

Table of Contents

Abbreviations.....	13
Assessment and Recommendations	15
Chapter 1. High Poverty and Low Employment.....	37
1.1. Israel’s key twin labour market and social policy challenges: fight poverty and increase participation	38
1.2. Recent economic developments	40
1.3. A segmented labour market.....	46
1.4. Poverty and income inequality	56
1.5. Government spending.....	61
1.6. Conclusions	68
References.....	71
Annex 1.A1. Employment by sector.....	74
Annex 1.A2. Income distribution and poverty.....	75
Annex 1.A3. Public social expenditure by social policy area.....	81
Chapter 2. Reforming Labour Market Institutions.....	83
2.1. Introduction	84
2.2. Collective bargaining plays a declining role in labour market regulation.....	84
2.3. The minimum wage is relatively high	89
2.4. Employment protection legislation is relatively flexible.....	91
2.5. Labour law enforcement is weak.....	94
2.6. The public employment service is under-budgeted and under-staffed.....	102
2.7. Conclusions	106
References.....	109
Chapter 3. Increasing Employment among Low-Qualified Workers	111
3.1. Introduction	112
3.2. Financial incentives to work are relatively strong	113

3.3. The pilot welfare to work programme requires further improvement	125
3.4. Conclusions	134
References.....	137
Chapter 4. Poverty and Employment Issues for Minority Groups	139
4.1. Introduction	140
4.2. Towards a fair deal for Arabs	142
4.3. Haredim: the need for a more sustainable balance of religious study and employment.....	167
4.4. Conclusions	173
References.....	177
Annex 4.A1. Background data.....	181
Chapter 5. Preparing for Population Ageing and Fighting Poverty among the Elderly	183
5.1. An ageing population: setting the scene	184
5.2. Fighting pensioner poverty	187
5.3. Containing the upward trend in disability receipt.....	198
5.4. Sustaining long-term care insurance.....	201
5.5. Conclusions	204
References.....	207
Chapter 6. Better Managing Labour Migration	209
6.1. Introduction	210
6.2. The current labour migration management system.....	212
6.3. Key problems in the labour migration management system.....	220
6.4. Conclusions	238
References.....	241
Annex 6.A1. Background information on the recruitment and employment of foreign workers	245
Chapter 7. Drawing Lessons from a Country Built on Immigration	251
7.1. Introduction	252
7.2. The State of Israel is built on immigration	253
7.3. Immigration from the former Soviet Union in the 1990s is a natural experiment from which many lessons can be drawn about labour market effects and integration	257
7.4. Immigrants have largely integrated to the labour market	260

7.5. Outcomes vary for different groups of immigrants,	264
7.6. Integration policy for immigrants in Israel is front-loaded and choice-based	266
7.7. Conclusions	276
References.....	278

Tables

Table 1.1. Basic economic data, 2000-08, annual averages.....	44
Table 1.2. Labour force status of the Israeli population, 1990-2008	50
Table 1.A2.1. Adjusted family sizes with different equivalence scales.....	75
Table 1.A2.2. Income inequality before and after taxes and transfers, 1985-2005	76
Table 1.A2.3. Poverty rates before and after taxes and transfers by household type	77
Table 1.A2.4. Trends in real household income by quintile	78
Table 1.A2.5. Child poverty and poverty in households with children by employment status of adults	79
Table 1.A2.6. Redistribution of income through the tax/benefit systems in Israel and OECD countries, 2005	80
Table 1.A3.1. Main items of public social expenditure as a percentage of GDP, 2007	81
Table 2.1. Caseload-to-staff ratios are high in the Israeli Employment Service	104
Table 3.1. Main benefits received when out of work.....	114
Table 3.2. In international comparison, the Israeli EITC provides limited financial support.....	124
Table 3.3. The “Mehalev” and “Light for Employment” programmes.....	127
Table 4.1. Dual earnership reduces poverty, but regardless of employment status, Arabs are relatively poor.	143
Table 4.2. Labour market participation differentials are particularly pronounced for women.....	144
Table 4.3. Hourly wages are very low for Arab women, and earnings differentials remain substantial for workers with tertiary education, especially men	146
Table 4.4. The Arab population has completed fewer years of education	149
Table 4.5. Child allowance payments across reforms in the new millennium.....	170
Table 4.6. Work pays for adults in large families, but public benefits to religious students raise their family income level to around the poverty line	172
Table 4.A1.1. Life expectancy and (infant) mortality rates for Arabs and Jews, by gender	181

Table 4.A1.2. Occupation by highest certificate for Arabs and Jews aged 15-64.....	182
Table 6.1. Non-Israeli workers are paid less than Israelis	222
Table 6.2. Labour cost structures are different for Israeli and non-Israeli workers.....	226

Figures

Figure 1.1. Israel has high poverty rates, a wide income distribution, relatively low income per head, and high non-employment rates	39
Figure Box 1.1. Main demographic characteristics of the Israeli population, 1980-2007	42
Figure 1.2. Israeli economic growth has been strong on average since the mid-1990s.....	43
Figure 1.3. In recent years, labour productivity grew faster than real wages	43
Figure 1.4. The incidence of low-paid work in Israel is relatively high	47
Figure 1.5. About one-third of total employment in Israel is in the public sector	48
Figure 1.6. The share of cross-border and foreign workers is high in agriculture and construction	49
Figure 1.7. A growing incidence of long-term unemployment, though below OECD average.....	51
Figure 1.8. In Israel, those with a low level of educational attainment are very likely to be jobless.....	52
Figure Box 1.2. Many Israelis have completed tertiary education, but teenage students perform badly in international comparison	53
Figure 1.9. Arab women and Haredi men have low employment rates	55
Figure 1.10. Arabs, Haredim and workers with limited educational experience earn about one-third less than the average wage.....	56
Figure 1.11. Compared with the OECD average, income inequality has widened and poverty deepened in Israel, since the beginning of the 1980s	57
Figure 1.12. Poverty risks are high and increasing for households with no or only one adult in paid work in Israel.....	59
Figure 1.13. Arabs and Haredim are frequently one-earner households, which contributes to the high poverty rates for these minority groups	59
Figure 1.14. Child poverty in Israel is twice as high as on average across OECD countries	60
Figure 1.15. Spending on education per student is below the OECD average in Israel.....	62
Figure 1.16. Public social spending in Israel has declined since benefit reform in 2002.....	63
Figure 1.17. Public social expenditure in Israel is low compared with most OECD countries, but spending on social services (not including health) is on par with the OECD average	64

Figure 1.18. Spending on labour market policies is low in Israel.....	65
Figure 1.19. Participation in day-care and early education services is above the OECD average.....	66
Figure 1.20. The redistributive power of the Israeli tax/benefit system is limited.....	67
Figure 1.A1.1. Employment in main economic sectors, 1995-2008.....	74
Figure 1.A2.1. Poverty headcounts at different income thresholds	76
Figure 2.1. Trade union density in Israel is close to the OECD average	85
Figure 2.2. The minimum wage in Israel is relatively high	90
Figure 2.3. Employment protection legislation in Israel is relatively flexible	90
Figure Box 2.3. Earnings distribution of full-time employees in 2007.....	96
Figure 2.4. Israel's labour inspectorate is understaffed	96
Figure 2.5. Israeli workers often take complaints about employment conditions to court.....	101
Figure 2.6. Public spending on vocational training is below the OECD average	105
Figure 2.7. Participation in vocational training among unemployment benefit recipients has fallen.....	105
Figure 3.1. Net income when out of work is relatively low	116
Figure 3.2. As in most OECD countries, lone parents on social assistance have low incomes.....	116
Figure Box 3.1. Childcare support is targeted at low-income families.....	118
Figure 3.3. Income support can prop up incomes of lone parents in work	119
Figure 3.4. Replacement rates for low-qualified workers are close to or below the OECD average	120
Figure 4.1. Israel is a divided society.....	140
Figure 4.2. Arab men retire earlier on average	145
Figure 4.3. Employment rates of Arab Israelis and Arab immigrants in the OECD area by education level are not very different.	147
Figure 4.4. Compared to some other Muslim populations, participation rates for Arab Israeli women are high, and those for men are low	156
Figure 5.1. Israel's elderly population will grow rapidly, but compared with the OECD population, Israel is presently a young country with relatively few citizens over 60.	184
Figure 5.2. Public spending on pensions is relatively low in Israel.	185
Figure 5.3. Israel has curtailed spending on pensions while spending on the disabled has grown in line with GDP since 2003.....	186
Figure 5.4. Poverty rates among Israel's senior citizens are high compared with most OECD countries	188
Figure Box 5.1. Private pension saving is more important in Israel than in most OECD countries.....	193
Figure 5.5. On the basis of public pensions and mandatory pension saving for a full career, net pension replacement rates will be relatively high in Israel.....	194

Figure 5.6. Disability receipt has grown rapidly in Israel, but is below the OECD average.....	199
Figure 5.7. Compared with the OECD average, public spending on health is relatively low, and spending on services for the elderly and disabled is on par.	202
Figure 6.1. Employment by place of birth and citizenship, 2007, as a percentage of total employment.	211
Figure 6.2. Non-Israeli workers make up about 10% of the labour force in Israel.....	213
Figure 6.3. The number of foreign workers remains high and includes many without permits.....	215
Figure 6.4. The foreign labour force in Israel has grown less than in many OECD countries.	216
Figure 6.5. The decline in foreign construction workers will be more than compensated by the rise in foreign care workers.	216
Figure 6.A1.1a. Inflows of foreign workers, by nationality and sex, 2007	245
Figure 6.A1.1b. Stock of foreign workers, by nationality and sex, 2007	245
Figure 6.A1.2. How recruitment and employment of foreign care workers occurs	246
Figure 6.A1.3. How recruitment and employment of foreign agricultural workers occurs	247
Figure 6.A1.4. How recruitment and employment of foreign construction workers occurs	248
Figure 6.A1.5. Asylum applications per 1 000 inhabitants, selected OECD countries and Israel, 2007-08.	249
Figure 7.1. Many Israelis are foreign-born	252
Figure 7.2. In recent history, immigration peaked in 1990/91	254
Figure 7.3. Total inflow of migrants has fallen to low levels since 1990	256
Figure 7.4. Recently, migration to Israel has been low in international comparison	256
Figure 7.5. Employment rates of immigrants are high compared to the native-born population.	261
Figure 7.6. Immigrants earn less than natives, even after years in Israel, and regardless of the job they occupy.	262
Figure 7.7. Participation rates of immigrants from the former Soviet Union are relatively high.....	265
Figure Box 7.2. Cash benefits (NIS) for immigrants in general and from Ethiopia, 2009	270
Figure 7.8. Some immigrants quickly learn Hebrew, but many haven't mastered the language after more than a decade	273

Boxes

Box 0.1. Labour market and social policy recommendations for Israel.....	35
Box 1.1. Population growth is due to large immigration in the early 1990s and high fertility rates	41
Box 1.2. Israel's population is highly educated, but its students perform poorly in international tests	53
Box 2.1. The emergence of social NGOs in workers' representation.....	87
Box 2.2. Individual accounts for severance pay in Austria.....	92
Box 2.3. Evidence on labour law enforcement	95
Box 2.4. Initiatives by the REA to improve enforcement in the "Arab sector"	97
Box 3.1. Childcare and pre-school supports in Israel	117
Box 3.2. Private employment services in Australia	130
Box 4.1. The Bedouin of the Negev.....	151
Box 4.2. Active labour market supports targeted at employment opportunities for Arabs	157
Box 4.3. Measuring the magnitude of discrimination on the basis of ethnicity	160
Box 4.4. Discrimination or disadvantage?	162
Box 4.5. Fair employment in Northern Ireland.....	165
Box 4.6. Background to socio-economic outcomes of the Haredim.....	167
Box 5.1. Private pensions in Israel.....	192
Box 6.1. Definitions of immigrants, cross-border workers, and foreign workers, quality of statistics and difficulties in comparison with OECD countries	211
Box 7.1. The Law of Return	254
Box 7.2. Evolution of the basket of benefits for immigrants	269
Box 7.3. The Ulpan method for teaching Hebrew to immigrants.....	271