

Contract Workers in Israel

Noam Gruber*

Abstract

The public discourse in Israel has dealt extensively with the phenomenon of contract workers: workers employed via a third party, whose rights and terms of employment are usually inferior to those of direct employees. This chapter will focus both on the extent of this phenomenon and on the essential difference between two groups of contract workers: agency contract workers and service contract workers. Agency contract workers are young relative to the Israeli workforce, and the extent of this form of employment is in decline. In contrast, service contract workers are older and have lower socio-demographic profiles, and the extent of such employment is on the rise. The failure to distinguish between these two groups leads to the common misconception that the extent of this phenomenon in Israel is extraordinary in international comparison; this chapter will demonstrate the differences between the two groups. In its final section, this chapter will address solutions to the problems involved in contract employment. The gap between the rights of permanent workers and those of temporary workers must be reduced as such gaps are the primary impetus for temporary or indirect employment. However, measures that would harm employers' ability to hire and fire workers according to the prevailing economic circumstances must be avoided, as this could serve to increase unemployment, particularly among contract workers.

* Dr. Noam Gruber, Shoshan Institution for Socioeconomic Research. I thank Prof. Dan Ben-David and Prof. Ayal Kimhi for their helpful comments. I am also indebted to the participants of the Taub Center Labor Policy Program and especially Dalia Narkis.

Introduction

The issue of contract workers in Israel stirs up strong public emotions. Some see the phenomenon as a form of exploitation, with employers – and especially the State – shirking their responsibility towards workers and bypassing labor protection laws as part of an ongoing trend of privatization and a shrinking of the welfare state (Weisberg and Bior, 2011; Barkan, 2014). On the other hand, there are those who argue that it is precisely social legislation, which gives workers rights and benefits they consider excessive, that causes employers, especially in the public sector, to turn to indirect employment that does not obligate them to provide workers with such benefits (Moav and Cohen, 2008). There are some who maintain that contract employment is a poverty trap, denying workers social benefits, seniority, and job security, and also that the contracting companies keep an unjustified share of the workers' salaries. In contrast, others feel that contract employment fills an important role in the economy, as it provides businesses with flexibility, enables young workers to gain experience that will lead them to permanent employment, and helps older and less skilled workers, who do not find other work, to break out of the cycle of unemployment.

Ideological disputes aside, there is a serious problem in Israel when it comes to defining and collecting data about this. The term “contract workers” has become an umbrella term for temporary workers (employed directly and indirectly), workers in employment agencies providing services, and various outsourced service providers, blurring the distinction between work via employment agencies and outsourcing. This lack of clarity, exacerbated by a lack of systematic data, makes it difficult to estimate the extent of the phenomenon in Israel and compare it internationally, coloring the discussion with inaccuracies and exaggerating the extent of the problem.

The purpose of this chapter is to provide an overview of the state of contract workers in Israel based on a systematic analysis of existing data on the subject. An international comparison indicates there is no basis for the claim that the extent of contract work in Israel is far greater than is

common worldwide. It also shows that contract workers are divided into two groups – agency contract workers and service contract workers – which have very different demographic profiles. The first group is characterized by a high percent of young people and inexperienced workers, and has been on the decline in recent years. The group of service contract workers, on the other hand, is characterized by employees with relatively weak socio-demographic profiles. This form of employment is part of a broader phenomenon of the increased use of outsourcing and subcontracting for the employment of temporary workers and is due, among other things, to the disparities in social rights between permanent and temporary workers. At the end of this chapter, a recommendation is presented for contending with the challenge facing policy makers in Israel: equalizing conditions of employment between permanent and temporary workers while not infringing too much on the flexibility of this type of employment. This tactic may lead to an increase in unemployment, especially among service contract workers. Another possible solution to the problem is to adopt the “flexicurity” (flexibility and security) model as practiced in Northern Europe, which provides employers with flexibility alongside a wide safety net for workers who lose their jobs.

1. Defining Contract Workers

There are large differences between the international definition of contract workers and the definition in Israel. Globally, it is common to differentiate between agency contract work, which takes place on the client’s premises and under its supervision, and outsourcing (or subcontracting), in which the client purchases services, but does not directly oversee the work.¹ Outsourcing can take place either on or off the

¹ See Article 1 of the International Labour Organization’s Private Employment Agencies Convention (C181) of 1997. The definition in this convention also serves the European Union (EC Expert Group, 2011) and Ciett, the

client's premises. The policy discussion on contract workers and this chapter focus on the issue of outsourced work that takes place on the client's premises. For example, if a company hires a programmer through an employment agency and the hiring company is directly in charge of guiding and overseeing the programmer's work, this programmer is an agency contract worker. On the other hand, if the company pays a service provider for programming services, and as part of those services a programmer comes to the company, working under the guidance and supervision of the service provider, this would be outsourcing. This distinction is highly important, because in the case of outsourcing there is essentially no employment relationship between the worker and the company that buys the service, and the regulations that apply to employment agencies are not applicable (International Labour Organization, 2006).

Similarly, in Israel, the 1996 Employment of Employees by Manpower Contractors Law (hereinafter the "Contractors Law") distinguishes between an employment agency, which mediates between "agency contract workers" and clients ("engaged in the provision of manpower services by his employees for the purpose of work for another person"), on the one hand, and a service contractor employing workers ("engaged in the provision of a service [...] by means of his workers, for another person"), on the other hand. According to the definitions of this law (second addendum), only workers in guarding, security, and cleaning jobs are considered "service contract workers."² All other outsourced workers are not covered by the Contractors Law while Section 12(a) of the law stipulates that a body employing an agency contract worker through an employment agency must hire the employee directly after nine

International Confederation of Private Employment Agencies, which is the source of a large part of the global data on contract employment (Ciett, 2014).

² The 1951 Hours of Work and Rest Law includes a broader definition, according to which a service contractor is one who "engages in provision of a service, by his workers, at a client's premises."

months (nursing and computer service employees are excluded from this requirement), no such requirement applies to service contract workers.

According to the definitions of the Contractors Law, it can be said that Israel's agency contract workers are nearly equivalent to the internationally accepted term "agency workers." The main difference is with regard to nursing care workers – who are generally considered agency workers in the international arena but are not considered either agency or service contract workers according to Israel's Contractors Law. In practice, however, and according to the Central Bureau of Statistics, nursing workers in Israel are generally considered to be service contract workers. Furthermore, the Israeli definition of service contract workers can be defined as a type of outsourcing by international terms. As such, for example, cleaning workers employed by a contracting company and working under its supervision would be considered service contract workers in Israel, while in the European Union they would be considered outsourced or subcontracted company employees (EC Expert Group, 2011). However, it is important to clarify that globally, in contrast to the situation in Israel, work in cleaning or guarding could also be considered agency work, so long as the direct guidance and supervision of the worker are the client's responsibility (Tal-Spiro, 2014). An additional difference is that in the European Union, an association or public body acting as an employment agency would be subject to the same laws as a private employment agency (EC Expert Group, 2011) while in Israel, various municipal associations, non-profit institutions, and municipal corporations essentially act as employment agencies without being subject to the Contractors Law (Moshe, 2014).

It is clear that the overall definition of contract work in Israel, which also includes service contractors, is not identical to the international definition of agency work, which does not include outsourcing. However, despite this fundamental difference, it has become customary in Israel to compare the extent of the country's total contract work with the extent of agency work worldwide. The result is that the relative extent of this phenomenon in Israel is significantly overestimated in international comparisons, and there is a misconception that the percent of contract

workers in Israel is the highest in the world by a wide margin (for example, Yashiv, 2011; Weisberg and Bior, 2011; Barkan, 2014). On the other hand, the aforementioned difference in the regulation of municipal/nonprofit activity leads at the same time to an underestimation of the phenomenon in Israel. In order to make a valid comparison, worldwide agency work rates must be compared to data on agency contract workers alone, excluding service contract workers – as will be detailed in Section 2.

Figure 1 shows the overlap and difference between the definitions of various contract workers in Israel and worldwide. This comparison raises a few main points:

- A. In Israel, domestic care service (nursing care) is exempted by law from the category of agency workers, so as not to obligate individuals employing caretakers through employment agencies to hire them directly after nine months. However, it can be argued that nursing workers belong to the “agency workers” category in terms of employment characteristics, since the caretakers work under the direct supervision of the clients. At the same time, the client often pays the caretaker directly in addition to the payment through the nursing care employment agency. Some of those eligible for nursing care benefits from the National Insurance Institute receive money specifically for the purpose of direct payment to the caretaker – meaning that some workers are simply employed directly rather than through an employment agency.³ Therefore, it does not seem justified to add all workers in the domestic care branch to the category of agency contract workers for the purpose of international comparison.
- B. Employees of municipal associations that operate as employment agencies (such as municipal corporations that allow indirect employment of teachers) are not considered by law to be agency contract workers, but do belong to the agency worker category in

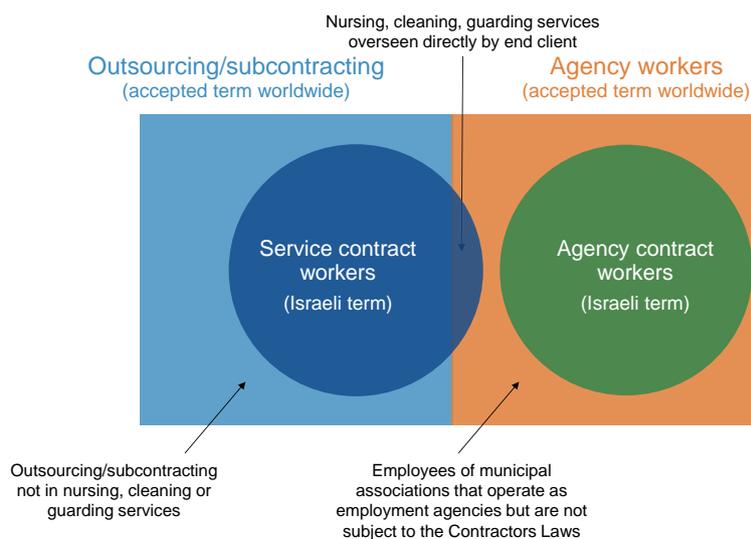
³ It appears that the option for direct hire is only used in about 10 percent of cases (Brotsky, Resnizki and Cohen, 2013).

terms of their employment characteristics. This category also includes workers in cleaning and security (and nursing), working under the guidance and supervision of the end client, but considered service contract workers according to Israeli regulations (or in practice).

- C. As noted, the law in Israel defines service contract workers as workers in guarding, security, and cleaning only. This paper adds nursing care workers to this group, as they are considered such in practice by the Central Bureau of Statistics as well. However, the international definition of outsourced (subcontracted) employees is broader than the Israeli definition of service contract workers, since it includes outsourced employees in other fields, such as catering, or workers providing services to the end client without being physically present at the workplace (customer service workers or accountants). In Israel, these outsourced employees are not covered by the Contractors Law.

Figure 1

Alternative employment types in Israel and worldwide



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Spotlight: *Contract Workers in the Education System*

The public sector in Israel features a phenomenon of employment through municipal associations which function to a large extent as employment companies. This phenomenon is especially prevalent in the education system. From 2001 to 2009, 85 percent of teaching hours in elementary education were funded directly by the Ministry of Education and 15 percent by other sources (Blass, Tsur and Zussman, 2010). At least part of this 15 percent probably includes teaching hours by “contract teachers,” that is, teachers who are not employed directly by the Ministry of Education. According to Vurgan (2014), the Central Bureau of Statistics (CBS) identified some 18,000 teachers (14 percent of all teachers) who were not reported in Ministry of Education accounts, and some were apparently employed through mediating agencies. However, according to the CBS *Labor Force Survey* (2013), only about 3,400 employees in the field of education declared that their wages were paid by employment companies. There are possible explanations for the discrepancy between the numbers. It may be that the teachers do not consider the company employing them an employment agency because it specializes in education. Another possibility is that some of the teachers are employed through municipal associations, which are not considered employment companies for the purpose of the survey.

Contract teachers in Israel are employed primarily in nationwide enrichment programs, reviewed by Bar Giora, Sagi and Metuki (2011), and by associations which are often connected with municipalities.⁴

⁴ Vurgan (2014) found that in Jerusalem, Tel Aviv-Yafo, Rishon LeZion, Ramat Gan, Herzliya, and Be'er Tuvia, there were a total of 1,500-2,000 contract teachers employed by local government, through municipal associations or

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Table 1 reviews the employment of contract teachers through nationwide enrichment programs.

Table 1. **National programs that employ contract teachers**

Program	Funding	Type of employment	Number of teachers
Karev Educational Program	Ministry of Education, local authority, parents, and Karev Foundation	Hourly pay or individual contracts	3,807
Hila Program	Ministry of Education	Hourly pay; advisors have a unified contract	1,600
Homesh	Designated budget from the State	Hourly pay including benefits	3,500
Milat Program	65% Ministry of Education, 25% local authority, 10% parents	Hourly wages including benefits	4,000

For more information on the Karev educational program, see the Ministry of Education website:

<http://cms.education.gov.il/EducationCMS/Applications/Manka/EtsMedorim/3/3-7/HoraotKeva/K-2012-10-1-3-7-71.htm>

It should be noted that in many cases, these are relatively small part-time positions, and a great many contract teachers are also officially employed in the education system, working on an hourly basis in these programs in order to supplement their income. However, because these teachers work under the direct guidance and supervision of the schools, and not the agencies or municipal associations that employ them, for the purpose of international comparison their work should be classified as agency contract work.

employment companies that specialize in education. The difficulty collecting comprehensive data on this phenomenon is reviewed by Moshe (2014).

2. Extent of Employment Through Employment Agencies in Israel and Worldwide

Agency work is common in many countries. There are two ways to measure its extent. The percent of agency workers out of all employees, or the penetration rate – an index representing the percent in total Full Time Equivalents (FTEs) in agency work out of all employees in the country. For example, two agency workers each employed in a half-time position would be equivalent to one full-time worker; if the economy had 100 half-time agency workers and 50 regular full-time workers, the penetration rate for agency workers would be **one-third** (50 FTEs from agency workers divided by 150 – the number of employees in the economy). In contrast, the index of relative percent among all employees does not take into account the number of hours in the job position; therefore the percent of agency workers out of all employees in this example would be **two-thirds** (100 agency workers out of 150 employees). This example highlights the bias resulting from comparing the employee percent rate in Israel with worldwide penetration rates, as has been done in several articles. It also indicates the value in comparing penetration rates to obtain a broader picture of the situation.⁵

Data on worldwide agency work penetration rates is available through Ciett, the International Confederation of Private Employment Services (this is also the data used by the International Labour Organization, the ILO). In Israel, the primary source of data on various types of contract work is the Central Bureau of Statistics' *Labor Force Survey*. With the help of the survey data, it is possible to assess the number of people employed through employment agencies (defined by law as agency contract workers), the number of employees in guarding, security and

⁵ Since a relatively large portion of contract workers are employed on a part-time basis, the penetration rate is usually lower than the percentage of contract workers among all employees. See, for example, Yashiv (2011), Weisberg and Bior (2011).

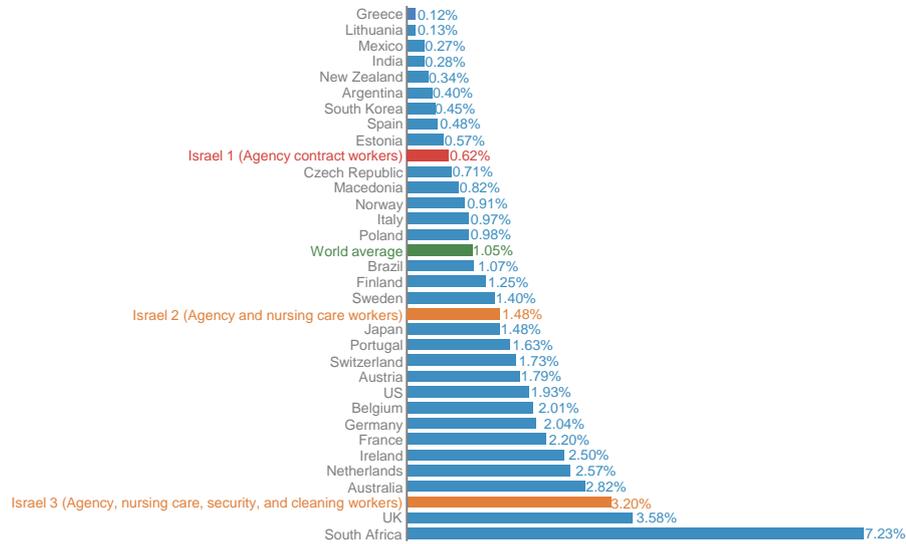
cleaning services (defined by the law as service contract workers), and the number of employees in the domestic care branch (nursing services).

Figure 2 presents an international comparison of the penetration rate of contract work. The data for contract workers in Israel (grouped by employment type) was calculated to match the data from other countries (the FTE estimate is calculated as the sum of all part-time positions divided by the total number of employees).⁶ As can be seen in Figure 2, when considering only agency contract workers – which, as noted, have similar characteristics to the international category of agency workers – the penetration rate in Israel of 0.62 percent is not particularly high relative to other countries. It compares to 1.93 percent in the United States, 1.54 percent in Japan, and a world average of 1.05 percent, for example. Even if all nursing care workers are added, a penetration rate of only 1.48 percent is attained (the “Israel 2” estimate), which is not very high by international standards. Since, as noted, not all of the workers in nursing care meet the definition of agency workers (as some are paid wages directly by the client), only some of these workers should be added to this comparison. Therefore, it stands to reason that the actual agency work penetration rate in Israel lies between 0.62 percent (“Israel 1” estimate) and 1.48 percent (“Israel 2” estimate) and is not exceptional in international comparison.⁷

⁶ According to the data from the CBS *Labor Force Survey*, in 2011, the average number of weekly working hours for a full-time worker was nearly 45 hours. A tally of the hours worked per week by the various contract workers divided by the average number of hours for a full-time position shows that the employment agency contract jobs equaled 18,654 FTEs, nursing care work equaled 26,208 FTEs, and cleaning and security work equaled 51,887 FTEs. Dividing these numbers by the number of employees in 2011 (about three million), leads to the numbers shown in Figure 2.

⁷ Adding employees of municipal associations that provide employment services (not including municipal associations that provide outsourcing/subcontracting services) would only add a few thousand FTEs. Since 1 percent of penetration equals some 30,000 FTEs (author’s calculation

Figure 2
Penetration rate of agency workers*
 international comparison, 2011



* Full-time equivalents (FTEs), computed by summing up all part-time job shares divided by total labor force

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Labor Force Surveys* (Israel); Ciett (2013) (other countries)

In contrast, when comparing the penetration rate of all contract workers in Israel, including both employment agency and service contract workers (the “Israel 3” estimate in Figure 2) to the penetration rate of agency work in various countries, the result suggests that the phenomenon of contract work in Israel is more widespread than it is in most countries, except for South Africa and the United Kingdom. As

based on 2011 CBS *Labor Force Survey* data), it seems that this category is not enough to change the estimate in any meaningful way.

noted though, this comparison is flawed, because data on agency work in other countries does not include outsourced and subcontracted workers, which are more or less equivalent to service contract workers in Israel. In fact, the Ciett organization explicitly differentiates between employment services and such services as accounting, security and cleaning jobs (Ciett, 2014).

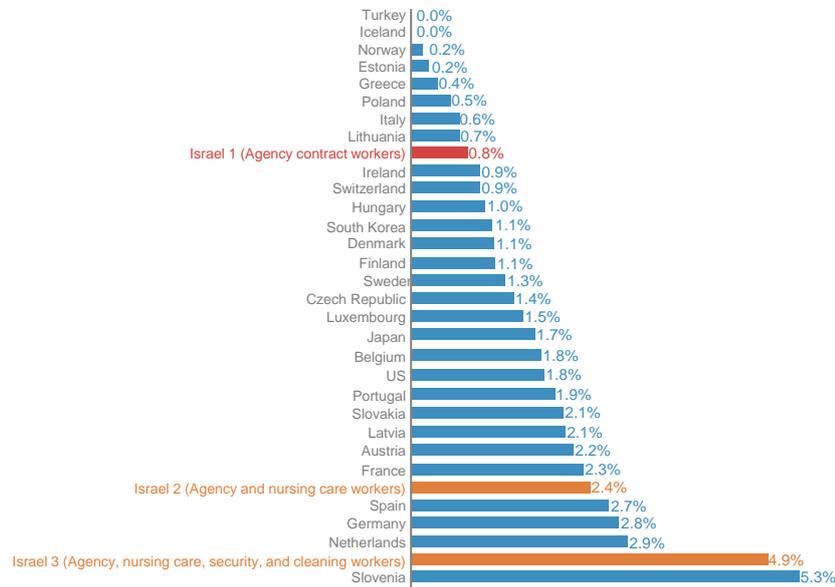
The second way to estimate the extent of contract employment in various countries is to examine the ratio of agency contract workers to all employed persons. These data, used by the OECD, are presented in Figure 3. When examining only those workers employed through employment agencies in Israel, their share out of all employed individuals is relatively low: about 0.8 percent (the “Israel 1” estimate in Figure 3). The high share of nursing care workers (about 1.7 percent) brings Israel up to a relatively high total of 2.4 percent (the “Israel 2” estimate), which places Israel between France and Spain – although, as noted, it would not be justified to define all nursing care workers as agency contract workers. Including service contract workers in security and cleaning services further increases the estimate to the even more inflated 4.9 percent (the “Israel 3” estimate).

Based on this analysis, the extent of employment through employment companies is not extraordinary in comparison with other countries. It is only the erroneous inclusion of service contract workers in such a comparison that leads to this misconception.⁸ One caveat worthy of mention is that it appears that the CBS survey data’s coverage of migrant workers is very limited.⁹

⁸ Since this is a unique Israeli definition, there is no data on “service contract workers” in other countries. On the assumption that these are workers in temporary employment, they are included in the temporary worker data presented in the appendix (there is no data on temporary workers in Israel).

⁹ According to the Population and Immigration Authority (2012), in 2011 there were over 52,000 migrant workers, mostly from the Philippines, in nursing care jobs in Israel. The CBS *Labor Force Survey* only shows about 3,700 employees in nursing care jobs whose origin is in Asia (not including the former USSR, Arab states or Iran). While various studies indicate a high rate

Figure 3
Share of workers employed through agencies
 out of all workers*



* 2011 for Israel; average of 2011-2012 for all other countries

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Labor Force Surveys* (Israel); OECD (other countries)

of immigrants among agency workers in Europe, these countries do not have data on foreign laborers who are not immigrants (people without citizenship or residency status, who are supposed to return to their countries of origin at the end of the term of employment). It appears that the extent of migrant laborers in most Western countries – unlike in Israel – is relatively limited. Since the policy discussion in Israel primarily focuses on Israeli contract workers, this study does not attempt to account for the underestimate of migrant workers in the data on nursing.

3. *The Number of Contract Workers in Israel*

According to the CBS *Labor Force Survey*, in 2000 there were an estimated 57,000 agency contract workers in Israel (workers receiving their wages through employment agencies) and about 75,000 service contract workers (workers in guarding, security, cleaning, and nursing care). When calculating these data, some of the survey's limitations must be taken into account. First, as noted, the Contractors Law classifies as service contractors only those engaged in providing services in guarding, security and cleaning, but, methodologically, all workers in companies whose services are provided on the client's premises (such as computing services, catering and nursing) must be included as service contract workers. Second, the Central Bureau of Statistics generally categorizes workers in guarding, security, cleaning, and nursing care as contract service workers¹⁰ but, unfortunately, the data do not provide a clear picture regarding other branches.¹¹ Similarly, it is not known which of the workers in these branches work under the guidance and supervision of the client (and should therefore, methodologically, be included under agency work) or which nursing care service employees actually receive most of their salary through employment agencies.

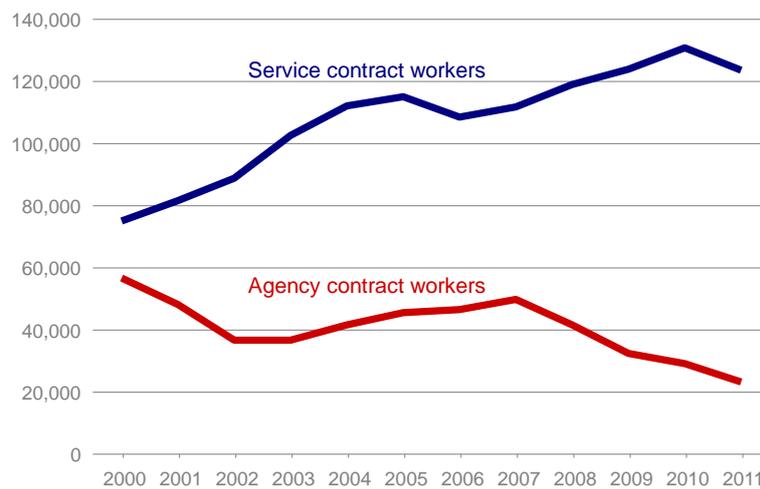
As can be seen in Figure 4, until 2007 the number of agency contract workers remained relatively static (about 50,000 in 2007) alongside an increase in service contractor employment (about 112,000 in 2007). Starting in 2008 – when Section 12(a) of the Contractors Law came into effect, barring agency contract workers from being employed for periods longer than nine months – there is a steep and continuous decline in the number of agency contract workers, down to 23,000 in 2011 (less than half of their number in 2007). The same period witnessed a marked

¹⁰ Since 2013, workers in “combined support services for facilities” are also categorized as subcontractors (CBS, 2013).

¹¹ See Feldman (2014) on the problems involved in using existing data to attain an estimate of the extent of contract work in the Israeli economy.

increase in the number of service contract workers, up to 124,000 workers in 2011.

Figure 4
Number of contract workers by employment type, 2000-2011



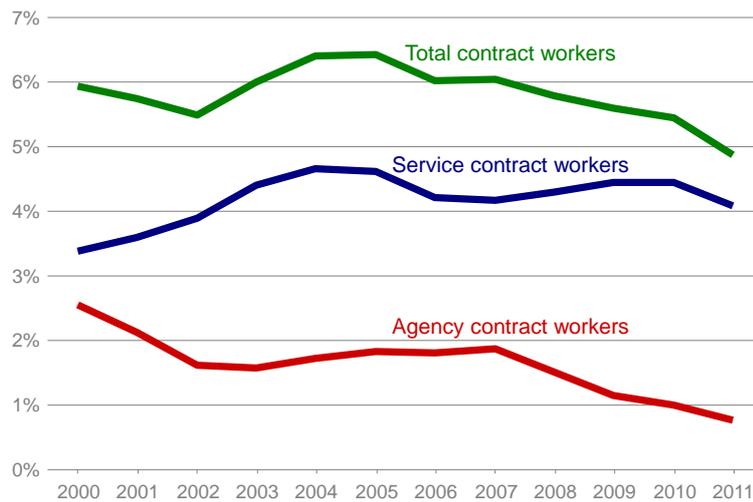
Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

Mizrahi (2007) identifies a downward trend in the number of agency contract workers in government offices and a parallel increase in the number of service contract workers. She attributes this to limitations on the employment of agency contract workers in public offices, which are similar to those set in the 2008 law, but preceded them.

As can be seen in Figure 5, these limitations led to a slight decrease in the total percent of contract workers out of all employed persons, from about 6 percent in 2000 down to less than 5 percent in 2011. This decrease resulted from the steep decline in the percent of agency contract workers, from about 2.6 percent in 2000 to less than 0.8 percent in 2011,

as the percent of service contract workers actually grew by half a percentage point during the same period.

Figure 5
Contract workers in Israel
as percent of all employed people, 2000-2011



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Labor Force Surveys*

It is clear that the laws and regulations affected the employment relations of agency contract workers and service contract workers in fundamentally different ways. The percent of agency contract workers declined significantly in the past decade, whether due to their employment becoming less worthwhile or due to their increased direct employment by their actual employers. In contrast, the rate of service contract workers has actually increased somewhat. The result is a highly substantial change in the relation between these two groups: in 2000, service contract workers represented 57 percent of all contract workers, a rate which rose to 84 percent by 2011.

4. The Characteristics of Agency Contract Workers and Service Contract Workers

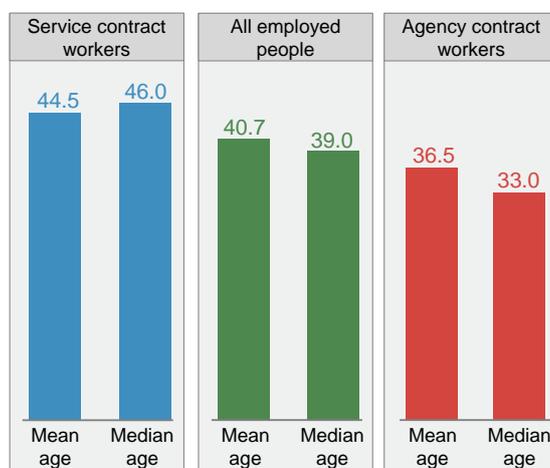
Beyond the methodological differentiation between agency contract workers and service contract workers, there are essential differences in the socioeconomic profiles of workers in the two groups.

Age

In general, agency contract workers worldwide are relatively young, as employment through an agency allows them to gain experience in the workforce and serves as a stage on the path to finding long-term employment. Globally, 61 percent of the workers in this group are under the age of 30; 68 percent were unemployed before they came to be employed through an employment agency, but only 32 percent remained unemployed after completing their temporary employment (Ciett, 2014). Globally, most agency workers are employed in manufacturing (33 percent) and services (38 percent).¹² In Israel too, agency contract workers are younger, on average, than service contract workers. As can be seen in Figure 6, in 2011 the median age of all employed persons was 39 (the average age was 40.7). The median age of agency contract workers was 33 (an average age of 36.5), that is, six years younger than employed persons in general. In contrast, the age of service contract workers was seven years higher than all employed persons: a median of 46 years of age in 2011 (with an average age of 44.5).

¹² The other branches are construction (9 percent), public administration (7 percent), agriculture (3 percent), and others (10 percent) (Ciett, 2014).

Figure 6
Mean and median age by employment type, 2011

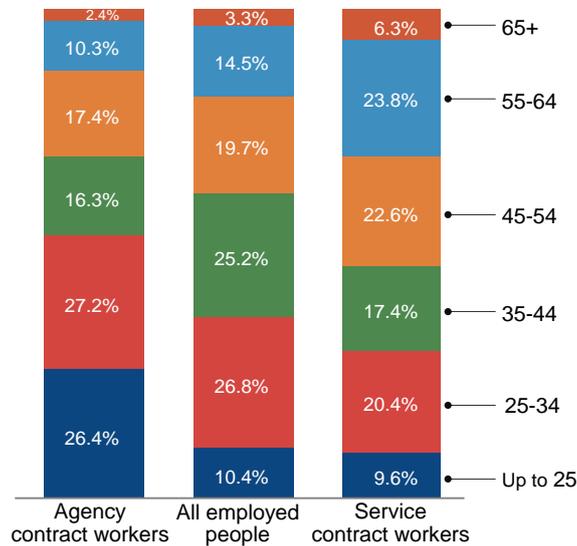


Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Labor Force Surveys*

When examining the various employment types by age group (Figure 7), it is clear that agency contract workers are concentrated among the younger age groups: 26.4 percent are 25-years-old or younger, compared to 9.6 percent of service contract workers and 10.4 percent of all employed persons. In contrast, service contract workers are concentrated in the older age groups: 23.8 percent are 55-64-years-old (compared with 10.3 percent of agency contract workers and 14.5 percent of all employed persons), and 6.3 percent are 65 or older (compared with 2.4 percent of agency contract workers and 3.3 percent of all employed persons).

Figure 7
Distribution of employed people by age and employment type, 2011

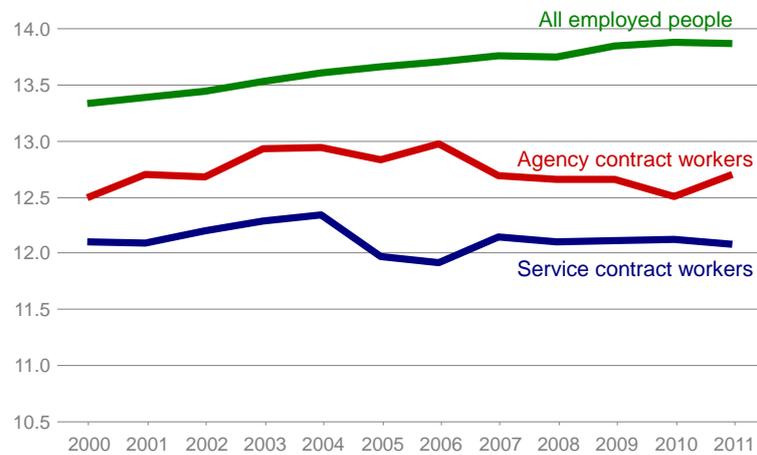


Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

Education Level

There are also clear differences between agency and service contract workers in terms of education level. Figure 8 shows that while the average number of years of education among all employed persons has gradually increased in recent years, this is not the case among contract workers. Agency contract workers are more educated, on average, than service contract workers (by a statistically significant margin), but they, too, are less educated than employed people in general, and it appears that the education gap between contract workers and the rest of the workforce is increasing over time.

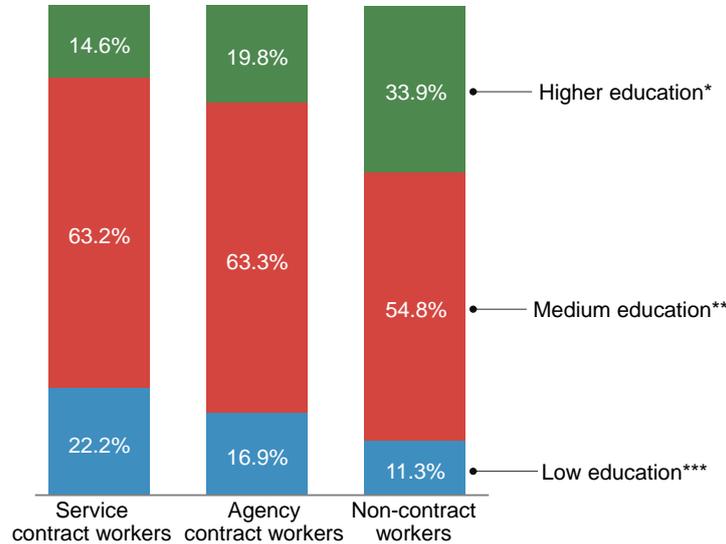
Figure 8
**Average years of schooling by employment type,
2000-2011**



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics, *Labor Force Surveys*

When the data is broken down by education levels (low, medium or high), a similar pattern holds. It can be seen that service contract workers are less educated on average than agency contract workers, and that they, in turn, are less educated than employed people who are not contract workers (Figure 9).

Figure 9
**Distribution of employed people by education level
 and employment type, 2011**



* BA and higher

** Completed upper secondary school (with or without matriculation)/ some higher education/ other

*** Completed primary school/ no diploma/ unknown

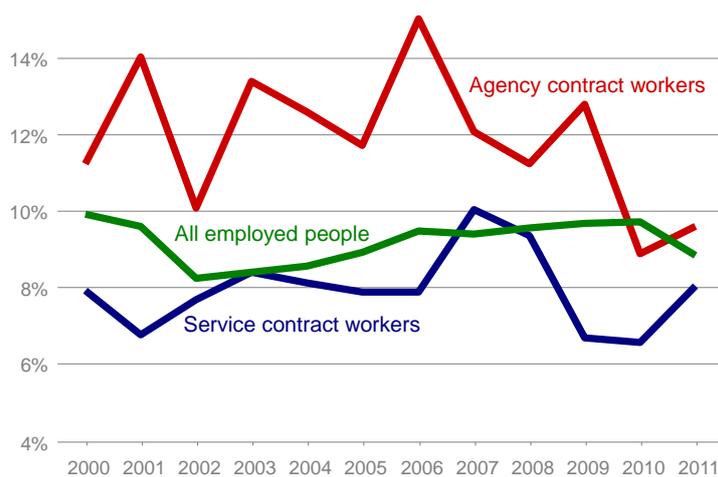
Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Labor Force Surveys*

However, the gaps in average education between agency contract workers and the general employee population and service contract workers and the general employee population should not be interpreted in the same way: agency contract workers are younger on average and better able to close the gap – which cannot be said for service contract workers. As Figure 10 shows, the share of service contract workers who are also higher education students (7.9 percent on average in 2000-2011) is lower than the share of employed people in general who are also higher

education students (9.2 percent on average), whereas the share among agency contract workers was, on the whole, substantially higher (11.9 percent on average in the same years).

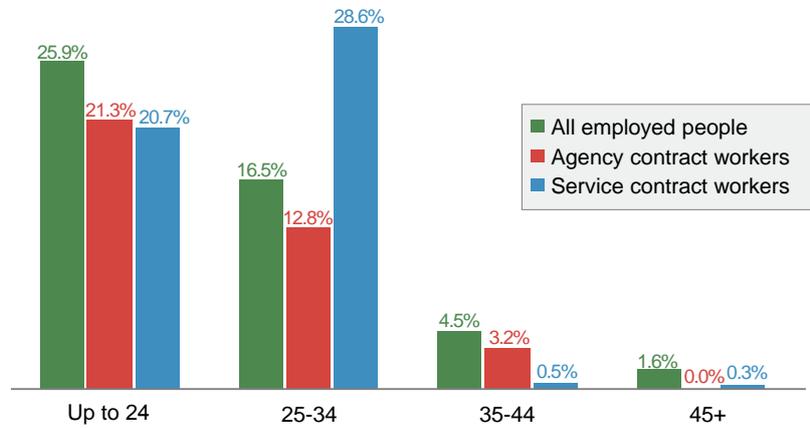
Figure 10
Share of higher education students in labor force, 2000-2011
 by employment type



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

The differences in the share of students within each employment type derive directly from the share of young people in each group: a relatively high share among agency contract workers and relatively low share among service contract workers (Figure 6 above). This finding is highlighted by further dividing the share of higher education students in each employment type by age group. Figure 11 shows that the share of students among agency contract workers is not particularly high, when considering age. In contrast, it is interesting to note the notably high rate of students among service contract workers aged 25-34 (Figure 11). The vast majority of these students are employed in guarding and security services, as shown in Table 2.

Figure 11
Share of higher education students in labor force, 2011
 by age and employment type



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

Table 2. **Primary occupation among service contract workers, 2011**
 ages 25-34, by educational status

Occupation	Student	Non-student
Nursing care	8.1%	24.0%
Guarding and security	77.2%	38.9%
Cleaning	1.9%	19.2%
Other	12.8%	17.9%
Total number	7,203	18,046

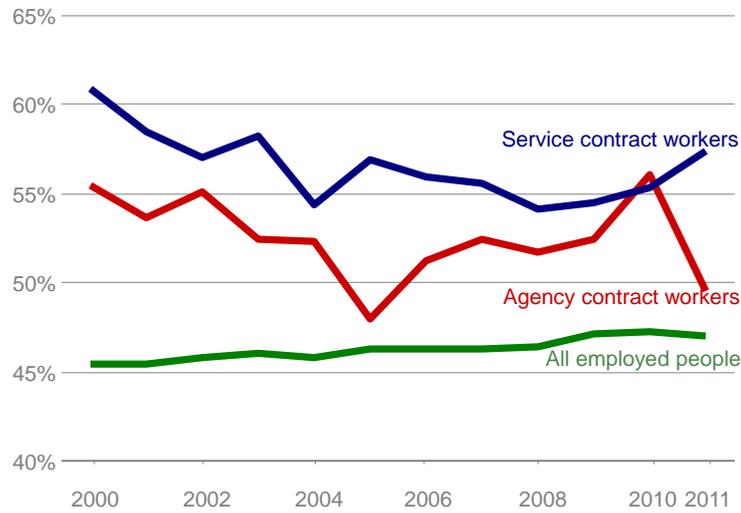
Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

Demographic Characteristics

The group of contract workers is characterized by a high share of immigrants and women – two population groups considered relatively weak in employment terms. Figure 12 shows that the percent of women among all employed persons is on the rise in Israel, similar to the trend across the developed world (Kimhi, 2012). Among contract workers, the percent of women has actually decreased relative to the beginning of the previous decade, but it is still higher than among employed persons in general; this is especially so in the case of service contract workers in Israel, 57.4 percent of whom were women in 2011. Men actually represent a majority of agency workers worldwide (54 percent), but this figure varies significantly between countries. For the most part, in countries where agency work is concentrated in the service sector, like in Israel,¹³ women are the majority while, in countries where most agency work is in manufacturing, men are the majority.

¹³ According to the Central Bureau of Statistics Labor Force Survey data, in 2011, about 8,000 out of about 23,000 agency contract workers worked in industry, agriculture, and construction, while the rest worked in the various service branches (both private and public).

Figure 12
Share of women in the labor force, 2000-2011
 by employment type

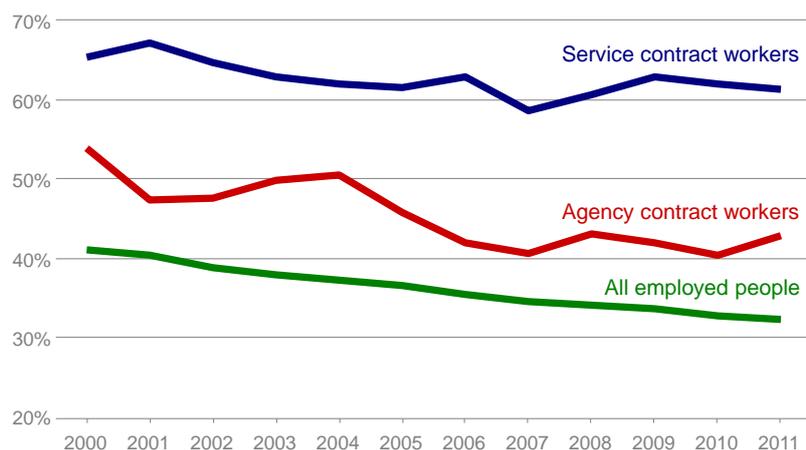


Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

In contrast to the share of women among all employed persons, the share of immigrants (i.e., workers who were not born in Israel) was actually found to be in steady decline, as the immigrants who arrived from the former Soviet Union in the 1990s are gradually leaving the workforce. Between 2000 and 2011, the share of immigrants among all employed persons fell from 41 percent to 32.3 percent, a decrease of some 21 percent (Figure 13). In keeping with the general trend, the share of immigrants among contract workers is also on the decline, but remains relatively high. Among agency contract workers, the percent of immigrants went down from 53.8 percent in 2000 to 42.8 percent in 2011. The share of immigrants among service contract workers is higher, and the rate of decline far more moderate: in 2000, the share was 65.4

percent, dropping to 61.4 percent in 2011. This is almost double the share of immigrants among all employed persons in general in 2011.

Figure 13
Share of immigrants in the labor force, 2000-2011
 by employment type



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

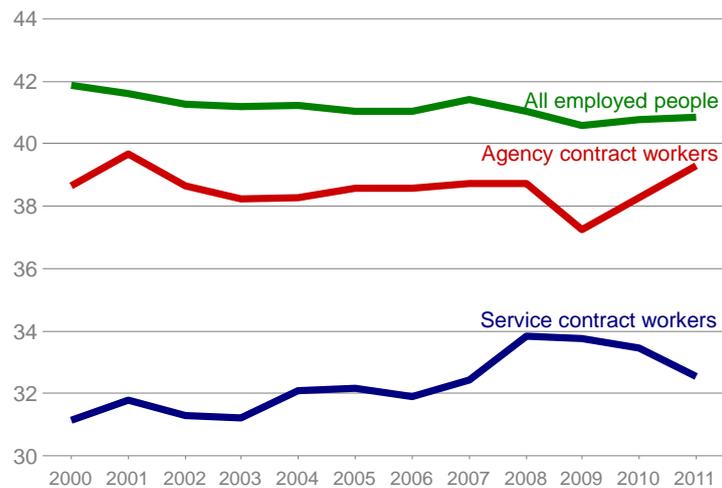
Full-time or Part-time Employment

Another characteristic of contract workers in Israel is the prevalence of part-time work.¹⁴ While employed persons in general worked an average of nearly 41 hours per week in 2011, agency contract workers worked 39 hours and service contract workers worked 32.5 hours per week (Figure 14). It is interesting to see that the trends in this regard are different in each group: among all employed persons, there is a downward trend in

¹⁴ Similarly, in the vast majority of developed countries, agency workers work fewer hours than regular employees (Cielt, 2013).

hours worked, among agency contract workers there is no clear trend, and among service contract workers there is a general upward trend (although that trend has reversed, beginning in 2008). Therefore, the gap in work hours between employed people in general and service contract workers decreased somewhat, from almost 11 hours per week in 2000 down to approximately 8 hours in 2011.

Figure 14
**Average weekly work hours by employment type,
 2000-2011**



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
 Data: Central Bureau of Statistics, *Labor Force Surveys*

Another way to examine this phenomenon is to look at the difference in the rate of full-time employment. In 2011, the percent of agency contract workers working in full-time positions (77.4 percent) was relatively close to the rate among employed persons who were not

contract workers (83.9 percent). In contrast, the rate of service contract workers in full-time positions was much lower, at 53.7 percent.¹⁵

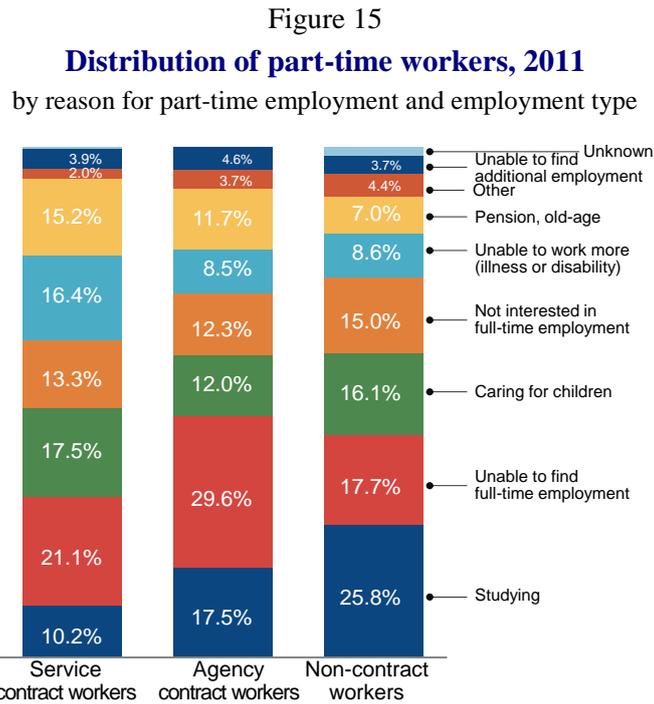
Reasons for Partial Employment

Figure 15 presents the various reasons for working part-time among workers in the different employment types. The leading reason for part-time employment among non-contract workers is education (25.8 percent). The percent of agency contract workers listing education as the reason for working part-time (17.5 percent) is lower than among non-contract employees and this figure is even lower among service contract workers (10.2 percent); this was expected based on the breakdown of each group by age (Figure 6 previously).

The leading reason for part-time work among agency contract workers is the fact they could not find full employment (29.6 percent). This is also the leading reason among service contract workers (21.1 percent) and the second most common reason for non-contract workers (17.7 percent). This means that these workers are ready and willing to work more, but do not have the opportunity. The result is labor underutilization, and its macro-economic repercussions are similar to those of unemployment.¹⁶ Combining part-time workers who could not find full employment with those workers who looked for an additional job and could not find one gives the share of all workers who were clearly interested in working more hours but did not manage to do so. This figure is 35.2 percent among agency contract workers, 25 percent among service contract workers, and 21.4 percent among non-contract employees. While some of those working part-time chose to do so due to their life circumstances, this is less likely to be the case for contract workers, especially agency contract employees.

¹⁵ In the years 2000-2011, there were no substantial changes in the share of full-time positions across the different employment types.

¹⁶ In the United States, people working part-time due to economic reasons (i.e., interested in working more, but there is no demand for their labor) are considered part of the expanded unemployment index U-6.



Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Labor Force Surveys*

The third most important reason for working part-time among non-contract workers is caring for children (16.1 percent). This reason is less common for agency contract workers (12.0 percent), perhaps due to their lower average age. It is more common among service contract workers (17.5 percent) – for the older members of this category the children they are caring for are likely to be grandchildren.

The rates of service contract workers who work part-time for reasons of “cannot work more (illness, handicap)” and “pension, old age” (16.4 and 15.2 percent respectively) are substantially higher than among other types of workers (and double the rate among workers who are not contract workers). This figure reflects the fact that the service contract

worker population is also weaker with regards to personal health. There is a possibility that without flexible employment options through service contractors, this population might have been forced to either work longer hours – which could represent a real burden for them – or have been forced out of the workforce altogether.

Reasons for Temporary Employment

Despite the significant differences in the characteristics of the two groups of contract workers, they can both be categorized as part of a broader phenomenon – the development of a dual labor market, characterized by a major gap between the employment conditions of permanent employees and those of temporary employees.¹⁷ Temporary employment has expanded in many OECD countries over the past quarter century (OECD, 2014).¹⁸ The rate of temporary employment ranges from 2.7 percent (Lithuania) to 30.5 percent (Chile), and exceeds 10 percent in most OECD countries where data exists (Appendix Figure 1). In Israel, data is not collected regarding temporary employment; therefore this phenomenon cannot be compared with the rest of the OECD.

The extent of temporary employment in OECD countries is especially prominent among the newly employed, defined as those with three months or less of job seniority (Appendix Figure 2). It appears that employing new workers on limited contracts has become a widespread norm; the rate of temporary employment among new employees ranges from 25 percent in Britain to 88 percent in Spain and, in many countries, more than half of new workers start work on a temporary contract. In addition, in most countries, the share of new workers employed on a

¹⁷ The OECD defines temporary employment as employment limited in time, and/or employment through employment agencies (OECD, 2002, A.3). For outsourcing workers, there is no clear-cut distinction between temporary or permanent workers, and the definition depends on the conditions of employment.

¹⁸ The International Labour Organization (2011) and Cieltt (2014) show an increase in penetration of agency work in particular.

temporary basis was higher in 2011-2012 than in 2006-2007. This finding indicates that in many countries, temporary employment has become an important stage for new workers joining the workforce and is often a stepping stone to long-term employment (OECD, 2014).

This phenomenon has the positive feature of increasing the flexibility of employment relations for employers, whose employment needs change and for workers, some of whom are not interested in full-time positions, some of whom want flexibility in working hours, and some of whom still lack the necessary experience and skills required for permanent employment. However, it cannot be ignored that a primary motivator for this phenomenon is the disparity in rights and wages between permanent and temporary workers, leading employers to prefer temporary or indirect employment. The result is a dual labor market with substantial rights for permanent workers, who are organized and enjoy protections such as tenure (especially in the public sector). In contrast, temporary workers do not enjoy such rights, whether because of discriminatory agreements and laws or due to flawed enforcement of existing agreements and lack of protection from professional unions. In such a labor market, a conflict of interest arises, well-known in economic literature, between the powerful and protected permanent workers (who are interested in maintaining their employment terms) and the temporary workers (who seek permanent employment even on much worse terms, as it would still provide them with significant benefits).¹⁹

In the case of South Africa, a country with a very high rate of agency work, the large number of temporary workers is due to market structure. On the one hand, there is a lack of flexibility in permanent employment, with high wages and aggressive unions that tend to strike frequently; on the other hand, protections for temporary workers are lax (Budlender, 2013). The situation in Israel is probably not as severe, but there are

¹⁹ In economic literature, this is known as the “insider-outsider problem.” See a general review of the topic in Boeri (2011); an analysis of the problem in Spain, where it is especially severe, can be seen in Bentolila, Dolado and Jimeno (2011).

similarities between the structure of Israel's labor market and that of South Africa. In the public sector (and also in select companies in the private sector, such as the major banks), there are strong unions and a system of tenure,²⁰ as well as arrangements that favor union members over other workers. Although Israel has seen significant achievements in protections for service contract workers,²¹ it is clear that, with a form of employment that is provisional by nature, it is very easy to prevent workers from organizing and protecting their rights. In general, the population of service contract workers has little education and is relatively older. Furthermore, due to the high share of immigrants, many of these workers likely face difficulty communicating in Hebrew. In light of this, service contract workers may find it difficult to protect their rights and may be exploited by employers. For example, Viller (2014) details the distribution of contract workers' inquiries with the Worker's Hotline association, showing a high prevalence of social rights abuses, particularly the denial of seniority (in cases where the same worker stays with the same end client, but the contracting company changes) and incomplete pension contributions by the employing party.

The conditions that lead employers to prefer contract work – substantial differences between the rights of permanent workers and those of contract workers, as well as problems in enforcing the rights afforded to the latter – certainly exist in Israel, creating a hierarchy within the labor market that discriminates against temporary workers, including contract workers. At the same time, caution must be exercised when attempting to minimize these disparities, as measures which decrease the flexibility of employment are likely to increase unemployment at the

²⁰ In Israel, about a quarter of all employees are unionized, and many of them receive tenure (Bank of Israel, 2013).

²¹ See, for example, government offices hiring workers as direct employees (Histadrut website, http://www.histadrut.org.il/index.php?page_id=2134); the 2013 Act Concerning Workers Employed by Cleaning and Security Services Contractors in Public Entities; as well as the extension orders in the cleaning and security branches according to the Collective Agreements Law.

expense of weaker workers.²² The challenge, therefore, is to attempt to bring the working conditions of the two groups into alignment while maintaining flexibility in the labor market. It appears that the common social protections for workers in northern Europe, generally called “flexicurity,” manage to meet this challenge by ensuring a social safety net for the worker that is separate from the employing company – i.e., ensuring general employment security, rather than tenure at a particular work place (Ben-David and Bowers, 2014).

5. Summary and Recommendations

Contract workers in Israel can be divided into two categories: agency contract workers, employed under the supervision and guidance of the service-commissioning client; and service contract workers, subject to the supervision and guidance of the external contracting company. Besides the fact that these two groups are viewed differently by the law, the data presented in this chapter suggests that they are fundamentally different in terms of their characteristics and composition, and therefore require separate policy measures.

Agency contract workers are, on average, a young population – a relatively high share of whom study while employed. In comparison with service contract workers, agency contract workers are far more similar to the general employed population in terms of education levels, percent of women and immigrants, and the share of those employed in full-time work. In recent years, there has been a noticeable and substantial decrease in the absolute number of agency contract workers and in their relative share among all employed persons, from about 57,000 (2.6 percent of employed persons in 2000), down to 23,000 (0.8 percent) in 2011. In international terms, this is a low share. As indicated by the share of young

²² There is ample evidence suggesting that flexibility in the labor market decreases the unemployment rate and increases the participation rate, for example, Di Tella and MacCulloch (2005).

people and students in this group, agency contract work is an important channel of employment, allowing employers flexibility in manpower management and affording young workers the opportunity to gain experience in the labor market and make a livelihood on flexible terms during their studies. Taking this into account, one measure that should be considered is extending the permitted period of employment for agency contract workers to more than nine months, in order to allow workers, especially students, to gain employment continuity and job experience.

Despite this positive picture, there are also problems related to the employment of agency contract workers in Israel. One is that Israeli law, unlike common practice in the European Union, for example, does not recognize employees of municipal associations providing employment services (such as contract teachers) as agency contract workers, and does not limit their term of employment. This loophole has to be regulated, and it must be proposed that municipal associations that operate similarly to employment companies give their workers the same rights. The second problem concerns workers in nursing care services who, at least in some cases, should be considered agency contract workers. The National Insurance Institute allows eligible recipients to collect domestic care allowances in cash for the purpose of directly employing (usually foreign) nursing care workers (rather than paying the nursing care company). However, the cash stipends are 20 percent less than allowances transferred to the nursing care companies (this reflects the difference in VAT transferred to the company, which is 15.25 percent of the payment, and the amount paid to the company itself for administration and profit, which is 4.75 percent). The administration and profit differential between individual and nursing care companies should be cancelled, so that eligible individuals receive the full value of the benefit (without VAT). In this way, individuals can choose to only purchase placement services from the nursing care companies, while directly hiring a caretaker. A transition to this system is expected to both increase nursing care workers' wages (Levy, 2013) and save the patients a great deal of money (Brodsky et al., 2013).

Service contract workers, in contrast, are a fundamentally different case. Unlike agency contract workers, their numbers and share among all employed persons have increased, from about 75,000 in 2000 (3.4 percent of all employed persons), up to approximately 124,000 in 2011 (4.1 percent of all employed persons). This population of workers is older and socioeconomically weaker, and in many cases unable to organize and demand its rights. Current conditions, which raise serious concerns about the exploitation of weak workers, must be improved, populist actions that could primarily harm the service contract workers themselves must be avoided. If the law were to force employers to hire service contract workers as permanent employees, many of them would likely become unemployed, as hiring them would not be economically worthwhile.

Enhanced transparency can protect the legal rights of service contract workers. Under such a proposal, every service contractor would be required to send both the worker and the client a monthly report detailing wage payments to the contract worker (including payments in social benefits) alongside the sum charged to the client for the employee's work. The client would be legally required to share the responsibility for paying the contract workers (no longer using the contracting company as a buffer) and all sides would understand exactly how much the service contractor profits from the mediation between them and whether they might be better off transitioning to direct employment.

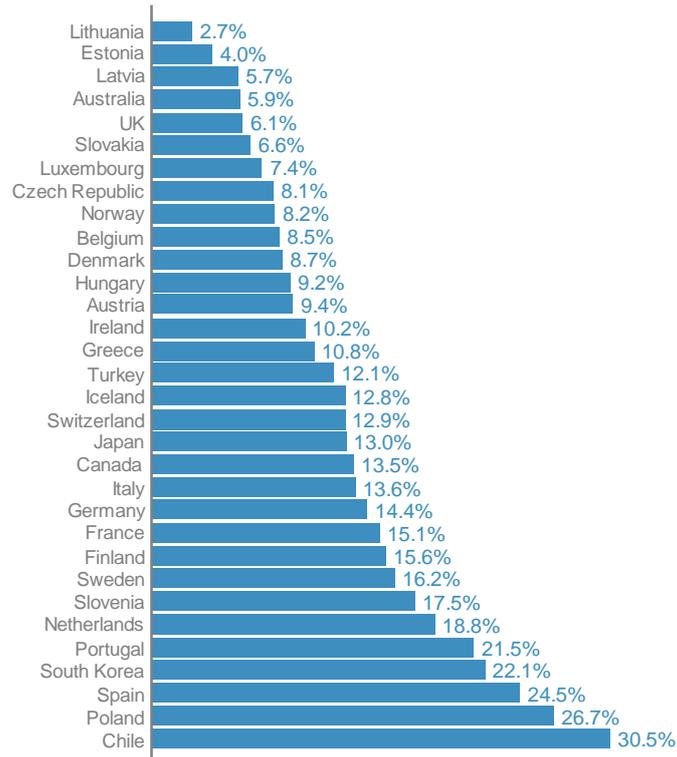
Alongside these measures – which are recommended for immediate implementation – legislation regarding contract work must be improved and data on this phenomenon must be collected in a comprehensive and systematic manner. As noted, the law must treat municipal associations and companies providing employment services equally. Likewise, the law that currently defines a service contractor only as a person engaged in providing guarding, security, and cleaning services must be changed. It appears that the legislator's purpose in detailing these specific fields was to clarify that workers in these fields do not have protections similar to those of agency contract workers. However, it is not reasonable to limit the definition of the service contractor to specific sectors, and the definition must be expanded to include all those who engage in providing

services, by means of their employees, on their customers' premises. Accordingly, the relevant fields must be added to the Central Bureau of Statistics' surveys to assess the extent and characteristics of this phenomenon more precisely: indirect employment through companies and municipal associations, work providing services to a primary customer, wages and social benefits, and long-term or limited contracts.

Work through both employment agencies and service contractors, which is a form of outsourcing, plays an important role in modern economies. The former enables young people to gain experience while allowing flexibility in their work schedule during their studies; the latter provides employment and income to workers who have difficulty holding a full-time permanent position for reasons of health and family. Both provide companies with flexibility in hiring workers and buying services. However, it is important to note that in many cases, especially in the public sector, these are positions in which direct employment would benefit the both employer and employee if it did not involve tenure. In such cases, two classes of workers are created, with permanent organized workers on the one hand and temporary workers with few rights on the other. The stronger the unions in a given area, the more rigid the employment therein, and the more employers prefer to rely on temporary workers. To reduce the abuse of weak workers and limit the phenomenon of outsourcing to those cases where it makes economic sense, flexibility of employment in the labor market, especially in the public sector, must be increased, while the rights of contract workers, especially those of service contract workers, must be thoroughly enforced.

Appendix

Appendix Figure 1
**Share of workers in temporary employment* in
 OECD countries****
 average 2011-2012



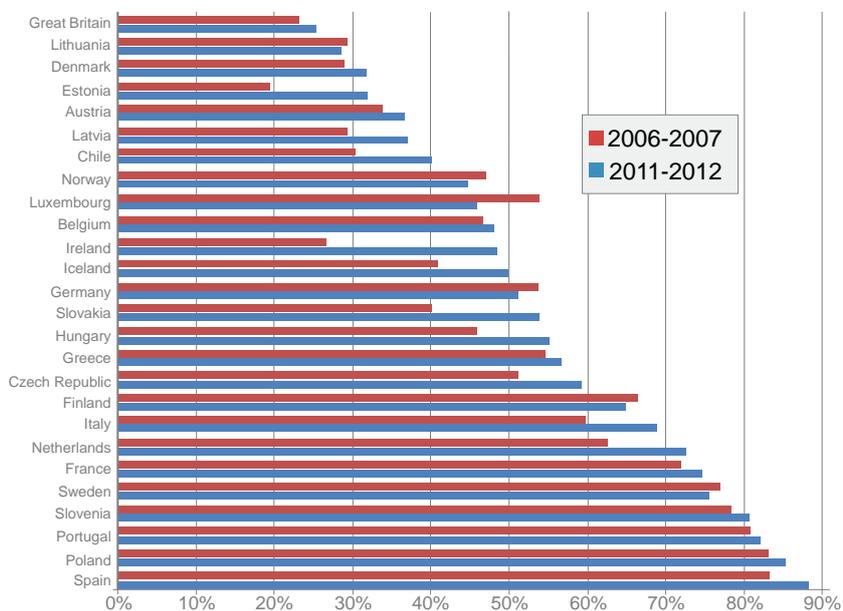
* The OECD defines temporary employment as employment limited in time and/or employment through employment agencies.

** This figure includes data for Lithuania and Latvia along with data for OECD countries. Data for Israel are not available.

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: OECD (2014)

Appendix Figure 2
Share of newly employed* people in temporary employment in OECD countries*****



* Three months or less on the job

** The OECD defines temporary employment as employment limited in time and/or employment through employment agencies.

*** This figure includes data for Lithuania and Latvia along with data for OECD countries. Data for Israel are not available.

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel

Data: OECD (2014)

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