

## CHAPTER XIII

### WAGES AND EMPLOYMENT

#### 1. MAIN DEVELOPMENTS

Signs of recovery in the employment market became noticeable in 1977, although in some segments of the economy the slackness characterizing recent years was still prevalent. The trend of recovery was expressed by the increase of participation rates in the civilian labor force (for the first time since the considerable decline in 1974), in the relatively rapid growth in the number of employed in the business sector (excluding construction and related branches),<sup>1</sup> and by an only slight rise in the unemployment of males, despite the substantial decrease of the GNP and of the number of employed in the construction branch. Most of the increase in the number of business sector employed apparently stems from the growth of production for export and from tourism, while in production for the domestic market, the slowdown continued. In the course of the year, the trend of recovery in employment apparently continued. The total civilian labor force grew by about 38 thousand this year, as against 22 thousand in 1976 (and by 7 and 17 thousand in the years 1974 and 1975 respectively).

In some of the segments of the economy the slackness continued this year, as mentioned above. Employment connected with the domestic market decreased, especially in the construction branch; the number of workers from the administered areas decreased – reflecting their relative concentration in the construction branch; the average number of man-hour per employed decreased (thus, labor input increased at a slower rate than the number of employed), there was apparently a decrease in product per employed in these segments, and latent unemployment increased.

The decrease in the number of employed in the construction branch, which took place mainly in the last two years, was consistent with the economic policy, which was partly aimed at reducing the activities of the nontradeables segment of the economy. However, the decrease was lower than expected, judging from the decline of the product in the branch. It seems that this contributed to the prevention of more widespread overt unemployment.

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<sup>1</sup> Wood and wood products, nonmetallic minerals and trucks.

TABLE XIII-1

**DEVELOPMENT OF POPULATION, EMPLOYMENT, AND WAGES,  
PRINCIPAL DATA, 1972-1977**  
(percent)

	Annual increase or (-) decrease					
	1972	1973	1974	1975	1976	1977
Average population	3.3	3.3	3.0	2.3	2.3	2.2
Population to age 14	3.0	2.8	3.0	3.4	3.0	2.6
Working-age population	3.4	3.6	2.9	2.0	1.9	2.1
Civilian labor force	4.2	3.9	0.6	1.5	1.9	3.2
Israeli workers	5.0	3.9	0.3	1.5	1.3	2.9
Total man-hours of Israelis	6.3	1.9	-1.9	0.7	0.9	0.5
Workers from the administered areas	55.0	17.0	12.1	-3.5	-2.3	-2.9
Domestic workers	6.6	4.6	0.8	1.2	1.1	2.6
Total man-hours of domestic workers	7.7	-2.5	1.7	1.3	0.7	0.5
Wages per domestic wage-earner position	13.7	27.4	36.3	39.0	32.9	47.4
Consumer Price Index	12.9	20.0	39.7	39.3	31.3	34.6

SOURCE: Central Bureau of Statistics.

The domestic product of the business sector, as measured from uses, decreased by about 0.6 percent in 1977. A measurement from the economic branches reveals a growth of 2.8 percent. The growth rate of the business sector, excluding construction and related branches, was considerably higher (5.3 percent) when the measurement is based on economic branches. A similar difference between the two measurements was found in 1976. The gap in product growth between the two methods of measurement constitutes a difficult problem for any attempt to explain the development of real wages according to the growth of the product per man-hour (hereafter – “productivity”).

In public services, the increase in the number of employees continued at a pace greater than the rate of population growth. This was in contradiction to the declared policy of the government concerning a freeze on employment in the services. Of the total increase in public services employees, about three-quarters are women, with a smaller average number of hours of work, thus, the labor input of employees in the public services rose less than the growth of their numbers. This employment contributed domestic demand,

and perhaps even prevented higher unemployment, which might have slowed the growth of real wages and assisted exports. At the same time, there is no clearcut evidence that the increase in the number of employees in public services directly prevented an addition of suitable manpower to the business sector and the exports, since this increase took place at a time of economic recession.

Wages per employee position in the business sector increased in the last two years (which constituted a single unit from the point of view of wage agreements) more than the rise in the Consumer Price Index, despite the fact that the cost-of-living allowance ensured only partial compensation for price increases. In 1976, wages per employee-position increased by about 37 percent, and in 1977, by about 44 percent (in nominal terms).

The increase of real labor expenditures (in terms of product prices) per man-hour<sup>2</sup> in the business sector in these two years is about 12 percent higher than the rate of growth per man-hour in the product.<sup>3</sup> It seems though that this rise of real wages is deflected upwards for several reasons: more profits were withdrawn in the shape of managerial salaries following the income tax reform (according to a gross computational estimate based on income tax collections, it appears that this phenomenon explains about half the difference between the increase in the product and in wages for these two years), the number of possible work days in 1977 was about 2 percent smaller than in 1976. While part of the wages — that paid on a monthly basis — is not related to the actual number of man-hours; the rest of the difference apparently stems from the downward rigidity of nominal wages in branches and in factories where slackness continues.<sup>4</sup> Wages were also

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<sup>2</sup> Calculated according to the increase of total wages from National Insurance Sources, adjusted to the growth of employer expenditures discounted by the product price index and divided by labor input.

<sup>3</sup> The product is calculated from the economic branches in production factor prices.

<sup>4</sup> Support for this assertion can be found in the fact that nominal wages in the business sector increased in 1977 by 6-7 percent more than should follow from wage agreements and from the effect of the wage increase at the end of 1976 on average growth in 1977. An additional examination of the relation between real wages and productivity was carried out by the following calculation (data on wages, days worked, and the product — according to industrial indexes): the change in the nominal wage per work-day in industry was discounted by the price changes of industrial output by branch and by the change of productivity (defined as the change in product per work-day). Wages in industry, according to this calculation increased in the last two years by an average of about 4 percent. In most of the branches there were insignificant increases, and the growth was concentrated mainly in industrial branches related to construction. Since it is reasonable to assume that export prices increased at a quicker pace than industrial prices for domestic destinations, it follows that the relative increase of wages was even smaller here.

TABLE XIII-2  
**CHANGE IN COMPONENTS OF INCREASE IN LABOR FORCE AND ABSORPTION BY SECTORS, 1971-1977**  
 (in thousands)

	Annual increase or (-) decrease						
	1971	1972	1973	1974	1975	1976	1977
<b>A. Components of increase in labor force</b>							
	Total population - Israelis						
Total	31.4	43.7	41.4	6.9	16.7	21.7	37.5
From population growth <sup>a</sup>	31.1	34.5	38.1	33.6	24.1	21.5	23.9
Composition of ages <sup>b</sup>	1.2	2.5	0.5	-0.9	-4.3	1.3	1.6
Adjusted participation rates <sup>c</sup>	-0.9	6.6	2.8	-25.8	-3.1	-1.1	12.0
	Men						
Total	16.6	21.4	23.0	-2.8	4.8	10.0	18.7
From population growth	20.8	23.8	25.7	22.1	16.0	14.0	15.5
Composition of ages	1.3	2.1	1.0	-0.4	-1.3	0.8	1.5
Adjusted participation rates	-5.5	-4.5	-3.7	-24.5	-9.9	-4.8	1.7
	Women						
Total	14.8	22.3	18.4	9.7	11.9	11.7	18.8
From population growth	10.3	10.7	12.4	11.5	8.1	7.5	8.4
Composition of ages	-0.1	0.4	-0.5	-0.5	-3.0	0.5	0.1
Adjusted participation rates	4.6	11.1	6.5	-1.3	6.8	3.7	10.3

<b>B. Growth in number of workers from administered areas in Israel<sup>d</sup></b>							
Total	13.2	18.6	12.7	7.1	-5.9	-1.5	-1.9
<b>C. Absorption by domestic sectors</b>							
Total	44.7	62.0	54.2	14.0	10.9	20.1	35.4
Business sector <sup>e</sup>	34.9	58.1	41.6	-4.6	-5.9	5.5	19.5
Excluding construction and related branches	19.4	44.1	31.8	-1.4	-7.0	12.5	26.3
Public services – wage-earners	12.3	10.5	12.2	14.0	15.5	7.9	11.1
Israeli unemployed	-2.5	-6.6	0.4	4.6	0.8	7.5	4.8
<b>Men</b>							
Total	29.8	39.8	35.8	4.3	-1.2	8.6	16.8
Business sector	26.7	42.9	32.6	2.0	-4.5	-1.5	12.3
Of which: Construction	(13.5)	(19.4)	(4.1)	(-2.6)	(-1.4)	(-7.7)	(-5.4)
Excluding construction and related branches	12.4	28.9	23.4	3.2	-2.8	8.5	21.1
Public services – wage-earners	4.4	2.2	2.2	2.4	2.7	4.9	2.4
Israeli unemployed	-1.3	-5.3	1.0	-0.1	0.6	5.2	2.2
<b>Women</b>							
Total	14.9	22.2	18.4	9.7	12.1	11.5	18.6
Business sector	8.2	15.2	9.0	-6.6	-1.4	7.0	7.2
Public services – wage-earners	7.9	8.3	10.0	11.8	12.8	3.0	8.5
Israeli unemployed	-1.2	-1.3	-0.6	4.5	0.7	1.7	2.8

a Discounted by general participation rates of previous year.

b Discounted by adjusted participation rates of previous year.

c The difference in the adjusted participation rates is multiplied by the current year's population.

d Due to the effect of the war: in 1973 – excluding last quarter, in 1974 – excluding first quarter.

e Including self employed in public services.

SOURCE: Central Bureau of Statistics and Bank of Israel computations.

influenced to a certain degree by the reopening of wage agreements in public services, following which a special bonus of 4.75 percent was paid in the business sector in June 1977. Real average wages per employee-position in public services, including retroactive payments, increased in the last two years by about 9.7 percent. This is considerably higher than the increase required by the original wage policy and cost-of-living allowance. This was achieved after the 1976-1977 bi-annual wage agreements broke down and were reopened before the elections, leading to considerable wage rises applying retroactively to 1976. According to an estimate in which only retroactive payments stemming from education allowances were deducted, real wages per employee-position rose since 1975 by about 7 percent, after declining by 12 percent in the years 1974 and 1975. This increase also reduced the wage-gap between the public sector and the business sector, which had been widening for a number of years. The reopening of wage agreements in the public services, resulting in additional payments deviating from the original policy, and applied retroactively to 1976, also had - as previously mentioned - an effect on the business sector, where a special bonus of 4.75 percent was given, from June 1977, over and above the bi-annual wage agreement.

The civilian labor force in Israel grew by about 38 thousand in 1977. The growth of the population (which continued to be slow compared to the years 1969-1973) and the change of its age structure contributed about two-thirds of this increase, while the change in specific participation rates contributed the balance (about 12 thousand individuals). This contribution of the specific participation rates stands out in contrast to their negative contribution in previous years. The growth of the participation rate is related to the increase of real wages as well as the better chance of finding employment than in the past - mainly due to the increase of exports and the continued growth in public services. More than half of those joining the Israeli labor force in 1977 were absorbed by the business sector, about one-third in public services, and the balance (about one seventh) joined the ranks of the unemployed.

There was a considerable change in the age structure of the population in recent years. Age structure has a great importance in the determination of manpower supply and demand, in particular in the absence of immigration. The 20-29 age group, contributing most of the addition to manpower and to demand for housing and durables, increased between 1970 and 1973, a period of great immigration and economic acceleration, by 105 thousand workers, while in the period between 1973 and 1976, the growth was only about half that. Marginal age groups of the population, 0-14 and 65+, increased in both periods to the same extent, by about 130 thousand. The weight in the population of those aged 0-14 remained constant, and that of the 65+ age group increased. This increase contributes to the continued growth of public services even in a period of economic slackness and standstill in the business sector.

## 2. THE POPULATION AND PARTICIPATION IN THE LABOR FORCE

The population grew in 1977 at a rate of 2.2 percent. This is the fourth consecutive year in which a low population growth was recorded relative to the years 1967-1973. This low growth rate reflects a low net immigration<sup>5</sup>, and in 1977 also a significant decline in natural increase both in the Jewish and the non-Jewish population. Nevertheless, the civilian labor force increased by 3.2 percent, because there was a considerable rise in the participation rates of marginal age groups. This phenomenon stands against a backdrop of the long-range decline in participation rates of these age groups: in 1974 and 1975 the changes in participation rates and in age composition made a negative contribution, and in 1976 the contribution was nil.

The rise in participation rates and in the number of employed points to a certain economic recovery; this process apparently began as early as 1976. Experience shows that in the absence of demand, marginal age groups postpone joining the employment market and tend to leave it earlier, while the opposite happens when demand increases.

The age structure of the population is important both in the determination of the supply of manpower and in relation to various demands. Educational and health services, transfer payments, etc. are concentrated mainly in marginal age groups, while the main contributors of manpower are the intermediate groups. An analysis of the changes that occurred in the composition of age groups in the population in the last decade contributes to the explanation of changes that have taken place in the supply of labor during this period, and it may cast light from another angle on periodic changes in the growth rate that took place. A comprehensive analysis exceeds the scope of this survey; we will therefore be content with a number of remarks:

The 20-29 age group, which supplies most of the growth of manpower, grew between 1970 and 1973 by 105 thousand; in contrast, growth between 1973 and 1976 amounted to only half that number. This age group is also the main supplier of demand for housing, durables, etc. This deceleration of the growth rate contributed to a slowdown of economic activity, though the relative weight of this age group in the total population still rose slightly. The long range downward trend in labor force participation of the young age group, 14-17, which is related to the increase of learning rates, also contributes to the reduction of the supply of the labor force. It therefore seems that no additional demand and no great increase in manpower from internal resources is to be expected in the future, as had been the case in the past.

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<sup>5</sup> *Immigration after deduction of emigration from the country.*

TABLE

## ISRAELI LABOR FORCE,

	Annual			
	1972 <sup>a</sup>	1973	1974	1975
Average population				(in
1. Working-age population	2,193	2,272	2,339	2,386
2. Civilian labor force	1,082	1,124	1,131	1,148
3. Rate of participation (percent)	(49.4)	(49.5)	(48.3)	(48.1)
4. Total employed	1,053	1,094	1,097	1,113
5. Unemployed	29	30	34	35
6. Rate of unemployment (percent)	(2.7)	(2.6)	(3.0)	(3.1)
Men				
1. Working-age population	1,089	1,127	1,159	1,182
2. Civilian labor force	742	765	762	767
3. Rate of participation (percent)	(68.1)	(67.9)	(65.8)	(64.9)
4. Total employed	725	747	744	744
5. Unemployed	17	18	18	19
6. Rate of unemployment (percent)	(2.3)	(2.4)	(2.4)	(2.5)
Women				
1. Working-age population	1,104	1,145	1,180	1,204
2. Civilian labor force	340	359	369	381
3. Rate of participation (percent)	(30.8)	(31.4)	(31.3)	(31.6)
4. Total employed	328	348	353	364
5. Unemployed	12	12	16	17
6. Rate of unemployment (percent)	(3.6)	(3.2)	(4.3)	(4.4)
Workers from administered areas <sup>b</sup>	52.4	65.1	72.2	66.3

<sup>a</sup> Linked data.

<sup>b</sup> Due to the effect of the war: 1973 – excluding last quarter; 1974 – excluding first quarter.

## SELECTED DATA, 1972-1977

average		Annual average 1973 compared to 1970	Annual change				
1976	1977		1973	1974	1975	1976	1977
thousands)		(percent)	(percent)				
2,432	2,482	3.4	3.6	2.9	2.0	1.9	2.1
1,169	1,207	3.7	3.9	0.6	1.5	1.8	3.3
(48.1)	(48.6)						
1,127	1,159	4.1	3.9	0.3	1.5	1.3	2.9
43	47						
(3.6)	(3.9)						
1,204	1,227	3.3	3.5	2.8	2.0	1.9	1.9
777	796	2.8	3.1	-0.4	0.7	1.3	2.4
(64.6)	(64.9)						
753	770	3.2	3.0	-0.4	0.5	0.7	2.3
24	26						
(3.1)	(3.3)						
1,228	1,256	3.6	3.7	3.1	2.0	2.0	2.3
392	411	5.8	5.5	2.8	3.3	2.9	4.8
(31.9)	(32.7)						
374	390	6.5	5.9	1.4	3.1	2.7	4.3
18	21						
(4.7)	(5.1)						
64.8	62.9	6.2	24.2	10.9	-8.2	-2.3	-2.9

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

Marginal age groups of the population, 0-14 and 65+, increased considerably during the period of slowdown in economic activity (1973–1977), by about 130 thousand persons, similar to the increase in the period of growth 1970–1973. The weight of the 0-14 age group in the population remained constant, while the weight of the higher age groups increased considerably. This contributes to the explanation of the continued growth of public services and of public expenditure on transfer payments, allowances, etc., despite the economic slowdown, and despite the decrease – or slow increase – in the number of employed in the business sector. Freezing of the number of employees in public services, or its reduction, necessitates a policy of reducing per capita services or extensive efficiency activities. Gross immigration increased in 1977 by about 8.5 percent and amounted to 22.2 thousand immigrants. This number is considerably lower than the number of immigrants in the years 1969–1974. The growth of immigration in 1977 was accompanied by an increase in the extent of emigration from the country, after it had diminished in the previous year. Net immigration contributed only slightly to the population growth and to economic activity. The slackness of economic activity in recent years brought about a reduction of immigration, particularly immigrants coming from prosperous countries, which in turn had the effect of reducing economic activity. Immigration from South America and the Soviet Union, which are countries of distress, so that immigration from them is related to a smaller extent to the economic situation, contributed the entire increase; after deduction of immigration from South Africa, immigration from the prosperous countries decreased by about 9 percent.

The weight of the working-age group within the immigrants is higher than within the local population; in addition, the weight of the scientific, academic and technical professions among the immigrants is relatively high<sup>6</sup>. The professional composition of the increase in employment in the Israeli economy between 1972 and 1975 is similar to that of the immigrants. The demand for these professions is therefore a condition for immigration, while employment difficulties cause a slowdown of immigration and a rise of the drop-out rate.

### 3. THE CIVILIAN LABOR FORCE

The civilian labor force grew in 1977 by 38 thousand, or about 3.2 percent; of this, males contributed about half. This substantial increase followed a standstill in 1974 and a low rate of increase in 1975/76, and it approaches the average for the period 1970–1973,

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<sup>6</sup> The scientific, academic, free, and technical professions among actual and potential professional immigrants.

although the population increased at a lower rate in 1977. About one-third of the growth of the labor force in 1977 has its roots in the growth of specific participation rates. The contribution of this source was negative in recent years; this development is apparently related to the Yom Kippur War and the measures of economic restraint adopted in its aftermath. As far back as the second half of 1976, the decline in participation among males halted, and the participation of females in the marginal age groups rose; what is noticeable is the contribution of specific participation rates to employment in 1977 was even higher than that of the years of rapid growth before the Yom Kippur War. Just as the declining participation was to a certain extent a reaction to the recession in economic activity, the decrease of the demand for manpower and, perhaps, even a result of the pessimistic atmosphere, it seems that the increase in participation hints at the beginning of economic recovery (mainly due to the increase of exports and of real wages, and perhaps even an optimistic reaction above and beyond actual improvement). The rest of the growth in the labor force, about two-thirds, stemmed from the increase of the Israeli population and changes in its age composition. The contribution of this source was low this year, as in the two preceding years, compared to 1971–1974.

The increased participation of males in 1977 was in a direction opposed to the long range downward trend. The increase of participation included men from both the younger age groups, 14-24, and the older ones, 55-64, who are the first to suffer from economic recession, and apparently also the first to return when recovery is in sight. In the age group between 25-44, the moderate decrease of participation continued; this is probably related to the long-range trend, to the increase of living standards, and to the fact that, the intermediate age groups suffered less, and with a certain delay, from the economic recession. The increased participation among women is in line with the long-term trend, related to the increase in education, but the rapid growth in 1977, its spread among age groups, and the accompanying growth in the number of women employed, including in the business sector, points to the existence of short-range demand forces. An increase in participation was found in the 14-17 age group, as well as a certain increase in the 65+ group although these groups have a long-term downward trend. In the 25-44 age group (the main working-age group) there was a considerable rise. The increase in the 45-54 group was already apparent in 1976. In the 18-24 age group the decrease of female participation has continued; it is related to the expansion of learning, but here, too, an increase was noted in the second half of the year.

The number of man-hours per week per Israeli employed decreased in 1977 by 2.1 percent. For men there was a decrease of 1.9 percent compared to the average of the period 1974(9)–1976, while for women there was a steeper decline: about 2.8 percent. The pattern of this development does not resemble the recovery from the economic recession

TABLE XIII-4

## SOURCES OF GROWTH OF ISRAEL'S PERMANENT POPULATION, 1972-1977

	1972	1973	1974	1975	1976	1977
1. Permanent population at beginning of year (in thousands)	3,120	3,225	3,338	3,422	3,493	3,575
2. Total natural increase (in thousands)	63.1	63.2	69.2	71.2	74.7	70.1
3. Rate of natural increase <sup>a, e</sup>	20.0	19.3	20.5	20.6	21.2	19.4
4. Rate of natural increase among Jews <sup>a, e</sup>	16.6	16.7	17.2	17.6	18.0	16.4
5. Rate of natural increase among non-Jews <sup>a</sup>	39.5	39.5	39.5	37.0	38.4	35.7
	(in thousands)					
6. Immigration (Gross) <sup>b</sup>	57.6	56.5	33.5	20.6	20.4	22.2
7. Emigration (Net) <sup>c</sup>	12.7	6.6	19.3	20.2	13.0	15.5
8. Migration balance (6-7)	44.9	50.0	14.3	0.3	7.4	6.8
9. Total growth of population (2+8)	104.5 <sup>d</sup>	113.2	83.4	71.6	82.1	76.9
10. Permanent population at end of year (1+9)	3,225	3,338	3,422	3,493	3,575	3,652
	(percent)					
11. Annual increase of (10)	3.3	3.5	2.5	2.1	2.3	2.2
12. Thereof: Share of natural increase	58.4	55.9	82.9	99.4	91.4	91.2
13. Thereof: Share of net migration	41.6	44.1	17.1	0.6	9.0	8.8

<sup>a</sup> Per 1000 of the appropriate fixed average population.

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

<sup>c</sup> 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.

<sup>d</sup> Including discontinuity due to population census.

<sup>e</sup> War dead are not included in the deaths of 1967 and 1973 in calculating the rate of natural increase.

SOURCE: Central Bureau of Statistics.

at the end of the sixties, when a rapid increase of man-hours per employed was recorded. The number of partially employed workers increased considerably in 1977, but most of the increase is the technical result of more holidays that did not fall on Saturdays and "bridge" days in 1977, as a result of which more employed were recorded as partially employed in the relevant week. The number (and the weight) of employed who define themselves as part time workers in general increased at a moderate rate: 9.4 thousand, of which 5.7 thousand were women. The increase in the number of part time workers – those who are generally employed and those who are temporarily employed – of course, had an influence on the relatively low labor input. The number of possible work-days in 1977 was about 2 percent lower than in 1976, and this affected the labor input as mentioned above. If the number of man-hours per employed is adjusted accordingly, it is found that the decline in man-hours per employed halted for men, while for women a slow decrease is still continuing. In the domestic business sector, excluding construction and related branches, such an adjustment gives a growth of about one percent in man-hours per employed. Despite the above-mentioned adjustment, we have no full explanation of the absence of growth in the number of man-hours per employed in 1977. Part of the explanation may lie in the following factors:

a. Uneven trends in economic activity among and within the various branches. This tends to reduce the number of man-hours per employed. In a segment with diminishing activity, latent unemployment is created in the first stages, reflecting a decrease of man-hours per employed which is more rapid than the decline in the number of employees. In an expanding segment, the number of employed increases, but in the first stages there is no intensive exploitation of the new employed, and the number of man-hours per employed does not therefore increase.

b. There was almost no decrease in man-hours per employed during mid 1960's recession in the public services and the business sectors, while in the present slowdown there has been an extensive decrease of man-hours per employed in these sectors.

c. In 1966 and 1967 there was considerable unemployment of principal providers (in addition to the younger age groups), and there was therefore a steep decline in man-hours per employed. Their return to work with the economic recovery was accompanied by a steep rise in hours per employed. In recent years there has been an exit from the labor force, of the marginal age groups, with a parallel slow decrease in man-hours. The return of these groups does not raise average man-hours per employed.

d. The recovery from the economic recession of 1967 occurred partly through the construction branch, while in the past year or two, recovery has taken place through the export and tourist branches, with the construction branch suffering a considerable decline. It seems that in the construction branch adjustment through man-hours is faster due to the great amount of work done on a contractual basis and the absence of a permanent relationship between labor and capital.

TABLE XIII-5

## EMPLOYED, WAGE-EARNERS AND LABOR INPUT IN MAIN SECTORS OF THE ECONOMY, 1973-1977

	1973(9)	1974(9)	1975	1976	1977	Annual increase or (-) decrease				
						1974(9)	1975 <sup>b</sup>	1976	1977	
<b>A. Employed (in thousands, annual average)</b>										
1. Israelis	1,091	1,099	1,113	1,127	1,159	0.7	1.2	1.3	2.9	
2. From the administered areas	65	72	66	65	63	10.9	-8.2	-2.3	-2.9	
3. Total domestic employed (1+2)	1,156	1,171	1,179	1,192	1,222	1.3	0.7	1.1	2.6	
4. In public services	270	288	302	310	323	6.6	4.7	2.8	4.1	
5. In business sector (3-4)	886	883	877	882	900	-0.3	-0.7	-0.5	2.0	
6. Of which: Construction and related branches <sup>a</sup>	179	177	175	165	157	-0.7	-1.3	-5.6	-5.1	
7. Business sector, less construction and related branches (5-6)	707	706	702	717	742	-0.2	-0.5	2.0	3.7	
<b>B. Labor input of employed (millions of hours, weekly average)</b>										
1. Israelis	43.10	42.31	42.63	42.95	43.24	-1.8	0.8	0.8	0.7	
2. From the administered areas	2.56	2.76	2.60	2.59	2.56					
3. Total domestic labor input (1+2)	45.66	45.07	45.23	45.54	45.80	-1.3	0.4	0.7	0.6	
4. Labor input in public services	9.50	10.11	10.54	10.78	10.84	5.5	4.3	2.3	0.6	
5. In business sector (3-4)	36.16	34.96	34.69	34.76	34.96	-3.3	-0.8	0.2	0.6	
6. Of which: Construction and related branches	7.38	7.04	6.95	6.60	6.10	-4.6	-1.3	-5.0	-7.6	
7. Business sector excluding construction and related branches (5-6)	28.70	27.92	27.74	28.16	28.86	-2.7	-0.6	1.5	2.5	

C. Wage-earners (in thousands, annual average)									
1. Israelis	824	839	850	855	885	1.9	1.3	0.6	3.5
2. From the administered areas	63	71	65	63	62	12.4	-8.3	-2.5	-1.9
3. Total domestic wage-earners (1+2)	887	910	914	918	947	2.6	0.5	0.4	3.1
4. In public services	257	273	287	295	306	6.1	5.0	2.8	3.7
5. In business sector (3-4)	629	637	628	623	641	1.2	-1.4	-0.7	2.9
6. Of which: Construction and related branches	142	140	138	129	121	-1.5	-1.9	-6.7	-6.2
7. Business sector, excluding construction and related branches (5-6)	487	496	490	495	521	2.0	1.3	0.9	5.3
D. Labor input of wage-earners (millions of hours, weekly average)									
1. Israelis	32.06	31.84	32.20	32.13	32.29	-0.7	1.1	-0.2	0.5
2. From the administered areas	2.47	2.71	2.59	2.53	2.52	9.7	-4.4	-2.3	-0.4
3. Total domestic labor input (1+2)	34.53	34.55	34.79	34.66	34.81	0.1	0.7	-0.3	0.4
4. In public services	9.13	9.62	10.06	10.29	10.31	5.4	4.6	2.3	0.2
5. In business sector (3-4)	25.40	24.93	24.73	24.39	24.50	-1.9	-0.8	-1.4	0.5
6. Of which: Construction and related branches	5.87	5.54	5.46	5.17	4.74	-5.6	-1.4	-5.3	-8.3
7. Business sector, excluding construction and related branches (5-6)	19.53	19.39	19.27	19.22	19.76	-0.7	-0.6	-0.3	2.8

a Wood, non-metallic minerals and trucks.

b Change in 1975 compared to 1974 (9).

SOURCE: Central Bureau of Statistics and Bank of Israel computations - rounded figures.

e. Taxes on overtime work were increased by the reform of 1975. Instead of a low preferential tax rate, a marginal tax was introduced thereby making overtime work less worthwhile.

f. The growth of real income and of the subsidy and pension system of recent years has enabled people to renounce work and to prefer leisure more than during the period of the recession. This is reflected mainly in the exit from the labor market, but also in less intensive work.

g. The increase of the share of women in the labor force reduces the average number of man-hours per employed, though only at a slow rate.

#### 4. EMPLOYMENT IN THE VARIOUS SECTORS

In 1977, more than in previous years, there was no uniform development trend in the economic sectors; this is equally true regarding changes in the number of employed and their labor input. The number of local employed in the business sector excluding construction and related branches, increased in 1977 by 3.7 percent<sup>7</sup>. The increase had already begun in 1976, when a growth of 2.0 percent was recorded, following a decline in the number of employed in the two preceding years (mainly in trade and personal services as a result of a slowdown in tourism and private consumption). The number of employees in the business sector, excluding construction and related branches, increased in 1977 at a faster rate: 5.3 percent. The labor input of employed in this sector increased less than the growth of their number, and it stood at about 2.5 percent. Since the number of possible work days in 1977 was at least 2 percent lower than in 1976, it is reasonable to assume that this also had an effect on the decrease in actual man-hour input. Adjustment of the labor input in this segment by the full 2.0 percent would increase the number of work hours per employed by about 1 percent.

In the construction and related branches, the decline in the number of employed which began in 1974 continued. In the number of employed and in labor input there were decreases greater than that of the number of employed. These decreases reflect a partial adjustment to the reduction of the product of the branch: in 1977, this branch still consumed a labor input that was high relative to its output.

The number of employees in the public services increased by 3.7 percent, a high rate compared to 1976, but lower than in preceding years<sup>8</sup>. The labor input of wage earners in

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<sup>7</sup> The number of Israeli employed increased more, and there was a parallel decrease in the number of employed from the administered areas.

<sup>8</sup> The number of employed in public services, including those who receive no wages from public funds, increased more than the number of wage earners.

public services remained almost stable, rising by only 0.2 percent in 1977, as against 2.3 percent in 1976. The adjustment of labor input according to possible work days - a correction that is more justified in public services than in the business sector - shows that the increase amounted to 2.5 percent, which is similar to the growth of the previous year and similar to the growth of the population. The balance of the decline in man-hours per employee in public services, amounting to 1.2 percent, is the result of the increase in the proportion of women.

The rapid growth in the number of employees in public services, which was greater than the growth of the population, is a long-term development. From the point of view of demand, this is the result of a change in the age structure of the population, a change in behavior (e.g. the increase of the rate of learning), the standard of the services provided per capita, all of which affect demand; and from the point of view of supply, the availability of suitable manpower, the source of which is in a rise in the level of education, accompanied by an increase in the participation of women in the labor force. It should be kept in mind that the intensification of employment of the educated in public services is accompanied by a demand for unskilled workers, such as cleaners, maintenance personnel, administration staff, etc. The growth in the number of wage earners in government administration and in education continued in the past year, while the growth noted in 1976 in the number of employees in health services and the administration of local authorities halted.

In the years 1972 to 1974 (regarding which we have data on education by branch) an improvement in the quality of manpower in public services was found. This development apparently continued afterwards, as well. At the same time, there was a long-range downward trend in the relative wages of the worker "basket" in public services as compared to those of the business sector. It seems that during the past year a considerable adjustment in the opposite direction took place, and wages in the public sector increased at a faster pace. We have no comparative data on changes in "constant baskets of employees".

#### A. PUBLIC SERVICES

Since 1970, the number of employees in the public services increased by about 37 percent, and these augmented labor input in those services by about 25 percent. During the same period, the population increased by about 21 percent. Only about a quarter of the employees joining the services are men.

The growth in the number of employees in public services in recent years - both the absolute growth and relative to the growth of the population - stands in contradiction, at least *prima facie*, to the difficulties of the economy and the demand restraint policy declared by the government, partly in order to bring about structural changes in the

TABLE

## TOTAL EMPLOYED IN ISRAEL AND LABOR INPUT

	1973(9)	1974(9)
<b>A. Employed (in thousands)</b>		
Total business sector	886	883
Business sector, excluding construction	755	754
Business sector, excluding construction and related branches <sup>a</sup>	(708)	(706)
Construction	131	129
Industry	284	293
Agriculture	93	83
Transportation	77	84
Commerce and personal and business services	254	240
Financial services	34	37
Electricity and water	10	10
Unknown	3	7
<b>B. Labor input (millions of hours, weekly average)</b>		
Total business sector	36.08	34.96
Business sector, excluding construction	30.73	29.86
Business sector, excluding construction and related branches <sup>a</sup>	(28.70)	(27.92)
Construction	5.35	5.10
Industry	11.80	11.81
Agriculture	3.62	3.23
Transportation	3.32	3.44
Commerce and personal and business services	10.16	9.33
Financial services	1.37	1.45

<sup>a</sup> Wood, non-metallic minerals and trucks.

<sup>b</sup> The figures do not add up, due to the omission of electricity and water and "unknown".

## IN BUSINESS SECTOR, BY BRANCHES, 1973-1977

1975	1976	1977	Annual change			
			1974	1975 <sup>b</sup>	1976	1977
877	882	900	-0.3	-0.7	0.5	2.0
751	763	785	-0.1	-0.4	1.6	3.0
(702)	(717)	(742)	-0.2	-0.5	2.0	3.7
126	119	114	-1.5	-2.2	-5.9	-4.2
286	287	291	3.2	-2.3	0.0	1.5
81	82	83	-11.2	-2.4	1.9	0.7
80	79	80	8.5	-4.4	-2.1	2.2
246	258	265	-5.3	2.5	4.8	2.8
41	40	46	7.3	10.1	-2.5	15.2
11	12	14				
6	7	9				
34.69	34.77	34.96	-3.1	-0.8	0.2	0.5
29.72	30.10	30.56	-2.8	-0.5	1.3	1.5
(27.74)	(28.16)	(28.86)	-2.7	-0.6	1.5	2.5
4.97	4.67	4.40	-4.7	-2.5	-6.0	-5.8
11.54	11.51	11.37	0.1	-2.3	-0.3	-1.2
3.17	3.29	3.27	-10.8	-1.9	3.8	-0.6
3.29	3.21	3.20	3.6	-4.4	-2.4	0.0
9.50	9.83	10.16	-8.2	1.8	3.5	3.4
1.60	1.55	1.71	5.8	10.3	-3.1	10.3

<sup>c</sup> Change in 1975 compared to 1974<sup>a</sup>.

SOURCE: Central Bureau of Statistics.

TABLE XIII-7

## EMPLOYMENT SERVICE ANNUAL DATA FOR 1974-1977

	1974	1975	1976	1977	Annual change		
					1975	1976	1977
	(in thousands)				(percent)		
Job seekers							
Total	16,875	17,186	19,649	18,795	1.8	14.3	-4.3
Males	8,824	9,056	10,972	10,610	2.6	21.2	-3.3
Females	8,051	8,130	8,677	8,185	1.0	6.7	-5.7
Daily average of unemployed							
Total	844	1,000	1,444	1,484	18.5	44.4	2.8
Males	463	551	882	934	19.0	60.1	5.9
Females	381	449	562	550	17.8	25.2	-2.1
Job openings	26,107	25,083	24,651	23,102	-3.9	-1.7	-6.3
Unfilled job openings	7,277	7,554	6,569	5,984	3.8	-13.0	-8.9
Unplaced job seekers	3,128	3,809	4,784	4,658	21.8	25.6	-2.6

<sup>a</sup> Excluding April and October, due to strikes in the employment service.

economy. It can be claimed that had there not been a growth in the number of employees in the public services, unemployment would have appeared, and this would have contributed to a lower rise of wages, thereby assisting the competitiveness of exports. The increase in the number of employees in the public services augmented income, and with it domestic demand, thus making the shifting of production factors from the domestic market to exports more difficult. However, it can also be claimed that it is not clear from the outstart that freezing the number of employees in the public services (or reducing the number) in a recessionary period would have contributed directly to an increase in the number of employed in production and exports; it is possible that the reaction to such a step would have been an increase of unemployment, exit from the labor force and emigration. The relation between the growth of the population, and supply of manpower, and the number of employees in public services is not simple: from the point of view of demand, part of the administrative and defense services is not particularly related to the

growth of the population, while educational and health services are related to the population growth, to changes in its age structure, to changes in rates of learning, and to the determination of the level of services supplied to the public (the determination of this level is partially vested in the political ranks, but it is partially the result of decisions and laws enacted in the past). From the point of view of supply, at times of economic recession there is an increased response to the filling of public positions, and the public services manage to man positions they had been unable to fill in periods of rapid economic development, such as policemen, junior clerks, etc. It should be kept in mind that more than three-quarters of the wage earners who joined the public services in 1977 were women. It is doubtful whether industry or the tourist branches would have been able to offer them employment fitting their qualifications in the same period. It appears that at short range, part of the labor force absorbed by the public services would not have been employed by the business sector, even if there had existed total interchangeability between males and females in public services.

It is not clear whether the absorption of employees by the public services constitutes an obstacle in the way of a renewal of rapid growth in the future. Replacement of employees in public services is frequent, and even without dismissals it is possible to freeze and even to reduce the number of employees, should this be deemed desirable. For example, between April 1974 and December 1977 about 25 percent of the wage earners handled by the office of the Civil Service Commissioner left their jobs. The facilitation of mobility, within the public services as well as outwards, would undoubtedly facilitate the adjustment of employed manpower to periods of economic prosperity and periods of recession. In this matter not enough has been done as yet.

## B. THE BUSINESS SECTOR

The full extent of the growth in the number of employed in the business sector, and even more than that, can be attributed to the increase of the export of products, of tourism, and related business services. Estimates made according to input-output tables show that in the last two years the number of employed in the business sector increased by only about half of the amount required for the growth of exports. It therefore appears that there has been transfer of manpower from domestic production to exports. The contribution of import substitutes to employment also acted in the same direction. An examination of the substitution of durables reveals that their consumption decreased by about 2 percent, while imports of durables dropped (quantitatively) by about 9 percent.

In branches related to construction, the number of employed and the labor input continued to decline. In the last two years, the decrease in the number of employed was low in relation to the reduction of output. This was apparently the result of growth in the

TABLE

## EMPLOYMENT SERVICE QUARTERLY

	1976			
	I	II	III	IV
				(in
Job seekers				
Total	16,870	19,411	21,640	21,070
Males	9,686	11,008	11,627	11,883
Females	7,184	8,403	10,014	9,187
Daily average of unemployed				
Total	1,159	1,387	1,633	1,647
Males	720	869	957	1,062
Females	439	519	676	622
Job openings	24,872	24,920	23,345	26,008
Unfilled job openings	8,061	6,879	5,314	5,903
Unplaced job seekers	3,945	4,402	5,635	5,136

<sup>a</sup> Due to seasonal fluctuations, it is preferable to compare each quarter to its parallel period in previous years.

weight of completion work in total construction, an increase in the share of housing construction in total construction, and a rise in the share of public construction.

Manpower released from construction is easier to absorb in the export branches and the import substitutes branches than the additional manpower in the economy, although some of the construction workers from the administered areas who stopped working in the Israeli economy went to work in neighboring countries.

The considerable growth in the number of employed in the trade branches, as well as the personal and business services, stems from the growth of tourism. The growth in these branches had already begun in 1976, and it continued in 1977, although at a slower rate. Some of the employed from the administered areas who were released from the construc-

## DATA, 1976-1977

1977				1978	Change in 1977 compared to same quarter in 1976 <sup>a</sup>				Rates of change in 1978 I compared to 1977 I
I	II	III	IV	I	I	II	III	IV	
(thousands)					(percent)				(percent)
18,172	17,721	18,952	20,334	18,289	7.7	-8.7	-12.4	-3.5	0.6
11,021	10,304	10,346	10,768	10,417	13.8	-6.4	-11.0	-9.4	-5.5
7,151	7,417	8,606	9,566	7,871	-0.5	-11.7	-14.1	4.1	10.1
1,512	1,391	1,477	1,555	1,449	30.5	0.3	-9.6	-5.6	-4.2
1,032	902	898	902	902	43.3	3.8	-6.2	-15.1	-12.6
479	490	579	653	547	9.1	-5.6	-14.3	5.0	14.2
22,559	22,178	22,292	25,380	23,655	-9.3	-11.0	-4.5	-2.4	4.9
5,581	5,921	5,821	6,615	6,343	-30.8	-13.9	9.5	12.1	13.7
4,611	4,162	4,846	5,012	4,365	16.9	-5.5	-14.0	-2.4	-5.4

tion branch were apparently absorbed by these branches, and real wages in these branches increased rapidly. In industry, the number of employed increased at a relatively low rate, following a standstill in the previous year and a decrease in 1975. Since the number of employed connected with exports grew rapidly, it is to be assumed that there has been a structural change between the various branches of industry, as well as inside each, in favor of exports and against domestic production. An input-output analysis reveals that as a result of the growth of industrial exports in the last two years, six times more employed were needed than those actually added to industry. Concerning 1975, the same analysis shows that although a small decrease in the number of employed in exports was indicated, their actual number in industry decreased several times more due to the reduction of domestic demand. In the services and transport sectors as well, the number of employed

connected with tourism increased, and the increase of agricultural exports contributed most of the growth in the number of employed in agriculture.

**Employment in the construction branch.** In the last two years, gross investments in fixed assets decreased by 26 percent, the output of the construction sector dropped by about 30 percent, while the number of local employed decreased by only 10 percent. In contrast, during the period of recession, 1965-1967, employment decreased at a higher rate than the decrease of output in the branch<sup>9</sup>. The difference between the change in output and the change in the number of employed in the years 1976-1977 was about 20 percent, of which about 12 percent comes from 1977. In estimating the difference, a decrease in man-hours per employed at a rate of about 11 percent was taken into account, and it was assumed that the ratio to the per employed product remained constant<sup>10</sup>. This difference is equivalent to 13 thousand workers, and it is concentrated entirely in the building branch. Real wages per employee-position in construction were frozen in 1977, and there was apparently a decrease in "permanent worker basket", since many workers from the administered areas, who are paid low wages, were released this year. The branch therefore reacted to the decrease of demand in 1977 at a more rapid pace.

A number of explanations of the difference between changes in output and changes in employment in the branch can be presented:

a. The adjustment to the decrease of branch activities was mostly made by the reduction of man-hours per employed. Such a process may halt due to pressures for the maintenance of wages.

b. The share of public housing construction in total construction increased during the slowdown in the construction branch. Public construction companies appear to be less elastic from the point of view of the number of employees. In the past, this has made it possible for them to increase output at times of prosperity without absorbing workers at the same rate, while in times when output decreased, they did not reduce the number of their workers to the same extent.

c. There was an increase of labor intensity due to a rise in the weight of completion work in total construction, and in the weight of housing construction and repairs, jobs that are labor intensive. The rise of labor intensity in the branch was also characteristic of

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<sup>9</sup> A decrease in output of about 28.0 percent was accompanied by the release of about 31.5 percent of the employed in the branch.

<sup>10</sup> The calculation of the gap does not assume a full level of efficiency, since it is not based on output per employed existing in the record year of 1974 (9), but on a lower base year, 1970.

a period of recession, but in the present cycle, the intensity index increased at a higher rate.

d. There may have been a low evaluation of investments in the branch. This stems from the incomplete measurement of illegal construction, repairs, additions and maintenance. These activities increase at times of economic recession, since manpower is more available and its relative price lower. Reinforcement of this assertion is obtained from the increase in the number of self-employed among construction workers; these perform the bulk of this kind of construction. Demand for these activities during the period of recession increased at a slower pace than at the present time, due to a lower level of income and greater harm to income.

## 5. UNEMPLOYMENT

The number of unemployed in the labor force increased in 1977 by 4.8 thousand, and amounted to about 47 thousand, or 3.9 percent of the civilian labor force. The percentage of unemployed men rose by 0.2 percent at an annual average, the entire increase occurring in the first half of the year. The percentage of unemployed women rose by 0.4 percent, while their participation rate in the labor force grew twice as fast. The weight of the 14-24 age group in the total number of unemployed increased, and there was a slight expansion of the duration of unemployment.

From data of the Employment Service (Tables XIII-7 and XIII-8) the direction of labor market development in the course of 1977 can be deduced. The number of men seeking work decreased from the second quarter of 1977 compared to the corresponding period in the previous year<sup>11</sup>, a decrease that continued in the first quarter of 1978 as well. Beginning in the second half of 1977, a decrease in the number of unemployed men was also recorded. The number of women seeking work and unemployed began to increase in the last quarter of the year, but this increase occurred along with a considerable growth in their participation in the labor force. Requests for workers still decreased in 1977, but in the first quarter of 1978 a certain increase was already recorded. From the middle of the year there was also an increase in the number of unfilled requests for workers. The level of requests and of unfilled requests is still lower than in the years of prosperity (for example 1972).

The continued growth in the number of the unemployed, accompanied by a significant increase in the participation rate, is apparently the result of a slackness that hit only some

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<sup>11</sup> The first quarter of 1976 was influenced by accelerated economic activity prior to the imposition of Value Added Tax, and therefore no improvement is noticeable in the first quarter of 1977.

of the segments of the labor market, mainly the decrease in production for the domestic market and the slackness in construction and other investments. The rates of unemployment also increased due to the addition of new workers to the labor force as a result of expectations of increased demand and better chances for finding work. It seems that the increase in the number of unemployed should not lead to the conclusion that economic slackness has increased, since the absolute number of unemployed who had been employed in the year preceding their unemployment did not increase this year. The distribution of unemployed by the last branch in which they were employed prior to their unemployment remained almost unchanged<sup>12</sup>. The number of new recipients of unemployment compensation decreased in 1977 according to data of the National Insurance Institute. The conclusion arising from these facts is that the additional unemployment stemmed from increased supply and not from the greater economic slowdown, and this is a necessary condition for movement in the direction of more employment in the international trade branches.

Regional data of the Employment Service point to the fact that the addition of work-seekers and unemployed (relative to 1972) was concentrated mainly in the central regions, while in development areas, which were the first to suffer unemployment in previous recessions, the growth was slower<sup>13</sup>.

#### 6. EMPLOYMENT OF WORKERS FROM THE ADMINISTERED AREAS IN ISRAEL

The number of workers from the administered areas decreased by about 2,000 in 1977 (according to family surveys). Compared to the year of peak employment from the administered areas, 1974(9), the decrease amounted to 9.3 thousand workers. At the same time, their number is still considerably higher than in 1972, which was a year of rapid economic growth. The decrease in the number of those employed in construction totalled 4.0 thousand this year. About half of them transferred to tradable branches. Compared to 1974(9), the number of those employed in agriculture and construction decreased by 13.1 thousand, owing to the decrease of construction output and technological improvement in agriculture. The difference between the decline in the number of those employed in these branches and the smaller decline in total employment, which is about 4 thousand workers, was added to the number of those employed in industry and services related to exports. The workers from the administered areas were therefore the first to react to the

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<sup>12</sup> Except for the decrease in the number of those who had previously been employed in trade branches, food and accomodation services and a certain growth in those previously employed in the public services.

<sup>13</sup> On this subject see the Table in the Appendix to this Report.

TABLE XIII-9

ANNUAL CHANGE IN AVERAGE WAGE PER WAGE-EARNER POSITION, 1972-1977  
(including workers from the administered areas in Israel - each year compared to the previous one)

	1972	1973	1974	1975	1976	1977
1. All sectors	14.4	27.4	36.3	36.5	32.9	47.2
2. Public services	10.4	29.8	34.0	28.0	25.6	54.2
3. Business sector	16.4	26.1	37.4	41.2	36.9	44.0
4. Business sector, excluding construction	16.8	26.6	37.4	41.3	36.2	44.8
5. Business sector, excluding construction and related branches		26.7	36.8	41.7	36.2	45.3
6. Agriculture, afforestation and fishing	15.5	30.0	43.1	52.3	32.2	36.4
7. Industry	14.1	24.3	37.2	43.8	39.4	41.6
8. Electricity and water	13.8	29.2	23.0	51.0	19.3	70.3
9. Construction	14.3	22.3	37.2	40.2	40.2	33.9
10. Trade, food and accommodation services	17.3	21.1	38.1	38.0	37.3	44.1
11. Transportation, storage and communications	12.7	28.5	35.1	35.8	30.5	49.3
12. Financial and business services	18.4	26.5	35.6	37.4	35.4	49.6
13. Other personal services	15.4	27.5	38.3	37.9	41.7	42.1
Rate of the change in the Consumer Price Index	12.9	20.0	39.7	39.3	31.3	34.6

changes in demand in the Israeli economy, which brought about a reduction in the construction branch. Some of them withdrew, as mentioned, from the Israeli economy, while others were absorbed by growing branches. It should be remembered that manpower from the administered areas is not suited for work in all segments of the economy due to the absence of professional skills, and in certain branches, for security reasons. Real wages of employees from the administered areas, in terms of Israeli consumer prices, remained constant in the service branches connected with the growth of tourism, and fell in other branches. The decrease in the number of employees was not uniform throughout the year: it was concentrated mainly in the first half of the year, while in the second half, the decrease almost stopped.

## 7. WAGES

In the last two years, which constitute one unit from the point of view of wage agreements, gross average real wages increased cumulatively by 10.7 percent. In public services, the average cumulative growth was low, reaching about 9.7 percent, while in the business sector this growth was higher and reached about 11.6 percent<sup>14</sup> (after deducting construction and related branches, real wages in the business sector increased during these two years by only slightly more). The rate of growth of average wages is calculated on a cash basis, i.e. it includes retroactive payments for previous periods, and these were particularly high in 1977. After deduction of retroactive payments for the education allowance (paid in 1977 mainly in the public sector), the wage increase in the public services (as against 1975) was lower: about 7 percent.

The distribution of wage increases between the two years was different in the various sectors of the economy. This stems from the fact that wage agreements were signed for two years, from the reopening of the agreements, as well as from other factors that acted during this period. In addition, the distribution of the wage increases over the two years was also affected by the timing of retroactive payments. Wage policy in the public services, according to which employees were to receive wage increases at a rate of 2.5 percent in 1977, was not carried out in practice. The high rate of inflation in the past two years, the cost-of-living allowance arrangements, providing only partial compensation for price increases, the increase of effective tax rates since the introduction of the income tax reform due to only partial linkage to the price index, together with the readiness of the government to sign wage agreements exceeding the framework agreement (with nurses and doctors), and the closeness of the date of elections, all merged into one extensive system of pressures for reopening of all wage agreements, and requests for various additional payments:

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<sup>14</sup> The water and electricity sector was included in the business sector.

“education allowance”, up-dating of fixed nominal increments, global overtime payment arrangements, accelerated creeping advancement, etc. The main new agreements of the public services went into effect in March 1977, retroactive to April 1976<sup>15</sup>. Retroactive payments for the “education allowances” and the special allowance were paid in most public services in June. The improved overtime payment arrangements, being an integral part of wage agreements, were paid in July-August, and the accelerated creeping of wages through grade increases was carried out throughout the year.

The reopening of wage agreements in the public services and the payment of increases exceeding the terms of the bi-annual agreement, brought about renegotiation of wage agreements in the business sector, where the payment of a special bonus of 4.75 percent from June 1977 was agreed upon, based on the December 1976 salary. Here, too, payments exceeded the terms of the bi-annual wage agreements.

The adjustment of data on wages in the public services to reflect wage increases during the year 1977 meets with difficulties, since both wages and the number of employees are deflected upwards, and the direction of the deviation<sup>16</sup> cannot be predicted in advance. A preliminary estimate of the changes in real wages, after deducting retroactive payments of the “education allowance” only, and without attributing the deducted wages to the year for which they were paid, shows that the increase of real wages in public services in 1977 amounted to 11.8 percent (instead of 14.6 percent). In the last two years the cumulative real increase amounted to about 7 percent, after a cumulative decline of about 11.9 percent in the years 1974–1975. Despite wage increases in the public services in 1977, it seems that over a longer range, wages in the public services decreased compared to those of the business sector; this falls in line with economic policy. An examination of one part of public services revealed that the wages of workers remaining at their jobs between April 1974 and the end of 1977 increased both in relation to the Consumer Price Index and in relation to the “average worker basket”. This can be explained by the fact that the wages of workers who were added were lower than wages of those who left

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<sup>15</sup> In certain cases, such as engineers and technicians, retroactivity is effective from September 1975. Wage agreements of nurses and doctors were signed and became effective from the end of 1976.

<sup>16</sup> The number of employees in some of the public services is measured by the number of wage slips. Owing to mobility, in the months of retroactive payments there is a considerable additional number of wage slips that include only differential wage payments from previous places of work; these are counted in employee-positions, thus deflecting the denominator in the calculation of wages per employee position as well.

and/or remained. The lower wages of those added are apparently connected with the growth of the labor supply, mainly of women, aimed at public services. We have no similar test in respect to employees in the business sector.

In the business sector, the increase of the wages of those employed in personal service, trade and industry, from 1976, stands out; this is apparently connected with the growth of tourism as well as decline of real wages in construction starting in 1977, as a reaction to the continued reduction of output. In 1976, real wages in construction still increased considerably, despite the decrease of output. The decrease of real wages in construction to the "constant worker basket" is apparently greater than the measured decrease, because the withdrawal of employees from the sector, especially workers from the administered areas, generally raises average wages. Of the nominal wage increases in the economy in 1977, at a rate of 47 percent, about 13 percent is the contribution of the previous year, about 11.0 percent, the contribution of the cost-of-living allowance (which was 11.5 percent in April and 8.1 percent in October). About 11.3 percent was contributed by wage agreements (original and new), and the balance, about 5.5 percent, by the creeping of wages.