

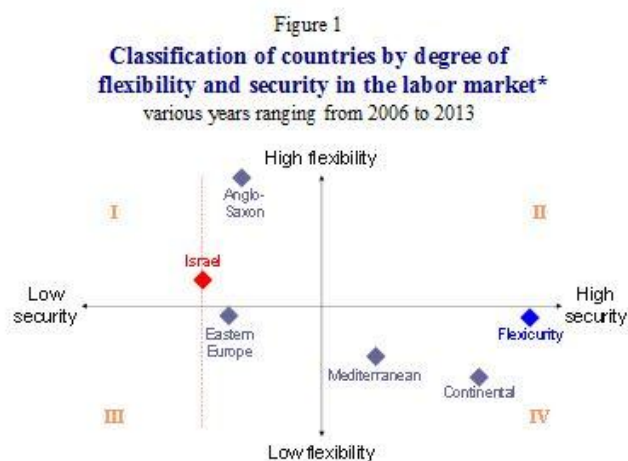


## **New Taub Center study: Countries implementing Flexicurity policies exhibit considerably better socioeconomic outcomes than Israel**

- Taub Center researchers Prof. Dan Ben-David and Liora Bowers find that countries adopting Flexicurity policies in the labor market have higher wages and faster growth in labor productivity – so much so that they have been steadily pulling away from Israel for decades.
- Flexicurity countries are also characterized by higher rates of employment and lower rates of poverty and income inequality than Israel.
- The Taub Center study examines how Flexicurity works and suggests policy directions for implementation in Israel as part of a comprehensive labor reform.

In their new study, “Labor Market Reform in Israel and the Flexicurity Option,” which will be published in the Taub Center’s upcoming *State of the Nation Report 2014*, researchers Prof. Dan Ben-David and Liora Bowers focus on a set of labor market policies known as Flexicurity. Such policies provide relatively high levels of hiring and firing flexibility to employers alongside providing a financial safety net and employability for workers.

Combining some of the developed world’s lowest productivity levels with its highest rates of poverty and income inequality, Israel is situated on socioeconomic trajectories that are unsustainable in the long run. The country is in need of extensive education and labor market reforms. The Ben-David and Bowers study focuses on employment, and examines the issue of Flexicurity and its applicability to Israel. This is a system currently in place, in various forms, in the Nordic countries of Denmark, Norway, Finland and Sweden, along with the Netherlands (together, the “Flexicurity countries”).

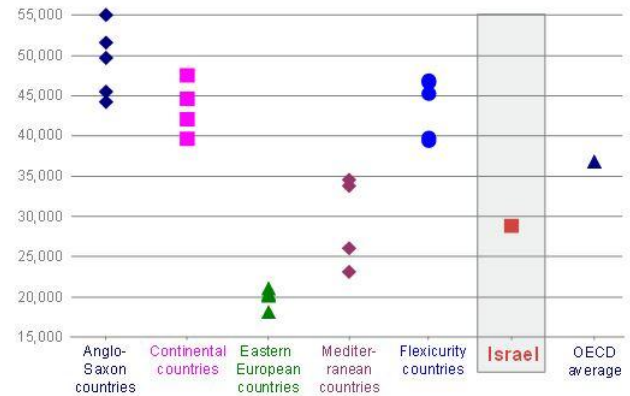


\* Security and flexibility are measured relative to OECD averages based on the two flexibility indices (Employment Protection Legislation Indices for regular workers and for temporary workers) and four security indicators (active labor market spending, net income replacement rate, unemployment insurance spending, and percent receiving unemployment benefits).

Source: Dan Ben-David and Liora Bowers, Taub Center  
Data: OECD, International Labor Organization

The study highlights the range of flexibility in the labor market and financial and employability security among different country groupings (Figure 1). While the Flexicurity countries and the Continental countries (Austria, Belgium, Germany, and France) both provide a strong financial safety net for individuals during transition periods, the Flexicurity countries invest more heavily in active labor market policies to help the unemployed reenter the labor market, and also grant substantially more hiring and firing flexibility to employers. Nonetheless, both country groupings perform similarly well on socioeconomic indicators such as wages, productivity, employment, poverty and inequality – demonstrating that no one set of policy prescriptions is ideal for all countries. It is important to note, however, that both the Flexicurity and Continental country groupings have much better economic and social outcomes than Israel (as can be seen in Figures 2 - 6).

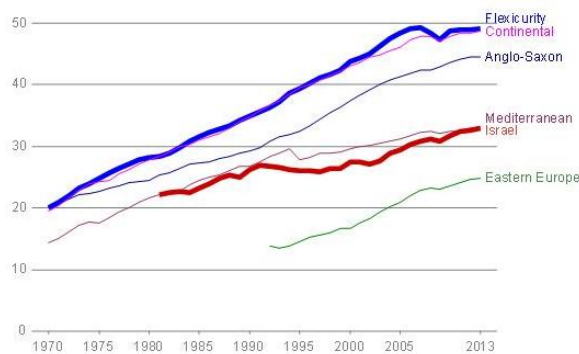
Figure 2  
Average annual wages\*, 2012



\* In PPP dollars

Source: Dan Ben-David and Liora Bowers, Taub Center  
Data: OECD

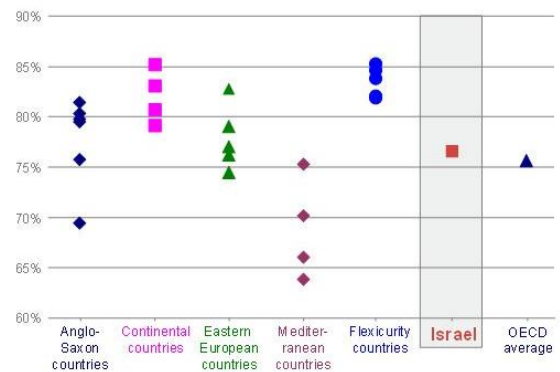
Figure 3  
Labor productivity  
GDP per hour worked\*, 1970-2013



\* In 2005 PPP dollars

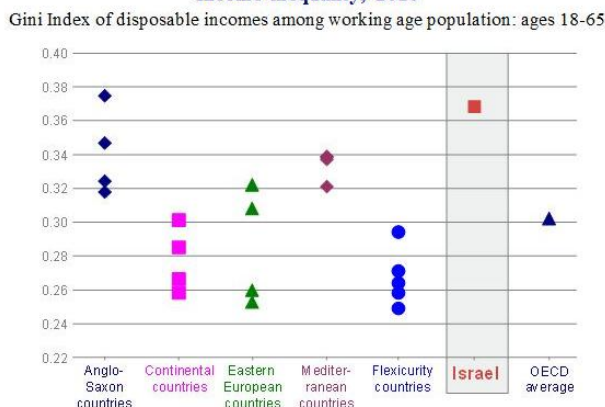
Source: Dan Ben-David and Liora Bowers, Taub Center  
Data: OECD

Figure 4  
Employment rates  
25-54-year-olds, 2012



Source: Dan Ben-David and Liora Bowers, Taub Center  
Data: OECD

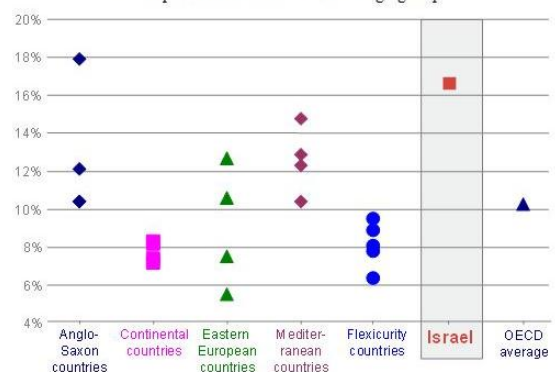
Figure 5  
Income inequality, 2010  
Gini Index of disposable incomes among working age population: ages 18-65



\* Poverty line is 50 percent of median income

Source for both: Dan Ben-David and Liora Bowers, Taub Center  
Data for both: OECD

Figure 6  
Poverty rates\*, 2010  
in disposable income for 18-65 age group



\* Poverty line is 50 percent of median income

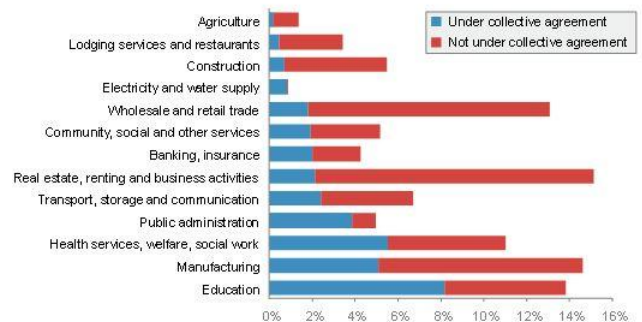
Source for both: Dan Ben-David and Liora Bowers, Taub Center  
Data for both: OECD

The Taub Center study also determined the share of Israeli workers in each economic sector, and provides a breakdown between workers who are covered under collective bargaining agreements and those who are not (Figure 7). Sectors where employees have high job protection include the public sector, water and electricity, and portions of manufacturing and banking.

One possible proxy for employment flexibility is the share of employees covered by collective agreements. In Israel, an estimated 50 percent of employees are covered by such agreements. As shown in Figure 8, there is a positive relationship between coverage rate of employees and hourly wages. On the lower left side of the figure, with the lowest rates of collective agreement coverage and lowest average hourly wages are workers in hotels and restaurants. Close by are the agriculture and construction sectors, also with low coverage rates and low hourly wages. At the top far right of the diagram are the electricity and water workers. This sector comprises a relatively small number of workers; nearly all are covered by collective agreements and their average wages are the highest of all the sectors.

While the positive link between collective agreement coverage and hourly wages appears to be quite strong, this relationship should nonetheless be qualified. For example, hourly wages are also linked to education levels and there tends to be a positive relationship between number of years of education and coverage rates as well as between the share of academics in each sector and coverage rates. On the other hand, it is not obvious that this link is due to higher productivity, since Israeli collective bargaining agreements invariably contain clauses providing for higher wages to individuals with academic degrees – whether or not the

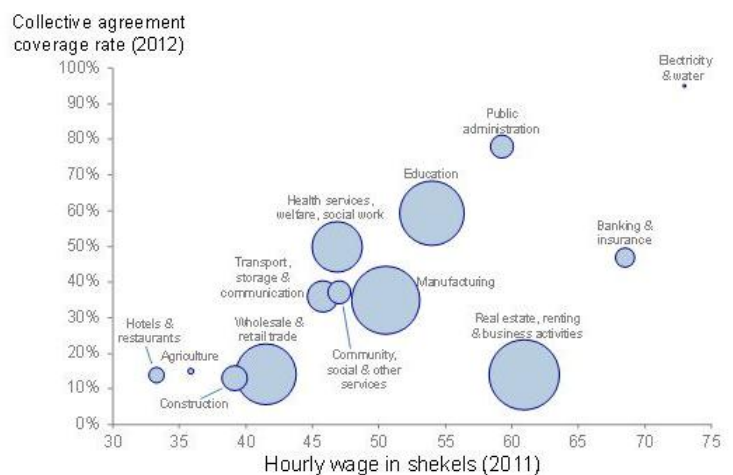
Figure 7  
Distribution of workers by economic sector and collective agreement coverage rates in Israel\*  
2011 (distribution of workers) and 2012 (coverage rates)



\* Distribution of the labor market represents Israelis aged 25-64. Collective agreement coverage rates are based on 2012 self-reported data, and all together represent about one-third of workers. However, experts in the field estimate that actual collective agreement coverage rates are closer to 50 percent.

Source: Dan Ben-David, Liora Bowers and Kyrill Shraberman, Taub Center  
Data: Central Bureau of Statistics (2011), Bank of Israel (2012)

Figure 8  
Collective agreement coverage rates and hourly wages  
Hourly wage, distribution of workers and coverage rates,  
by economic sector



\* Collective agreement coverage rates are based on 2012 self-reported data, and all together represent about one-third of workers. However, experts in the field estimate that actual collective agreement coverage rates are closer to 50 percent. Size of bubble represents relative size of the sector by share of 25-64 year-old employees in 2011.

Source: Dan Ben-David, Liora Bowers and Kyrill Shraberman, Taub Center  
Data: OECD, International Labor Organization

academic education received is even related to their work and actually increases productivity.

Flexicurity policies reflect an attempt at finding a win-win arrangement between workers, employers and policymakers. Productivity improvements need to be a fundamental facet of Flexicurity policies, since higher productivity paves the way for higher living standards that make it possible for the government to incur the substantial budgetary costs that accompany implementation of such policies. Therefore, such a solution needs to encompass flexibility in the labor market, along with financial support for the unemployed (limited in time) and continuous training provided by the government and employers.

The requirements for success of the Flexicurity model are flexible labor markets, lifelong learning for employees, active labor market policies and social security systems that provide financial support during transition periods. Moving Israel towards a Flexicurity model entails various benefits as well as challenges. It would be highly beneficial to implement policies that would improve the country's competitiveness, including substantially spurring its currently low labor productivity. Improvements in the social welfare system that would be reflected in lower rates of poverty and income inequality are particularly essential to the model, given Israel's weak performance in this area – though there is concern about the possible adverse effects on employment if these changes are not part of a comprehensive policy.

Various aspects of Flexicurity policy could be applied in Israel and could yield considerable socioeconomic improvements. According to Ben-David and Bowers, for Flexicurity to succeed, both the public and private sectors should be more aligned with regards to employment flexibility. This would require greater flexibility in the public sector, including such practices as: facilitation of hiring from outside the public sector and greater mobility between the public and private sectors; decentralization of human resources management to provide departments and managers with greater discretion; and a closer connection between individual performance and their compensation and promotion. To more closely align with much of the private sector, the public sector (and parts of the inflexible private sector, such as banking/insurance), also need to move away from the norm of lifelong employment and rigid dismissal and tenure policies.

The Taub Center study makes it clear that for Israel, applying key elements of Flexicurity means much greater expenditure on welfare alongside the initiation of new labor activation programs, such as a revamped “Wisconsin program” meant to train and connect the unemployed with new opportunities. The researchers add that “ensuring the continued availability of childcare, which is relatively accessible in Israel – and

growing due to the expansion of universal preschool starting age three – is an important contributor to labor market participation.”

The Flexicurity model’s generous income support benefits create adverse incentives for prompt re-entry into the labor market. Ben-David and Bowers note that it is possible to counter these disincentives with activation policies and monitoring systems. They state that “in Israel, policies such as a more substantial negative income tax could help provide incentives to work. Much better enforcement of existing labor laws (notably on minimum wage, working hours and discrimination) is imperative to encourage labor market participation by and provide security for lower-skilled workers.”

Another key principle of the Flexicurity system is the obligation of the government, employers and individuals to lifelong learning. The Taub Center researchers point out that “employment contracts stipulating continued learning, and government-supported career guidance, training and education opportunities are an important policy response to increased job insecurity.”

In summary, while implementation of the full Flexicurity system is not a politically feasible or economically viable option for Israel, there are certainly facets of the system that the country can and should implement. The overarching policy goal should be to enhance productivity, growth and employment while providing a serious social safety net for Israelis that offers adequate financial peace of mind during job transitions, in which they are assisted in improving their job skills. These policy options are indeed possible, but their implementation will require an extensive and systemic reassessment of Israel’s national priorities.

The Taub Center for Social Policy Studies in Israel, headed by Professor Dan Ben-David, is an independent, non-partisan institution for socioeconomic research based in Jerusalem. The Center provides decision makers, as well as the public in general, with a big picture perspective on economic and social areas. The Center’s interdisciplinary Policy Programs – comprising leading academic and policy making experts – as well as the Center’s professional staff conduct research and provide policy recommendations in the key socioeconomic issues confronting the State.

**For details, or to arrange an interview, please contact Gal Ben Dor, Director of Marketing and Communications 054-464-2333.**