

Chapter 5

The Labor Market

- ◆ The labor market in 2008 generated more employment, suffered less unemployment, and paid higher nominal wages; however, it also reflected the reversal in the business cycle during the year.
- ◆ In the first half of the year, the labor market approached full employment, reflecting the concurrence of rapid employment growth and a falling unemployment rate. The participation rate leveled off after a protracted upturn and nominal wage per employee post increased perceptibly.
- ◆ Indications of slowdown came into clear sight in the second half of the year. Employment stopped growing and began to contract, unemployment increased (especially among the high-skilled), and nominal wage per employee post declined in most industries. The labor market seems to have responded to recession more rapidly this time than in the past.
- ◆ In contrast to previous years, the growth of employment in the business sector was driven by several industries that are intensive in low-skilled labor—low-technology trade and services—and these industries made a salient contribution to the decrease in the unemployment rate. The combination of stronger demand for low-skilled labor and greater laxity in law enforcement caused the employment of non-Israelis to grow swiftly.
- ◆ The effect of the global crisis was felt initially in high-tech industries. The growth of employment slowed in high-tech services and stopped in high-tech manufacturing, and the increase in nominal wage in high-tech industries slowed relative to the past and relative to other industries.
- ◆ In 2007, the Government set employment and poverty targets as part of its socioeconomic agenda. An important goal of the “Agenda Forum” was to boost the employment rate among sectors of the population that are prone to especially low rates. The employment target will be harder to attain during the impending recession than in 2007–2008.
- ◆ With the economy tumbling into recession, labor-market policy should strive to minimize the blow to labor demand and invest in human capital, toughen enforcement in regard to the employment of non-Israelis, and ease the qualifying terms for unemployment compensation.

1. MAIN DEVELOPMENTS

According to most indicators, full employment was attained in the first half of 2008.

The business cycle turned around in 2008 and the new trend was reflected in the labor market. According to most indicators, full employment was attained in the first half of the year as employment expanded rapidly, part-time employment fell, the number of full-time posts increased, and those employed worked longer hours. The participation rate increased slightly pursuant to an unbroken upward trend since 2003. The number of jobless fell perceptibly and unemployment rate tumbled to 6.0 percent in Q2, the lowest level since the 1980s. The unemployment rate slid to its “natural” level among the high-skilled and fell steeply among the low-skilled as large numbers of the latter found work. The seasonally adjusted employment rate among those in the 25–64 age cohort crested in the second quarter at 71.1 percent, meeting the employment target set forth in the socioeconomic agenda (71.7 percent by 2010). The increase in employment and the decrease in unemployment were accompanied by the strongest upturn in nominal wage since the current period of growth began. Some of the increase may have originated in expectations of a speedup in domestic inflation.

In the second half of the year, especially in the fourth quarter, the labor market gave clear evidence of leveling off if not slowing.

In the second half of the year, especially in Q4, the labor market gave clear evidence of leveling off if not slowing. The growth of business-sector employment slowed and hours worked per person employed declined. Large-scale layoffs, foremost among high-tech manufacturing and service firms that focus on exports, commenced in the fourth quarter. The layoffs led to surges in the number of jobseekers, especially among degree-holders, and in jobless claims. The trajectory of nominal wage per employee post also turned around in mid-year, falling in some industries from Q3 onward in addition to real erosion during the year due to the acceleration of inflation.

The employment of low-skilled workers in industries with relatively low labor productivity resulted in a cyclical decline in labor-force quality, and a slowdown in the growth of productivity relative to the 2002–06 period.

In contrast to previous years, when the economy was driven by high-tech industries and services, the growth of business-sector employment in 2008 was powered by several industries that are intensive in low-skilled workers. Thus, trade and low-tech service industries made a salient contribution to the decrease in unemployment (Table 5.5). The appreciable decrease in the unemployment rate among the low-skilled, coupled with a parallel increase in their employment rate (except for those with 9–10 years of schooling), gives evidence of the trickle-down of growth to weak population groups. The increase in demand for low-skilled workers was also manifested in rapid growth in the number of non-Israeli workers, whose share of employment in the business sector came to 11.8 percent. As employment of low-skilled workers increased, labor-force quality underwent a cyclical decline; and as most found work in industries with relatively low labor productivity, the growth of productivity slowed relative to the 2002–06 period. Unit labor cost in the business sector leveled off.

Most indicators show that the response of the labor market to the change of direction in the business cycle was faster in 2008 than in the past.

Although the labor market does not respond immediately to a change of direction in the business cycle, most indicators show that the response was faster in 2008 than in the past. By Q3, the expansion of business-sector employment stalled and average hours worked per employed person slipped. The unemployment rate climbed in Q4 and nominal wage per employee post decreased in many industries in the second

half of the year. The labor market's relatively rapid response may trace to the fact that developments abroad had made the domestic recession foreseen; however, the greater elasticity of the labor market in recent decades also played a role. With the economy tumbling into recession, labor-market policy should strive to minimize the blow to labor demand and invest in human capital, toughen enforcement in regard to the employment of non-Israelis, and ease the qualifying terms for unemployment compensation.

Table 5.1
Principal Labor Market Indicators, 2008

	(percent)							
	Change from same quarter in 2007 ^a				Change from previous quarter ^b			
	I	II	III	IV	I	II	III	IV
1. Working-age population	1.8	1.8	1.8	1.7				
2. Participation rate in civilian labor force, ^c total					56.6	56.4	56.4	56.6
Men					62.2	61.9	61.7	61.8
Women					51.2	51.2	51.4	51.6
3. Civilian labor force	2.8	1.7	1.5	2.7	1.2	0.2	0.4	0.8
4. Israelis employed, total	4.4	3.6	2.8	3.4	1.7	0.4	0.4	0.4
4.1 Full-time employees	6.0	9.8	11.1	-6.1	3.3	1.6	-0.6	-4.1
4.2 Part-time employees	0.6	-9.1	-9.3	23.8	-3.6	0.9	5.5	7.8
4.3 Temporarily absent from work	3.0	11.2	-14.2	6.2	0.0	-11.5	-3.3	6.5
5. Public-sector employees (Israelis)	2.7	2.7	2.5	4.3	0.0	0.7	1.3	2.4
6. Business-sector employees (Israelis)	5.2	3.9	2.9	3.0	2.6	0.2	-0.2	0.5
7. Foreign workers in business sector ^d	10.7	9.8	4.6	-0.6				
8. Palestinian workers in business sector ^d	21.2	23.4	25.2	14.9				
9. Average weekly hours worked per business-sector Israeli employee	-0.2	1.6	2.6	-6.1	-0.5	1.7	-1.0	-5.0
10. Israeli labor input in business sector	4.9	5.6	5.5	-3.3	2.1	1.9	-1.3	-4.6
11. Business-sector labor input of foreign workers ^d	10.9	10.1	5.0	-0.3				
12. Business-sector labor input of Palestinian workers ^d	16.9	19.1	21.1	21.2				
13. Unemployment rate ^c					6.2	6.0	6.0	6.3
14. Number of unemployed persons	-17.6	-21.6	-13.8	-5.9	-5.2	-3.1	0.3	6.0
15. Real wage per employee post, total	0.9	-0.4	-1.5	-2.4	1.4	-1.1	-1.8	-1.2
15.1 Business sector	0.3	-0.4	-1.8	-2.2	1.0	0.0	-2.1	-1.0
15.2 Public sector	2.1	-0.6	-1.0	-2.8	0.7	-1.0	-1.6	-0.8

^a Unadjusted data.

^b Adjusted data.

^c Actual level, not rates of change.

^d National Accounts data. Including reported and unreported foreign workers and Palestinians.

SOURCE: Central Bureau of Statistics Labor Force Surveys and National Accounts data.

Table 5.2
Principal Labor Market Indicators, 2005–08

	(change over previous year, percent)			
	2005	2006	2007	2008
1. Population (annual average)	1.8	1.8	1.8	1.7
2. Immigrants who arrived in this period	1.3	-9.0	-5.9	-24.5
3. Working-age population	1.8	1.8	1.8	1.8
4. Participation rate in civilian labor force, ^a total	55.2	55.6	56.3	56.5
Men	60.7	61.1	61.8	62.0
Women	50.1	50.4	51.1	51.3
5. Civilian labor force	2.3	2.5	3.0	2.2
6. Employment rate ^a	50.3	50.9	52.2	53.1
Employment rate among the 25–64-year age group	67.5	68.5	70.1	71.0
7. Total employees ^b	3.4	2.9	4.4	4.0
Israelis	3.9	3.2	4.2	3.5
Non-Israelis	-1.8	-0.7	6.6	9.0
8. Public-sector employees ^b	4.1	2.0	3.8	3.1
Public-sector labor input	3.7	1.0	5.0	2.8
9. Business-sector employees ^b	3.1	3.2	4.6	4.3
Israelis	3.8	3.7	4.4	3.7
Foreign workers	-6.7	-1.3	6.5	5.9
Palestinians	24.1	1.7	7.3	21.0
Share in business sector of foreign and Palestinian workers ^a	11.5	11.1	11.3	11.8
10. Business-sector labor input	2.7	2.6	5.3	3.9
Israelis	3.4	3.1	5.1	3.2
Foreign workers ^b	-6.3	-1.0	6.4	6.2
Palestinians ^b	20.5	-0.8	6.9	19.6
11. Real wage per employee post	1.0	1.3	1.6	-0.9
Business sector	1.5	1.7	1.4	-1.0
Public sector	0.0	0.3	2.2	-0.6
12. Minimum wage (real)	-1.3	2.8	4.5	-1.8
13. Unit labor costs in business sector ^c	-1.8	-0.4	2.6	0.2
14. Gross domestic product per labor hour in the business sector ^{c,d}	5.1	6.5	-0.1	2.9
15. Unemployment rate, total ^a	9.0	8.4	7.3	6.1
Men	8.6	7.9	6.8	5.8
Women	9.5	9.0	7.9	6.5
16. Government expenditure on the active labor market policy (percent of GDP) ^e	0.24	0.26	0.21	0.20

^a Actual levels, not rates of change.

^b Including reported and unreported workers.

^c Based on gross product, not net product as in previous years.

^d At constant prices.

^e Including training, employment services, programs to integrate recipients of benefits into the work force, aid related to the employment of new immigrants, etc.

^f Estimate.

SOURCE: Central Bureau of Statistics Labor Force Surveys and National Accounts data.

2. THE POPULATION

Israel's population grew by 1.75 percent in 2008 and came to 7,305,600 on average (Tables 5.2 and 5.3). Almost all of the growth originated in natural increase, and the birth rate approximated the 2007 level. Immigration, scanty to begin with in recent years, fell by 25 percent relative to 2007 and ended the year at only 13,700. About three-fourths of immigrants originated in Europe and America; 41 percent in the former Soviet Union (European and Asian countries), 15 percent in the United States, 12 percent in Ethiopia,¹ and 11.5 percent in France. The "Returning Home for Israel's 60th" program, in which the Ministry of Immigrant Absorption encourages Israeli expatriates to return by offering benefits that relate chiefly to taxes, helped to bring back some 7,000 expatriates in 2008 and is projected to lure some 8,000 in 2009.² However, it is very likely that their decision to come back is related to the labor-market slump in the United States and other developed countries, especially in advanced industries.

Israel's population numbered 7,305,600 in 2008. The number of new immigrants continued to fall this year.

Table 5.3
Principal Labor Market Indicators, 2005–08

					(thousands, annual averages)			
	2005	2006	2007	2008	Change from previous year			
1. Mean population	6930.1	7053.7	7180.1	7305.6	121.1	123.6	126.4	125.5
2. Immigrants who arrived in this period	21.2	19.3	18.1	13.7	0.3	-1.9	-1.1	-4.5
3. Working-age population ^a	4963.4	5053.1	5142.4	5232.9	87.4	89.7	89.3	90.5
4. Civilian labor force ^a	2740.1	2809.7	2893.8	2957.0	61.5	69.6	84.1	63.2
5. Number of unemployed ^a	246.4	236.1	211.8	180.4	-31.4	-10.3	-24.3	-31.4
6. Employees, total ^b	2722.6	2801.0	2924.5	3041.0	88.7	78.3	123.5	116.5
Israelis	2493.7	2573.6	2682.0	2776.7	92.9	79.9	108.4	94.7
Non-Israelis	229.0	227.4	242.5	264.3	-4.2	-1.6	15.1	21.8
Foreign workers ^c	182.7	180.3	192.0	203.3	8.9	0.8	3.4	10.5
Palestinians ^c	46.3	47.1	50.5	61.0	-13.1	-2.4	11.7	11.3
7. Public-sector employees ^{b,d}	753.9	769.1	798.7	823.1	29.8	15.3	29.5	24.5
8. Business-sector employees ^{b,d}	1968.8	2031.9	2125.8	2217.9	58.9	63.1	94.0	92.1
9. Nominal wage per employee post (NIS/month)	7220.5	7467.9	7629.5	7909.0	169.7	247.4	161.6	279.5
Public sector	6910.9	7081.6	7279.0	7567.1	87.6	170.6	197.4	288.1
Business sector	7365.0	7646.9	7790.4	8066.3	205.4	281.9	143.5	275.9

^a Labor Force Survey data.

^b National Accounts data, including data from education and health imputed to business sector.

^c Including reported and unreported workers.

^d Israelis and non-Israelis.

SOURCE: Central Bureau of Statistics, Labor Force Surveys and National Accounts data.

¹ Immigration from Ethiopia declined by more than 50 percent in 2008 because the decision to bring over the "Falashmura" was confined to 2005–07.

² By comparison, some 33,500 expatriates returned in 2000–07.

3. THE CIVILIAN LABOR FORCE

The onset of the recession toward the end of the year may have created an “additional worker” effect.

The working-age population grew by 1.8 percent in 2008 and came to 5,233,000 on average. Among them, 56.5 percent were defined as participants in the labor force, employed or unemployed (Tables 5.2 and 5.3). The participation rate increased in Q1 pursuant to the trend in recent years, receded and leveled off in the second and third quarters, and rose again in Q4 (Table 5.1). The onset of recession toward year’s end may have created an “additional worker” effect, in which households send a second breadwinner, usually a wife, into the labor force. As evidence of this possibility, the participation rate of women increased in the second half of the year while that of men declined. While the participation rate of persons with 11+ years of schooling remained stable, the rates of the less educated developed in contrasting directions: up by 0.4 percentage point among persons with 0–8 years of schooling and down by 1.3 percentage point among those with 9–10 years of schooling (Table 5.6). Among those aged 25–64, the participation rate rose by 0.3 percentage point and came to 74.9 percent.

The number of “discouraged workers”—those who wish to work and are available for work but quit the labor force because they despaired of finding appropriate work—continued to fall in 2008 and was 9.5 percent lower on average than in 2007.³ The entire decrease traces to a downturn in the number of men in this category and was reflected in all education cohorts except for the 16+ years group. Among women, an increase in the number of discouraged workers with 13+ years of schooling offset a decline among the less educated. Although the number of discouraged workers fell, this does not necessarily signal an improvement in their situation, since the participation rate rose only mildly.

Box 5.1

Patterns of workforce participation among Arab Israelis

The participation patterns of Arab Israelis are characterized by a low rate of participation in the workforce among women and early retirement from the workforce among men. These phenomena and their effects on the socioeconomic situation of Arabs in Israel emphasize the need for a government policy that will work to raise the participation rates among Arab women and to reduce the extent of early retirement among Arab men.

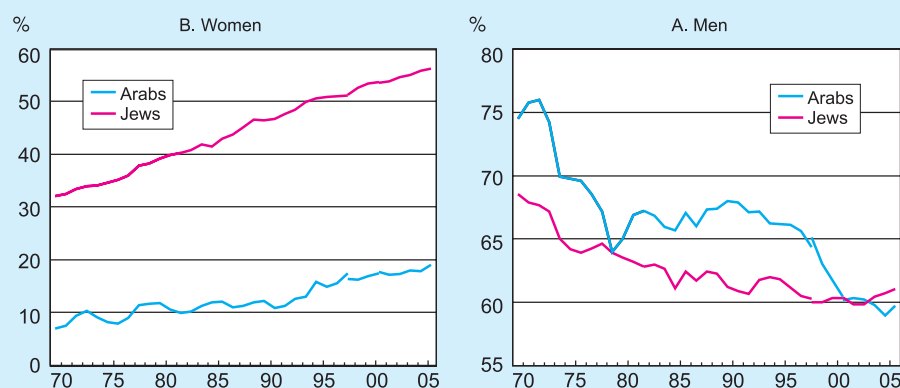
³ One may argue that the decrease in discouraged workers corresponds to the falling unemployment rate in recent years and, therefore, reflects less difficulty in finding work. Contrarily, however, O. Peled-Levy and N. Kasir (Kaliner) found a negative correlation between unemployment and discouragement in Israel in 2001–2006, i.e., higher unemployment contributed to a contraction of discouragement. The explanation for this finding is that at times of high unemployment, the expectation of a decrease in household income amplifies the need for additional breadwinners (“To Search or Not to Search, That Is the Question — Remarks on Discouraged Workers in Israel,” Bank of Israel, in press).

These patterns cannot be fully explained by the factors that are generally used to explain participation, such as age, education, family status, number of children and the income of other household members. In order to design an appropriate policy, it is important therefore to understand the factors that explain the unique participation patterns observed among Arab Israeli society.¹

Trends in the participation rates of Arab Israelis

An analysis of the participation rates of Arab Israelis over time shows that among Arab men the participation rate has declined in the long run while that of Arab women has risen (Figure 1). This is similar to the trends observed in many Western countries. Participation rates have also fallen among Jewish men in Israel, though with less intensity than among Arab men. Thus, while in 1990 the rate of participation among Arab men was about 5 percent higher than that among Jewish men, the situation has reversed in recent years and the participation rate of Arab men is now lower.

Figure 1
Labor Force Participation Rate, Jews and Arabs,^a 1970-2006



^a From 1967 to 1978 the definition of an Arab was "a non-Jew whose father was a non-Jew and whose continent of birth was not Europe or America." From 1979 to 2000 the definition was "a Christian, Moslem or Druze whose continent of birth was not Europe or America." Since 2001 Arabs have been defined more accurately as a result of more precise wording of questions. The definition used in this figure does not take the new definitions into account, to enable comparisons to be made over time.

SOURCE: Based on the Central Bureau of Statistics Labour Force Surveys.

A possible explanation for the sharp decline in participation rates among Arab men may be the relative decrease in demand for unskilled workers, which was due to technological changes, the exposure of the economy to competing imports and the process of globalization. A particularly sharp decline occurred

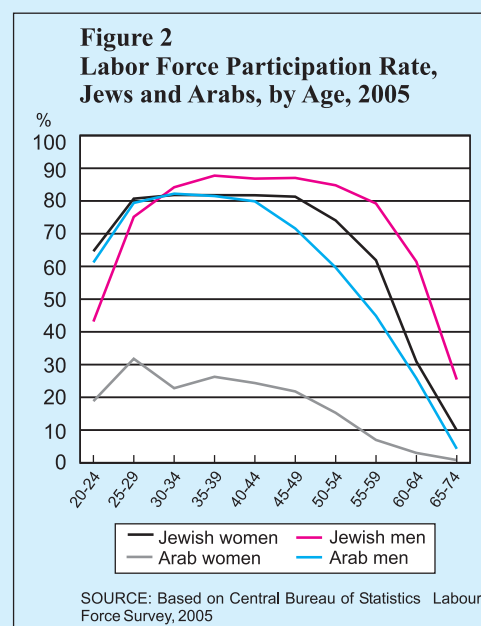
¹ Eran Yashiv and Nitsa (Kaliner) Kasir (2009), "Patterns of workforce participation among Arab Israelis," (soon to be published).

during the 1970s, perhaps due to substitution by Palestinian workers. The sharp drop in participation rates among Arab men since the beginning of the 1990s was also a result of the entry of foreign workers into Israel.² The downtrend came to an end in the early 2000s, apparently due in part to the broad cuts in social welfare benefits and tighter criteria for eligibility.³

Although the participation rates for Arab women doubled between 1990 and 2006 (from about 10 percent to about 20 percent), they are still particularly low. The increase in their rate of participation was smaller than that for Jewish women and therefore the gap between them widened during this period. The low rates of participation among Arab women are in line with the findings of the Social Survey carried out by the Central Bureau of Statistics which collects information on the views of the Arab population. Thus, about 24 percent of Arabs feel that it is sufficient for one spouse to work while among Jews this view is held by only about 12 percent of respondents. In contrast, 97 percent of Arabs feel that it is important for the man to work as compared to only 60 percent among the Jews.

The profile of participation over the lifecycle

There are two main findings regarding the profile of participation in the workforce according to age: First, the rate of participation among Arab men at first rises with age and falls sharply after 45. The phenomenon of early retirement has existed for many years and among members of various age cohorts and at all levels of education, particularly, among individuals with a low level of education. Second, the participation profile of Arab women is much lower but is also characterized by retirement at young ages (Figure 2).



² See "The Changing trends in the employment of Arab Israelis during the last decade," 2004 Bank of Israel Annual Report, Chapter 2: Employment and Wages, Box 2.2, 127-129.

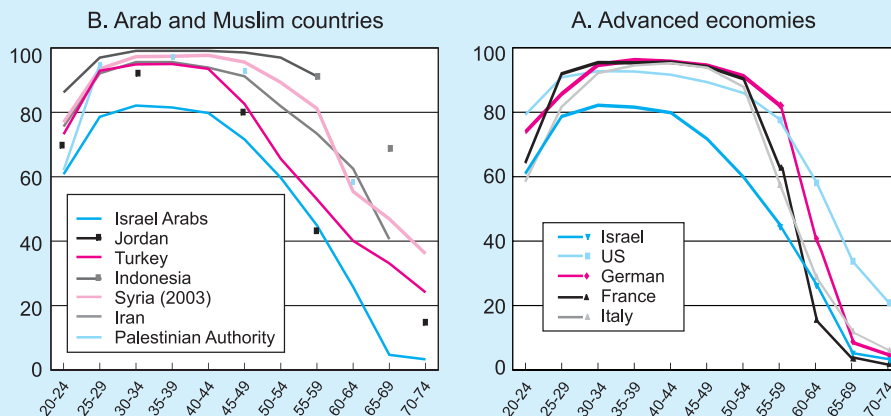
³ See the discussion in the 2007 Bank of Israel Annual Report, Chapter 5: Welfare Policy Issues.

The pattern of early retirement is also in line with the views held by Arabs as reported by the Social Survey. Thus, while only nine percent of Jews feel that the retirement age should be 54, 22.5 percent of Arabs hold this view. The pattern of early retirement among Arab men is still evident even after neutralizing the effect of the difference in levels of education between Arab and Jewish men.

In order to examine the extent to which the lifecycle participation profile of Arab men in Israel deviates from the norm, it is important to compare it to the participation profiles of other populations and economies (Figure 3). It appears that the rate of participation among Arab Israeli men is lower than that in Western countries and even than those in Arab and Moslem countries.

One of the more noticeable differences in the participation profile of Arab Israelis is the sharp drop after the ages 40–44. The participation profiles in all other economies have the classic hump shape (a rise followed by a plateau followed by a drop) over the lifecycle. Participation in Europe begins to drop off after the ages 50–54 and in the US after the ages 55–59 (and more gradually).

Figure 3
Men's Labor Force Participation Rate in Selected Countries, by Age, 2005



SOURCE: Central Bureau of Statistics. Labour Force Survey, 2005; www.ilo.org; <http://leamar.sci.org.ir>; <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3809&lang=en>, Department of Statistics (DOS) The Hashemite Kingdom of Jordan; http://www.dos.gov.jo/sdb_pop/sdb_pop_e/index_o.htm, The Syrian Labour Market Findings from the 2003 Unemployment Survey. Pafo, Geir <http://www.fao.org/pub/rapp/20002/20002.pdf> Overson and Pat Sletten

Among Arab Israelis, the hump is more compressed and has less of a plateau and this is also true for Palestinian men and many Arab and Moslem countries.⁴ Although early retirement is also common in Jordan and Turkey, the rate of participation among men in these two countries is significantly higher than that of Arab Israeli men.

⁴ The comparison is to countries for which data exists.

The rate of participation among Arab women in Israel is low in comparison to Western countries and to Jewish women in Israel. On the other hand, the participation pattern among Arab women is not significantly different from that of women in Arab countries and various Moslem countries.

An analysis of the participation patterns of Arab men⁵ according to age shows that an important factor explaining the decline in participation rates already at an early age is the high percentage employed in occupations that require physical fitness. Since physical fitness declines with age, so does the participation in employment in these occupations.⁶ These findings are in agreement with the those of the Social Survey which indicate that among individuals who retired during the previous ten years, 54 percent of the Arabs reported a physical limitation, handicap or illness as the reason for leaving their last place of work as opposed to about 21 percent of Jews and that among jobseekers, about 21 percent of the Arabs reported that the main reason for them not finding work was a physical limitation, handicap or illness as opposed to only six percent of Jews. We would mention that the possibility of receiving various types of government support enables men to retire when their physical capabilities decline.

The early retirement of Arab men from the workforce is also related to the cultural characteristics of Arab society. In this society, there is a widespread phenomenon of children supporting their parents already at a young age. And indeed, when an explanatory variable is added for whether an individual has adult children, the age coefficient in the regression no longer indicates an early retirement.

The most noticeable characteristic among Arab women is the large variance in the rate of participation. The source of this variance is apparently differences between “modern” and “traditional” women with respect to education, family status, number of children and skill levels (in, for example, English and computers). Also pointing in this direction is the increase in the participant rate over time as levels of education rise and as other cultural changes take place. The abovementioned finding, according to which the participation rates of women are very different from what is commonly observed in Western countries and among Jewish women in Israel and are similar to the rates in Moslem countries, strengthens the conclusion that cultural influences are playing a major role.

In addition to the abovementioned factors, participation patterns among Arab Israelis are also influenced by the participation of other groups, such as Palestinian workers, non-Palestinian foreign workers and unskilled Jewish

⁵ Participation regressions were estimated using data from the Manpower Survey of the Central Bureau of Statistics and a relatively new database based on the 2005 Social Survey of the Central Bureau of Statistics, which focuses on participation in the workforce.

⁶ The rest of the participation characteristics are similar to what is generally found in the literature, including the effect of level of education and various demographic variables.

workers. According to various studies that examined wages and employment of Arab Israelis, it may also be that discrimination in the labor market affects participation patterns. The limited access to employment in some of the Arab villages also has an effect on participation patterns.

Among both Arab men and women, the extent of religiosity was not found to have a significant effect on participation. However, religious affiliation was found to have an effect. Thus, Christian men have a higher participation rate than Moslems and Druse. It may therefore be that religion (though not necessarily the extent of religiosity) has an important effect on cultural characteristics which in turn influence participation.

The findings regarding participation patterns are in agreement with other phenomena in the labor market for Arab Israelis. Thus, the employment of Arab men is concentrated in construction, agriculture, commerce and traditional manufacturing. Therefore, it is no surprise that on average their wages are lower than those of Jewish men and that they retire earlier from physical occupations in these industries. Employment patterns are likely to also explain the higher unemployment rates among Arabs since these industries and occupations are particularly affected by a recession and by the entry of foreign workers.

In view of these findings, consideration should be given to policy measures that increase participation:

1. Measures to achieve greater dispersion of employment among Arab men in order to prevent over-concentration in occupations that require physical effort and in which retirement is earlier. These can include the increase in resources allocated to elementary and high school education and to higher education; assistance in focused professional retraining prior to retirement from physical occupations; and steps to remove barriers to demand for skilled Arab workers.
2. Encouraging the employment of Arab Israelis in place of foreign workers.
3. Encouraging the employment of women through, among other things, the increase in resources allocated to education and the subsidization of day care and afternoon care.⁷
4. Increasing the physical access to places of employment through investment in appropriate transportation infrastructure and means of transportation to work.

⁷ On the connection between the rate of participation in the workforce among mothers of young children in the Arab sector and the provision of free education, see Analya Shluser (2006), "The effect of providing free pre-kindergarten education on the supply of labor by Arab mothers: findings from a natural experiment," *Economic Quarterly*, Volume 3, 517-553.

4. EMPLOYMENT

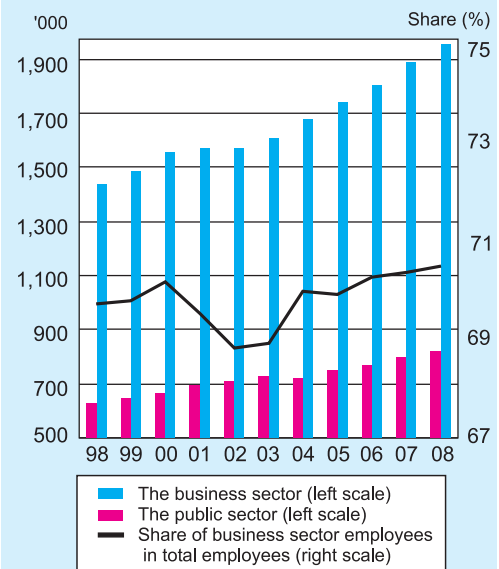
About 117,000 new employees started working in the principal industries, about 80 percent of them in the business sector.

Domestic employment increased by 4.0 percent in 2008, a relatively vigorous rate but slower than in 2007 (Tables 5.1–5.3). In the business sector, employment rose by 4.3 percent, meaning that 92,100 additional jobs were filled, mostly in the first half of the year. In the public services, employment grew by 3.1 percent—24,500 new hires—and the rate of increase accelerated during the year. The reason, evidently, was the implementation of Section 12a of the Manpower Companies Law, which requires direct employers of persons employed through manpower companies to put them on their own payroll if they wish to continue employing them,⁴ because the public services are major users of such companies.⁵

In 2008, in a departure from 2007, the increase in labor input in both the business sector and the public services did not keep up with the growth of employment. This happened because average weekly labor hours per person employed declined in the second half of the year and, in particular, in the last quarter, offsetting the increase in these parameters in the first half. In the business sector, hours worked typically decrease at the beginning of a recession because the cost of replacing staff (layoffs during the recession and new hiring when growth resumes) causes the adjustment of staffing to lag behind cyclical changes in activity. The contraction of

In the second half of 2008 the average weekly labor hours per person employed declined, a characteristic labor market development at the beginning of a recession.

Figure 5.1
The Number of Employees, by Sector, and the Share of Business Sector Employees in Total Employees^a, 1998–2008



^a Among Israeli's employees only.

SOURCE: Central Bureau of Statistics.

⁴ Section 12a of the Manpower Companies Law (1996) states, "An employee of a manpower contractor shall not work for his/her de facto employer for a period exceeding nine consecutive months." Accordingly, the interpretation of this clause is not unequivocal and creates the possibility of firing the employee after nine months on the job. This section of the law went into effect on January 1, 2008, after having been postponed for twelve years via the annual Economic Arrangements Law. Consequently, workers who were employed through personnel companies at the time Section 12a went into effect should have been hired by their direct employers by September 30.

⁵ Most government offices employ workers by means of such companies because they are subject to payroll ceilings. The principal employers of such labor are the Ministries of Education, Health, and Justice. (See, for example, R. Werzberger, 2002, "Employment of Workers via Manpower," background paper or the Committee for the Advancement of Women's Status.) In addition to employees of manpower Companies, government offices employ guards, security workers, and janitors via service contractors, to whom the Manpower Companies Law does not apply.

hours worked gathered momentum in Q4 as some enterprises switched to a four-day workweek—another policy invoked due to the cost of replacing staff.

Full-time employment expanded and part-time employment decreased in the first half of the year and moved in the opposite direction in the second half (Table 5.1). Both developments corresponded to the increase in average weekly hours worked in the first half of the year, the decline in hours worked in the second half, and cyclical changes in product.⁶ On annual reckoning, most positions that were added were full-time—the number of such positions increased by 5.1 percent while the number of part-time jobs grew by 1.3 percent—even though employment in the service industries, in which part-time employment is common, expanded rather vigorously in 2008.

The expectations of a real-activity slowdown should have been reflected in a decline in employed persons' confidence in keeping their jobs. There was little evidence of this, however: the percent of employed persons who were temporarily absent from their jobs was largely unchanged from 2007, and the share of voluntary resignations in total worker departure did not decrease until Q4. Then, however, it fell steeply, to around half as against roughly two-thirds on average in the first three quarters. Furthermore, employers exercised perceptible prudence in filling permanent posts, as reflected in a steep decrease in the share of posts filled for the purpose of permanently replacing workers who left or for the need to attain a permanent increase in staff. From the second quarter on, only one-third of posts filled were defined as permanent, as against two-thirds in the first quarter. Vacant posts were filled much more quickly in 2008 than in 2007: in four weeks on average as against 6.4 weeks in 2007.⁷

Most of the additional employee posts in 2008 were full-time positions, but in the second half of the year there was a move from full-time to part-time posts.

The share of voluntary resignations in total worker departure decreased sharply in the fourth quarter. Employers exercised caution in recruiting workers to fill permanent posts.

a. By-industry developments

Trade and services employment expanded due to a surge in inbound tourism, an upward trend in households' private consumption in the domestic market, and greater expenditure for consumption of nonhousing services (Table 5.4). The changes in manufacturing and services employment were influenced by trends in global trade. Thus, in the first half of the year, demand for energy and raw materials increased and, accordingly, so did output and employment in mining and quarrying, oil refining and petrochemicals, metals and metal products, and nonferrous mineral products.

There was a notable increase in employment in the trade and services industries; in high-tech manufacturing and service industries the number of employees increased by 11,000.

⁶ According to A. Brender and L. Gallo (2007), an increase of 1 percent in GDP induces an increase of 0.2 percent in men's hours worked and twice as large an increase among three categories of women: low-wage, young, and mature (The Effect of Changes in Wages, GDP Growth, and Workers' Demographic Characteristics on Working Hours, Discussion Paper 2007.10, Bank of Israel Research Department (in Hebrew with English abstract)).

⁷ Jobseekers may have been less picky in 2008, providing another possible explanation for the greater celerity in filling vacant posts. An alternative conjecture, that the change originated in a change in the mix of jobs that were offered and filled — i.e., an increase in the number of jobs in unskilled occupations, for which employees are matched with jobs with relative ease and alacrity — was not corroborated by the data. According to the Ministry of Industry, Trade, and Labor's survey of employers, the proportion of total vacant and filled posts that belonged to the trade and service industries, which are intensive in low-skilled labor, was largely unchanged from 2007.

Employment in these subindustries, which are defined as mixed industries in terms of their technology intensity, ebbed in the second half of the year but remained buoyant relative to the year-earlier period. Although it was believed that the high-tech industries,⁸ which operate mainly for export, would be harmed by the global crisis and the currency appreciation, employment in these fields increased by some 11,000

Table 5.4
Employment and Labor Input, by Industry,^a 2004-08

	Employment							
	Thousands					Rates of change		
	2004	2005	2006	2007	2008	2006	2007	2008
Total business sector ^b	1,909.9	1,968.8	2,031.9	2,125.8	2,217.9	3.2	4.6	4.3
Agriculture	73.8	76.5	71.7	71.4	76.3	-6.3	-0.4	6.8
Construction	193.0	183.3	187.7	205.6	215.9	2.4	9.5	5.0
Manufacturing	394.4	402.6	413.3	432.3	444.2	2.7	4.6	2.7
Commerce and vehicle repairs	340.6	349.2	349.4	371.4	392.8	0.1	6.3	5.8
Hotels and catering services	121.4	129.3	135.3	135.5	144.2	4.7	0.2	6.4
Banking, insurance, and finance	79.1	82.1	87.4	95.0	99.2	6.5	8.7	4.4
Business services	365.1	375.2	394.7	419.5	436.3	5.2	6.3	4.0
Transport, storage, and communications	154.9	163.6	172.6	172.5	175.5	5.5	-0.1	1.8
Public sector	724.1	753.9	769.1	798.7	823.1	2.0	3.8	3.1

Employment and labor input, by industry, 2008									
	Employment						Labor input		
	Thousands			Rates of change from previous year			Thousands		
	Israelis	Foreign workers	Palestinians	Israelis	Foreign workers	Palestinians	Israelis	Foreign workers	Palestinians
Total business sector ^b	1,956.1	201.3	60.5	3.7	5.9	21.0	3.2	6.2	19.6
Agriculture	47.9	24.5	3.9	10.6	2.6	-7.9	10.9	2.6	-5.3
Construction	150.6	36.3	29.0	0.3	10.3	29.1	-0.7	10.3	25.8
Manufacturing	432.0	2.4	9.8	2.5	10.8	14.1	1.5	10.3	12.4
Commerce and vehicle repairs	377.9	5.8	9.1	5.5	5.1	18.7	4.2	5.4	17.9
Hotels and catering services	129.9	12.5	1.8	6.4	5.1	17.3	3.2	5.3	17.9
Banking, insurance, and finance	99.2			4.4			5.3		
Business services	388.9	40.9	6.6	3.6	3.7	37.0	3.4	4.0	35.2
Transport, storage, and communications	174.5		1.0	1.9		-20.0	1.2		-20.9
Public sector	820.6	2.0	0.5	3.1	0.0	0.0	3.7	0.0	0.0

^a Including reported and unreported foreign workers and Palestinians.

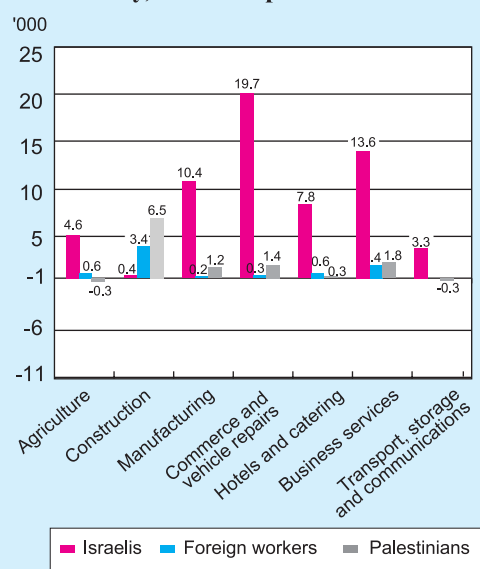
^b Figures may not add due to the exclusion of 'miscellaneous.'

SOURCE: Central Bureau of Statistics and National Accounts data.

⁸ Including pharmaceuticals; office, bookkeeping, and computer machinery; electronic components; electronic communication equipment; control and supervision equipment; medical and scientific equipment; aircraft; communications; and computer and R&D services in the natural sciences.

(4.5 percent) in 2008 due to vigorous growth in the first half of the year.⁹ In traditional industry, employment continued to drift downward pursuant to the long-term trend.

Figure 5.2
Change in Number of Employees by
Industry, 2008 compared with 2007



SOURCE: Central Bureau of Statistics.

markedly and steeply during the review year, foremost in Q3. The increase evidently originated in the implementation of the Manpower Companies Law and had nothing to do with the municipal elections, since in the previous election season (Q3:2003) municipal administration employment actually declined. The increase in employment in welfare and social services also traced to the hiring by authorities of workers who had been on the payroll of manpower companies.

b. Employment of Israelis

Employment of Israelis increased by 95,000 (3.5 percent) in the review year (Tables 5.2–5.4). The employment rate (the share of employed persons in the total working-age population) was 53.1 percent on average, rising in all education cohorts except

In construction, the upturn in the employment of Israelis stopped in 2008 and was succeeded by an increase in employment of non-Israelis. In agriculture, in contrast, employment of Israelis surged and the use of Palestinian labor slackened (Table 5.4). This may not be indicative of a substitution ratio between Israelis and non-Israelis¹⁰ because Israelis and non-Israelis appear to be offered different mixes of jobs. Thus, while the number of skilled workers in agriculture increased by 10.2 percent in 2008 and that of other skilled workers grew by 1.6 percent, the number of unskilled workers in all industries (manufacturing, construction, and agriculture) who compete with non-Israelis did not grow.

In the public services, employment in municipal administration increased

The mix of jobs offered to Israelis in agriculture and construction apparently differs from that offered to foreign workers.

Employment in municipal administration increased steeply in 2008, apparently due to the implementation of the Manpower Companies Law.

⁹ Analysis of the profitability of manufacturing exports shows that appreciation played a very minor role in the decrease in profitability in the past two years because it originates in the weakness of the USD abroad and not in the strength of the NIS. The main reason for the downturn in export profitability was a worsening of terms of trade due to increases in the prices of imported intermediates. (For an expanded discussion of this topic, see “Estimating the Profitability of Manufactured Exports,” *Recent Economic Developments* 122, Bank of Israel Research Department, pp. 30–32.

¹⁰ On the substitution of Israelis and non-Israelis in construction, see N. Zussman and D. Romanov (2003), *Foreign Workers in the Construction Sector: Situation and Policy Implications*, Discussion Paper 2003.06, Bank of Israel Research Department.

The employment rate of those in the 25–64 age group reached a record 71.0 percent in 2008, in line with the employment target of the socioeconomic agenda.

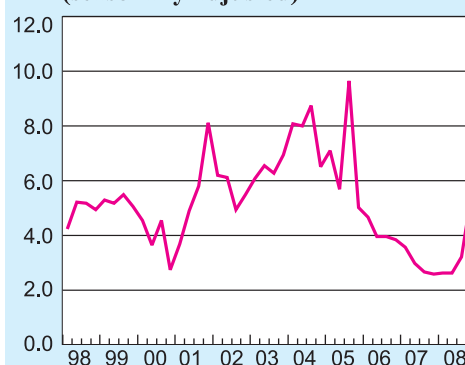
The number of vacant jobs contracted sharply in the second half of the year, and finding employment thus became more difficult.

for the 9–10 years group (Table 5.6). The growth of employment among the low-skilled was abetted by 1.8 percent real erosion of the minimum wage (Table 5.2). The employment rate of those in the 25–64 cohort reached a record 71.0 percent on annual average, in line with the employment target of the socioeconomic agenda. For more about Israel's employment rate from the perspective of the agenda, see Box 5.2.

As for demand for Israeli workers, the number of vacant posts in the business sector, not including construction and agriculture, was similar in the first half of 2008 to the year-earlier period. In the

second half of the year, however, the business cycle changed direction significantly and the number of vacant jobs contracted sharply—by more than 40 percent relative to the second half of 2007—with most of the decline occurring in Q4. Difficulty in finding employment may be measured by tracking the ratio of unemployed persons in the CBS Labor Force Survey to vacant posts in the Ministry of Industry, Trade, and Labor's Employers Survey. By this metric, the chances of finding work were good in the first half of the year as the number of jobless persons competing for each vacant job was especially low (Figure 5.3). The quarterly changes in this indicator corresponded to the gradual slackening of real economic activity and an increase in the difficulty of finding work. The number of unemployed persons per vacant post increased steeply in Q4 due to changes on both sides of the ratio: fewer vacant jobs and more unemployed.

Figure 5.3
Number of Unemployed Persons per Vacancy, 1998–2008
(seasonally adjusted)



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

Box 5.2

The rate of employment in Israel from the perspective of the socioeconomic agenda and in an international comparison

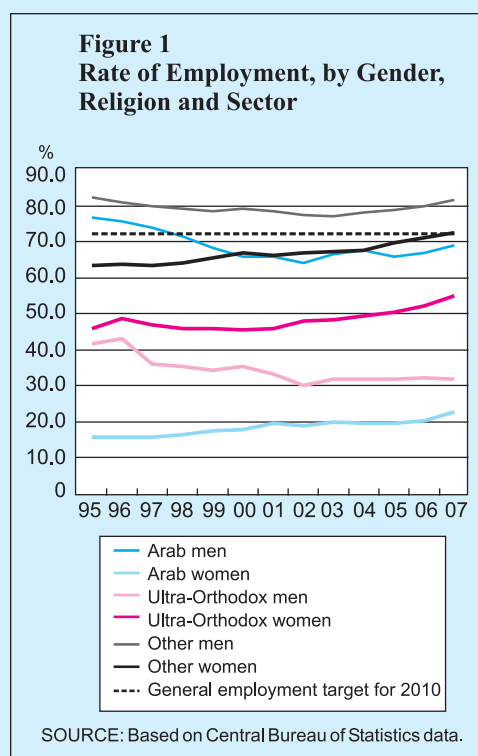
The rate of employment is defined as the percentage of employed individuals in the total working-age population. Similarly, one can define the rate of employment for population groups according to age group, gender or level of education. The employment rate expresses both the rate of participation in the labor force and the rate of unemployment. Due to the heterogeneity of the population in Israel and the low participation rates in the ultra-Orthodox and Arab sectors and among individuals with a low level of education, the overall employment rate

in Israel is significantly lower than in the developed countries. In order to reduce the gap between Israel and the OECD countries, the country's socioeconomic agenda for 2008–10 includes the objective of increasing the employment rate among the main working-age population (aged 25–64) to 71.7 percent by 2010.¹

The adoption of employment targets is also a common practice in the OECD countries. Thus, the Lisbon European Council (March 2000) considered that the overall aim was to increase the employment rate among the total working-age population in the EU (i.e., aged 15–64) to 70 percent by 2010 and among women in the same age group to 60 percent. In 2001, intermediate targets were established for 2005 (76 percent for the general population and 57 percent for women) and an additional employment target of 50 percent by 2010 was added for the population aged 55–64. Although the data shows that significant progress has been made towards achieving these targets, they have not been fully attained.²

Although the employment rate appearing in the Israeli agenda was determined for the population as a whole, the policy to attain the target is meant to also focus on absorbing segments of the population characterized by low employment rates—the ultra-Orthodox, Arabs and the low educated—into the labor market. The increased participation of these populations in the labor market will also work to achieve the objective of reducing poverty, which appears on the agenda (see Chapter 8), by raising the labor income of weak segments of the population.

Figure 1 presents the employment rate for each of the population groups according to religion/nationality and the general employment target for 2010. It can be seen that the employment rates for men and women, excluding the ultra-Orthodox and Arabs, were above the target already in 2007; the employment rate among Arab men was close to the target and



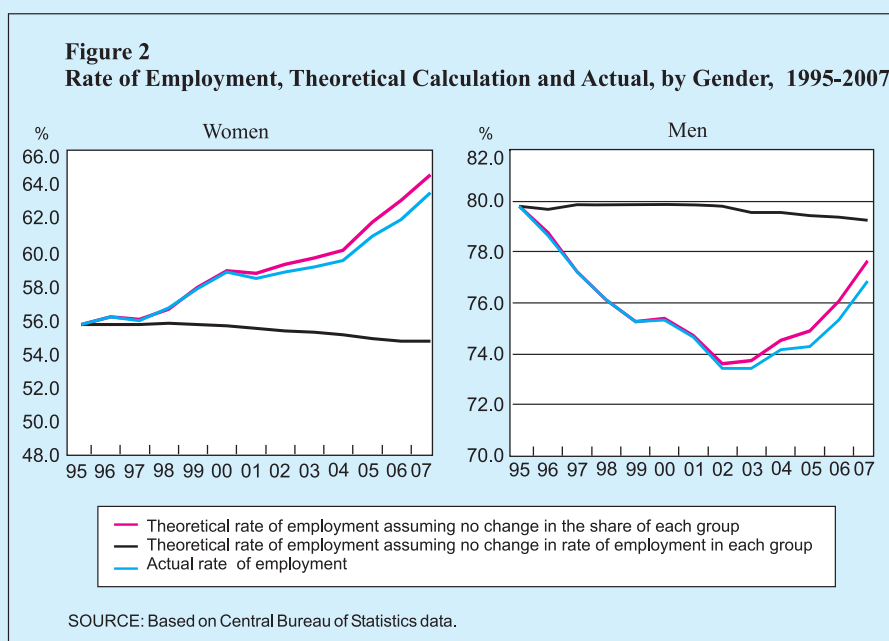
¹ In the OECD the practice is to relate to the total working-age population (aged 15–65) and not the main working-age population.

² In 2006, the average employment rate among women in 27 European countries reached the intermediate target (57 percent), while the general employment rate stood at 65 percent and that of 55–64 year-olds stood at 44 percent.

the employment rates for the other groups were significantly lower than the target, despite the increase among ultra-Orthodox and Arab women in recent years.³

Figure 2 presents the contribution of changes in the composition of the population and in the employment rates of specific groups to the general employment rate. To this end, two theoretical employment rates were calculated: in the first calculation, the breakdown of the population into groups was kept fixed as it existed in 1995⁴ in order to understand how changes in the specific employment rates of the population groups contributed to changes in the general employment rate; while in the second calculation, the employment rates of the groups were kept fixed at their 1995 levels in order to understand how changes in the composition of the population contributed to changes in the general employment rate.

According to this calculation, the rate of employment among men would have reached 77.7 percent if the proportions of the three groups (ultra-Orthodox, Arabs and the rest of the population) had remained unchanged since 1995. If the rate of employment for each group had remained constant since 1995, the rate of employment among men would have reached 79.3 percent. In reality, the rate of employment

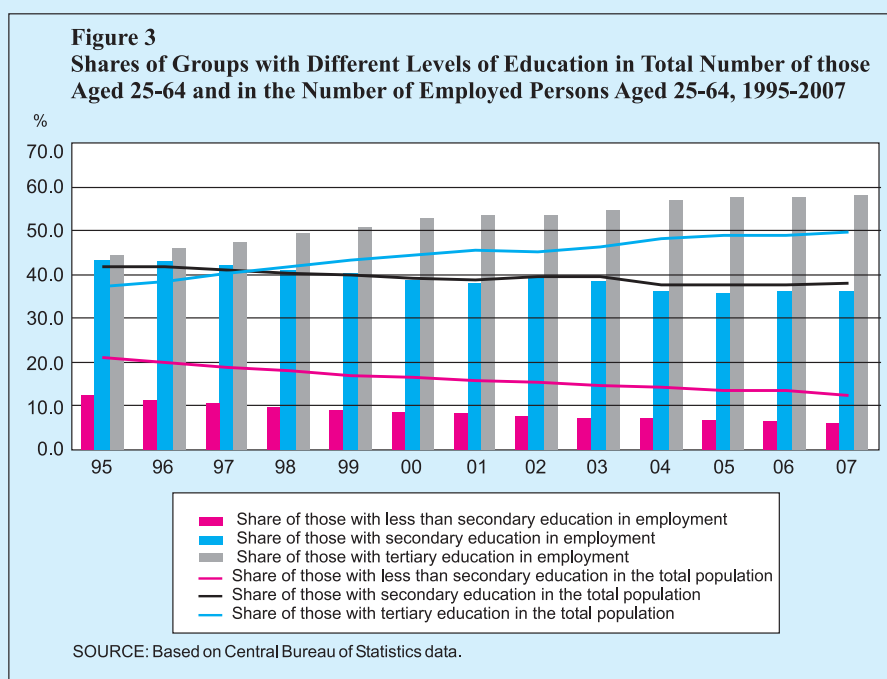


³ A household is defined as ultra-Orthodox if one member of the family learned in a Talmudical college. We would mention that using this definition results in an underestimation of the size of the ultra-Orthodox population and apparently its employment rate as well.

⁴ The year 1995 was chosen as the starting date because by that year the absorption of the immigrants from the former USSR into Israel's labor market was almost completed, and the unemployment rate returned to its pre-immigration level.

among men stood at 76.8 percent in 2007, which is less than the two calculated theoretical employment rates. This implies that the drop in the employment rate was a result of both the change in the composition of the population (the relative growth of groups with a weaker connection to the labor market) and the decrease in the specific rates of employment (Figure 1). Among women, the rate of employment would have been 64.6 percent in 2007 if the proportions of the groups had remained unchanged and 54.8 percent if the employment rates for the groups had remained unchanged. The actual employment rate among women was 63.5 percent and therefore the influence of the increase in the specific employment rates of each of the groups of women (Figure 1), which acted to increase the total employment rate among them, was stronger than the effect of changes in the relative sizes of the groups.

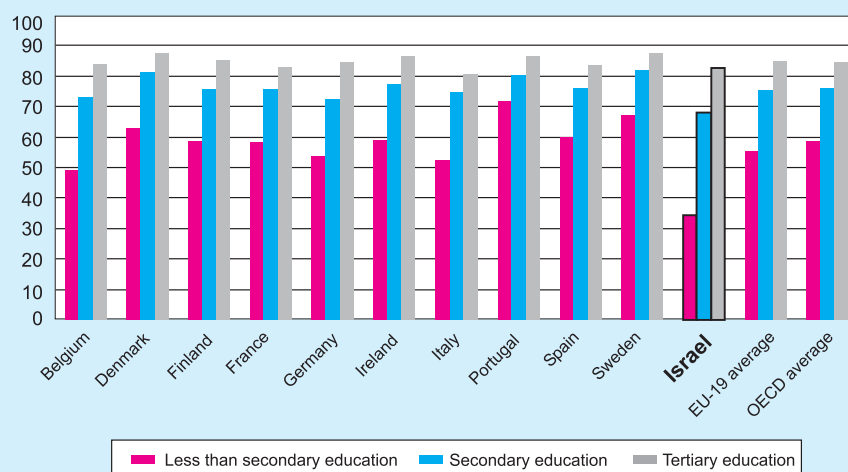
Another segment of the population which is less involved in the labor market is made up of individuals with a low level of education. In the second part of the analysis, the population aged 25–64 was divided into three groups according to level of education: less than high school education, high school education (including vocational and agricultural high schools) and tertiary education. This division enables an international comparison to be made and therefore individuals with a *yeshiva* education are not included in this analysis. Figure 3 presents the breakdown of the population aged 25–64 and of the employed population aged 25–64 according to the three education levels for the period 1995–2007. It can be seen that the group with tertiary education is over-represented and the group with less



than high school education is under-represented in the number of employed relative to their proportions in the population. This implies that the group with tertiary education makes a larger contribution to the economy's employment rate, and that this contribution is also increasing over time, primarily as a result of the group's increasing proportion of the population. On the other hand, the proportions of the other two groups have declined, both due to the drop in the proportions of these groups in the population aged 25–64 and the drop in their employment rate.

Figure 4 presents the 2007 employment rates for the three groups in Israel in comparison to the parallel groups in selected OECD countries and the average for the OECD countries in 2006. The comparison shows that the employment rate for the group with tertiary education in Israel is similar to that for the same group in the OECD countries while the employment rates of the less-educated groups are significantly lower than for the parallel groups in the OECD. A particularly large gap is found for the group with less than high school education. Thus, this group's employment rate in Israel is more than 20 percentage points less than the average for the OECD countries. The conclusion to be reached from this comparison is that groups with low levels of education should be integrated within the labor market in order to raise the economy's general employment rate.

Figure 4
Rates of Employment in Israel and Selected Countries, by Educational Level, 2007



SOURCE: OECD Employment Outlook 2008 Based on Central Bureau of Statistics data.

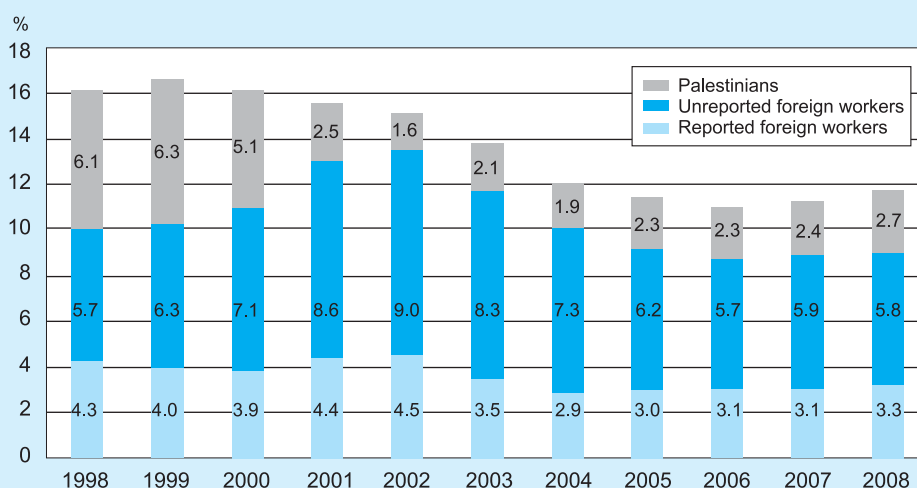
c. Employment of non-Israelis

In 2008, the employment of non-Israelis—Palestinians and foreign workers—expanded perceptibly, by 22,000, as against the declared policy of making less use of such workers and replacing them with Israelis (Tables 5.2–5.4). Some of the increase traced to infiltration through the southern border¹¹ but most originates in greater laxity in enforcement. Only 2,000 illegal aliens were deported in 2008, much fewer than in previous years.¹²

Most business-sector industries increased their employment of non-Israelis, bringing the number of Palestinians and foreign workers to 61,000 and 203,300, respectively. Consequently, the share of non-Israeli workers in the business sector climbed to 11.8 percent. In construction, 9,000 permits for the employment of foreign workers were issued¹³ but the actual number of foreign workers in this industry was much larger (Table 5.4).

Contrary to the declared policy of reducing the number of foreign workers, in 2008 the employment of non-Israelis increased significantly.

Figure 5.4
The Share of Foreign Workers and Palestinians in the Business Sector, 1998–2008



SOURCE: Central Bureau of Statistics.

¹¹ At the present writing, there were 9,000 refugees and seekers of political asylum in Israel.

¹² By comparison, 4,000 undocumented foreign workers were deported in 2007 and 21,000 in 2003 (after the establishment of the immigration police in 2002).

¹³ The number of foreign-worker permits in the construction industry has fallen drastically in recent years (in comparison, the quota of permits in this industry was 30,000 in 2003). According to Government Resolution 446, adopted on Sept. 12, 2006, the number of permits in construction will be slashed to 6,000 from October 2009 onward and restricted to experts only from 2010 onward.

In long-term care, the number of permits for the employment of foreign workers stands at 54,500, but the actual number of such workers is unlimited because a foreign worker may be employed in the home of any elderly person whose need for long-term care is defined as medium to high. Recently, the National Insurance Institute and the Ministry of Finance reached agreement on a program to employ fewer foreign workers in long-term care and replace them with Israelis. The agreement awards extra hours to employers of Israeli workers for the two highest levels of eligibility—four hours at the highest level and three hours at the level immediately below.

5. UNEMPLOYMENT

The unemployment rate fell to an historic low annual average of 6.1 percent.

The pass-through of the real activity slowdown to the unemployment rate seems to have occurred more rapidly from the middle of 2008 than in the previous recession.

The number of unemployed persons among the low-educated dropped considerably.

In the first half of 2008 the narrowing of the output gap, the growth of employment, the decrease in unemployment, together with the upturn in nominal wage, indicated that the economy was verging on full employment.

The unemployment rate fell for the fifth consecutive year and settled at a historic low of 6.1 percent on annual average—lower than the Eurozone average and similar to the OECD average. Importantly, however, the global crisis struck these countries before it did Israel and began to affect their unemployment rates earlier. The large-scale layoffs that Israel experienced in Q4 caused jobless claims to increase by 45,000.¹⁴ While the shedding of workers (via termination and resignation) was accompanied in all industries by the continued hiring of other workers, the unemployment rate climbed to 6.3 percent in Q4 as against 6.0 percent in Q3. The pass-through of the real activity slowdown to the unemployment rate seems to have occurred more rapidly in the second half of 2008 than in the previous recession, which began in the last quarter of 2000. In the earlier case, the unemployment rate began to rise in Q2:2001, i.e., at a two-quarter lag.

The number of unemployed persons declined by an appreciable 14.8 percent relative to 2007. The decrease occurred in all education-level groups but was most perceptible among the low-skilled due to the growth of employment in industries that are intensive in low-skilled labor, chiefly trade and hotel and restaurant services.¹⁵ These industries made a larger contribution to the decline in the unemployment rate than industries that are intensive in high-skilled workers (Tables 5.5 and 5.A.10).

The unemployment rate has been falling steadily since the onset of the growth phase of the latest business cycle, from 10.7 percent in 2003 to 6.0 percent in the second and third quarters of the review year. Among persons with 16+ years of schooling, the unemployment rate tumbled to a mere 2.7 percent in Q2 (original data). Among the low-educated the unemployment rate remained quite high but dropped considerably relative to previous years. The narrowing of the output gap, the growth of employment, the decrease in joblessness, together with the upturn in nominal wage in the first half of 2008, all these indicate that the economy was verging on full employment.

¹⁴ For discussion of developments in the Israeli labor market in late 2008, see “The Israeli labor market - updated picture,” Recent Economic Developments 123, Bank of Israel Research Department, pp. 22–25.

¹⁵ Among persons with 9–10 years of schooling, an additional factor was at work: a decrease in the participation rate.

Table 5.5
Contribution to Change in Unemployment Rate, Israelis,^a 2005–08

	(change from previous year, percentage points)			
	2005	2006	2007	2008
Total	-1.4	-0.6	-1.1	-1.2
Public sector	-0.5	0.1	-0.2	-0.2
Business sector	-0.9	-0.7	-0.9	-1.0
Human-capital-intensive industries ^b	-0.4	-0.5	-0.6	-0.2
Nontradables ^c	0.0	-0.2	-0.4	0.0
Manufacturing	-0.2	0.0	-0.2	0.0
Computer services	-0.2	-0.3	0.0	-0.2
Low-educated-labor-intensive industries ^d	-0.1	0.2	-0.7	-0.4
Manufacturing	0.3	0.2	-0.1	0.1
of which Textiles and clothing	0.0	0.1	0.1	0.1
Construction	0.2	-0.1	-0.4	0.1
Hotel and catering services	-0.3	-0.1	0.1	-0.2
Other industries (not classified) ^e	-0.4	-0.4	0.4	-0.4
of which Manufacturing	0.1	-0.2	0.0	-0.1

^a The contribution to the rise in unemployment was calculated as the difference between the number of Israelis who would be employed if employment had expanded in line with the growth of the civilian labor force and its actual expansion (for by-industry breakdown, see Table 5.A.10).

^b Human-capital-intensive industries include some manufacturing, computer services, banking, insurance, financial institutions, and other business activities. This classification differs from that in the section on manufacturing in Chapter 1.

^c Banking, insurance, financial institutions, and other business activities.

^d Low-educated-labor-intensive industries include some manufacturing, commerce and repairs, construction, and hotel and catering services.

^e Other industries (not classified) include agriculture, water and electricity, transport, storage and communications, equipment rentals, employment agencies, security and cleaning, entertainment and other personal services.

SOURCE: Based on the Central Bureau of Statistics Labor Force Surveys.

The falling unemployment rate reflected a decline in the cyclical components of joblessness, whereas the residual unemployment traced mainly to a mismatch of workers' skills and employers' requirements. According to the Bank of Israel Survey of Businesses, the skilled-labor-shortage constraint was the main supply-side constraint in all industries in the first three quarters of the year. It was roughly as intensive during that time as in 2007 and was stronger than in 2004 and 2005, the first years of the growth phase of the business cycle. Manufacturers Association data on the percent of enterprises that had difficulty in recruiting workers painted a similar picture. The picture changed in Q4, after the economic activity slowdown had begun to manifest itself in the labor market: the severity of the skilled-labor-shortage constraint decreased abruptly and ceased to be an effective constraint to the growth of supply in all industries except construction.

The frictional component of unemployment, reflected in the percent of quitting in total employee discharges and in the index of employee turnover, was relatively high in the first three quarters of the review year but declined in Q4. The proportion

The falling unemployment rate reflected a decline in its cyclical component.

Table 5.6**Israelis' Participation, Employment and Unemployment Rates, by Educational Level, 2003–08**

	(percent)					
	2003	2004	2005	2006	2007	2008
Rate of participation^a						
Total	54.8	55.2	55.2	55.6	56.3	56.5
Years of education						
8-0	22.7	23.7	23.5	23.0	23.1	23.4
9-10	39.0	38.0	37.9	38.5	38.5	37.2
11-12	54.1	54.1	54.2	54.6	54.7	54.8
15-13	65.6	66.0	65.6	65.8	66.4	66.5
16+	77.0	77.1	77.3	77.1	77.0	77.2
Employment rate^a						
Total	48.9	49.5	50.2	50.9	52.2	53.1
Years of education						
8-0	18.9	19.9	20.0	19.3	19.4	20.8
9-10	33.0	32.3	32.9	33.5	34.2	33.8
11-12	46.7	46.8	47.7	48.5	49.6	50.6
15-13	59.9	60.3	60.7	61.4	62.5	62.9
16+	72.4	73.1	73.9	74.0	74.2	74.6
Unemployment rate^b						
Total	10.7	10.4	9.0	8.4	7.3	6.1
Years of education						
8-0	16.6	16.1	15.0	15.9	16.0	11.3
9-10	15.3	15.1	13.1	12.8	11.3	9.2
11-12	13.6	13.5	12.0	11.2	9.4	7.6
15-13	8.7	8.7	7.4	6.6	5.9	5.5
16+	5.9	5.3	4.3	4.0	3.6	3.3

^a Percent of the working-age population.^b Percent of the civilian labor force.

SOURCE: Central Bureau of Statistics Labor Force Surveys.

The frictional component of unemployment was relatively high in the first three quarters of 2008 but declined in the fourth.

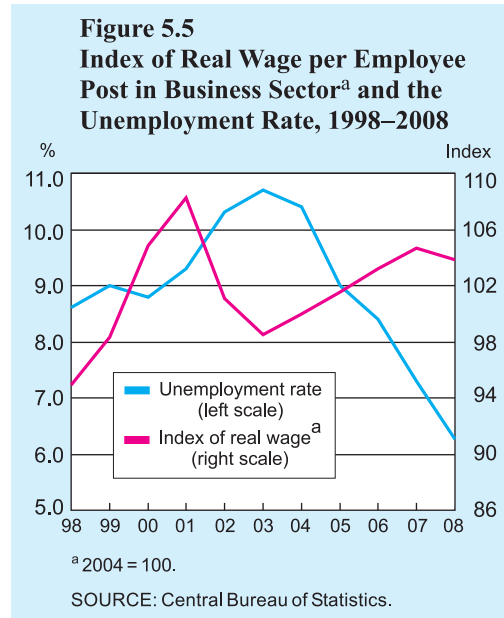
of quitting in total employee discharges was high in the first three quarters at around two-thirds, resembling the 2007 rate. By implication, workers continued to seek opportunities that would improve the terms of their employment, meaning that their unemployment was frictional (incurred as they moved from one job to another). In Q4, the expectation of a souring of the labor market lowered the percentage of quitting in total employee discharges to around one-half. Another indicator of the extent of frictionality and workers' predisposition to improve their terms of employment is the total employment turnover, calculated by adding the number of posts filled and the number of posts vacated. The turnover was high in 2008, at around 270,000 posts on quarterly average (140,000 posts filled and 132,000 posts vacated), 16 percent of total employment.¹⁶

¹⁶ However, this indicator slowed relative to 2007, when the total average employment turnover was 19 percent of all persons employed.

6. WAGES

The real wage per employee post decreased by 0.9 percent in 2008, the first decline since 2003, when the economy began to recover from its previous recession (Table 5.7). The real wage declined due to an unexpected inflationary spurt, despite the rise of 3.7 percent in the nominal wage, the fastest since the economy emerged from the previous recession. As with other indicators, the trend in nominal wage per employee

The real wage per employee post decreased by 0.9 percent in 2008, the first decline since 2003, due mainly to an spurt in inflation.



post changed direction in mid-year: rapid increases in most industries in the first half, due to demand pressures as the economy approached full employment, and slowdown in the second half. The response of nominal wage to the moderation of real activity was faster in 2008 than in previous recessions, for several reasons: (1) the easing of activity had been expected given the intensity of the global recession; (2) the labor market had become much more elastic than in the past, making layoffs easier to perform and vitiating workers' bargaining power; (3) the first industries to be hit were those that employed high-skilled workers at high wages; the layoffs of these workers pulled the average wage down.

The response of nominal wage to the moderation of real activity was faster in 2008 than in previous recessions.

Real wage per employee post did not decrease in several industries in the business sector, foremost those that employed a relatively high percent of high-skilled workers (Table 5.8)—business and financial services and electricity and water, the latter being served by a strong labor union. The evident reason for the increase in the real wage of Israeli workers in agriculture and construction was the expansion of employment in skilled occupations that pay well by industry standards.¹⁷ Most industries that reported relatively high rates of increase in employee posts also exhibited stronger decreases in real wage (Figure 5.6). This suggests that the intake of labor in these industries dampened wages because the newly hired were paid less, on average, than veteran employees.

The relatively strong decrease in real wage in manufacturing is a reflection of a wage freeze that some firms imposed in the first half of the year as currency appreciation and slumping demand for Israeli exports, occasioned by the escalating global economic

¹⁷ In the first three quarters of 2008, employment of skilled workers increased by 7.9 percent in agriculture and by 3.5 percent in construction, manufacturing, and other industries, while employment of unskilled workers in these industries increased by only 1.3 percent.

Table 5.7
Change in Real Wage per Employee Post,^a 2004-08

	(percent, at constant prices)				
	2004	2005	2006	2007	2008
Total	2.5	1.0	1.3	1.6	-0.9
Israelis	2.3	1.1	1.3	1.8	-0.5
Public sector	4.6	0.0	0.3	2.2	-0.6
Business sector, total	1.5	1.5	1.7	1.4	-1.0
Israelis	1.0	1.5	1.6	1.4	-0.6
Agriculture, total	0.6	0.7	1.6	1.9	-1.4
Israelis	-0.3	-0.1	0.5	0.8	2.5
Manufacturing–Israelis	2.2	2.6	2.5	2.5	-1.8
Electricity and water–Israelis	0.4	6.4	6.8	-0.8	3.0
Construction, total	1.6	-1.0	0.7	1.8	0.4
Israelis	-0.8	-0.7	0.8	2.3	1.6
Commerce and repairs–Israelis	0.2	1.0	0.2	2.1	-0.9
Hotel and catering services, total	-0.4	-0.4	0.5	1.8	-2.1
Transport, storage and communications–Israelis	-0.7	0.2	0.3	0.0	-3.3
Financial services–Israelis	10.3	3.0	7.9	-0.9	0.1
Business services–Israelis	3.0	4.6	2.7	3.6	1.3

^a Real wage per employee post according to National Insurance Institute reports. Includes reported Palestinian and foreign workers, unlike otherwise indicated.

SOURCE: Central Bureau of Statistics Labor Force Surveys.

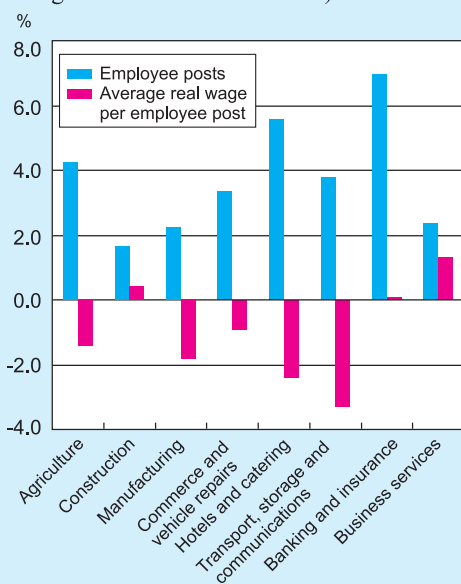
Table 5.8
Change in Output, Labor Inputs and the Real Wage, by Industry, 2008

	Share of employees with more than 12 years' education ^a	(percent)					
		Change from 2007			Change from 2000		
		in output	in labor input	in real wage per employee post	in output	in labor input	in real wage per employee post
Agriculture	0.28	-5.2	6.8	-1.4	24.6	-4.0	5.8
Manufacturing	0.50	7.4	1.8	-1.9	25.0	5.1	6.3
Electricity and water	0.60	0.1	22.3	3.0	26.0	13.6	12.7
Construction	0.26	2.3	3.8	0.4	0.5	-12.9	-0.9
Commerce and vehicle repairs	0.37	2.1	4.5	-0.9	35.4	18.7	-5.0
Hotels and catering services	0.35		3.6	-2.1		0.2	-7.6
Transport, storage and communications	0.40	2.7	1.0	-3.3	37.6	12.4	-10.0
Financial services	0.68		5.3	0.1		34.8	7.3
Business services	0.71	3.7	3.8	1.1	42.0	38.6	6.2

^a Data for 2007

SOURCE: Central Bureau of Statistics.

Figure 5.6
Rate of Change in the Number of Employee Posts and in the Real Wage per Employee Post, by Principal Industries, 2008 compared with 2007
 (including reported foreign workers in agriculture and construction)



SOURCE: Central Bureau of Statistics.

crisis, eroded their profitability.¹⁸ The real wage in manufacturing declined in all technology groups, high-tech above all; in high-tech business services—computer services and R&D—it also fell but rose in the whole business services industry.

In trade and services industries, which are intensive in low-skilled workers whose wage trend is determined largely by changes in the minimum wage, the real wage per employee post fell due partly to the 1.8 percent erosion of the minimum wage (Table 5.2). In nominal terms, however, the minimum wage was raised to NIS 3,850 per month in July as against the NIS 3,710 plateau that had been in effect since April 2007. The raise, part of the coalition agreement, had been scheduled to go into effect in June 2007 but was postponed. These industries' intake of new workers, whose wages are lower on average than those

The real wage in high-tech manufacturing and service industries declined faster than in industries with lower levels of technological intensity.

of veteran employees, also had an erosive effect on wages.

In general government, the only field that reported an increase in real wage was education, due to wage agreements concluded with teachers and lecturers in 2007.¹⁹ In April 2008, a new collective agreement in general government granted employees in this sector a wage increase of 5 percent by December 2009 in three installments.²⁰ An arbitration proceeding concerning physicians at public hospitals and two HMOs (Clalit and Leumit) awarded the doctors an average wage increase of 23.5 percent.²¹

In April 2008 a new wage agreement was signed in the general government sector.

Unit labor cost was flat after a protracted decrease in 2002–06 and an upturn in 2007 (Table 5.2). The decrease in unit cost until 2006 corresponded to the phase of exiting the recession and beginning the resumption of growth. During this phase, product growth was attained by improving the utilization of labor input while relatively

Unit labor cost stabilized after a protracted decrease in 2002–06 and an upturn in 2007.

¹⁸ An investigation by the Manufacturers Association at more than fifty large manufacturing enterprises showed that 46 percent of the enterprises also canceled employee wage increases that had been planned for 2009.

¹⁹ Notably, however, the “New Horizon” accord with teachers at the primary level also lengthened the teachers’ work week.

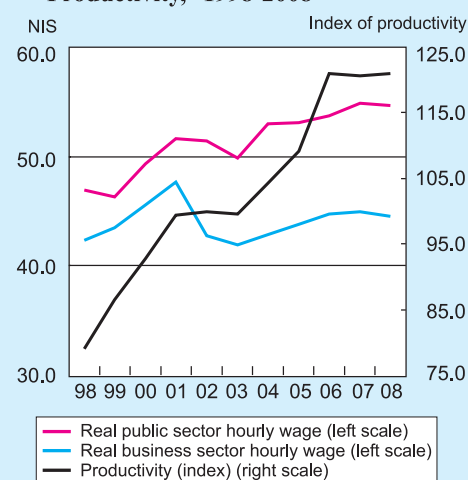
²⁰ The increase received by the end of November 2008 was only 1.5 percent and did not compensate for inflation during that time.

²¹ For discussion of the arbitration agreement and its implications, see “Arbitration Ruling on Physicians’ Wages and Public Expenditure,” Recent Economic Developments 123, Bank of Israel Research Department, pp. 25–29.

modest rates of increase in employment and a decrease in the unemployment rate restrained wage demands. The defining indicators at that time were a rapid upturn in business-sector labor productivity, measured in terms of GDP per hour worked, and a very gentle ramping of wage (Figure 5.5). In 2007, the growth phase of the current cycle crested and labor productivity stopped growing, indicating full utilization of labor input. At this point, unit labor cost increased, the upturn in business-sector employment accelerated, and the unemployment rate declined perceptibly. Vigorous nonresidential investment in 2007 allowed labor productivity to improve in 2008 even though industries noted for relatively low productivity expanded and larger numbers of low-skilled workers found jobs, lowering labor-force quality.

Two factors (in addition to the unemployment rate, which was still relatively high) helped to restrain real wage growth in recent years. First, the rising share of newly hired workers in many industries pulled the average wage down because such workers have less experience and, on average, are paid less than veteran workers. Second, the long-term reform in income tax on labor, inaugurated in 2003, caused the net wage to increase relative to the gross wage (by 10 percent at medium wage levels, in cumulative terms) and mitigated wage-increase demands.²² The erosion of real wage relative to productivity in recent years was manifested in a decline in the rate of return to labor in the business sector, at 65.9 percent in 2008 relative to the beginning of the decade (see Table 2.5 in Chapter 2).²³

Figure 5.7
The Real Hourly Wage in the Business Sector and the Public Sector, and Labor Productivity,^a 1998-2008



^a Index of business sector product per labor/hour, (base wage - 2001).

SOURCE: Based on Central Bureau of Statistics data.

²² For example, the net wage of an Israeli male who earned NIS 12,000 gross per month increased by NIS 1,200 between 2003 and 2008 and that of an Israeli male who earned NIS 18,000 per month climbed by NIS 1,900.

²³ For the long-term development of the rate of return to labor and the reasons for the decline, see Box 2.2 in the 2007 Bank of Israel Annual Report.

7. THE GOVERNMENT'S LABOR-MARKET POLICY

Government expenditure on active labor-market policy²⁴ was 0.2 percent of GDP in the review year as against an average of 0.62 percent in the OECD countries in 2006. In 2007, the Government set employment and poverty targets as part of its socioeconomic agenda (Box 5.2) and one of the important targets was an increase in the employment rate among population groups that have especially low rates. The intervention performed was consistent with this target, focusing on population groups that have difficulties with employment and on the enforcement of labor laws.

In 2008, the Orot la-Ta'asuka program ("Visions for Employment," an enhanced version of Mehalev, the Israeli welfare-to-work program) continued to be implemented (Box 5.3) and an Earned Income Tax Credit program was applied for the first time, initially in those parts of the country where the Orot la-Ta'asuka was operative. From September 2008 to the beginning of January 2009, 52,600 applications for the EITC benefit were presented and 25,800 of them were approved at an expenditure of NIS 64.3 million. The participation rate in this program was 38.5 percent, consistent with corresponding programs in other countries in their first years of implementation.²⁵

Additional pro-employment measures included the expansion of daycare assistance for working parents, actions for the integration of persons with disabilities into the labor market,²⁶ and continued cooperation with JDC-Israel in the TEVET Employment Initiative, which promotes employment among specific population groups, foremost the "ultra-Orthodox" and immigrants from Ethiopia.²⁷ As for vocational training for the rest of the population, enrollment in day training programs was only around 4,000 in 2008 as against an average of 19,000 per year in the first half of the decade.

Pursuant to Government resolutions, the Labor Law Enforcement Division of the Ministry of Industry, Trade, and Labor was reinforced over the past two years²⁸ and became more active in terms of the number of investigation proceedings, the sums

Government expenditure on active labor-market policy in 2008 was 0.2 percent of GDP.

In 2008 the "Visions for Employment" program continued to be implemented, and an Earned Income Tax Credit program was applied for the first time.

²⁴ Including implementation of the EITC (negative income-tax) program, commensurate with the number of applications approved.

²⁵ For expanded discussion of the implementation of this program, see "Interim Review since Israel's Earned Income Tax Credit (EITC) Program was Activated in September," Recent Economic Developments 123, Bank of Israel Research Department, pp. 29–31.

²⁶ Two examples: (1) approval of fifteen applications for government assistance in the adjustment of working environments to persons with disabilities and (2) activation of a subsidy program for entities and organizations that operate technological knowledge centers that develop aids for special-needs population groups so that they may join the labor market.

²⁷ As part of this collaboration and in conjunction with business firms, the ultra-Orthodox are offered vocational-training courses in practical engineering, computer skills, commercial translation, etc., and Ethiopian Israelis take courses in software, social mediation, and paramedic occupations.

²⁸ Additionally, in February 2008 the Knesset approved on first reading a bill that toughens the enforcement of labor laws, pursuant to the recommendations of a steering committee on the topic. The committee's recommendations, handed down in June 2007, included financial sanctions and criminal proceedings against employers and against users of cleaning, security, and catering services.

The deceleration of economic activity in the second half of the year has already been manifested in layoffs and an increase in the number of jobseekers countrywide. In response, several actions were taken recently to boost employment, and decisions taken intended to improve the situation of the unemployed.

In times of recession, intervention in the labor market should focus on minimizing the blow to demand for labor and on investing in human capital.

of fines leveled, and the number of manpower companies that lost their licenses due to violation of labor laws. Furthermore, the penalties for these offenses were stiffened.²⁹

The deceleration of economic activity in the second half of the year has already been manifested in layoffs and an increase in the number of jobseekers countrywide. In response, several pro-employment actions were taken recently. In November and December, the Investment Center Administration approved sixty programs for the construction and expansion of manufacturing plants in peripheral areas and eleven tourism projects, at a total investment of more than NIS 700 million; these initiatives are expected to create 1,600 jobs. In early January 2009, the Socioeconomic Cabinet approved an NIS 150 million allocation for the encouragement of hiring in the business sector by subsidizing the wages of additional employees hired, with emphasis on peripheral localities and low-employment sectors—Israeli Arabs and the ultra-Orthodox. A decision was made to ease the terms for unemployment compensation by introducing greater flexibility in the qualifying period for unemployed persons aged 25+ who worked during nine of the eighteen months preceding their application; this dispensation, however, will go into effect only after the unemployment rate surpasses 7.5 percent. Additional measures decided upon include full unemployment compensation for jobless persons who take training in certain occupations (instead of 70 percent under the current policy), allowing jobless persons who open small businesses to retain unemployment rights for two years; grants for jobless persons who accept low-wage jobs; and subsidization of the commuting expenses of workers who work relatively far from home.

In times of recession, intervention in the labor market should focus on minimizing the blow to demand for labor and on investing in human capital. Such intervention may be pursued at three levels: vocational training, reducing the number of foreign workers, and encouraging innovation in traditional manufacturing and services. Vocational training in occupations in demand is an important prerequisite for placement and work, especially among those who have high-school education. A follow-up survey by the Research and Economics Administration at the Ministry of Industry, Trade, and Labor suggested that a pilot program run by the Employment Service, in which some 500 jobless persons received vouchers covering up to 80 percent of tuition in vocational-training courses at private colleges, had favorable outcomes.³⁰ Training courses in occupations that are suitable for the replacement of foreign workers are meant to help cut down on the employment of non-Israelis, and 706 Israelis attended such courses in 2008. The encouragement of innovation in traditional industries by subsidizing R&D and promoting the adoption of ICT will help these industries to improve their labor productivity, thereby enhancing demand for workers and allowing higher wages to be paid.

²⁹ Thus, for the first time, the director of a personnel company that supplied guard services was sentenced to an actual term in prison for failure to pay minimum wage.

³⁰ The NIS 3 million program, launched in the second half of 2007, addresses jobseekers and income-maintenance recipients who have 12+ years of schooling. According to primary data, more than half of those who completed courses were working in the occupations acquired at an average of two months after they finished their studies, and 20 percent of those still participating in the program were working in their newly acquired occupations while they studied.

Box 5.3**“Visions for Employment,” the revised Israeli “Wisconsin Plan”**

In August 2007, the pilot phase of the “Visions for Employment” program was set in motion as part of the Government’s welfare-to-work policy. The purpose of Visions for Employment is to promote the placement of income-maintenance benefactees in jobs that allow them to make the most of their earning ability, for which they should share the responsibility, so that they may make the transition from dependency on social benefits to economic independence. Visions for Employment replaced Mehalev, the original Israeli “Wisconsin program,”¹ applying the recommendations of two committees (Yaari and Dinur²) that were established in response to copious criticism that the public, social-service NGOs, and government entities had leveled against Mehalev.³

To attain this goal, four privately owned centers replaced, in their respective areas of operation,⁴ the Employment Service in its function as administrator of an “employment test” for income-maintenance claimants up to age 45. Each such center is a one-stop shop for the treatment of income-maintenance claimants in the relevant age cohort in its region (in respect of childcare, medical evaluation, training and counseling, etc.). To qualify for the income-maintenance benefit, claimants and their spouses must report to the center in their area of residence and carry out the personal program that is developed for them.

Visions for Employment resembles Mehalev in its objectives and characteristics but differs from it in four main respects:

a. It uses a different economic model vis-à-vis the companies that run the program, focusing on paying them a bonus for placing participants in jobs and not for revoking their social benefits. Another change is the elimination of the incentive

¹ For further on Mehalev, see the 2005 Bank of Israel Annual Report, Box 5:1.

² A public commission tasked with examining the employment tests used by the Mehalev program, chaired by Prof. Menahem Yaari, and an interministerial committee for examination of Mehalev, under Raanan Dinur.

³ For further information, see Report of the Committee for Examination of the Mehalev Program, June 2007; “Several Aspects of Mehalev (the ‘Wisconsin Program’), Report of the State Comptroller, June 2007; Y. Tamir et al., Team for the Examination of Employment Tests and the Improvement of Social Balances in the Mehalev Program, September 2006; M. Yaari et al., Advisory and Evaluative Documents from the Israel National Academy of Sciences and Humanities, “Recommendations for Continued Implementation of the Program for the Occupational Integration of Basic-Benefit Recipients in Israel,” Public Scientific Committee on the Program for the Occupational Integration of Basic-Benefit Recipients, December 2007.

⁴ The areas at issue were those where the EITC (“Negative Income Tax” Law) was applied: Ashkelon (partly) and Sderot; Nazareth and Upper Nazareth (partly); Hadera, Baqa al-Gharbiyya, Kafr Qara’, Or ‘Akiva, Pardes Hannah-Karkur, and ‘Arara; and Jerusalem (partly). In December 2007, an expansion order was applied that extended the law to Netanya, Basma Regional Council, the rest of Upper Nazareth and ‘Ein Mahal, the rest of Jerusalem, and the rest of Ashkelon.

that the centers had received for economizing on budget expenditure for work-supportive services (e.g., childcare). Furthermore, participants and centers receive “perseverance grants” that increase commensurate with the participant’s staying on the job;⁵

b. The target population was revised and narrowed to persons up to 45 years of age. (Older persons, to whom Mehalev had applied, were referred back to the Employment Service but may receive service at the centers on a voluntary basis.)

c. Participants who qualify for assistance outside the ordinary track were divided into four population groups — degree-holders, recent immigrants (up to five years in the country), persons with medical disabilities, and long-time income-maintenance beneficiaries; the purpose here is to prepare programs tailored to each group.

d. The professional screening and evaluation mechanism for participants was transferred to outside bodies that presented winning bids in an invitation conducted by the state and not by the employment centers.

Table 1

The "Mehalev and the "Visions for Employment" Programs^a

	Mehalev May 2005 –Jun 2007	Visions for Employment Aug 2007 –Jan 2009
1. Total number of active participants (end of period)	29,945	11,694
2. Number of job placements (end of period)	19,262	10,334
3. Number of job placements of participants (end of period))	10,394	5,877
4. Average monthly salary (over the period, NIS)	2,479	2,665
5. Number of appeals	3409	828
<i>of which</i> Rejected (%)	48	42.1
Accepted, wholly or partially (%)	18	26
6. Number of participants eligible for diligence grant		4,921
7. Total diligence grant payments (Dec. 2007 to Oct. 2008, NIS) to		6,121,103
Veteran participants ^b	N.A.	4,338,713
New participants ^c		1,782,390

^a It should be borne in mind that the two columns cover different populations and time periods. When "Visions for Employment" started, many of those who had participated in Mehalev were excluded either because of their age or other characteristics. At the same time the program was extended to additional areas, and new participants joined the program.

^b Participants in Mehalev before August 2007 who satisfied the following criteria: i) they participated for at least one month in the period from 1 July 2006 to 31 July 2007; and ii) the date they started working was after 1 August 2006.

^c New participants in the program or returnees to it from August 2007 who satisfied the following criteria: i) They started participating in the program after 1 August 2007; and ii) the date they started working or increased the number of hours of work at a salary above a certain benchmark was after the date they started participating in the program.

SOURCE: Ministry of Industry, Trade and Labor, June 2007 Monthly Report, Mehalev Administration; and the Administration for the Reform of the Labor Market, Orot Leta'asuka (Visions for Employment) Program, October 2008 Monthly Report.

⁵ The level of the grant to participants is NIS 1,000–NIS 4,200, commensurate with the level of wage and tenure on the job; the maximum reward is given if the participant remains at one job with one employer for twelve months.

An evaluation report by the National Insurance Institute and Myers-JDC-Brookdale Institute estimated the effect of Visions for Employment on income-maintenance benefactees who had been referred to it in terms of employment, receipt of income-maintenance benefits, and economic situation, relative to a group of people with similar characteristics who were referred to the Employment Service for the treatment of their claims. The findings of the report show that Visions for Employment improved the subjects' employment situation to a greater extent the Employment Service did (Table 2). However, the size of the budgets and the savings in benefits paid out should also be taken into account.

Table 2
The change in employment, wages, and share of employees in full-time employment in the trial group and control group^a

	Trial group ^b	Control group ^c
Veteran participants: those who were working when applying to participate in the program and 8 months later	35.3	36.2
<i>among whom</i> Average wage (NIS/month)	2,679	2,771
Share in full-time employment (percent)	37	22
Average wage of those in full-time employment (NIS)	3,485	3,467
New participants: those who were not working when applying to participate in the program, but were working 8 months later	16.4	7.1
<i>among whom</i> Average wage (NIS/month)	2,529	2,126
Share in full-time employment (percent)	36	26
Average wage of those in full-time employment (NIS)	3,696	3,648

^a Base population: families entitled to income support in November 2007 who lived in areas where the "Visions for Employment" program was extended, and who were referred to the program.

^b The trial group includes claimants of income support who were referred to the Visions for Employment program.

^c The control group includes claimants of income support who were referred to the Employment Service.

SOURCE: The National Insurance Institute and the Myers-Joint Brookdale Institute, Assessment of the Visions for Employment Program Eight Months After Participants were Referred to it; base population—the population of those who were entitled to income support in November 2007 and who were referred to the program (February 2009).

The success of the Mehalev and Visions for Employment programs, as reflected in the National Insurance–Brookdale reports and in the Administration's monthly reports, shows how important such programs are in implementing a policy of encouraging employment and developing economic independence; it is also consistent with the Economic Agenda.⁶ Consequently, the expansion of Visions for Employment to a

⁶ Socioeconomic Agenda for Israel 2008–2010, National Economics Council, Office of the Prime Minister.

countrywide scale may help to raise the employment rate and mitigate poverty.⁷ *However, the program should be amended in two important ways:*

(1) Visions for Employment excuses income-maintenance benefactees aged 45+ from compulsory participation. While this population group does find it difficult to secure its place in the labor market, it is composed of relatively young people who are capable of working and making a decent living without dependency on social benefits. According to a follow-up report by the National Insurance Institute and Brookdale,⁸ Mehalev significantly improved the employment situation of those in the older age groups as well. Therefore, the possibility of raising the upper bound of the compulsory participation age in Visions for Employment is worth considering. Inviting those aged 45+ to participate in the program voluntarily is not enough because such a policy would probably attract few of these income-maintenance benefactees.

(2) *The economic model should be adjusted in a way that will encourage the centers to invest in promoting a track of occupational advancement that provides specific care for “hard-to-place” participants as well, a group more complex than that of participants in the regular track.*

The program does not cope with the low level of demand for poorly educated workers, especially at times of economic slowdown such as these. Israel’s participation and unemployment rates are the outcomes of structural factors that affect the labor market and labor demand among special population groups in particular⁹; therefore, it would be best, while applying the program to encourage stimulation of demand for poorly educated labor and also demand in peripheral areas, to increase the likelihood of placement.

⁷ See recommendations of the Preparation and Staff Work Team for National Deployment of “Visions for Employment,” an agency of the Socioeconomic Agenda Forum, June 2008.

⁸ National Insurance Institute and Myers-JDC-Brookdale Institute, “Initial Follow-up Findings on the Effect of Mehalev in Its Fifteen Months of Activity on Eligibles at the Beginning of the Program (Inventory),” May 2007.

⁹ For further on this issue, see L. Achdut, V. Lavi, and V. Sola (2000), “Unemployment in Israel from the Perspective of the Past Decade: Trends, Characteristics, and Patterns of Change,” *Economics Quarterly* 3 (00), pp. 303–349; and D. Gottlieb (2001), *Characteristics of the Unemployed in Israel – An Up-to-date Picture*, Jerusalem, Bank of Israel.