	1976 compared to 1973 ^a	1976 compared to 1975	1976 IV compared to 1973 IV
Total labor input (man-hours) ^b	15.3	-0.2	0.7	-1.3
Business sector	16.4	-3.9	0.0	-2.0
Domestic workers ^b	16.9	3.1	1.1	-0.1
Business sector	17.5	-0.8	0.5	-1.1
Male Israeli workers	9.8	0.8	0.7	-0.1
Full-time	7.5	-3.1	0.0	-2.3
Female Israeli workers	20.6	7.6	2.7	1.1
Full-time	14.4	1.5	0.0	-3.3
Workers from the administered areas	21.6	-0.5	-2.3	-5.9
	1970	1973	1976	1974 IV
Rate of unemployed	3.8	2.6	3.6	4.1

^a 1973 - the first 9 months, deducting the effect of the war and reserve call-up.

^b Includes workers from the administered areas employed in Israel.

SOURCE: Central Bureau of Statistics, Labor Department, manpower surveys.

¹In the general economy, excluding public services, nonprofit institutions, and income from ownership of houses.

a decline in the years 1974 to 1976 with a further worsening during 1976 itself.²

The detailed sectorial data presented in Table XII-1 indicate that the drop in employment is concentrated in the business sector, while in the public services the long-term trend of employment growth continues.

The meager growth in the number of employed workers in the last three years has stemmed in its entirety from the continued growth (also slowed down) in the employment of women. The number of employed Israeli males has hardly grown since 1973, and the number employed on a full-time basis has actually declined.

The growth in production per man-hour and per capita has also shown a sharp drop in the last three years, which indicates that the actual labor input was higher than that required by the level of economic activity. It appears from this that in 1976 there was latent unemployment. (It should be kept in mind that a certain decline in production per man-hour may also stem from the structural change which occurred in employment.)

TABLE XII-2
SOURCES OF INCREASE IN WORK FORCE, 1971-1976
(in thousands)

	Total increase in labor force	Contribution of growth and compo- nent change in Israeli pop.	Contribution of change in participa- tion rate in Israeli labor force	Contribution of change in number of unemployed	Contribution of worker absorption from admin- istered areas
1971-1973	166	107	9	9	41
1974-1976	37	78	-32	-13	4
Difference between two periods	129	29	41	22	37

SOURCE: Central Bureau of Statistics, Labor Department, manpower surveys.

²In the tables presented in this chapter, data is given on the changes occurring between 1975 and 1976 on an annual average basis, as well as data on developments during 1976, calculated by comparing the final quarter of 1976 with that of 1975. This second comparison is less reliable statistically, but is nevertheless worth presenting because it shows a graver picture of developments — in the drop in demand for workers and in employment, and in the growth of unemployment — than that presented by comparing the averages for the two years. The main flaw in the annual average comparison is the unusual situation at the beginning of 1975, when a temporary over-reaction to the announcement of a new economic policy combined with the ebb in the world market to produce an artificially low level in activity and employment.

In the past three years the increase in employed has dropped to one third of the increase during the years 1971-73, yet, despite this, mass unemployment was avoided. The main reason was the great deceleration in the growth of labor supply, which paralleled the decline in demand for workers. An examination of Table XII-2 indicates the adaptation mechanisms which have operated in recent years in the Israeli economy. It appears that the difference in increase of employees between the two periods under discussion, which amounted to about 129 thousand, was caused by a combination of elements: a decline in population growth (due partly to reduced immigration and increased emigration), a sharp decline in joining the labor force, especially among young people, a reversal of the decrease in the number of unemployed, and the discontinuation of worker absorption from the administered areas (which has shown an absolute decline since 1974). In summary, just as the rapid growth in employment between 1971 and 1973 relied only marginally on employing the unemployed, so has the decline in employment growth in the last three years manifested itself only slightly in a rise of overt unemployment.

In addition to this, the last three years have seen a substantial drop of about 5 percent in the average number of hours per employed (partly the result of changes in the composition of the work force in terms of sex, age and sectorial composition, but mainly due to the decrease in labor demand). Had this decline not occurred, it would have been possible to supply the total labor input for 1976 with an additional reduction of 50 to 60 thousand workers.

The Israeli economy seems to differ from other Western economies, which have suffered a substantial growth in overt unemployment in recent years. In Israel economic growth has come to a standstill, but unlike other Western economies, there was no actual decline in economic activity. Uncertainty as to the direction of economic activity, resulting from fluctuating expectations regarding the results of certain governmental measures, kept employers from laying off workers. This was also the result of tenure norms, which are more widespread in Israel than abroad, and by the practical difficulties of firing workers, even those without tenure. Another factor differentiating Israel from the West is the relative difficulty involved in becoming eligible for unemployment compensation (this at a time when other benefits, not connected with employment, have grown). An additional contribution to the nonappearance of further unemployment was the active approach of the Employment Service in early detection of unemployment pockets and the rapid placement of workers in alternate employment.

1976 saw the continuation of unstable and nonuniform developments in employment which had manifested themselves in the two previous years. Among the forces which increased activity and employment this year were the vigorous growth of exports, as well as waves of heightened activity related to particular occurrences such as expectations concerning the anticipated Value Added Tax, and perhaps even the deviations from wage agreements in the public sector towards the end of the year, which created expectations

TABLE XII-3
ISRAELI WORK FORCE, SELECTED DATA, 1970-1976

							Change			
	Annual average				Last quarter		1976	1976IV	1976	1973
	1973	1974	1975	1976	1975	1976	compared to 1975	compared to 1975IV	compared to 1973	compared to 1970
Total population	(in thousands)						(percent)			
1. Working age population	2,272	2,339	2,386	2,432	2,400	2,451	1.9	2.1	7.0	10.6
2. Civilian labor force	1,124	1,131	1,148	1,169	1,155	1,172	1.9	1.4	4.0	11.6
3. Rate of participation (percent)	(49.5)	(48.1)	(48.1)	(48.1)	(48.1)	(47.8)	—	—	—	—
4. Total employed	1,094	1,097	1,113	1,127	1,121	1,124	1.3	0.2	3.0	13.0
Full-time ^a	(823)	(802)	(806)	(806)	(826)	(805)	0.0	-2.6	-2.1	9.3
5. Unemployed	30	34	35	43	34	48	21.4	40.4	23.4	-32.7
6. Rate of unemployment (percent)	(2.6)	(3.0)	(3.1)	(3.6)	(3.0)	(4.1)	—	—	—	—
Males										
1. Working age population	1,127	1,159	1,182	1,204	1,190	1,212	1.9	1.8	6.8	10.1
2. Civilian labor force	765	762	767	777	769	778	1.3	1.1	1.6	8.7
3. Rate of participation (percent)	(67.9)	(65.8)	(64.9)	(64.6)	(64.6)	(64.2)	—	—	—	—

4. Total employed	745	744	748	753	751	750	0.7	-0.1	0.8	9.8
Full-time ^a	(621)	(600)	(602)	(602)	(612)	(598)	0.0	-2.4	-3.1	7.5
Part-time ^a	(80)	(81)	(85)	(90)	(84)	(98)	6.0	16.1	12.5	20.1
5 Unemployed	18	18	19	24	18	27	27.7	55.7	31.1	-23.5
6. Rate of unemployment (percent)	(2.4)	(2.4)	(2.5)	(3.1)	(2.3)	(3.5)	-	-	-	-
Women										
1. Working age population	1,145	1,180	1,204	1,228	1,210	1,239	2.0	2.4	7.3	11.1
2. Civilian labor force	359	369	381	392	386	394	3.0	2.0	9.3	18.6
3. Rate of participation (percent)	(31.4)	(31.3)	(31.6)	(31.9)	(31.9)	(31.8)	-	-	-	-
4. Total employed	348	353	364	374	369	373	2.7	1.1	7.6	20.6
Full-time	(201)	(204)	(204)	(204)	(213)	(206)	0.0	-3.3	1.5	14.6
Part-time	(117)	(120)	(128)	(135)	(129)	(143)	5.8	10.5	15.3	27.8
Unemployed	12	16	17	18	17	21	10.2	23.8	60.0	-21.6
Rate of unemployment (percent)	(3.2)	(4.3)	(4.4)	(4.7)	(4.4)	(5.3)	-	-	-	-
Workers from administered areas	65.1	72.2	66.3	64.8	64.9	61.1	- 2.3	-5.9	-0.5	216

^a Due to the effect of the war: 1973 — excluding last quarter; 1974 — excluding first quarter.

SOURCE: Central Bureau of Statistics, Labor Department, manpower surveys, and Bank of Israel computations.

of increased public demand. In the opposite direction, the decline in construction and related industrial and transport sectors continued to weaken employment. The drop in the acquisition of durable goods worked in the same direction. Another decelerating factor was the reduction in Defense Ministry purchases. In sum it would appear that the effect of the decelerating forces was decisive, especially in the latter half of 1976, and many employers, who had postponed firing workers for a long time because of the uncertainty regarding the trend of development, began to decrease covert unemployment in plants. This is apparent in the data concerning the unemployed in manpower surveys, and in the unemployment data of the Employment Service. Unlike potential candidates for the labor force, fired workers, who had actually been employed, tend to increase overt unemployment: these workers are apparently more in need of their income from employment (than young people), and because of their previous employment they have a better standing in claiming unemployment benefits when they register as unemployed job-hunters.

One development especially worthy of note is the decline in the number of employed in export-oriented industrial sectors (electrical and electronic equipment, etc.), not necessarily due to a decline in exports, but because of declining sales on the domestic market. This development casts doubts on assessments of a shortage of workers in export industries.

Total wages, in real terms, increased in 1976 by about 4 percent compared to 1975, and the share of wages in the domestic product of the business sector grew, as is usual in periods of economic slowdown.

The wage per wage earner grew in 1976 at a yearly average of 33 percent, i.e. a stability in the real wage, after two years of lack of growth, and in some cases, even a drop. Even in plants which decrease employment, the average wage per wage earner may rise, the apparent contradiction explained by the fact that those being fired are usually employees who earned a below-average wage.

It should be stressed that the data do not indicate a drop in the real wage, as required by the policy designed to decrease the gap in the balance of payments, in the absence of growth in the product. The attempted arrangement whereby the cost-of-living allowance would only partially compensate for consumer price increases did not succeed; it appears that the collective wage agreements signed at the beginning of the year could not withstand such a rapid rise in prices, and the monopolistic power of the workers helped them to make up what they had lost within the framework of the wage agreements. In the business sector, agreements exceeding cost-of-living rises were quietly signed during the year, and in the public sector, strikes and sanctions achieved similar settlements towards the end of the year.

It is important to stress here that the wage data are very general, so that detailed analyses and relative comparisons should be avoided. In such comparisons certain overt assumptions are usually made, especially with regards to a "fixed basket" of workers,

assumptions which are not always constant, especially in recent years, when the continuity of balanced growth has been interrupted.

2. THE POPULATION

The changes in the growth of population and of the labor force are presented in Tables XII-2 and XII-3. Of special interest is the relationship between immigration and employment: as seen in the past, immigration reacts to the prospects of employment in Israel — the number of immigrants declines when prospects are low. The drop in immigration causes on its part a slowdown of economic activity, which then effects immigration, and so on. There were two new developments in 1976: a decline in net emigration from Israel (apparently there was an increase in the number of returning Israelis who had spent more than a year abroad and had been considered emigrants); also employment difficulties in Western countries may have had an effect. Among the 1976 immigrants, the number arriving from the Soviet Union declined, while immigration from the West increased moderately. The number of university and college graduates among potential and actual immigrants is considerable, and their difficulties in finding suitable employment had already begun in 1973. A followup on educational data relating to the local population, reveals that similar difficulties are developing rapidly in Israel. If we accept the assumption that there is a trend both in the local population³ and among new immigrants towards higher education, a further development of the export branches relying on this labor force can be expected; this process has apparently occurred already in recent years. On the other hand, this may also explain the shortage of unskilled workers suffered by exporters of conventional products and hoteliers, who continue to recruit workers from the administered areas.

3. THE CIVILIAN WORK FORCE

The civilian work force increased by 22 thousand workers in 1976, a lower increase than in the years 1971-73, but in comparison to 1974 there has been an obvious upward trend in the last two years. However, for reasons discussed further on, it is preferable to regard the last three years as one unit in comparison with the previous period (see Table XII-2). The slow annual growth in manpower derived from the drop in immigration and decline in the labor force participation rate.

³The share of the liberal professions, science, technology, etc., in the growth of the Israeli labor force has developed as follows since 1960: between 1960 and 1965 they constituted 19 percent of the total increase; between 1965 and 1970, 41 percent; between 1970 and 1975, 48 percent; and between 1972 and 1975, 74 percent of the total increase of Israeli employed. Division according to education reveals that between 1972 and 1974 the absolute number of employed with up to 10 years of education decreased and the increase of employees with 13 years or more of education was larger than the total increase of employed.

TABLE
SOURCES OF GROWTH OF ISRAEL'S

	1964	1965	1966
Permanent population at beginning of year (in thousands)	2,430	2,526	2,598
2. Total natural increase (in thousands)	48.2	50.0	50.8
3. Rate of natural increase ^{c,g} (per thousand)	19.4	19.5	19.2
4. Rate of natural increase among Jews ^{c,g} (per thousand)	16.1	16.2	16.1
5. Rate of natural increase among non-Jews ^c (per thousand)	45.0	44.6	43.4
6. Immigration ^d (in thousands)	55.0	31.1	16.0
7. Emigration ^c (in thousands)	7.7	8.3	7.8
8. Migration balance (6 - 7) (in thousands)	47.3	22.8	8.2
9. Total growth of population (2 + 8) (in thousands)	95.5	72.8	59.0
10. Permanent population at end of year (1 + 9) (in thousands)	2,526	2,598	2,657
11. Annual increase of (10) (percent)	3.9	2.9	2.3
12. Thereof: Share of natural increase (percent)	50.5	68.7	86.1
13. Thereof: Share of net migration (percent)	49.5	31.3	13.9

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

b Provisional data.

c For 1972 the census population is used.

d Immigrants, potential immigrants, tourists changing their status to immigrants, immigrating citizens (children born to Israeli citizens abroad), persons returning under the family reunion scheme.

XII-4

PERMANENT POPULATION, 1964-1975

1967 ^a	1968	1969	1970	1971	1972	1973	1974	1975	1976 ^b
2,657	2,776	2,841	2,929	3,022	3,120	3,225	3,338	3,422	3,493
47.3	53.3	56.2	59.8	64.6	63.1	63.2	69.2	71.2	73.6
17.6	18.3	19.5	20.1	21.1	20.0	19.3	20.5	20.6	20.8
14.9	15.9	16.3	16.9	17.9	16.6	16.7	17.2	17.6	17.8
38.7	39.0	38.7	39.0	39.3	39.5	39.5	39.5	37.0	37.4
14.5	21.0	38.0	41.1	44.4	57.6	56.5	33.5	20.6	21.1
11.5	9.4	5.8	8.4	10.6	12.6	6.6	19.3	20.2	13.5
3.0	11.6	32.2	32.7	33.8	44.9	50.0	14.3	0.3	7.5
118.8	64.9	88.4	92.5	98.5	104.5 ^f	113.2	83.4	71.6	81.1
2,776	2,841	2,929	3,022	3,120	3,225	3,338	3,442	3,493	3,574
4.5	2.3	3.1	3.2	3.3	3.3	3.5	2.5	2.1	2.4
94.0	82.1	63.5	64.6	65.6	58.4	55.9	82.9	99.4	90.8
6.0	17.9	36.5	35.4	34.4	41.6	44.1	17.1	0.6	9.2

^e Israelis residing abroad for 13 months or more, less Israeli citizens returning from abroad, after an absence of 13 months or more, and migrants via the Jordan River bridges.

^f Including discontinuity due to population census.

^g War dead are not included in the deaths of 1967 and 1973 in calculating the rate of natural increase.

SOURCE: Central Bureau of Statistics.

The decline in the participation rate was not continuous, being concentrated in two periods: the end of 1973 and the beginning of 1974 – corresponding to the war and the prolonged mobilization; and a year later, at the end of 1974 and beginning of 1975, apparently in reaction to the declaration of the new economic policy in November 1974. In those two periods there was apparently an overreaction to particular occurrences, which created pessimistic expectations as to anticipated economic development. As a result, the demand for workers fell considerably, and at the same time the participation rate declined. The drop in the participation rate was not necessarily a direct and immediate reaction to the falling demand for workers and the job opportunities open to potential members of the labor force. At the end of 1973 and beginning of 1974 the cause was mainly the military service of 18-34 year-old males, but the gradual demobilization was not accompanied by a parallel increase in the participation rate, as it gradually became apparent that there was no adequate demand for additional workers.

The sharp decline in the participation rate came after several years of stability. There is a long-term downward trend in this rate, correlated to the rise of the standard of living, which leads to longer periods of study among young people as well as to early retirement of the handicapped and the elderly. This trend is particularly distinct among males, whereas among females it is outweighed by a contrary trend – the growing propensity of young and educated women to join the labor force, most of them in public services.

During the years of prosperity the intensive demand for workers weakened the long-term trend, and the participation rate remained stable even among marginal age groups. In the last three years, when the demand for workers in the business sector ceased to grow, the participation rate declined sharply, first in the marginal age groups and then in other groups as well (excluding males in the central age group of 35-44 and women in the 25-54 age group).

Other factors which contributed to the declining participation rate since 1974 are increases in the size of the regular army and an accelerated growth in the tendency to study, both in the 14-17 age group, and within the framework of advanced education. Although the higher rate of education was influenced more by long-term economic and social factors, the growth in this rate should not be viewed as totally independent of developments in employment opportunities open to young people. In any event, even after discounting the growth in the number of persons drafted and the number of students, there remains a decrease in the participation rate among young people. This development should be seen as a reaction to lower employment prospects.

Thus it is difficult to place the 1976 participation rates within the long-term trend although changes since 1973, related to the decreasing demand for workers as well as to the development of supplementary income payments, are significant.

In comparison to the mid-sixties, a definite change has taken place in the system of supplementary income payments (child allowances, welfare allowances, survivor and invalid allowances, exemptions from obligatory payments, etc.). These supports accel-

TABLE XII-5

TOTAL EMPLOYED IN ISRAEL, ISRAELIS AND WORKERS FROM THE ADMINISTERED AREAS, 1970-1976

Employed	Total branches ^a	Public services ^b	Business sector	Agriculture	Industry	Con- struction	Trade	Trans- portation	Personal services	Financial and business services
	(in thousands)									
1970	984	242	742	90	236	91	126	73	74	50
1973 (9)	1,157	282	874	93	284	131	142	78	77	66
1975	1,178	315	863	80	287	126	139	81	69	74
1976	1,192	325	867	82	287	119	143	80	73	76
1975 IV	1,186	320	866	76	283	127	146	79	74	74
1976 IV	1,185	328	856	79	279	117	143	77	73	81
Change in selected periods	(percent)									
1973 (9) compared to 1970	16.9	15.0	17.5	2.8	19.0	43.5	31.7	7.2	4.6	34.8
1976 compared to 1973 (9)	3.1	15.0	-0.8	-11.6	0.9	-9.2	0.7	1.9	-4.4	15.5
1976 compared to 1975	1.1	2.9	0.5	2.2	0.0	-5.6	2.8	-2.0	5.6	3.3
1976 IV compared to 1975 IV	-0.1	2.6	-1.1	3.1	-1.4	-7.4	-1.5	-2.8	-2.6	9.6

^a The sectorial data do not add up to the given total, due to workers who did not specify their sectorial affiliation, and to rounding of numbers.

^b Including water and electricity.

SOURCE: Central Bureau of Statistics, Labor Department, Israeli manpower surveys and family surveys in the administered areas.

erated, as stated, in 1973 and underwent a steep rise in 1975, so that income from these supports grew rapidly relative to income from economic activity in the last three years (due, to a great extent, to automatic arrangements for full linkage to price rises).

4. EMPLOYMENT

A detailed analysis of the development of the number of employed and their total working hours in the various branches is presented in Tables XII-5 and XII-6. There is a striking contrast between the continuing growth of employment in public services and the standstill and decline in employment and labor input in the business sector.

In the business sector, where productivity is measured, there has been a slowdown in the growth of output per employee in the last three years. Although the number of employees did not rise (a drop of close to one percent over three years), the total business product increased by only 6 percent, which is equal to the long-term annual growth rate in output per employed. This development is reasonable during a period of general economic slowdown and changes in the structure of production, and taking into account the difficulty of dismissing workers (this also happened at the beginning of the previous recession in 1966).

No doubt, the continued avoidance of dismissals and the preference for a smaller average number of working hours per employed are related to the above-mentioned uncertainty as to economic trends. However, in spite of the attempt to adjust the labor input to product development in this way, there was a slowdown in the increase of output per man-hour from a long-term annual average of 6 percent, to 3 percent during the last three years.

The decline in labor inputs in the business sector is most noticeable in the construction branch and those connected with it — part of the industrial and transport branches. The level of employment in agriculture was also 10 percent lower in 1976 than in 1973, but this was attributed mainly to technological progress, since production and export continued to increase. On the other hand, it is impossible to know whether the increase in agricultural employment between 1975 and 1976 derived from the extraordinary flourishing of agricultural exports or from the fact that workers (mainly from Israeli minorities) returned to agriculture after being withdrawn from other branches where activity slowed, such as construction.

In industry, commerce, transport and personal services, contradictory forces acted in 1976: on the one hand, a decrease in domestic demands — construction turnover, a decrease in Ministry of Defense acquisitions, and in private acquisition, mainly durables and furniture, as result of the income restraint policy and the slump in immigration; and

DOMESTIC LABOR INPUT INDEX, INCLUDING WORKERS FROM THE ADMINISTERED AREAS, 1970-1976

(million weekly working-hours, Sept. 1973 = 100)

	Total branches	Public services	Business sector	Agriculture	Industry	Con- struction	Trade	Trans- portation	Personal services	Financial and business services
Annual averages										
1970	86.7	89.7	95.9	98.1	85.2	71.2	88.8	92.5	97.4	76.3
1973 (9)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1975	99.1	110.1	95.9	87.6	97.8	92.9	94.2	99.1	88.8	110.0
1976	99.8	112.8	96.1	90.6	97.5	87.3	95.0	96.4	93.3	113.4
Quarterly average										
1975 I	98.6	113.1	94.5	89.5	96.9	88.6	92.6	101.5	79.0	112.3
II	100.1	114.1	96.1	87.0	101.1	89.7	92.6	99.7	87.6	108.0
III	96.2	96.7	96.0	91.7	94.6	98.9	92.9	91.9	92.1	109.6
IV	101.3	116.4	97.0	82.0	98.6	94.2	98.8	97.3	97.0	110.7
1976 I	101.5	116.6	97.0	89.2	96.6	90.5	98.2	100.0	90.3	109.2
II	99.3	114.5	94.9	91.2	98.3	81.7	91.7	97.0	95.1	111.5
III	98.4	102.9	97.2	96.1	97.1	92.1	93.6	95.2	98.1	111.9
IV	100.0	117.1	95.1	86.5	96.1	84.9	96.5	94.0	81.9	121.5
Change										
						(percent)				
1976 compared to 1975	0.7	2.5	0.2	-3.4	-0.3	-6.0	0.8	-2.7	5.1	3.1
1976 IV compared to 1975 IV	-1.3	0.6	-2.0	5.5	-2.5	-9.9	-1.7	-3.4	-7.3	9.8

^a Including water and electricity.

SOURCE: Central Bureau of Statistics, Labor Department, manpower surveys and family surveys in the administered areas, Bank of Israel computations.

countervailing an intensified demand for labor in the branches affected by the flourishing of exports and tourism. However, the declining trend in domestic demands seems to be continuing, with a few short seasonal and special fluctuation, while the growth in exports may have weakened slightly towards the end of 1976. In any event, the growth of exports was not strong enough to offset the decline in domestic demands completely, and the result was a downward trend in employment, which is especially striking when comparing the end of 1976 to the end of 1975. A decline in employment was also reached in the sub-branches of industry, which have shown rapid growth in production and exports in recent years in products such as metal, electrical and electronic equipment and machines.⁴

TABLE XII-7
AVERAGE WEEKLY WORKING HOURS PER ISRAELI EMPLOYED
(INCLUDING ABSENTEES), 1973-1976
(first half of each year^a)

	1973	1975	1976
Total employed	40.1	39.0	38.6
Industry	41.8	40.8	40.3
Construction	41.7	40.1	39.6
Trade and Entertainment	42.3	41.1	40.1
Public services	37.1	36.1	36.0
Males	42.8	41.6	41.4
Industry	42.9	41.5	41.2
Construction	41.9	40.3	39.7
Trade and Entertainment	45.7	44.5	43.4
Transportation	45.0	42.2	42.1
Public services	40.6	40.7	40.9
Females	34.3	33.6	32.9
Industry	38.8	38.1	37.0
Trade and Entertainment	35.5	34.5	33.3
Public services	33.1	31.9	31.6

^a In order to cancel the effect of the Yom Kippur War in the data.

SOURCE: Central Bureau of Statistics, Labor Department, manpower surveys.

⁴ In job advertisements (computations of the "Manpower" company) the decline in demand, which worsened during 1976, affected all kinds of workers, including technicians, metal workers, production and maintenance workers.

The increase in employment in public and financial services continued in 1976. These are the only branches in which employment was distinctly high this year (by 10 percent or more) in comparison to 1973. Yet in 1976 there was apparently a slowdown in the rate of growth, which is perhaps an expression of the restraint policy declared some time ago, whose effect is only now beginning to be felt.

In public services, the administrative services of the government and of local authorities increased in 1976, as did education and health services, which expand each year and recruit mainly women. Nevertheless, it should be emphasized that the expansion of government administrative services meant mainly an increase in the number of policemen, which apparently indicates a growing supply of job-seekers and not an increase in the demand itself. It is doubtful whether the same applies to the extension of the administrative services of local authorities.

5. EMPLOYMENT STRUCTURE

In view of the large deficit in the balance of payments, the question of changing the structure of employment has been brought up repeatedly in recent years, especially in regard to the desired transfer of workers from the services – especially the public ones – to industrial production for export.

To begin with, there were no signs of an actual change in this direction: employment in industry has not increased in recent years, whereas in the financial and public services the long-term growth trends continued. Nevertheless, it is not possible with the data at our disposal to claim that worker absorption in the services prevented the growth of employment in export production. On the contrary, it appears that industry did not fully utilize the labor reservoir at its disposal: it did not recruit workers withdrawn from the construction sector, who were more suitable to industrial production than workers from public services. The increase in exports in 1976 did not fully offset the decline in domestic demand for industrial products, and what characterized most industrial branches in 1976 was the stability and decline in the number of workers and in labor inputs. Moreover, the composition of incremental employment in the public services reveals that the main growth is in employment of educated women (education, health) in professions that are not especially needed in Israeli industry. Among the men recruited in 1976 by the public services, the number of policemen is outstanding. In the past, this indicated a slackening in the demand of the private sector (which caused men to fill positions in the police force that had been vacant for some time), and not intensified government demand. It should be added that with all the reservations against using gross wage data, these data indicate a decline in the relative wages of the public services in recent years.⁵ Under these circumstances it is not surprising to find that the slowdown in the

TABLE XII-8
EMPLOYMENT SERVICE DATA

	Job seekers			Daily average of unemployed			Job openings	Unfilled job openings	Unplaced job seekers
	Total	Males	Females	Total	Males	Females			
Annual data									
1974	16,875	8,824	8,051	844	463	381	26,107	7,227	3,128
1975	17,186	9,056	8,130	1,000	551	449	25,083	7,554	3,809
1976 ^a	19,649	10,972	8,677	1,444	882	562	24,651	6,569	4,784
1976 compared to 1975 (%)	14.3	21.2	6.7	44.4	60.1	25.2	-1.7	-13.0	25.6
1976 compared to 1974 (%)	16.4	24.3	7.8	71.1	90.5	47.5	-5.6	-9.7	52.9
Quarterly data ^b									
1975 I	14,421	8,227	6,194	794	470	325	23,275	7,925	3,029
II ^a	18,028	9,395	8,634	1,000	563	437	25,976	7,419	3,829
III	18,252	9,231	9,021	1,062	564	499	24,142	6,442	4,354
IV	17,427	9,297	8,130	1,151	641	510	27,138	8,627	3,853
1976 I	16,870	9,686	7,184	1,159	720	439	24,872	8,061	3,945
II ^a	19,411	11,008	8,403	1,387	869	519	24,920	6,879	4,402
III	21,640	11,627	10,014	1,633	957	676	23,345	5,314	5,635
IV ^a	21,070	11,883	9,187	1,647	1,062	622	26,008	5,903	5,136
1977 I	18,172	11,021	7,818	1,512	1,032	479	22,559	5,581	4,611

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

^b Due to seasonal fluctuations, it is desirable to compare each quarter to the same quarter of the previous year.

growth of public services in 1976 was expressed mainly by the increase in unemployment among university graduates, and not a stream of applicants to industry. However, this development does not contradict the necessity of restraining worker recruitment in public services because of long-term considerations. In this way it will be possible to create a labor reservoir without assured employment in the public services. It is reasonable to believe that this reservoir will then turn to seek employment in the export markets (and perhaps direct its professional training accordingly).

To summarize, the standstill in industrial employment did not result from supply constraints but from the fact that demand for labor did not increase. This fact is shown in the increase in overt unemployment, the decline in the rate of participation in the labor force, the decline in average working hours per employed in industry, and the composition of manpower recruited by the public sector. In certain industrial sub-branches in recent years, there have been large fluctuations in expansion and contraction, apparently connected with fluctuations in domestic and world demands for the products of those branches. When worker demand developed in certain branches, workers were easily recruited, so the standstill in employment in industry as a whole can be attributed to the lack of increase of total industrial demand for workers. The claims of exporters, that the shortage of workers prevents them from further expanding production and exports generally refers to unskilled workers earning low wages, and often to work on extra shifts. This is also indicated by labor exchange reports about the difficulties of placing workers who were laid off, due to lower wages offered with the prospective jobs, and the continued, slight growth in the number of workers from the administered areas in Israeli industry (though general employment of workers from the areas declined). These are generally employed as unskilled workers and earn low wages. A similar picture is seen in the data pertaining to the development of Israeli exports in recent years: a distinct standstill in industrial exports competing in foreign markets with exports from less developed countries, where labor costs are much lower than in Israel. The growth in Israeli exports recent years was concentrated in products for which Israel has a certain uniqueness in know-how, goodwill and commercial relations. These increase not only the employment of experts and professionals, but also the employment of unskilled workers, as in these products the wages of unskilled Israeli labor are competitive with wages in developed countries.

In order to create a significant increase in employment for exports within the existing production and export pattern, real wages must be reduced considerably. Various

⁵As to the effect that the growth of employment in the public services had on domestic demands, it is interesting to note that total real wage payments (discounted by the Consumer Price Index) of the public services (a datum relatively more reliable than the data of the wage per job) declined by 3 percent between 1973 and 1976 in spite of an increase of 15 percent in the number of employees.

studies indicate that the increase in unemployment assists in restraining wage increases. But it is not clear whether the balance of payments situation justifies such a drastic policy, and it is doubtful whether unemployment can be prolonged in order to obtain such an effect.

The expected supplements to the Israeli labor force from both the domestic population and immigration tend to be education-intense.⁶ The uneducated are becoming fewer in absolute terms, and they require less income from labor since its real value is declining relative to the support system. Under the existing production pattern, no rapid growth in employment for exports can be expected in the long term. Since the projected manpower supply is an external datum, the solution must be found in the encouragement and promotion of education-intense export branches. In the short term it may be more efficient to improve the utilization of manpower already employed in industry: (a) solving the problem of worker mobility (transfer of benefits, temporary covering of wage loss, professional training); (b) accelerating the exposure of protected and inefficient domestic production to competition; (c) changing the trend of real growth in support, which competes mainly with income from unskilled labor; (d) lifting the heavy taxation on labor (National Insurance and payroll tax are regressive at a rate of 20 percent on wages and over).

6. UNEMPLOYMENT

At the peak of the economic boom at the beginning of 1973, the rate of unemployment reached 2.5 percent. In the second half of 1973, unemployment rose to 3 percent and remained at this level for over two years. Only in the second half of 1976 was there a significant increase to 4 percent. Even this level seems low, taking into account the standstill in the growth of the product since 1974, relative to other countries, and to the 1967 recession when unemployment reached more than 10 percent. However, a comparison to 1967 is premature, and comparisons with other countries should be made carefully in view of the differences in unemployment registration systems and unemployment insurance arrangements.

There is an apparent contradiction between the data on the low rate of unemployment and the data on nongrowth of the product and the 15-20 percent accumulation of unutilized production capacity, but this is only apparent. In the past, unemployment data served as the main indicator of the employment situation, due to the lack of direct data on the development of employment. Today there are complete direct data and these indicate a decrease in the total labor input in the business sector; these data correlate

⁶ Except for the possibility of changing specific specialization, the general tendency for higher education is a given fact and a desired one.

with the low growth in the business product. Whereas the low rate of unemployment apparently serves as a trustworthy indicator of the lack of socioeconomic distress (because it measures job shortages for those who must work for a living), it does not correctly represent the development of employment itself.

The adjustment mechanisms which enabled the labor input not to increase, in spite of the growing working-age population, are partly unique to Israel: the scope of immigration and emigration, which adjusts itself to the rate of economic development, and the volume and flow direction of workers from the administered areas within Israel. The tables in this chapter indicate the slowdown in immigration, the cessation of the flow of workers from the areas to Israel, and more recently their withdrawal from the Israeli labor market. Another important adjustment mechanism was the sharp decline in the tendency to participate in the labor force, especially among young people. This decline was assisted by the vast increase in transfer payments, which made it less necessary and worthwhile for teenagers and young people to seek employment, and by the existence of alternative occupations – mainly further studies and military service. Another factor was the decreasing intensity of employment, from full-time to part-time, or in other words, a drop in the average number of work-hours per employee.

In contrast to other countries, there was no rapid and clear decline in the level of economic activity, which entails massive layoffs; economic activity has so far been stagnant, its growth having ceased, but there has been no drastic decrease in output. Employers have therefore been deterred from firing workers, and have preferred to cut down the number of work-hours. Only in the second half of 1976, after the intensified activity prior to the implementation of the Value Added Tax gave way to lower demands for private consumption, and export growth leveled off, conditions became ripe for firing workers.

7. EMPLOYMENT OF WORKERS FROM THE ADMINISTERED AREAS IN ISRAEL

Workers from the administered areas, who entered the Israeli labor force to a considerable extent until 1974, started to leave it in the last two years. Their withdrawal was made easier by the flourishing in the Arab economies and in the areas themselves (including building for themselves from savings accumulated during their work in Israel). In spite of these influences outside Israel, the decisive factor for their employment or withdrawal was the Israeli demand for these workers. There were different developments according to branch: 6000 workers from the administered areas withdrew from the construction branch in 1976, in contrast to the industrial and service sectors, where the number of employees from the areas increased in 1976, apparently due to the increase in exports and tourism. These workers, who earn lower wages than Israelis (their relative and absolute real wages decreased in 1976), have gained a nearly absolute hold on unskilled labor

TABLE XII-9
ANNUAL CHANGE IN WAGE PER JOB,^a 1973-1976
(percent)

	All sectors	Business sector ^b	Public services	Electricity and water	Financial and business services	Industry	Construction	Transportation, storage and communication	Trade and Entertainment	Personal services	Agri- culture
Nominal wages											
1973	27.3	25.7	29.8	29.7	26.7	24.4	22.5	28.6	21.1	27.6	29.5
1974	36.3	38.1	34.0	23.1	35.5	38.0	36.9	35.0	38.0	38.2	43.6
1975	36.6	40.9	27.9	50.3	37.7	44.0	39.7	35.5	38.1	38.1	50.0
1976	32.9	37.7	25.5	17.7	35.2	39.3	40.5	30.4	37.1	41.6	32.5
Real wages ^c											
1973	6.1	4.8	8.2	8.1	5.6	3.7	2.1	7.2	0.9	6.3	7.9
1974	-2.4	-1.2	-4.1	-11.9	-3.0	-1.2	-2.0	-3.4	-1.2	-1.1	2.8
1975	-1.9	1.2	-8.2	7.9	-1.1	3.4	0.3	-2.7	-0.9	-0.9	7.7
1976	1.2	4.8	-4.4	-10.4	3.0	6.1	7.0	-0.7	4.4	7.8	0.9
1976 com- pared to 1973	-3.1	4.8	-15.8	-14.9	-1.2	8.4	5.2	-9.4	2.2	5.7	11.7

^a Including workers from the administered areas in Israel.

^b All sectors excluding public services, electricity and water.

^c Discounted by the change in the consumer price index.

SOURCE: Central Bureau of Statistics, Labor Department, and data of the National Insurance Institute.

in construction, agriculture and services (including hotels, which benefited this year from an increase in tourism). The slowdown in the Israeli economy has not yet affected their employment beyond what is commensurate with their sectorial concentration, since competition by Israelis is decreasing. This results from the increasing education intensity of Israeli manpower and the support to Israeli families, which make competition less worthwhile in unskilled labor. A difference emerged between the residents of Judea and Samaria and those of the Gaza Strip and Northern Sinai working in Israel: it is easier for the former to find jobs in the Arab countries, and their total employment in Israel declined in the last two years; their vacancies were filled by workers from the Gaza Strip, whose employment in all branches increased in 1976.

8. WAGES

Table XII-9 presents the changes in wage per job in recent years (there are no other data available). Despite many reservations, it seems that the volume of the annual wage increases shown in the table does reflect the actual developments, including the decline in real wages in 1974 and the general tendency to increase real wages in 1976. The aggregate rise in real wages per job in the business sector from 1973 to 1975 was 5 percent.

These data have a few disadvantages: the composition of workers (from the point of age, sex, education and norms) and their employment intensity (full-time or part-time) differ from branch to branch, and from one period to another. This fact makes it difficult to use the given data for comparison. This data deficiency has apparently worsened in recent years, in view of the employment structure changes that accompanied the cease in business activity growth. This year a special problem was added: following the income tax reform, there is a tendency to draw profits by way of wage payments. This development artificially increases the share of wages in the business product.

To demonstrate how problematical the data are, we shall refer in brief to the data pertaining to changes in wage per job in the public services. As seen in Table XII-9, the wage per job in this branch declined by 16 percent in real terms in the last three years. But at the same time the number of jobs increased by 16.6 percent and the number of average work-hours per job decreased by 4 percent. If we assume that wages of new workers are 50 percent lower than the average wages in the branch, then the addition of jobs between 1973 and 1976 *per se* decreased average wages per job by 7 percent. The reduction in the number of average work-hours per job between 1973 and 1976 explains a further decline of 4 percent in average wages per job. Consequently, the decline in real wages per job corrected only for these two phenomena comes to about minus 5 percent compared to the original minus 16 percent.

A similar development may explain the decrease in real wages in the financial and business services; and the same applies in the opposite direction in the construction sectors, where there was an increase in real wages, even though the employment situation severely worsened. There, the firing of workers from the administered areas and other workers earning low wages increased the rate of change in the average wage per job.

Regarding wage increases in 1976, the workers' power to prevent the decrease of real wages was striking, despite a certain delay. The organized system of the workers in their trade unions and places of work enabled various groups to disregard economic considerations, such as relative supply and demand for their work. The cost-of-living allowance should be regarded as one of the factors in this system. It seems that this arrangement and other general nationwide arrangements did not effectively curb the workers' demands. At first glance it seems that these general arrangements should have been adequate to maintain real wages without destroying the framework. From the reform in the cost-of-living allowance in July 1975 through the end of 1976, the Consumer Price Index rose by 51 percent; while the cost-of-living allowance amounted to 40 percent, resulting in a decrease of 9 percent in real wages. An increase of 6 percent in the basic wage and a wage drift of another 3 percent should have been enough to offset this. But, not all workers benefited from those arrangements: in the public sector, an increase of only 2.5 percent was agreed upon. Moreover, in view of the unexpectedly high rate of inflation, there was apparently a feeling of erosion in real wages, and this led to the breaking of agreements. One of the possible conclusions is that if a slow decline in real wages is intended, high rate price increases must be avoided.

The moderate increase in real wages as reflected in Table XII-9 does not correctly express the development in the employer's labor costs. From this point of view one has to add the payroll tax imposed in 1975, the increase in the employer's payments to National Insurance, and the lower producer price increases compared with the increase in the Consumer Price Index — the result of lifting subsidies and increasing indirect taxes. The producer's real labor costs increased at a much higher rate than those appearing in the wage data, and this augmented the downward trend in the demand for labor.