Employment and Wages

The labor market has taken an upturn in the past three years (2005-2007) after having contracted due to the general recession in Israel in 2000-2003. The recovery is reflected in the upward turn of relevant main indicators.[1] Thus, the civilian labor force participation rate rose from 54 percent at the beginning of the decade to 56.7 percent in the third quarter of 2007; employment rose from 2.2 million to 2.8 million; and the unemployment rate, after peaking at almost 11 percent in the second half of 2003, declined steadily to 7.3 percent in the third quarter of 2007 – the lowest rate since 1997. The national average wage, which declined during the recession years, also rebounded to NIS 7,813 per month (August 2007). Although the rapid economic growth that powered these trends began in the second half of 2003, labor markets tend to respond with a lag to economic recovery; thus, the improvement in the labor market was not felt until 2005. The outlook for the years to come is one of continued growth in employment and improvement in other economic indicators, provided that global and domestic economic growth continues.[2] This chapter takes a closer look at developments in the labor market and discusses aspects of Israel's employment policy.

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1 The data in this chapter are current to the date of publication of the original Hebrew edition in December 2007.

2 Based on projections of the Bank of Israel, projections of the Ministry of Finance, Economics and Research Division, estimates of Bank Leumi economists, and others during 2007.

1. Participation in the Civilian Labor Force – Main Trends

After reaching a 54 percent plateau in 2000-2002, the labor force participation rate has been rising continually since 2003 and reached 55.6 percent in 2006 (and more than 56 percent in the first half of 2007). Employment grew to 2.6 million in 2006 and in recent years the labor force has been growing more rapidly (on average) than the working age population.

Despite this trend, Israel's labor force participation rates are rather low by Western standards. It is true that at 77 percent on average in 2006 the participation rates of those in the main working age cohort (25-54) are slightly higher than those of all persons aged 15+, but they still fall short of the average participation rate in developed countries (80 percent). This comparison underscores the low participation rate of men in Israel (82.7 percent) relative to men in the OECD countries (92 percent). In contrast, the participation of women in the main working age cohort (25-54) has been trending upward over time and reached 71 percent in 2006, moving towards the OECD average.

The main disparities in Israel's participation rates (much like those in other developed countries) are in gender, geography, and education.

a. Gender Gaps

In Israel, women's labor force participation rates are lower than men's. This tendency is evident in most developed countries and stems from cultural and social factors. However, the disparities are more pronounced in Israel, where the participation rate of men is more than 10 percent higher than that of women (61 percent vs. 50 percent, respectively, in 2006). Table 2 shows the separate and opposite trends in men's and women's participation, which are

Table 1. Main Labor Market Indicators, 2000-2006

	Civilian labor force participation (15+) (%)	**Persons employed** (thousands)	**Thereof: Employees** (%)	**Employed in public sector**** (%)	**Average work week** (hours)	**Unemployed** (%)
2000	45.3	2,271	85.8	32.3	37.8	8.8
2001	54.3	2,265	86.5	32.9	36.9	9.4
2002	54.1	2,284	86.5	33.8	37.3	10.3
2003	54.5	2,330	86.2	33.5	37.0	10.7
2004	54.9	2,401	86.8	32.7	36.6	10.4
2005	55.2	2,494	86.9	32.8	36.5	9.0
2006	55.6	2,574	86.8	32.6	36.3	8.4
2007*	56.6	2,685	87.5	--	36.4	7.5

* Second quarter.

** Percent of persons employed in public administration, education, health care and welfare services, and social and community services.

Source: Central Bureau of Statistics, *Statistical Abstract of Israel* and *Labour Force Survey,* various years.

Table 2. Gender Gap in Labor Force Participation, 2000-2006
(Percent of total employed, by age and gender)

	15+		**25-54**	
	Men	**Women**	**Men**	**Women**
2000	60.8	48.2	84.0	68.5
2001	60.7	48.2	83.5	68.3
2002	60.2	48.4	83.1	69.3
2003	60.1	49.1	83.2	69.9
2004	60.6	49.6	83.2	70.4
2005	60.7	50.0	82.7	70.7
2006	61.1	50.4	83.0	71.0

Source: CBS, *Statistical Abstract of Israel* and *Labour Force Survey,* various years.

contributing to a narrowing of the gender gap. The participation rate of men in the main working age cohort has been declining, from 84 percent in 2000 to 82.7 percent in 2005, while women's participation has been rising steadily and continually, from 68.5 percent in 2000 to almost 71 percent in 2005. (In 2006, the participation rate of men rose at a similar rate to that of women's participation. It is not yet clear whether this is an exception or a change in the trend.)

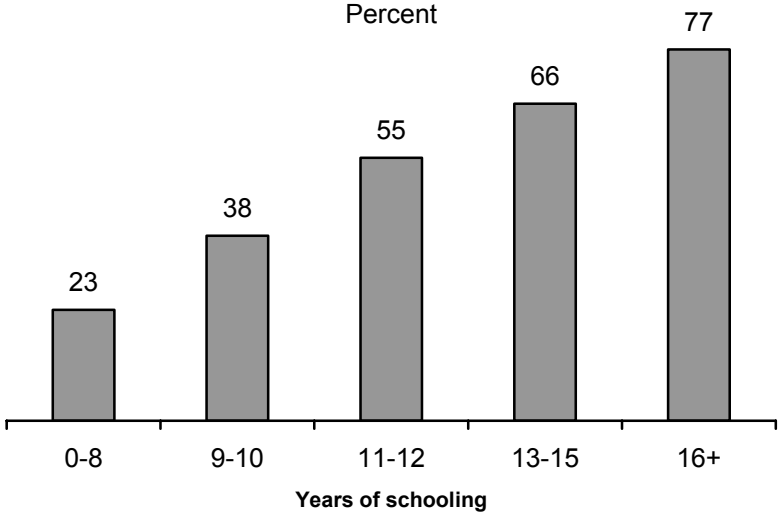
b. Regional Gaps

In Israel, as in many other countries, significant regional differences in labor force participation rates and unemployment rates persist and have even been widening over the years. The gaps between the center, where participation rates are high and unemployment levels low, and the periphery, where both indicators are reversed, have been documented in Israel since the 1970s when the economy was at full employment. The gaps have widened steadily since then concurrent with an increase in the national unemployment rate. These differences reflect social and demographic disparities among population groups in different parts of the country. In particular they reveal the concentration of socioeconomically weak population groups with relatively low levels of education in the periphery, where access to jobs is inferior as a major part of the business sector is concentrated in the center of the country. The population of central Israel, in turn, has strong employment characteristics and lives close to employment centers; therefore, its labor force participation rates are higher than those of the periphery. Research on the regional disparities shows that the unemployment rates in most parts of Israel, except the southern district, have been converging over time (Bank of Israel, *Annual Report 2007*).

c. Educational Gaps

Labor force participation rates are strongly affected by levels of education. They are very low among the poorly educated and rise with increases in education. Figure 1 divides Israel's participation rates by levels of education. Disparities of this kind have long existed in Israel, but while the gender and regional gaps have been narrowing over the years (at least in part), the educational disparities have been widening.

Figure 1. Labor Force Participation Rate by Level of Education, 2006



A relatively low participation rate reflects mainly disparities in human capital of the labor force. Expected developments in the new world of work, where economic sectors and industries are intensive in human capital, will not guarantee any significant increase in the participation rate of the poorly educated. Instead, they predict a rise in demand for well educated workers.

Globalization, by facilitating and strengthening the influx of unskilled labor to developed countries, has also influenced demand for local unskilled and poorly educated workers. Some claim that in Israel, too, this population group has been harmed the most by the influx of foreign workers. With this, it is important to note that the welfare-to-work policy that Israel introduced in 2002 has had a positive impact on the participation rates of even the relatively poorly educated (9-12 years of schooling). Due to the program, the participation rate of this group has risen somewhat, in contrast to previous years when the overall increase in participation stemmed mainly from rising participation rates of those with higher education.

2. Employment and the Employed

After a decline in employment figures during the recent recession, the renewed rise in global economic growth and real domestic activity have caused accelerated growth in the number of employed persons in Israel – from 2,271 thousand at the beginning of the decade (2000) to 2,574 thousand in 2006 and 2,645 thousand in the second quarter of 2007. The increase in employment in the past two years (2005-2006) exceeded the increase in the first post-recession years (2003-2004) and took place mainly in the business sector. The number of foreign workers and workers from the occupied territories employed in Israel has declined continually since 2002 but still remains high relative to the share of foreign workers in other developed countries and especially in view of the

relatively high rate of unemployment among poorly educated local workers.

a. Employment by Sector and Industry

One of the goals of the new economic policy introduced at the beginning of the decade was to lower public sector expenditure and its share in the economy, make the public sector more efficient, and, in turn, encourage and boost employment in the business sector. For this purpose, a hiring freeze was imposed on the public sector and veteran employees were encouraged to take voluntary early retirement. As employment accelerated later on, this policy helped to hold the growth of the public sector to a lower rate than that of the business sector (2 percent as against 3.5 percent in 2006). The business sector continued to expand in the first half of 2007 and employment grew twice as rapidly as in the public sector – by 1.5 percent as against 0.7 percent, respectively. Between 2000 and 2006, the share of the public sector in total employment showed only minor fluctuations, beginning the period at nearly one-third and ending it in 2006 at a similar level (32.6 percent). This was due to counter balancing trends in the industries included in the public sector: a significant decrease in employment in public administration as against a slight increase in education, health care, and social and community services.

With this, it is important to remember that the continued restrictions on hiring which prevented various government offices from direct hiring of new staff, at the same time allowed an increase in indirect employment through outside companies and temporary employment agencies. These companies provide the public sector offices with services but their workers are not considered public sector employees. In this way, the government has become Israel's largest employer of employment agency

labor,[3] accounting for half of these agencies' employees. At the same time (2000-2006), the business sector took on nearly 200,000 additional workers and grew almost twice as quickly as the public sector.

Several industries in the business sector had pronounced growth since 2000 (Table 3). Business services continued to grow even during the economic slowdown, their share in total employment rising from 11.8 percent to nearly 14 percent in 2006. The hotels and restaurants industry has also expanded since its emergence from the recession, corresponding with the increase in tourism. Banking, transport and communication grew slightly. Trade industries and construction fluctuated with a trend up. In agriculture and electricity, in contrast, the share of employment in total employment declined. Manufacturing employment also declined relative to the total. This development, one of the most pronounced in recent years, stems mainly from falling employment in traditional industries that is not being offset by rapid growth in the high-tech industries, which are driven by strong demand for their exports.

These trends are part of a general worldwide restructuring of the labor market, in which agriculture and manufacturing sectors contract steadily and the service sector expands. The change is leading to less employment in agriculture and traditional industries and more employment in service industries (finance, insurance, transport, communications, and sales). Globalization and the development of information and knowledge systems are speeding the intersectoral transition and have led to changes in demand for labor at two levels: greater demand for skilled and well educated workers in the service industries and a lessening of demand for

[3] The share of persons employed by employment agencies in Israel was estimated in 2005 at 2.4 percent of all employees, exceeding the Western average (Bank of Israel, *Annual Report 2006*).

unskilled and poorly educated workers in the traditional sectors of agriculture and manufacture.

Table 3. Employment in Selected Industries,* 2000-2006
(Percent of total employment each year)

	Agri-culture	Manu-facturing	Hotels and restaurants	Business services	Public administration	Education	Health care
2000	2.2	18.0	4.6	11.8	5.4	12.4	9.7
2001	2.0	17.5	4.3	12.4	5.7	12.4	10.0
2002	2.0	16.7	4.1	12.2	5.9	12.7	10.3
2003	1.9	16.3	4.0	13.0	5.2	12.7	10.8
2004	2.1	16.2	4.3	13.4	4.7	12.7	10.7
2005	2.0	15.8	4.7	13.5	4.7	12.7	10.7
2006	1.8	15.7	4.8	13.9	4.5	12.8	10.3

* The columns do not add up to 100 since only industries in which notable changes occurred are included.

Source: CBS, *Statistical Abstract of Israel* and *Labour Force Survey,* various years.

Because Israel's technology and information industries have been growing more rapidly than traditional industries, the country has developed a dual economy in the past decade, with widening variance between ICT industries and the others. This variance and its reflection in unbalanced economic growth are expected to exacerbate pre-existing economic and social gaps. To narrow them, balanced long-term growth is needed, i.e., parallel growth in most industries and sectors. It may be attained by means of technological innovation and the promotion of research and development in traditional industries, which employ a rather large share of manufacturing workers countrywide (Trajtenberg, 2006).

b. Status at Work: Self-Employed and Employees

Some 12 percent of persons employed in Israel, roughly 200,000 in number, are self-employed (most in the business sector), whereas most working people (more than 87 percent) are salaried employees.[4] A similar distribution of a majority of employees and a minority of self-employed occurs in most Western countries. (In the OECD countries, the average share of self-employment in 2005 was 17.3 percent). The relative size of the self-employed population does not reflect its full impact on employment, because this population includes not only those who work alone but also those who employ others and are, therefore, engines of employment that enhance employment at large.[5]

Structural economic changes (e.g., the expansion of service industries, in which many self-employed are concentrated), technological changes, and greater structural rigidity in the labor market and the way it is organized have contributed to an increase in the share of self-employment around the world in recent decades. The emergence of these trends in Israel was delayed due to historical and ideological factors that led to a weakening of the status of the small-scale self-employed class over the years. Welfare and social security legislation extended only partial protection to the self-employed, for example. However, the share of self-employed in Israel, too, has been increasing in recent years (from 11.2 percent in 2000 to 11.4 percent in 2003 and 11.8 percent in 2006), suggesting that this sector has not yet reached its full growth potential. At the same time, an awareness of the need to expand the National Insurance entitlements for this group is rising. As an example, a bill that would extend unemployment insurance

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[4] Data for 2006. The others are members of cooperatives, kibbutzim, and relatives who work for no pay.

[5] It is noteworthy that most self-employed persons in Israel work alone.

and eligibility for unemployment compensation to the self-employed recently passed on preliminary reading in the Knesset.

The policy of encouraging employment in the business sector is reflected in increased government involvement in activity for and support of self-employed proprietors of small businesses. The Ministry of Industry, Trade, and Labor, which holds ministerial responsibility for this field, is working to centralize the care of the self-employed in a "one-stop shop" manner, providing consulting services, information, entrepreneurship training, and furnishing additional kinds of support for women, the unemployed, and residents of peripheral areas, in order to eliminate bureaucratic barriers and enhance access to loans and subsidies for the formation of independent businesses.

Table 4. Changes in Rates of Self-Employment, 2000-2006

	Percent of self-employed	Percent change vs. previous year
2000	11.2	—
2001	10.9	–3.6
2002	11.0	0.9
2003	11.4	3.6
2004	11.3	–0.1
2005	11.6	2.7
2006	11.8	1.7

Source: CBS, *Statistical Abstract of Israel* and *Labour Force Survey,* various years.

c. Occupational Structure

The increase in employment since 2000 has been focused on academic professionals and the occupational category of agents, sales workers, and service workers. The numbers of associate professionals has been rising (notwithstanding a slight proportional decrease in 2004-2005). In contrast, employment of skilled workers has declined and that of unskilled workers has been falling on a long-term basis. A similar downward trend was observed among managers and clerical workers.

Table 5. Employment by Main Occupations, 2000-2006
(Percent of total employed aged 15+)

	Academic, associate professions, technicians and managers	Clerical workers, agents, and sales	Skilled workers (agriculture, manufacturing, other)	Unskilled workers
2000	35.0	36.9	20.0	8.2
2001	35.8	36.9	19.4	8.2
2002	36.6	37.0	18.8	8.0
2003	36.1	37.1	18.9	8.1
2004	35.3	37.8	18.8	8.1
2005	35.2	38.3	18.2	8.4
2006	36.0	37.5	18.4	8.1

Source: CBS, *Statistical Abstract of Israel* and *Labour Force Survey,* various years.

These developments correspond to the forecast of higher demand for education intensive occupations and a lower demand for skilled and unskilled workers, who are usually employed in traditional industries. However, Israel's share of employment in academic, associate professions, and technical occupations is low (around 30 percent among those aged 25-45) by Western standards and also relative to the share of those with post-secondary education in

Israel (around 45 percent in the main working age cohorts). This indicates that part of those who have an academic education, most probably among immigrants from the former Soviet Union, fit into the Israeli labor market in occupations that are not commensurate with their level of education.

d. Work Week and Part-Time Work

The average work week decreased by 4 percent between 2000 and 2006 from 37.8 hours to 36.3 hours. (The calculation includes temporary absences.) Since work hours have not been changed significantly in recent years by legislation or by labor accords, the decrease can be attributed to a considerable increase in part-time employment. The findings attest, on the one hand, to hiring practices. For example, three-fourths of placements through the *Mehalev* (the Israeli "welfare to work" program) program in 2005-2006 were in part-time jobs at fewer than 35 hours per week (Achdut, et al., 2007). On the other hand, the increase in the number of part-time workers may be attributable to the expansion of the service industries, in which part-time employment is common. Also, women figured heavily in the part-time labor force, increasing from 32.7 percent of all employed women in 2000 to 35.7 percent in 2006, 2.4 times the rate of part-time work among men in the main working age cohort (25-54).

The trend changed in 2006: for the first time in years, the increase in full-time employment exceeded the growth of those employed part-time, at 2.9 as against 2.1 percent. The strengthening of demand for full-time workers also seems to reflect more successful intake than in the past in terms of employment and wages (because full-time wages per hours worked are higher than part-time wages). This hypothesis is corroborated by the decline in the number of part-time employees who work part-time not by choice in 2006 relative to previous years.

Table 6. Part-Time Employment, 2000, 2003, 2006 (Percent)

	2000	2003	2006
Percent of persons employed			
aged 15+	23.6	24.7	26.7
aged 24-54	21.1	22.0	24.4
Men	11.3	12.6	14.6
Women	32.7	32.9	35.7

Source: CBS, *Statistical Abstract of Israel* and *Labour Force Survey,* various years.

e. Employment of Foreign Workers

Some 186,000 foreign workers were employed in Israel in 2006, 7.3 percent of total employment and 10.7 percent of employment in the business sector – exceeding the OECD average (5.5 percent in 2004 as against 8.8 percent in Israel that year). After the influx of foreign workers became a mass phenomenon (in 1995), the number of such workers increased steadily to a peak of 243,000 in 2001, declined in 2002-2005, but rose again in 2006. Some of these are undocumented workers whose numbers fell consistently until 2005. The number of documented workers, in contrast, declined slightly in 2002-2003 but has been rising again since 2004. The total decrease in the population of foreign workers in 2002-2005 may be attributed to the implementation of the government resolution to decrease their numbers which was adopted in July 2002.[6]

[6] The resolution was part of government policy to promote labor market reform for reasons including the rapid increase in unemployment generally and unemployment among the poorly educated in particular, as well as an attempt to restrict the notable rise in payouts of social benefits to the unemployed.

Table 7. Foreign Workers, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Total (thousands)	214	243	226	189	188	187	186
% change (vs. 2000)	–	14	6	–12	–11	–17	–13
Thereof:							
► On worker's visa	85	104	102	85	92	98	102
► On tourist or other visa (infiltration)	128	139	124	104	97	80	85
► % without worker's visa	60	57	55	54	51	45	45

Source: Barzuri, 2007.

The government's policy on foreign workers is reflected in the issuing of fewer work permits for their employment (a "closed skies" policy) and a crackdown on undocumented workers through enforcement and deportation. Since 2005, however, this policy has been eased and the limits on employment permits have been relaxed, especially in construction and agriculture. At the same time, deportations of undocumented workers have declined and the policy in this matter has given way to one that favors returning them to work (as legal employees of employers who hold permits).

The so-called "corporations method" for the employment of foreign workers (implemented in the construction sector in May 2005 and extended to the nursing and agriculture sectors afterward) is supposed to facilitate the efficient movement of foreign workers among licensed employers and to make sure that the workers receive the wages and social benefits required by law. The new method also raised the costs of employment of foreign workers and

gave domestic employers reason to reconsider the economic advisability of employing a foreign worker rather than an Israeli one.

This employment method, though, fails to increase competition among employers for foreign workers' services. Only a changeover to a personal (industry-level) allocation of labor permits for foreign workers would stimulate competition for their services, increase their wages, and, thereby, help to make their employment less attractive than unskilled Israelis. It would also lower the unemployment rate among the latter.

As for undocumented foreign workers, a combination of tougher regulation, punishment of their employers, and encouraging undocumented workers to leave the country (by giving them some of their wages only at point of departure) is expected to help decrease their numbers.

3. Wage Trends

The average wage per full-time post fluctuated somewhat during the review period. The characteristic upward trend of previous years slowed in 2001 and stopped due to the recession in 2002-2003, when wages actually decreased (in real and nominal terms, including a steep 6-percent decline in real wage in 2002). In 2004, when economic growth began to revive, wages rose slightly. The increase in real average wage per employee post was 1.4 percent in 2006, following a 1 percent rise in 2005, and the nominal wage rose by 3.4 percent relative to 2005. In the first half of 2007, too, the real average gross wage per employee post rose by 1.9 percent relative to the second half of 2006. The improvement in that year was highest (4.6 percent) in banking, insurance, and financial services.

Table 8. Average Wage per Employee Post, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Avg. wage per employee post (NIS, current prices)	6,835	7,079	7,147	6,972	7,009	7,324	7,576
Percent change on previous year							
► current prices	7.2	3.6	–0.8	–2.4	1.8	2.5	3.4
► constant prices	6.0	2.5	–6.1	–3.1	2.2	1.1	1.4

Source: CBS, *Statistical Abstract of Israel, Wages and Employment Monthly Statistics,* various years.

a. Differences among Sectors and Industries

Wage increases in the public sector were steady but slower than in the business sector in the past two years. Much of the increase in public sector wages between 2005 and 2006 stemmed from a general government cost of living increment in 2006 that had been postponed since 2003; this effect was especially evident in public administration wages (Table 9). Wages in education, health care, and social and welfare services were stable and those in community and social and personal services actually declined by 0.4 percent.

In the business sector, there were significant wage differences among industries. Growth was relatively vigorous in electricity (6.5 percent), banking and financial services (5.9 percent) manufacturing (3.9 percent), and business services (2.5 percent). In agriculture, wages rose slightly (1.7 percent), mainly due to an increase in the cost of employing foreign workers in this industry with the imposition of a compulsory charge to employers who hired foreign workers for farm labor. In contrast, wages in transport and construction hardly rose (by 0.1 percent and 0.4 percent, respectively) and wages in the trade industries decreased by 0.4 percent.

Table 9. Real Average Wage per Employee Post in the Business Sector, by Industry – 2006 vs. 2005 and 2000 (Percent)

	Wage in 2006	
	vs. 2005	**vs. 2000**
Agriculture	1.7	5.5
Manufacturing	3.9	7.1
Electricity	6.5	10.0
Construction	0.4	–3.2
Trade	–0.1	–6.4
Hotels and restaurants	0.4	–7.3
Transport	0.1	–7.1
Banking	5.9	6.2
Business services	2.5	1.1

Source: Bank of Israel, *Annual Report 2006*.

Comparison of developments with 2000 shows a significant increase in real wages in electricity, manufacturing, banking, and agriculture, a slight increase in business services, and a continuous decline in hotel and restaurant services, transport, trade, and construction.

b. Expected Changes in Wages and Their Effect

One of the factors that affects the national average wage is the *minimum wage*, which was raised twice in 2006: to NIS 3,457 per month in April (an increase of 3.7 percent) and to NIS 3,585 in June. Another increase was supposed to take effect in April 2007 but was postponed until June 2008.

Additional changes in wages and wage costs are foreseen in most public sector occupations due to the conclusion of a new collective wage agreement in July 2007. The new accord, replacing the previous one dating from 2001, includes a 5 percent wage hike spread out over a three-year period. Change is also foreseen in the

structure of public sector employment, as some employment agency workers are to be hired as regular staff and total employment through employment agencies and NPOs is to be regulated (Economic Arrangements and Budget Law, 2008). This change is also expected to have an upward effect on public sector wage costs.

As for the business sector, wage increases are foreseen on the assumption that demand for highly skilled labor is rising. This aside, wage disparities between the well educated and the poorly educated will probably continue widening due to structural changes in the labor market and the growing polarization between educated workers employed in high-tech industries and skilled but poorly educated workers, who are concentrated largely in traditional industries. Unskilled workers earn low wages at unstable and unskilled jobs; well educated workers' wages are higher to begin with and are expected to continue rising due to the increase in demand for their services.

4. Unemployment and Employment Security

The unemployment rate, which spiked at the beginning of the decade and peaked at 10.7 percent in 2003, has declined steadily to 7.3 percent (third quarter of 2007). This rate, the lowest since 1997, is the product of economic growth. Israel's unemployment rate still exceeds the OECD average of 6.6 percent in 2005 (the last year for which comparative data are readily available).

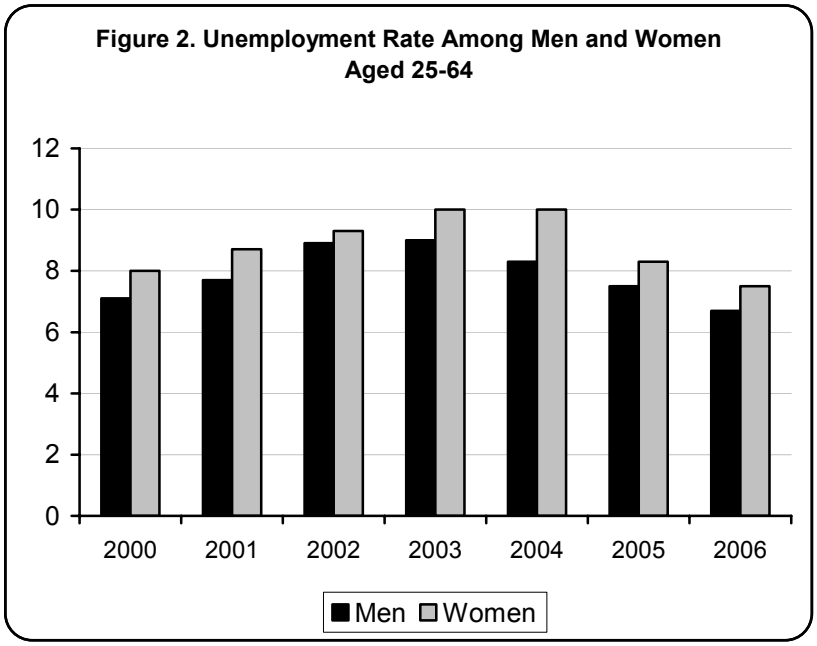
a. Main Characteristics of Unemployment

1) Education. The decrease in unemployment rates was notable during the review period among well educated workers and less so among the less well educated. Unemployment among persons with 13-15 years of education fell from 8.7 percent in 2003 to 6.6 percent in 2006, and among those with 16+ years of education it

leveled off in 2006 at 4 percent – closely approximating the rate of frictional unemployment (when workers are between jobs). In contrast, the unemployment rate among the poorly educated declined slightly but remained high; among those with 9-10 years of education, unemployment fell from 15.3 percent in 2003 to 12.8 percent in 2006. Among those with 11-12 years of education, 11.2 percent were unemployed in 2006. Thus, the unemployment gap between the extremes in education level was more than three times even after the recession ended, at 4 percent versus more than 12 percent in 2006. This reinforces the claim that the socio-economically strong population groups are gaining more from the current economic growth than the weaker and poorly educated ones, who remain with relatively high unemployment rates. Unemployment continued to decline in 2007 in all educational groups except for those with 0-8 years of education, among whom the number of unemployed rose because demand for workers in the business sector focuses on relatively well educated candidates.

2) Age. The unemployment rate in the main working age cohort (25-54) is lower than the overall unemployment rate, indicating that older workers are being pushed out of the labor cycle (as young workers gradually work their way in). The process resembles the replacement of poorly skilled local workers by foreign workers, who are not only cheaper but also not inclined to complain about their working conditions (Klinov, Amir, 2003). The relatively low unemployment rate among those in the oldest cohort does not reflect the full occupational distress of these workers; instead, it attests to their disengagement from the labor cycle, as reflected in the decline in the labor force participation rate with the rise in age. The people at issue are older workers who were fired or retired and have stopped seeking work.

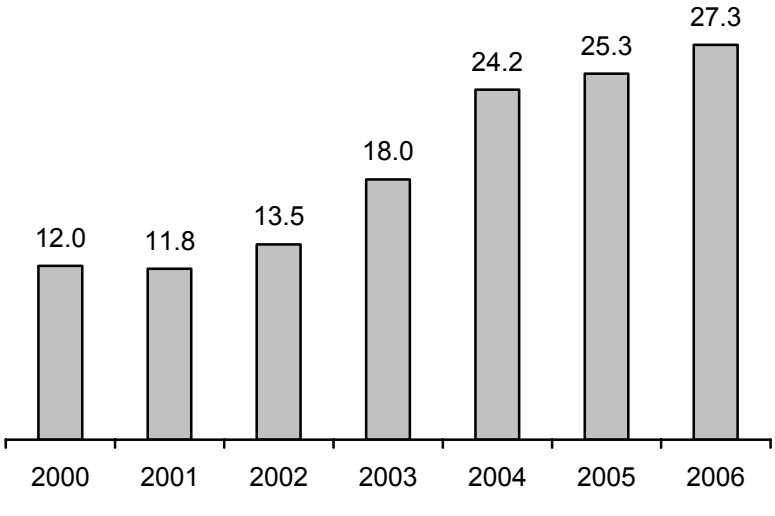
3) Gender. The unemployment rates among working age women while resembling the general trend exceed those of men (Figure 2).



4) Depth of unemployment is an indicator of prolonged unemployment (Figure 3). In recent years, the trend in this indicator has been the opposite of the downward trend in the unemployment rate, reflecting the intensity of unemployment among – the hard core of the chronically unemployed (and poorly educated) who have gone without work for more than a year. The proportional increase by a factor of 2.3 in long-term unemployment during the review years, attests to a change in the unemployment mix and the creation of a hard core of uneducated and chronically unemployed people who fail to integrate into the labor force at any level. Such people may totally disengage from the labor market due to "despair", which worsens as their search for work lengthens, or due to the erosion of their human capital as the result of prolonged periods of unemployment. Either way, long-term unemployment is

detrimental to the individuals' well-being and, given the waste of human resources, harms the economy at large.

Figure 3. Persons Unemployed for More Than a Year
Percent of total unemployed



b. Level of Employment Security

Developments in the new world of work – largely those related to globalization, the transition to non-traditional methods of employment, and the decline in the strength of trade unions – are accompanied by a general decrease in workers' employment security. Changes in this respect are evident in Israel, too, e.g., lower rates of membership in trade unions and a proportional increase in employment via employment agencies. On the one hand, these trends are predictably adverse to the individuals' sense of employment security. On the other hand, economic growth projects stronger employment security and a decline in the unemployment rate.

There is no single accepted composite index that reflects employment security and changes in its level on the basis of objective variables such as changes in work-absence rates, rates of "despairing" work-seekers, rates of job change at employees' initiative, and duration of job search. Interestingly, examining these indicators would suggest that the sense of employment security is getting better. The improvement evidently stems from three factors: a return of "despairing" work-seekers to the labor market, the fact that some employed persons feel more confident about taking work time to look for another job, and an increase in the rate of voluntarily leaving one job for more suitable employment. The prolonging of the job search process also suggests that individuals can be more selective than before in choosing new jobs that fit their needs and qualifications.

Israel has been measuring its rate of "despairing" work-seekers since 2001 by means of the Central Bureau of Statistics Labor Force Survey, which examines the reasons for termination of active employment seeking. The people who are questioned used to belong to the civilian labor force but have stopped actively looking for work after a prolonged period of unemployment. The numbers of such people rose steadily, from around 40,000 in 2001 to 64,300 in 2005 (an increase of more than 60 percent) but decreased to 54,400 in 2006. Although this is still a large number of people, it indicates that at least some members of this group, especially those with higher education, have gone back to work. The number of "despairing" work-seekers among the poorly educated, however, remains high (Bank of Israel, 2006).

Table 10. "Despairing" Work-Seekers and Temporary Absentees, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
"Despairing" work-seekers (thousand)	—	40.0	43.3	53.1	63.9	64.3	54.4
Temporary absentees (Percent of all unemployed)	6.1	6.6	5.9	5.7	5.8	6.0	7.1

Source: Central Bureau of Statistics, *Labour Force Survey,* various years, and Bank of Israel, 2006.

The *job absentee index* reports the percent of persons who are temporarily absent from work. The index has been rising since 2004, reflecting an improvement in the level of employment security. Even though the number of absentees spiked in the third quarter of 2006 due to the Second Lebanon War, the upward trend persisted during the year.

The *rate of employee initiated termination***,** which stood at more than half of all terminations in 2006 and rose to two-thirds in the second quarter of 2007 (Ministry of Industry, Trade, and Labor, *Employers' Survey 2007*), also indicates that workers' employment security has improved.

The relatively good condition of the labor market is seen in additional parameters, such as in increased difficulty in filling vacant posts, and the longer time that employers need to fill job vacancies (Ministry of Industry, Trade, and Labor, *Employers' Survey,* 2006-2007).

Another indicator of employment security is the *subjective* one, which is examined mainly through public opinion polls. The Taub Center's annual Social Survey, which looks at changes in the

public's sense of socioeconomic and employment security, indicates that the public's feelings in this regard are improving.[7] In the latest survey (September 2007), the social confidence index score rose to a record level and reflected a significant rise in the sense of security relative to the previous two years, at which time economic recovery had already begun. However, even though the sense of socioeconomic confidence is improving among most population groups and is doing so at above-average rates among those of high income, it is not improving among those of low income and education (primary or partial secondary). Also, the fear of declining into poverty and economic distress, which the survey examined, stands out especially among socioeconomically weaker groups, such as the Arab population and persons of low income.

As for the employment security component of the index, fears of becoming unemployed rose in 1999-2003 and peaked in 2003, when 42.5 percent of all respondents felt that they or a family member were likely to be unemployed. The high level of fear in 2003 corresponds with the unemployment rate, which peaked at almost 11 percent that year. Fear of unemployment ebbed from then on, as did the unemployment rate. The rate of unemployment fear reported in the 2007 survey, 17.5 percent, was the lowest since the Taub Center survey measurements began (1999) and corresponds to the lower level of unemployment that year: 7.8 percent, the lowest since 1997. Complementing this trend, the rate of employment security (measured by the percent of respondents who indicate no fear or only slight fear of becoming unemployed) began to rise in 2004 and in 2007 reached the highest level among all years examined.

[7] See expanded discussion in the 2007 Social Survey chapter in this volume.

Table 11. Trends in Employment Security, as Reflected in Proportion of Respondents Expressing Strong Fear of Losing Their Jobs, 1999-2007*
(Percent of total respondents)

1999	2000	2001	2000	2003	2004	2005	2006	2007
31.4	25.3	32.1	34.2	42.5	31.6	31.7	25.9	17.5

* Based on the annual Taub Center Social Survey.

As for the sociodemographic characteristics of those who fear that they will lose their jobs, a large percentage had low income. In 2007, the Taub Center survey found that 34 percent of those with far-below-average income were very concerned about losing their jobs as against 17.5 percent among the population at large. A high proportion of poorly educated respondents were also afraid of this possibility (27 percent).

Thus, although economic growth is increasing the sense of employment security among much of the population, some social groups are not sharing the sense of improvement and are afraid of becoming poor, unemployed, and deprived of a sense of social well-being. These feelings are based in the reality of profound inequality among households in Israel and the way this trend has been heading in recent years. Thus, the Gini index of income inequality among households, calculated in terms of net income per standard person, rose from 0.387 points in 2005 to 0.390 in 2006. Furthermore, the two uppermost income deciles earned almost half (45 percent) of total gross household income and the two lowest deciles received a mere 5.7 percent. These statistics reflect the depth of the income disparity between households in the lowest deciles and those in the highest.

5. Implications for Government Employment Policy

The changes in Israel's working environment and labor market, coupled with the trends in unemployment and employment security, indicate that separate labor markets are evolving for workers with different levels of education. The main difference among them is that demand is high for workers who have ample human capital, high levels of education, strong ability to adjust to changes, and adequate job qualifications, while demand for the poorly educated is declining. The poorly educated did not acquire the required skills before they entered the labor market and have not acquired them during their years on the job. For this reason, such workers feel insecure and defenseless in the current labor market. Furthermore, they do not automatically benefit from economic growth and the trickle-down effect of the booming economy hardly reaches them.[8]

Israel's employment policy, as reflected in the government's 2008 Budget Proposal, its adjunct, the Economic Arrangements Law[9], and the "Israel Socioeconomic Agenda 2008-2010" (Office of the Prime Minister, 2007), sets main policy objectives with regard to employment but fails to specify secondary objectives in the labor market and complementary targets derived from the main

[8] The average level of education of those newly joining the labor force in the first quarter of 2007 supports the claim that most had 13-15 years of education whereas a large share of the poorly educated (0-10 years) have dropped out of the labor force.

[9] The employment goal for the next three years includes upping the national employment rate among the main working age cohort (25-64) to 71.7 percent in 2010, similar to the OECD average, as against 69.1 percent today (an increase of 0.9 percentage points on average in each of the next three years); increasing the number of persons actually employed by 244,000 (due to natural increase and a higher labor force participation rate), and cutting the national unemployment rate to 5.3 percent (as against 7.7 percent in the middle of 2007).

ones. The missing objectives relate mainly to preventing disengagement from the labor market, maintaining continuity in participation, assuring fair working conditions, etc.[10] Some objectives, like vocational training for low-income groups and the enforcement of labor and minimum-wage laws, are included in the budget and detailed in the Socioeconomic Agenda, but not in a way that makes it possible to implement them immediately. Also, the lack of systematic examination of policy objectives and targets in other fields affected the various employment targets (e.g., infrastructure) making it difficult to regard Israel's current employment policy as cohesive and systematic.

Around the world, there are a wide variety of intervention programs that aim to boost the labor force participation rate (Ajzenstadt, Gal, Shapira, 2007), some of which have been run as pilot programs in Israel and have been shown to be successful. The test lies in the extent and pace at which the programs are being implemented, chiefly because they are so far being run for a small portion of the target population and have to be expanded (in the case of successful programs) in order to make the policy effective. It should be kept in mind that programs designed to create change in social systems, like those intended to influence the labor market and raise the participation rate, are usually long-term. Their outcomes are not immediately evident.

The government policies that attempt to encourage income maintenance beneficiaries and the poorly educated to participate in the labor force by restructuring transfer payments and their eligibility rules have not had the desired results in the short term. Indeed, the outcomes have been the opposite of those intended. Social security benefits were cut before the pro-participation

[10] Employment policy has additional aspects that lie outside the analysis in this chapter, e.g., encouraging employment through incentives to employers, grants and tax benefits for small businesses, etc.

programs were activated, and the situation of low income workers worsened immediately with no improvement in their labor participation rate. Only later, when the back-to-work programs were partially operational and benefits continued to be cut back, was the downward trend in the participation rate partly stopped, for example, among poorly educated households and families with four or more children (Bank of Israel, *Annual Report 2006*).

An active employment policy and the integration of the relevant population groups into the labor cycle are being implemented today by means of the *Orot la-Ta'asuqa* program, the government's flagship welfare-to-work program, and various programs run by third sector organizations, such as the *Tevet* program, a joint venture of JDC-Israel and the government. Since the programs are limited in their number of participants, their ability to bring about meaningful change in the labor force participation rate is also limited. Given the immediate need to improve the existing situation, expanded treatment of non-working population groups and the extensive simultaneous replication of successful programs are necessary.

Given the need for a relatively rapid increase in the labor force participation rate of workers who have low earning capability, the necessary programs are those that will make a direct and immediate contribution to this goal and assure their clients a higher wage. Small group programs that combine training in occupations that are in demand with on-the-job experience have been found successful and may be operated on a much larger scale than they are today. Examples are the establishment of local employment settings for *Haredi* ("ultra-Orthodox") and Arab women in geographically and socially sheltered environments. Low income workers may be given a boost by means of a negative income tax, lowering of National Insurance contributions, or reimbursement of commuting and childcare expenses. These proposals were also included in the Socioeconomic Agenda and the 2008 government budget.

Generally speaking, programs that improve the chances of equal opportunity in the labor market in the future should be encouraged, like initiating and implementing long-term education programs that propose to raise education levels and human capital and to train workers for the long term.

Vocational training and life-long learning respond to the need to enhance the qualifications of the poorly educated. In the short term, this means active investment in encouraging employment by means of up-to-date training systems that impart skills that dovetail with market demand and the requirements of the new world of work.

In practice, the government budgets for vocational training have been declining since 2003. The budget cuts, an array of training programs that are inefficient and poorly suited to the developing labor market, and the policies of restricting the eligibility of the unemployed for participation in various training settings and cutting benefits for those who do participate, have drastically reduced the number of participants in these programs. In order to allow more people to take vocational training, the welfare system must be brought into line with the training policy. The limits on vocational training in the Unemployment Insurance Law should be reexamined, the unemployed should be given an incentive to enter vocational training, the types of training should be adapted to various population groups, and vocational in-service activities should be offered in conjunction with employers.

Life-long learning contributes to these needs because it encourages the enhancement of workers' human capital via continuous learning in formal and informal settings. The tendency to take part in such activities stands out most among relatively

strong groups in the labor market (in terms of occupational status, population sector, length of time in Israel, and income).[11]

Another policy approach is derived from the recommendations of the Taub Center toward the introduction of a differential tax and wage policy for different wage groups. The policy prescribes a negative income tax for older workers and limits the minimum wage to young workers only (Malul and Luski, 2006). An integrated policy alternative of this type offers incentives to people to join the labor market and encourages them to enhance their educational and vocational qualifications, thereby improving not only their wages but also the productivity of the economy at large.

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[11] It makes no difference whether such learning takes place continuously throughout the individual's working years or with a "break" after initial integration into the labor market (Fayer, 2005).

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