# OECD Reviews of Labour Market and Social Policies

# ISRAEL






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# Israel



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# *Foreword*

The OECD Council decided to open accession discussions with Israel on 16 May 2007 and an Accession Roadmap, setting out the terms, conditions and process for accession, was adopted on 30 November 2007. In the roadmap, the OECD Council requested a number of OECD Committees to provide it with a formal opinion. Accession discussions are currently ongoing.

The Employment, Labour and Social Affairs Committee (ELSAC) was requested to review Israel's labour market and social policies in order to provide a formal opinion on the degree of coherence of Israel's policies with those of OECD member countries. In light of the formal opinions received from OECD Committees and other relevant information, the OECD Council will decide whether to invite Israel to become a member of the Organisation.

This report, prepared as part of ELSAC's accession review, highlights some of the key labour market and social policy challenges facing Israel. The formal opinion of ELSAC mentioned above will be sent separately to the OECD Council and the findings set out in the present report are without prejudice to the subsequent discussions and decision of the Council concerning the accession of Israel to the Organisation.

The overriding twin challenges for Israeli Labour Market and Social policy are to tackle poverty and inequality and to increase labour force participation under fair employment conditions. Israel's poverty rate is higher than in any OECD country, which reflects the profound divisions in Israel's society. On one side of the economic divide there is the general Jewish population for whom poverty rates and employment rates are comparable with the OECD averages. On the other side, there are Arabs (about 20% of the population) and ultra-Orthodox Jews or Haredim (about 8% of the population), who have large families, poor educational outcomes and low employment. Just over half of each population group lives in poverty.

Israeli policy makers have recently begun to develop policies to address these issues, and initiatives include the introduction of in-work benefits in pilot areas, the establishment of the Equal Employment Opportunities Commission, and the introduction of mandatory pension saving for all

workers. These initiaves should be further developed to provide effective support to those who need it most.

Israel needs to stamp out illegal hiring and employment of temporary foreign workers and enforce minimum employment conditions for all workers in Israel. Israel's government should also be more vigorous in promoting fair employment opportunities for minorities in both the public and private sectors. Israel should invest in infrastructure in peripheral areas, and make its welfare-to-work programme more effective. Rebalancing transfers to families to make work pay is necessary, by reducing child benefits paid to families who are able to work but who do not do so, and increasing the earned income tax credit for working families.

The review was prepared by Willem Adema, Jonathan Chaloff, Valentine Henrard and Ann Vourc'h, assisted by Katherine Latour and Marlène Mohier, under the overall supervision of Mark Pearson. The report was prepared in mid-2009 (the most recent data concern that period), and was discussed by ELSAC on 22 October 2009.

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# *Abbreviations*

| | |
|---|---|
| BOI | Bank of Israel |
| CBS | Israeli Central Bureau of Statistics |
| CR | Conditional Release |
| ECNI | Equality Commission for Northern Ireland |
| ED-FWD | Enforcement Division of the Foreign Workers Division |
| EEOC | Equal Employment Opportunity Commission |
| EITC | Earned Income Tax Credit |
| ENP | Ethiopian National Project |
| FSU | Former Soviet Union |
| GDP | Gross Domestic Product |
| HALDE | High Authority Combating Discrimination and Promoting Equality (Haute Autorité de Lutte contre les Discriminations) |
| HCJ | High Court of Justice |
| IDF | Israeli Defence Force |
| IRC | Israel Railway Company |
| JAFI | Jewish Agency for Israel |
| JDC | American Jewish Joint Distribution Committee in Israel |
| KH | Keren Hayesod – United Israel Appeal |
| LFS | Labour Force Survey |
| LG | Local Government |
| LTC | Long-term Care |
| MARD | Ministry of Agriculture and Rural Development |
| MOCH | Ministry of Construction and Housing |
| MOE | Ministry of Education |
| MOF | Ministry of Finance |
| MOI | Ministry of Interior |
| MOIA | Ministry of Immigrant Absorption |

| | |
|---|---|
| MOITAL | Ministry of Industry, Trade and Labour |
| NGO | Non-governmental Organisation |
| NII | National Insurance Institute |
| NIS | New Israeli Shekel |
| PES | Public Employment Service |
| PIBA | Population Immigration and Border Authority |
| PISA | Programme for International Student Assessment |
| REA | Regulation and Enforcement Administration |
| TIMMS | Trends in International Mathematics and Sciences |
| TWA | Temporary Work Agency |
| UJC | United Jewish Communities |
| UNHCR | United Nations High Commissioner for Refugees |

# Assessment and Recommendations[1]

## Towards a more inclusive society

*Israel has experienced strong economic and population growth during the past two decades …*

Israel has enjoyed strong economic and population growth over the last 20 years. Apart from the cyclical slowdown in the early 2000s and the current downturn, GDP grew by at least 4% per annum since the early 1990s. In 1990-91 immigration, largely from the former Soviet Union, amounted to around 200 000 people per annum, or 8.2% of the population. Together, "Russian immigration" and high fertility (the total fertility rate was 2.9 children per women in 2007 compared with an OECD average of 1.6), are key drivers of the rapid population growth in Israel from 4.5 million people in 1990 to almost 7.4 million people by the end of 2008. GDP per capita is now 80% of the OECD average.

*…. and the recent recession did not last long.*

When the economic downturn started to affect Israel in the second half of 2008, its economy was arguably operating close to immediate supply constraints, as indicated by the increasing use of low-productivity workers and unemployment falling to 5.9%. The recent recession did not last long, and the economy started to grow again in the second quarter of 2009. OECD projections show that growth will average zero for 2009, but will recover to 2.2% and 3.3% in 2010 and 2011, respectively. However, the benefits of economic growth are shared unequally in Israel.

1 This review is not intended to cover the territories known as the Golan Heights, the Gaza Strip or the West Bank. However, for technical reasons, this review uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Israel's society remains divided, both economically and socially …*

Israeli society is divided. On the one hand there is the general Jewish population for whom poverty rates are low and employment rates high. On the other hand, there are Arabs (about 20% of the population) and ultra-Orthodox Jews or Haredim (about 8% of the population), who have large families, poor educational outcomes, low employment and high rates of poverty.

*… with high levels of income inequality and poverty rates higher than in any OECD country.*

This bi- or trifurcation in Israeli society is reflected in wide income inequalities and high poverty incidence. With a Gini coefficient of 0.38 income inequality in Israel is comparable with that in Poland and the United States, but well above the OECD average of 0.31 (in 2005). More worrisome, when measured against the standard OECD relative poverty benchmark (equivalised disposable income less than 50% of the median income), at 21.3% in 2005 Israel's poverty rate was higher than poverty rates in *any* OECD country (and is almost twice the OECD average); by 2008, poverty rates had fallen to 19.9%.

*Poverty is highest among Arab and Haredim population groups with large families …*

Poverty is highest among the youngest and most rapidly growing population groups. According to Bank of Israel statistics, just over half of the Arab population lives in poverty and about 60% among the Haredim, compared with only 12% for the rest of the population. There are many large families (four or more children) among Arabs and Haredim, and it is therefore no surprise that child poverty more generally is higher than anywhere in the OECD at 29% (the OECD average is 12%). Socio-demographic trends suggest continued relative growth of these population groups. Arabs and Haredim currently account for over 45% of children currently starting primary school, which emphasises the urgent need for policy to tackle effectively what must be the overriding Israeli social and labour market policy concern: cutting poverty.

*… because of low labour force participation …*

Labour force participation among the working-age population is considerably lower in Israel (64%) than the OECD average (71%), reflecting serious gaps in labour force participation for Arabs and

Haredim. Labour force participation of Arab men is close to average at 69%, but only 23% of the Arab women are in the labour force. By contrast, among the Haredim, the female employment rate is 47%, while only one in four of men engage in paid work, with most of the remainder engaged in full-time religious studies. Workers from both population groups are likely to be found in low-paid employment.

*… and with a high concentration of those working in "poor" jobs …*

There are significant Arab-Jewish occupational gaps in employment outcomes, particularly for men. For example, 8% of Arab men work as associate professionals and technicians, compared with 24% of Jews; the percentage of unskilled workers is 13% among Arab men, twice as high as among Jews. A large part of these differences is related to deficits in non-religious education, and more investment in such education is a vital element in any long-term strategy to improving outcomes for Arabs and Haredim, and indeed for the population as a whole.[2]

*… in a deeply segmented labour market.*

The socio-economic differences are reflected in a deeply segmented Israeli labour market in terms of productivity, employment conditions and earnings across sectors.

Arguably, the economic success story of Israel is the development of its high-tech sector over the past twenty years. Compared with just under 2% on average across OECD countries, investment in R&D is high at around 4.5% of GDP, and high-tech industries constitute over 40% of all exports and 7% of employment in Israel. About one third of employees are public sector workers who, together with employees in traditional industries, are generally covered by social security and second-tier pension provisions. Low-paid employment and limited job-security is common among those working "outside" these two sectors, where non-standard employment conditions frequently prevail (which also concerns temporary and subcontracted workers working in the public sector).

Overall, the median wage is about 17 percentage points below the average wage, indicating a wide distribution of earnings, and at the bottom end of the wage distribution (where many Arab and Haredi workers can be found), wages are also under pressure because of the large potential pool of

2. OECD (2010), *Economic Surveys: Israel*, contains a special chapter on education issues.

non-Israeli workers. There are about 200 000 overseas workers (about 7% of the workforce) whose employment conditions are poor – low pay, unpaid overtime, no training, and limited job-security.

## Public policy can be more effective in fighting poverty and promoting employment

*Public social expenditure has declined since reform in 2003 …*

Government spending has been on a downtrend trend over the last two decades: from around 55% of GDP in 1990 (reflecting extra outlays in view of "Russian immigration") to 43.2% in 2008, of which 8% of GDP was on defence, which is higher than in any OECD country. In the social policy area, spending went down from peak in 2002 at 18.9% of GDP to 15.8% of GDP in 2007 (about 6 percentage points below the OECD average) because of tightening access to benefits and cuts in income transfers to the working-age population including unemployment benefit, social assistance and in particular child allowances to the many large families. Compared to OECD countries, public spending on pension transfers (4.9% of GDP vis-à-vis an OECD average of 6.0%) and health (4.4% of GDP in Israel, 6.3% across the OECD) is comparatively low, in part because the Israeli population is relatively young (see below).

*… curtailing the redistributive power of the tax/benefit system …*

The cutting of child allowances and income-support benefits in the early 2000s contributed to an increase of relative poverty among the working-age population of 4 percentage points over its 2000 level by 2005, whilst child poverty increased by 11 percentage points. The social spending cuts and the recent reduction of top income tax rates have both reduced the redistributive power of the tax/benefit system. Taken together, income taxes and cash transfers reduced poverty by half in 1985, but only by one quarter in 2005, while in a typical OECD country this is 60%.

*... but an effective anti-poverty strategy requires more investment in social and labour market policies.*

Many of the suggestions made below for improving social and labour market policy in order to tackle joblessness and poverty more effectively

will cost money. Recent Israeli policy has been concerned about keeping tax rates low (the tax-to-GDP ratio is 34% of GDP, just below the OECD average, though total public debt is high, at 78% of GDP). Of course, public spending on defence is higher than in OECD countries, which makes high spending on social programmes difficult. Nevertheless, some such measures will be necessary if inroads are to be made into poverty, joblessness and the social divides which cut across Israeli society.

## The OECD *Reassessed Jobs Strategy* provides a good framework for more and better jobs in Israel

The 2006 OECD *Reassessed Jobs Strategy* provides a comprehensive policy framework for boosting jobs and income in OECD countries. The Strategy identifies a number of common principles that are also relevant to Israel. The first strand involves setting appropriate macroeconomic policies to secure medium-term, non-inflationary growth and counteract adverse economic shocks. But much can also be done in the labour market to enhance job opportunities for all. First, there is a need to improve the balance between employment security and labour market flexibility. In this context, the Israeli authorities have to enforce effectively the minimum wage and minimum employment conditions, which is particularly important for achieving a durable increase in the participation rates and the employment conditions of low-skilled workers who often belong to minority groups. Further investment in education and training is also required to boost the level of human capital and its distribution. Second, Israel needs to take additional measures to remove existing barriers to labour force participation and access to formal-sector jobs for under-represented groups, including Arabs, Haredim, youth, sole parents and low-skilled workers more generally.

Four-fifths of the Israelis who live in jobless households are poor compared with one-third across the OECD. Moreover, even in households with one adult in work, the poverty rate is still 29%, twice as high as the OECD average. When two or more people in one household are in work, the poverty risk is only 3% in Israel and across the OECD. Work is key to getting out of poverty in Israel: policy must help people get into work. It is also necessary to tackle in-work poverty which is more widespread in Israel than in many OECD countries. Promoting the creation of more and better jobs requires a comprehensive strategy which should aim to improve productivity of new and existing businesses; labour law enforcement; and human capital. Together with a carefully designed extension of social support, this should help reduce poverty and generate a more equitable distribution of the benefits of growth.

*The collective bargaining framework has to make room for the new players.*

Until the early 1980s, Israel had a strong and centralised industrial relations system based on corporatist principles, not unlike some European countries (*e.g.* Austria, Belgium or Germany). However, since 1980, there has been a strong decline in unionisation and the coverage of collective bargaining, with greater reliance on state regulations and the labour courts to settle disputes. The tendency to decentralise bargaining has been strong, except in the public sector where bargaining is centralised *de facto* with the Ministry of Finance playing a key role. Employees in the high-wage high-tech sector generally engage in individual wage bargaining settled in personal contracts. Employment conditions of employees in traditional industries and services are usually also covered by collective agreements, while employees working for Temporary Work Agencies (TWAs) and subcontractors are not covered and are at the bottom end of the wage distribution. NGOs have emerged as new actors defending this last group of workers. Established unions (the Histadrut) and employer associations have been working together on a number of issues in recent years, and as part of the incoming government's coalition agreement, a series of "new corporatist agreements" were signed (for example, regarding those employed by a TWA, or pension saving). However, aspects of these agreements are being contested in the courts by NGOs and/or associations of workers and employers who were not party to the original negotiations. To make the "new corporatist agreements" more effective, these new players should be invited to the bargaining table.

*EPL legislation is not particularly stringent …*

Employment Protection Legislation (EPL) is not particularly stringent in Israel: the overall strictness of EPL index measures 1.9 compared with 2.2 on average across the OECD in 2008. Compared with OECD countries, dismissal of workers on regular contracts is relatively easy, while severance pay is relatively high. There is no restriction on the use of fixed-term contracts, and until 2000, employees of TWAs were not entitled to the same working conditions and wages as regular workers, which contributed to the growth of TWA employment. Since January 2008, the maximum period of time for which an employer can employ a given worker through a TWA has been limited to nine months. In theory, this has reduced the incentives to hire staff through TWAs, and may well lead to an increase in the use of "subcontracted workers", without the same rights. However, it is too early for an assessment of the overall effect of these reforms. For such an assessment, it would be useful to establish a comprehensive dataset on non-regular forms of

employment. At least for TWA workers this should be feasible, as TWAs regularly provide information on employment in their sector to the Ministry of Industry Trade and Labor (MOITAL).

*… however labour law enforcement is lax ...*

There is widespread recognition that enforcement of labour law is slack in Israel (Chapter 2). This is particularly detrimental to the group of workers not covered by collective agreements, working in (non high-tech) small firms, for those employed through TWAs or as subcontracted workers, own-account workers and foreign workers. The Israeli authorities have taken steps to improve enforcement but these are insufficient. Despite an increase in the staffing of the labour inspectorate in 2007, it remains short-staffed and underfunded with 45 inspectors, and 55 students helping them on a half-time basis, responsible for the enforcement of 17 labour laws across 2.7 million employed persons. Since 2006, the enforcement agency has started to target its control activity to the issues and sectors of greatest concern: *e.g.* the minimum wage and/or working-time regulations, or the cleaning and security sector. Also, efforts have been made to link up with NGOs assisting vulnerable workers, *e.g.* Arab workers, to make enforcement operations more effective. However, capacity constraints curtail effective implementation, which lead to delays in dealing with complaints, which further discourages workers from lodging them, and, despite some recent increases, fines are too low to deter employers from infringements and, in any case, do not increase in case of repeated violations. Co-operation between labour authorities and other public agencies, *e.g.* tax authorities and the National Insurance Institute (NII), should also be improved, for example, through these different agencies having direct access to each other's databases.

*…and individual workers have to rely on the courts to seek redress.*

Consequently, employees increasingly seek redress through the courts, but these are also understaffed, and delays are particularly burdensome to low-paid workers. Alternative dispute resolution is being developed, but mediation is cursory, and disempowered workers (including foreign workers) are often left in a weak position. Access to public supports towards costs of legal representation and interpretation should be extended significantly. In addition, as a major buyer of employment, the government could ensure that TWA employees and subcontracted workers employed by the public sector are remunerated in line with prevailing labour standards.

*Compared with OECD countries spending on labour market policies is low.*

At 0.4% of GDP in 2007, public spending on labour market policies is low in Israel compared with OECD countries. Unemployment benefits (UB) account for about 75% of these expenditures. Replacement rates of Israeli unemployment benefits are close to OECD average, but their duration is relatively short, while the qualification period is long. Access to unemployment benefits has been significantly restricted since the mid-1990s, and in 2007 only 24% of the unemployed were receiving a benefit. There is room to ease eligibility conditions above what has been proposed in response to the crisis (which reduced the qualification period for UB to nine months if the unemployment rate reached 7.5%, but divides the benefit duration by two). A permanent shortening of the qualification period would be required to allow the unemployment insurance to provide a more effective safety-net to workers. The contribution rate to the scheme is currently very low and could be increased to ensure financial equilibrium.

At 0.1% of GDP, spending on active labour market policies is also very low in comparison with the OECD average of 0.6% in 2006. The budget devoted to the public employment service (PES) has been reduced over the past decade, and in 2008, the number of unemployed per counsellor was 350. This is much higher than in most OECD countries, and too high to effectively provide employment supports. Following sharp cuts in spending on vocational training since 2002, access is restricted, and in 2008, less than 1% of the unemployed were participating in a vocational training programme. The under-staffed and under-funded Israeli PES is not well equipped to combat effectively the recent increase in joblessness.

*The welfare-to-work programme is a pilot programme in regions with high non-employment …*

The welfare-to-work programme ("Lights for Employment" but better known as the "Wisconsin Programme") has been running as a pilot since August 2005 in four regions with large Arab and/or Haredi populations, and is central to the government strategy to increase participation among minority groups. In these areas, all individuals not yet 45 years old, who receive income support, are referred to the programme, in which they generally spend from 20 to 40 hours a week. As of October 2009, there were plans to roll the programme out to the rest of the country in 2011, subject to further adjustments, including extending coverage to clients up to age 60, of whom many are able to work, and increased cash bonuses for participation.

The extension of the Wisconsin Programme across the country is broadly welcome, but further consideration needs to be given to design of the scheme to improve the incentive structure for private employment agencies and tailor employment supports to client needs. Also, the government has to keep an open mind about the need for further adjustments to the programme, as many uncertainties remain about which aspects of the programme are most effective; a comprehensive evaluation of the scheme seems appropriate.

*… and evidence suggests some success has been achieved.*

Evidence on the effects of the Wisconsin Programme suggests that increased work-testing has had a significant effect on benefit receipt, and that the programme had a positive effect on employment probabilities of participants compared to the control group. However, the effect of the programme on net income is close to zero, and information on the quality of the jobs obtained (length of stay in employment, working hours, hourly wage) is not available. The increased focus on supporting jobless workers back into employment is welcome, but before the programme can be rolled out across the country it is necessary that the government clarifies the respective roles of public and private employment services.

*However, competition should not merely be "for the market", but also be "in the market".*

One fundamental shortcoming of the Wisconsin Programme is that competition among providers is currently limited to the tender stage, and fixed costs incurred at the beginning of the programme make any change in operator *de facto* unlikely. OECD experience shows that having various providers competing in a given area and allowing different types of organisations (*e.g.* the PES, NGOs, local governments and private employment agencies) to participate in the tender is practicable and preferable.

*The payment structure of contract arrangements with providers could also be improved …*

Since reform in 2007, contracts with private providers of employment support specify that their bonus payment depends on the number of people placed into jobs, on the wages paid and on the duration of the placement. These bonus payments are differentiated and are slightly higher for groups of

workers considered to be the most difficult to place. However, with operational payments to providers being equal for all participants, the current payment structure does not fully account for different client characteristics and related placement difficulties. To be able to differentiate payments across clients and their needs, it is desirable that an independent person assesses the immediate labour market opportunities of clients and their need for support: a more elaborate profiling system should be put in place.

*… and changes are required in the financing of the welfare-to-work programme.*

In addition, fixed budgets which limit providing supports to a pre-set number of clients do not allow for changed economic circumstances, or underestimated demands for support, which leads to restrictions in the number of people being served and/or the quality of service per client. Operational and work-support payments should be made proportional to the number of participants receiving services as deemed eligible by the profiling instrument.

*Financial incentives to work are strong …*

Incentives to work are relatively strong, also for low-income workers. However, access to income replacement benefits is sometimes too limited. While a stringent application of an employment test is desirable, the eligibility conditions regarding car ownership or use are counterproductive in terms of job search, in particular in the relatively poor northern and southern areas of the country where public transport is limited.

*… but in-work benefits could be increased and generalised to effectively curb in-work poverty ...*

Since October 2008, an earned income tax credit (EITC) has been implemented in the same four regions as the Wisconsin Programme. The EITC is targeted at low-income workers, particularly those with three children or more and dual-earner families. However, the amounts are small and take-up is low. At the same time, although poorly enforced, the minimum wage is relatively high compared with OECD countries. Rather than raising the minimum wage, the ratio of the minimum to average wage should be reduced over time. Simultaneously, the EITC should be increased to ensure a decent standard of living and reduce in-work poverty.

*… as part of an overall strategy to fight child poverty.*

As part of an overall strategy to fight the strikingly high child poverty rates and the low employment rates, targeting of child support to low-income working families could be done by strengthening the EITC with additional child supplements, while also including increased childcare supports for these families. Similarly, child supplements for work-tested income support should be increased.

Increasing child-related in-work benefits targeted at working low-income families is a much better strategy than the recently agreed increase of child allowances, as the latter will benefit relatively affluent families and families who are benefit-dependent by choice, rather than targeting help to those who are in work or actively seeking work. Similarly, public resources can be better targeted at low income families by saving on wasteable tax credits for children, which primarily help middle and upper income earners; these credits should be made available to working fathers as well as working mothers.

## Invest more in active social policies for all who can work

*The Arab population is poorly educated …*

Socio-economic outcomes for the Arab population of Israel are poor, and in large part this is related to its poor education. Compared with an OECD average of 4.2% of GDP, public spending on education in Israel is high at about 5.3%. However, as Israel is such a young country with many children, Israel spends close to OECD average on education per student relative to GDP per capita. Public spending on children in Arab localities is estimated to be at least one-third lower than for children in Jewish municipalities (Chapter 4) and the average number of years in education is about two years lower for Arabs than for the population as a whole. Israeli PISA scores for 15-year-olds are low (and when considered with OECD countries compare favourably with only Mexico and Turkey), and the scores by Arab students are lower still. The effect of a student's socio-economic background in test scores appears larger than in most OECD countries, which also does not bode well for the chances of the vast majority of Arab children.

*… and lack of investment in public transport is a barrier to employment opportunities …*

Lack of transportation is widely cited as a key barrier to employment opportunities, and particularly affects the poorest families who often do not own a car. Administrative evidence on the issue is scant, but survey-based indicators suggest that many Arab communities face transport constraints while these are particularly severe for Bedouin communities in the southern part of Israel (see below).

*… but access to kindergarten is being expanded with priority for development in poorer localities.*

With employment rates being so low among Arab women, it is essential to expand childcare opportunities for them in order to lift a serious barrier to their labour force participation. Access to subsidised childcare (for the 0-2 age group) often depends on NGOs setting up childcare facilities which are then subsidised by MOITAL (one of the few budgets within the ministry that keeps growing). Thus far, NGOs within the Arab community have not prioritised setting up childcare facilities on a large scale and only 10% of Arab children aged 0-2 participate in formal care compared with 45% for the rest of the population. The Ministry of Education subsidises kindergartens for 5-year-olds which have almost universal coverage; coverage for (half-day) nurseries for 3- and 4-year-olds is also being extended to full coverage, with priority for development in poorer municipalities: in 2004, 58% of Arab 3-year-olds participated, up from 21% in 1998.

*Access to social services is unequal.*

Limited access to social services is another source of inequality. Public social service provision in Israel is a local government (LG) responsibility with financing being shared by central government (75%) and LG (25%) out of local revenue. A small number of predominantly Arab LGs lack sufficient local revenue to pay for the 25% of funding to procure basic social services, while many richer LGs, amongst which Arab LGs do not feature, provide more than the basic minimum of services. Consequently, Arab LGs have significantly fewer social workers per head than Jewish localities despite the relatively poor outcomes. The Ministry of Welfare and Social Services has introduced measures to support small and weak LGs, but further reform is needed (as under consideration) to strengthen the social service capacity of such LGs.

*However, these factors do not explain all labour market inequities.*

There are considerable gaps in earnings between Arabs and Jews. In 2007, the average hourly wage of Arab workers amounted to around 70% of that of Jewish workers. Wage gaps are larger for men than for women: the average hourly wage of Arab men constitutes 60% of Jewish male wages while this was 84% for women. There is evidence that ethnicity affects employment and earnings outcomes (Chapter 4). The low unionisation rate of Arabs, and their wariness of the Histadrut, which in turn does not have a successful track record in engaging Arab workers, means that Arab workers get little help in pursuing their rights vis-a-vis their employers. This practice contributes to gaps in the *de facto* application of labour laws to Arab workers, although Arab advocacy groups have become more active since 2000 in taking on these cases.

*There are employment measures the Israeli Government could consider implementing.*

There are various employment-focused initiatives to improve the employment prospects of Arabs (wage subsidies, some (high-tech) vocational training programmes, and other voluntary employment initiatives by employers and NGOs), and while these have some important individual successes, their overall effect is limited. In addition to increased investment in education, and improved access to employment, childcare and other social services, the government could also consider the following measures to improve employment outcomes:

- *Effective enforcement of labour laws*. As discussed above, Israel has a general problem of failing to enforce its labour laws. However, this failure is particularly acute in the case of Arab employees who are over-represented among low-paid workers. Because the economic position of Arabs is so precarious, they often cannot afford to risk losing their jobs or otherwise hampering earnings prospects by taking their employer to court.
- *Increase Arab representation in the public sector.* Reforming private-sector workplace practices is not immediately accomplished by legal directives. It should be easier to achieve public policy goals on the employment of minorities in the public sector. In theory, there are quotas for minorities in the public sector (10% of employment, and 30%

of new recruits), but these are not effectively enforced. The public sector, as one of the largest employers in the country, should lead by example in stamping out discriminatory practice. Israeli policy makers should address this past failure, and enforce quotas.

- In addition, the public sector could use its leverage as a major purchaser of private sector services to influence private sector behaviour, *e.g.* by favouring employers who promote equal opportunities for all in tender processes for public projects.

- Finally, the Israeli Government could signal its *commitment to equal labour market opportunities* by granting the new Equal Employment Opportunities Commission (EEOC) the power to directly assess workplace employment outcomes. For example, firms of a certain size (large, to begin with) could be asked to report their staff composition, which the EEOC might then assess workplace composition (whilst making suggestions on how to promote diversity in employment in view of the composition of the local populace). Such a set-up would be similar to the work of the "Fair Employment Commission" in Northern Ireland, which is also grappling with fairly distributing employment opportunities among different communities.

*Bedouin fare worst among the Arab population …*

There are some differences in outcomes *within* the Arab population. The situation for the 160 000 Bedouin, who mainly live in the Negev desert in the southern part of the country, is the worst. The complications arising from the transition of a traditionally tribal and nomadic way of life into modern-day society combined with land disputes between the state and Bedouin families mean that about half of the Bedouin live in "unrecognised villages" often without access to basic amenities. Indeed, many Bedouin have no access to transport and/or electricity, water is not guaranteed, education is poor, fertility rates are high (the average family size is around eight children), employment rates low – 47% for men and 11% for women, who are often not allowed to leave the village unsupervised. As a result, poverty among the Bedouin (around 80% by headcount measures) is deep and persistent.

*… and failure to resolve land issues continues to hold back development in the Negev.*

For the past 40 years or so, title to parts of the land in the Negev desert has been the subject of a dispute between the State of Israel and Bedouin claimants. The effects of the ongoing dispute are devastating for the community, with Bedouin families being reluctant to develop disputed land. Both Bedouin and the state realise that a practical compromise is needed to kick-start the development of the Negev. The government-established "Goldberg Commission" has come up with a compromise land proposal, which implies recognising 60 to 75% of the unrecognised villages, provided there is a minimum population (about 200 to 500 people) to justify the costs involved in the development of amenities. The proposals made by the commission would be a welcome start to tackling some of the worst cases of economic and social deprivation in the country. The Israeli Government would do well to take up the Goldberg Commission proposals, and urgently introduce practical steps towards the connection of Bedouin settlements with electricity, sewage, and transport systems, and continue with efforts to improve their education, including vocational training.

*Socio-economic outcomes among Haredim are also poor …*

Ultra-Orthodox Jews or Haredim are another population group with poor social-economic outcomes. This is because they consist of relatively large families, and while about half of the Haredi women are at work, only one quarter of the male Haredim engages in paid employment in the formal sector. Family income consists of spousal earnings, stipends by religious schools (around NIS 1 400 per month, of which about half is paid by the state), income support by the Ministry of Religious Affairs (NIS 1 200 per month), child allowances and transfers from the Diaspora. Male employment rates are so low because within this community nothing is considered more valuable for men to do as spending time on studying Torah. Furthermore, Haredim generally are exempt from military service because of their studies, so there are strong incentives not to stop studying until the age of conscription is exceeded.

*… and policy should act now to ensure that the growing Haredi population does not continue to live in poverty.*

Some public and private employment initiatives have been successful in raising employment in this community. For example, work in the IT sector (which can be gender segregated) seems to be particularly suitable. However, a more general strategy is needed. OECD governments are reluctant to see parents raise their children in poverty, and use a range of public interventions, including childcare and work conditionality in benefit receipt to help parents out of poverty. In addition, as part of a longer term strategy, public authorities across the OECD also enforce adherence to an educational curriculum which provides the basis for future workplace participation and earnings progression. Authorities should ensure that the religious schools provide at least basic vocational skills (*e.g.* English and maths) to their students to help them prepare for working life and solutions should be sought to ensure that the military service requirement does not act as a deterrent to participating in the labour market (Chapter 4).

## Adapting to ageing: disability, pensions and long-term care

*Ageing is leading to higher disability benefit receipts.*

Compared with OECD countries, Israel is a young country which will age relatively slowly. Nevertheless, the growing number of people over 50 has already contributed to an increase in disability benefit receipt, although this may also be related to the tightening of generosity of other income-support benefits. Israeli policy should become more proactive in avoiding disability take-up, stop taking into account local unemployment conditions in eligibility assessment, and focus assessment procedures on ability to work rather than the degree of disability. A recent reform strengthens financial incentives to work for existing recipients, but its short-term success is uncertain in the current economic climate.

*The public pension system fails to meet its adequacy objectives through strict means testing.*

Public spending on pensions in Israel is relatively low at 4% of GDP, while spending on long-term care supports (see below) is on par with the OECD average at 1% of GDP. Low spending on pensions is partly related to

Israel's age profile, but also because of the nature of its public pension arrangements which involves a basic pension to all (around 20% of the average wage; it varies somewhat with earnings). The system also has a means-tested income supplement with payment rates above the poverty line. Nevertheless, poverty rates among the elderly are high by OECD standards (23.4% *vis-à-vis* an OECD average of 13.5%), because through strict means-testing only a quarter of Israel's elderly have access to the income supplement. Less stringent application of the means-test would permit more low-income families to receive the income-tested OAA supplements. Such a policy could be financed by a gradual equalisation of standard retirement ages across the sexes at 67, as warranted by gender equity concerns and improved life expectancy.

*The recent introduction of mandatory pension saving will reduce pensioner poverty in the future.*

The 2008 introduction of mandatory pension saving for all workers will make a major contribution to poverty reduction in future; coverage among the employed population increased from 50% in 2007 to 66% by the end of 2008, with further gains to be made by increasing awareness and enforcing penalties for non-compliance. The mandatory pension policy builds on existing collective agreements between the Histadrut and employers which cover well-established workers and it continues to provide fiscal support for all employment-related pension saving, which does not benefit low-income workers without sufficient tax liabilities. Policy would be better targeted at those who need it most. Favourable fiscal treatment of pension contributions should start above the mandatory contributory level, and the existing tax credit rate could be reduced. These resources could be used to provide non-wasteable tax credits to low income workers and compensate them for the reduction in current disposable income caused by the introduction of mandatory private pension contributions.

## The temporary labour migration system is in need of major reform

*Overseas workers displace Israelis and cross-border workers and exert downward pressure on wages.*

Foreign workers constitute a growing part of the labour force. Demand for low-skilled temporary foreign workers is significant. In the late 1980s, Palestinian cross-border workers comprised 8% of the labour force, often in

low-skilled jobs, especially in construction. Between 1993 and 1996, security-related border closures increased the recourse to foreign workers (in 2008, there were about 200 000 such workers, of whom about half were irregular). Consequently, the employment of cross-border workers and Israelis, especially Arabs, declined.

*Policy objectives to stop recruitment of foreign workers have been formulated but their implementation has been limited.*

Since the mid-1990s, the Israeli policy objective has been to reduce the number of foreign workers through target-setting per sector (there is no quota imposed on the care sector with many foreign workers). High illegal fees and rent-taking, along with illegal employment practices that benefit employers, have prevented freezes on recruitment from abroad. Since there is clearly no political will to cease recruitment, Israel should implement transparent temporary labour migration channels as already are in place in many OECD countries.

*There is no labour market test; quotas are set in a non-transparent manner, with employers frequently preferring overseas labour over Israelis …*

In contrast to migration systems in OECD countries, the Israeli system does not require employers to advertise most jobs internally or justify hires from elsewhere (the "labour market test") prior to recruitment from overseas. Construction and agriculture are subject to quotas on the total number of employment permits issued at any given time. However, the quotas do not appear to be based on any objective analysis of demand in the sectors, and when required skills are identified (*e.g.* for masonry work in the construction sector), the rules do not allow verification of skills. Farmers prefer Thai workers whose unpaid and undeclared hours reduce their effective real wages below the minimum wage.

*… and existing rules are not applied ...*

Existing legislation on the hiring of foreign workers is not enforced in practice, nor are sanctions vigorously applied: illegal rent-taking by recruitment agencies persists. Intermediating agencies placing foreign workers in the construction and care sectors have strong incentives to recruit new workers to benefit from both legal and illegal fees. The permit granted

to foreign workers is linked to the sector and can only be mediated by one of the agencies; worker mobility among agencies is limited, raising the risk of losing status in cases of abuse.

*… while attempts to reform the care sector are hindered by the low real wage paid to foreign workers.*

The care sector of often live-in care workers is not quota-bound and their number is expected to double by 2025 in line with the ageing population. Long-term care benefits to the elderly cover much of the costs of (foreign) care workers. Abuse of these workers is rife, especially in terms of unpaid hours for live-in care workers. Since 2009, agencies have been responsible for moving unemployed or unsatisfied workers from one client to another, but it is not clear if this will improve compliance as agencies still have incentives to hire new recruits instead (see above). Workplace supervision is poor and sanctions of abusive employers weak. Recently introduced legislation conditioning recruitment of new workers on the hiring of unemployed foreign care workers already present has not been implemented. Real wages have to go up in order to draw Israelis back into this sector, since the current subsidies for those employing Israelis are not sufficient. However, eliminating unpaid overtime will raise care costs. This will add to Israel's challenge to maintain its long-term care system in view of the increase in future care demands and avoid the burden of care being shifted back to the informal care givers.

*The construction sector remains the main area of employment of Palestinian cross-border workers, for whom the system is different.*

From 1967 to the early 1990s, Palestinian workers from the West Bank and Gaza strip, both authorised and unauthorised, became an important part of the workforce: by 1988 there were 110 000 such workers (or 7% of the labour force at the time). With the first and second Intifadas, security considerations led to the closing of the borders and the numbers of workers declined. Employers are authorised to hire these workers on the basis of a contract; workers must be approved for an annual security card and then a work permit, which is renewed every one to three months, making employees highly dependent on their employers and unlikely to report violations. Employers face a number of levies and fees meant to raise the cost of hiring Palestinian workers relative to hiring Israelis, including an "equalisation tax" of 11% which goes into a special fund; there is no

transparency regarding its use. On economic grounds, there is a preference for using cross-border workers: they commute, there is limited risk of overstaying, their earnings are more likely to end up in the Israeli economy (spent on Israeli imports) than remittances sent overseas, and in the long-term, economic growth in Israel would surely be enhanced by the economic well-being of its neighbours and trade partners.

## Israel has absorbed a large number of immigrants and integration is a priority

*Jewish immigration has been central to Israel's identity and demographic growth.*

Outside of family reunification by Israeli citizens, permanent migration to Israel is only possible for Jews and their families. Immigration by Jews is actively encouraged through public bodies which recruit, advice and orient immigrants, a policy which has contributed to about 40% of Israel's labour force being foreign-born, higher than all OECD countries except Luxembourg. During the 1990s, one million immigrants, mostly from the former USSR, arrived in a country of less than 5 million. By 2005, no more than 8% had re-emigrated. Their labour market impact has been positive, with natives benefiting and overall income rising.

*Immigrant absorption is a priority …*

Israel's approach to integrating immigrants is to frontload support to new arrivals through cash grants, education and training vouchers, customised language training and subsidies for employment. The exception is immigration from Ethiopia, for which a centralised absorption programme and publicly-run reception centres remain in place.

*… and outcomes are generally acceptable.*

Over time, immigrants exceed the Israeli average in terms of labour force participation, and their wages tend to converge, although gaps persist even after 15 years. Immigrants from the former USSR have higher participation and employment rates than other Jews (84% and 79%, respectively), and many have been able to transition from low-skilled into high skilled occupations. Qualifications from abroad which were worthless upon arrival have been recovered through retraining and job experience, and here employer subsidies have been helpful. Nevertheless, some groups, such as older immigrants and Ethiopians, do less well.

*The lack of a labour market channel for permanent migration is a limit.*

Israel has managed so far to meet high-skilled labour market demand through its Jewish migration and low-skilled demand through its temporary programme. This approach may not be sufficient in the future. Indeed, all OECD countries grant permanent status to some labour migrants, especially the highly qualified or those who have worked for extended periods in the country.

### Box 0.1. Labour market and social policy recommendations for Israel

In the context of its policies to enhance job opportunities for all, the government of Israel is invited to consider the following reforms as part of its strategy to fight poverty and non-employment, by improving the balance between employment security and flexibility and the development of an inclusive and active social policy. If implemented the suggested policies will imply a rise in public social spending. However, this is inevitable if Israel wishes to cut poverty and promote equal opportunities for *all* its citizens. This inevitable means either shifts in the composition of government spending towards labour market and social policies and/or an increase in tax revenue:

- Invest in regulatory capacity and effectively enforce labour laws, including minimum wage legislation and employment conditions for Israeli and non-Israeli workers, this would require increased resources for the labour inspectors and the labour courts.
- Invest more in the capacity of employment and training services, and the expansion of effective active labour market policies. Requirements for the extension of the Wisconsin Programme include: a clear allocation in roles for public and private employment services; competition within markets; and a profiling system which allows differentiating fee payments to providers in line with client needs.
- Ensure that sufficient employment and childcare supports are made available to those whose income support is conditional on availability to participate in employment-oriented programmes.
- Extend the earned income tax credit across the county with additional child supplements and increased payments to childcare users to increase returns to low-income employment for working families. Simultaneously, increase benefits (through additional child supplements) for those on work-tested income-support benefits. Reduce child payments for families able to work, but who do not do so.
- Address barriers to work for minority population groups by greater investment in education, for example, to equalise teacher-to-child ratios across schools in Israel, and ensure that the curriculum has the same minimal vocational education standards (*e.g.* English and mathematics) for all children in Israel.

- Invest more in public infrastructure (roads/transport) and childcare in the periphery, and/or areas with large Arab populations.
- Ensure that at least minimum employment quota for disadvantaged population groups (particularly Arabs and Ethiopians) are met in the vast majority of different public employment branches. Use public procurement contracts to ensure that employment conditions adhere to basic standards and that fair employment of minorities is a condition for receipt of public funds.
- Introduce reporting requirements on workforce composition in firms of a sufficiently large size, with the Equal Employment Opportunities Commission assessing employment outcomes and suggesting appropriate targets, where needed.
- Urgently introduce practical steps towards the connection of Bedouin settlements with electricity, sewage, and transport systems, and continue with efforts to improve their education, including vocational training.
- Monitor carefully reform of the quasi-mandatory private pension scheme and actively impose penalties on non-compliant employers.
- Abolish favourable fiscal treatment of what is now mandatory pension saving, reduce tax credits towards voluntary private pension saving, and use the funds to introduce a non-wasteable pension credit for low-income workers.
- Ensure that policies are more pro-active in preventing disability take-up and ensure that existing disability policy has a greater focus on the use of existing work capacity of disabled clients.
- Rigorously enforce internal labour markets test and other relevant criteria before allowing employers to recruit workers from overseas. Reject authorisation of employers who violate minimum employment conditions for foreign workers and/or who refuse to hire available Israeli workers at minimum wage level.
- Favour employment of cross-border workers over foreign workers as far as possible.
- Promote bilateral agreements on labour recruitment to reduce rent-taking by intermediary agencies.
- Add a mechanism for granting foreign workers permanent stay, as in all OECD countries, either through change of status from temporary to permanent or based on labour market criteria.

# Chapter 1.

# High Poverty and Low Employment

*Poverty rates in Israel are higher than in any OECD country. The high incidence of poverty is linked to high rates of non-employment and a high incidence of low-paid work. Many low-skilled Jewish and Arab workers, Palestinian cross-border workers and workers from overseas are employed at wages close to or even below the minimum wage, and the presence of cheap foreign labour exerts downward pressure on wages at the bottom end of the distribution.*

*Poverty and non-employment are concentrated among Arab and Haredi (ultra-Orthodox Jews) households, as these are often jobless or one-earner families with many children, and relatively low levels of educational attainment among adults.*

*The redistributive power of the Israeli tax/benefit system is limited, reflecting low social expenditure in international comparison, and has weakened since 2002 with cutbacks in income support and child allowances. These cuts were partly reversed in 2009, but Israel needs to redesign its spending policy so that it becomes an effective tool in increasing employment participation and fighting poverty.*

## 1.1. Israel's key twin labour market and social policy challenges: fight poverty and increase participation

The overriding labour market and social policy concern for Israeli policy makers is the high poverty rate, itself due to high non-employment rates.

- The relative poverty rate, as measured against 50% of equivalised median household income, is higher than in any OECD country and at 21.3% in 2005 is more than twice the OECD average of 10.6% (Figure 1.1, Panel A);[3] the poverty rate had fallen to 19.9% by 2008. With a Gini coefficient of 0.38, disposable income inequality in Israel is as high as among the five highest ranking OECD countries (Panel A), and there are many low-income workers in Israel (see below).

- Labour market participation is below the OECD average. About four out of ten Israelis of working age (15-64) are not in employment, compared with an OECD average non-employment rate of about 33% (Panel B).

- Israel's GDP per capita is about 20% below the OECD average, but is substantially higher than in, for example, Hungary, Mexico, or Poland (Panel C).

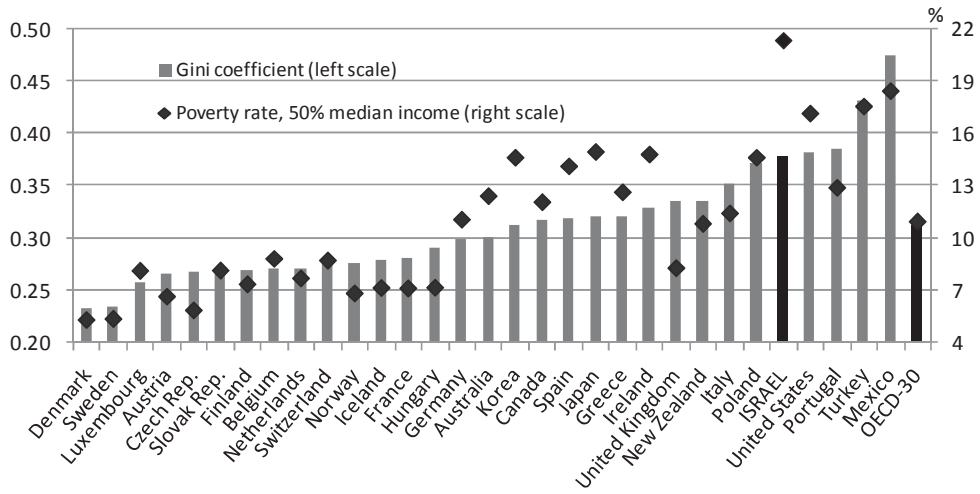
In sum, a relatively high degree of non-employment contributes to relatively low per capita incomes. This, together with a relatively high degree of income dispersion, results in very high poverty rates in Israel.

This chapter illustrates the key labour market and social policy outcomes in Israel. It starts by briefly discussing recent economic patterns, before discussing a variety of labour market outcomes, and how these differ starkly between population groups. The chapter continues with a discussion of poverty and income inequality outcomes, before concluding with a discussion of government social spending.

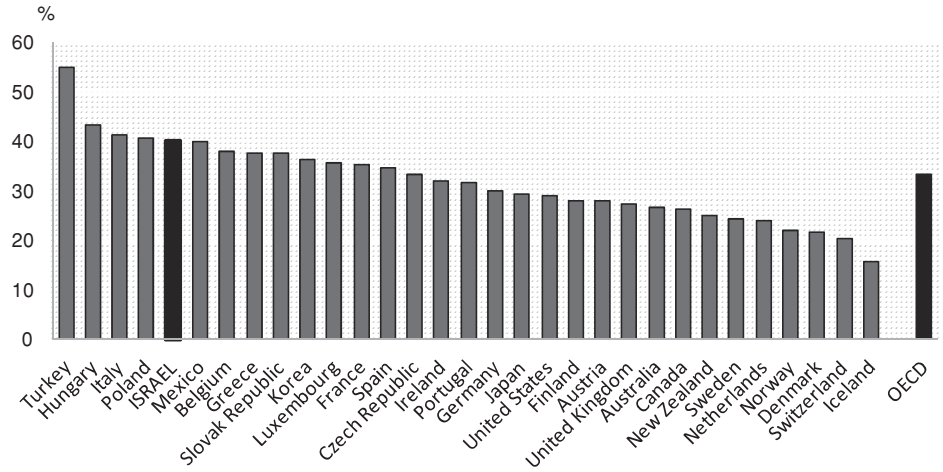
3. When measured against poverty thresholds at 40% and 60% of equivalised median income Israel's poverty rate is also higher than in any other OECD country and about twice the OECD average (Annex Figure 1.A1.1).

**Figure 1.1. Israel has high poverty rates, a wide income distribution, relatively low income per head, and high non-employment rates**

Panel A. Income equality (Gini coefficients) and relative poverty, 2005[1]



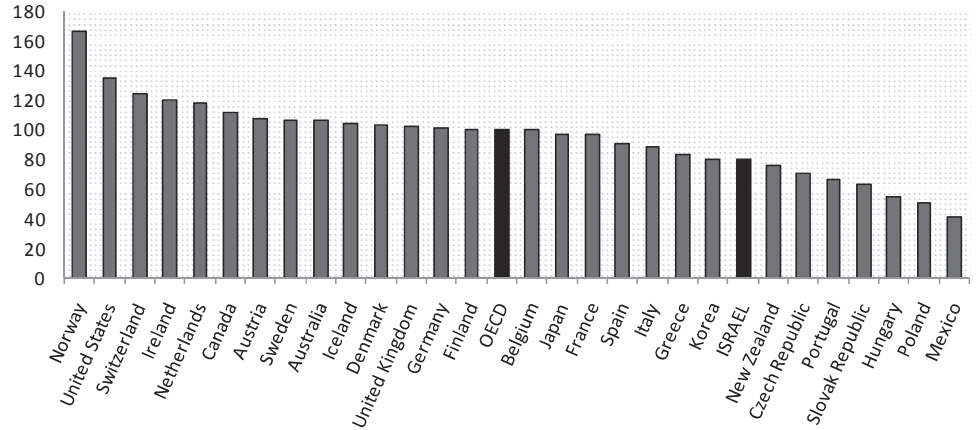

Panel B. Non-employment rates, in percentage of the 15-64 population, 2002[2]




1. Panel A: Countries are ranked in increasing order of the Gini coefficient of income inequality. Data refer to the distribution of household disposable income in cash across people, with each person being attributed the income of the household where they live adjusted for household size. *Source*: OECD (2008b), *Growing Unequal?*, and Israeli Central Bureau of Statistics.

2. Panel B: *Source*: OECD (2009a), *OECD Employment Outlook*, and data provided by the Israeli Central Bureau of Statistics.

Panel C. GDP per capita, 2008, OECD = 100, current purchasing power parities[3]




3. Panel C: Does not include Luxembourg and Turkey. *Source*: OECD (2009b), *OECD Economic Outlook*, and Israeli Central Bureau of Statistics.

*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

## 1.2. Recent economic developments

Over the past 20 years Israel has enjoyed strong economic and population growth (Box 1.1). The pattern of economic growth has been relatively volatile (Figure 1.2), but over the 1998-2008 period GDP grew, on average, by almost 4% per annum compared with 3% on average across the OECD. Real GDP per capita growth has been just below the OECD average since the late 1990s, however (OECD, 2009a), because the Israeli population continues to grow at a relatively high pace (Box 1.1).

Growth was particularly strong at around 5% per year since 2004. In recent years, it was particularly strong in the financial service sector (banking, insurance and provident funds), and in the high-tech services sector (also a key growth sector during the 1990s),[4] hotel, commerce and food services, though to a lesser extent (ADVA, 2008). Growth rates registered by the traditional technology and manufacturing sectors were limited.

4. Apart from defence industries, the main high-tech activities are in computer component manufacture, software engineering, medical technologies and pharmaceuticals.

### Box 1.1. Population growth is due to large immigration in the early 1990s and high fertility rates

The Israeli population has grown from nearly 800 000 in 1948, the year of independence, to almost 4 million in 1980 and 7.4 million people by the end of 2008 (CBS, 2009). It is projected to be over 10 million in 2050 (Chapter 5). Large waves of immigration occurred between 1948 and 1951, with about 688 000 immigrants, and in the early 1990s, about 1 million immigrants from the former Soviet Union (Chapter 7). Between 1948 and 2007, the migration balance accounted for almost 40% of overall population growth. In 2007, just over a quarter of the population in Israel was foreign-born, more than twice as high as the share of foreign-born populations on average in OECD countries (OECD, 2009c). Migration to Israel continues and includes a substantial share of foreign workers with temporary permits (Chapter 6).

In this review, the generic term for the population is "Israelis" regardless of background or religious affiliation. The CBS in its population statistics (which cover East Jerusalem) considers the following population groups: Jews (75.7% of the population on 31 December 2007); Arabs (20% of the population, of which 83.2% concern Muslims; 8.4% Arab-Christians, and 8.3% Druze); Non-Arab Christians (0.4% of the Population); and those not classified by religion (3.9% of the population). The ultra-Orthodox or Haredim are not separately identified as a population group within the Jewish population by the CBS, but they are estimated to constitute about 8% of the total population (BOI, 2009a).

The total fertility rate (TFR) in Israel has fallen slightly over the past 25 years; from 3.1 in 1980-84 to 2.9 in 2007. Nevertheless, at 2.9 children per woman in 2007, the TFR in Israel is higher than in any OECD country, and well above the OECD average of 1.7. The TFR is high because of high fertility rates among some population groups. Although down from 5.5 in the early 1980s, the TFR among for Arab Muslim women was still high at 3.9 in 2007. Furthermore, the TFR for Haredi women was estimated to be 7.7 in 2001 (Gurovich and Cohen-Kastro, 2004; information that is fully comparable with data provided by the Israeli CBS as in the table below is not available). The TFR for the Jewish population of Israel (including the Haredim) was 2.8 in 2007.

The median age of the population rose by four years from 24.8 in 1980 to 28.7 in 2007. Since the early 1980s, average life expectancy of the total population has risen by almost seven years for men and women to 78.8 years and 82.5 years, respectively, which is slightly above OECD averages. In all, the pace of population ageing in Israel is slow relative to OECD countries (Chapter 5).

This review is not intended to cover the territories known as the Golan Heights, The Gaza Strip or the West Bank, including East Jerusalem. In terms of statistical coverage, however, for technical reasons this report almost exclusively uses macroeconomic and other data that are regularly published and updated by the Central Bureau of Statistics (CBS) or other authorities, which include data relating to East Jerusalem and the Israeli settlements in the West Bank. A sizeable number of Israelis live in these areas. A recent UN publication estimates that the total population of these areas, as of end-2008, was 485 000, of which 195 000 in East Jerusalem (United Nations, 2009). According to the Central Bureau of Statistics, Israel's population was 7 374 000 at end-2008, thus implying that those living in East Jerusalem and the Israeli settlements in the West Bank represent 6.6% of the total.

**Main demographic characteristics of the Israeli population, 1980-2007**

| | 1980 | 1990 | 2000 [1] | 2006 [1] | 2007 [1] |
|---|---|---|---|---|---|
| Population (thousands)* | 3 921.7 | 4 821.8 | 6 369.3 | 7 116.7 | 7 243.6 |
| *Arabs* | 638.9 | 875.0 | 1 188.7 | 1 413.3 | 1 450.0 |
| *Jews* | 3 282.7 | 3 946.7 | 4 955.4 | 5 393.4 | 5 478.2 |
| *Others* | .. | .. | 225.2 | 309.9 | 315.4 |
| % of migration balance out of total population growth | 5.9 [2] | 56.0 [3] | 38.3 | 13.2 | 12.1 |
| Median age* | 24.8 | 26.0 | 27.7 | 28.6 | 28.7 |
| *Arabs* | .. | .. | 19.6 | 20.0 | 20.1 |
| *Jews and others* | .. | .. | 29.9 | 30.9 | 31.0 |
| Life expectancy (years) | | | | | |
| *Women* | 75.7 | 78.4 | 80.9 | 82.5 | 82.5 |
| *Men* | 72.1 | 74.9 | 76.7 | 78.7 | 78.8 |
| Total fertility rate** | 3.1 [4] | 2.9 [5] | 2.9 [6] | 2.9 | 2.9 |
| *Jews* | 2.8 [4] | 2.6 [5] | 2.7 [6] | 2.8 | 2.8 |
| *Moslems* | 5.5 [4] | 4.8 [5] | 4.6 [6] | 4.0 | 3.9 |
| *Christians* | 2.4 [4] | 2.2 [5] | 2.4 [6] | 2.1 | 2.1 |
| *Druze* | 5.4 [4] | 3.8 [5] | 2.9 [6] | 2.6 | 2.5 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank

1. The total population and the Arab population also include Lebanese.

2. 1983-89.

3. 1990-95.

4. 1980-84.

5. 1990-94.

6. 2000-04.

* By population group. Until 1995 "Arabs" also included "Others".

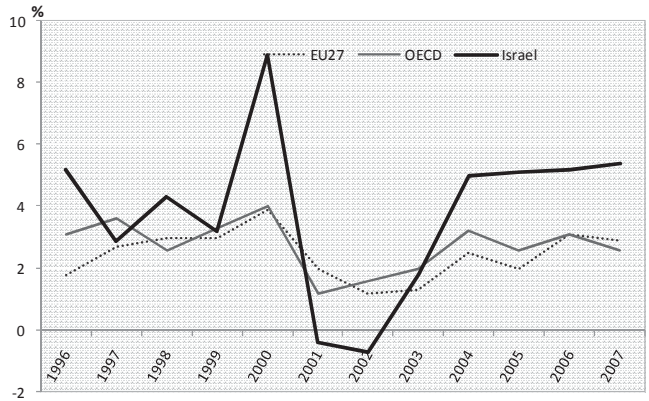
** By religion.

*Source*: Israeli Central Bureau of Statistics (2009), *Statistical Abstract of Israel 2008*.

Since the beginning of the 1990s, real wages trended upwards until the recession in 2001-03 (Figure 1.3). Since 2003, public sector cuts led to a decline in real wages, and in 2008 public sector wages in real terms were still below the level in 2001. Private sector wages started to increase again when the economy picked up again in 2003, but at a relatively low pace compared with labour productivity. Bank of Israel analysis suggests that the factors leading to wage restraint included: a high unemployment rate (at least until 2007; see Table 1.1); a large share of newly hired and thus less experienced workers in several industries; and, tax reform reducing the personal income tax rate.

**Figure 1.2. Israeli economic growth has been strong on average since the mid-1990s**

Real GDP annual growth, EU27, OECD and Israel

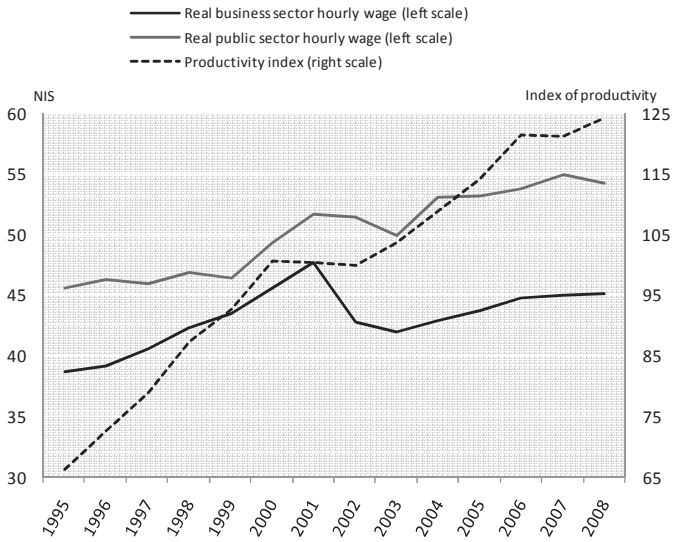



*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: OECD (2009d), *OECD Factbook 2009*, and Bank of Israel (2009), *Annual Report 2008*.

**Figure 1.3. In recent years, labour productivity grew faster than real wages**

Real hourly wage in the business sector and in public services, and labour productivity,[1] 1998-2008




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Labour productivity index (base =2002).

*Source:* Adapted from Bank of Israel (2009), *Report 2008*, using data from the Israeli Central Bureau of Statistics.

The high levels of economic activity, the low unemployment rate, the current-account surplus, the high level of profitability in the business sector and the strength of the banking system (Table 1.1) ensured that the Israeli economy was in a relatively favourable position at the onset of the global crisis (BOI, 2009a).

**Table 1.1. Basic economic data, 2000-08, annual averages**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| GDP (NIS billion, 2008 prices) | 557 | 555 | 552 | 562 | 590 | 620 | 652 | 687 | 714 |
| Per capita GDP (current prices, 000s USD) | 19.7 | 18.9 | 17 | 17.6 | 18.5 | 19.2 | 20.4 | 22.8 | 27.3 |
| Unemployment rate (%) | 8.8 | 9.3 | 10.3 | 10.7 | 10.4 | 9 | 8.4 | 7.3 | 6.1 |
| Inflation rate (during the year, %) | 0 | 1.4 | 6.5 | -1.9 | 1.2 | 2.4 | -0.1 | 3.4 | 3.8 |
| Actual budget deficit (% of GDP) | 0.6 | 4.1 | 3.5 | 5.3 | 3.6 | 1.8 | 0.9 | 0 | 2.1 |
| Gross public debt (% of GDP, year-end) | 85.1 | 89.9 | 97.6 | 99.9 | 98.2 | 94.2 | 85.7 | 79.4 | 78 |
| Goods and services exports (USD billion, current prices)* | 39.5 | 34.9 | 32.5 | 35.7 | 43.1 | 47.1 | 53.3 | 60.7 | 70.8 |
| Goods and services imports (USD billion, current prices)* | 40.3 | 38.4 | 36.1 | 37.2 | 43.6 | 48.4 | 53.4 | 64.1 | 75.4 |
| Current account balance (% of GDP) | -1.8 | -1.6 | -1.1 | 0.5 | 1.7 | 3.1 | 5 | 2.6 | 0.8 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

* Excluding the diamond sector.

*Source*: Bank of Israel (2009b), based on data by the Israeli Central Bureau of Statistics.

The Israeli economy has inevitably been caught up in the global economic downturn but somewhat less severely than other small open economies. The reliance on exports made the economy vulnerable, as illustrated by a decline in manufacturing exports (including the high-tech sector). The financial crisis led to a large contraction of the corporate bond market (or non-bank credit), which had become the largest source of business credit. However, there was no housing bubble in Israel, and none of its banks or financial institutions collapsed, or was rescued by direct government intervention. In response to the crisis, the interest rate was cut aggressively and various other measures were taken to ease credit conditions.

The first signs of a slowdown in economic activity appeared in the second half of 2008: employment growth stopped, job vacancies declined, large scale lay-offs started to occur, unemployment started to grow (especially among high-skilled workers) and real wages per employee decreased by 0.9% in 2008, their first decrease since 2003. The latter was mainly due to a rise in inflation, but also to the responsiveness of nominal wages to the economic slowdown: the labour market responded more quickly to the economic shock than to previous shocks (BOI, 2009b).

The downturn intensified during the first quarter of 2009: the number of unemployed increased by 35 000 and the unemployment rate rose to 7.6% (as opposed to 6.4% in the previous quarter) while the economy contracted by 3.9% compared with the first quarter 2008 (BOI, 2009b). The recession was largely due to exposure to international trade, but it was tempered by the relatively strong domestic financial markets and the absence of a housing price bubble. The recession did not last long either. The economy started to grow again in the second quarter of 2009 and the unemployment rate stabilised at 7.9% from April to July 2009. OECD projections show that growth averaged zero in 2009, but will recover to 2.2% and 3.3% in 2010 and 2011, respectively (OECD, 2009b).

### *A small crisis package*

When the crisis unfolded, the Israeli authorities responded by announcing a package of measures, of which extra public infrastructure investment worth 1.2% of GDP (NIS 9.5 billion or about USD 2.5 billion) was the largest item. Other measures included (OECD, 2010):

- Relaxation of the eligibility rules for unemployment benefit (Chapter 2), if the unemployment rate rises above 7.5% (as it did during the first quarter of 2009);
- Additional investment in active labour market policies worth NIS 0.54 billion or about USD 0.14 billion (this would have been five times the current amount, see below); and,
- Different measures to help financial markets, including, the establishment of private investment funds co-financed by the government, tax provisions for SMEs, and, a pension savings guarantee (Chapter 5).

However, the formation of the coalition government over summer 2009 and the relevant budgetary measures (*e.g.* the increase in child allowances as discussed in Chapter 4), as well as the recent upward adjustment of projections, has meant that the overall fiscal response to the crisis is much more limited in scope than originally envisaged. OECD (2010) estimates that the crisis package at maximum may amount to only 0.5% of GDP in the 2009 budget; relatively low in international comparison.

## 1.3. A segmented labour market

### *Earnings dispersion and low wage employment*

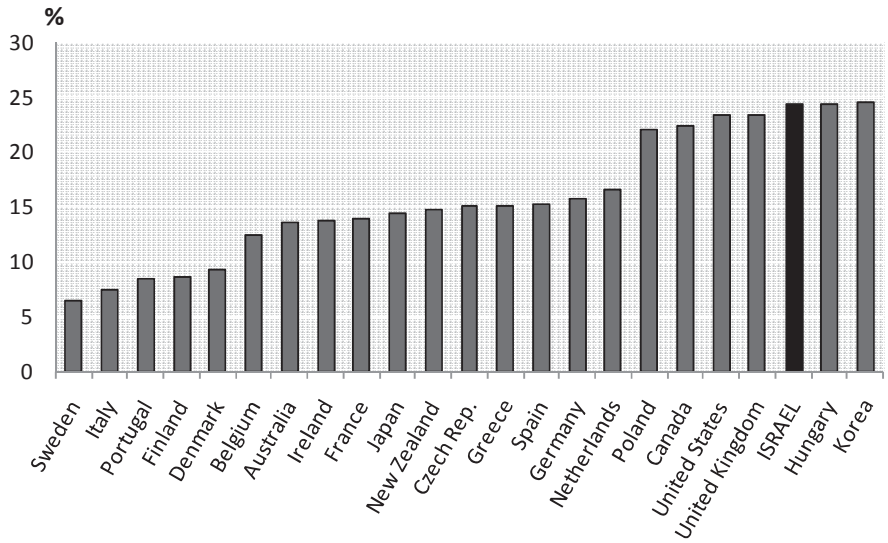
The Israeli labour market is characterised by a high degree of inequality. This is true for wage rates as well as participation rates (see below). Wage disparities increased markedly during the high-inflation period 1975-85, before stabilising during the period of the economic stability programme implemented in the late 1980s (OECD, 2010). The increase in wage disparities also coincides with the erosion of centralised wage bargaining in the late 1970s, and the stabilisation of decentralised wage bargaining in the late 1980s (Kristal and Cohen, 2007 and Chapter 2). Wage inequality, as measured by the Gini coefficient, increased from 0.25 in 1975 to 0.33 in 2003, and with strong growth since then until 2009, wage inequality is likely to have increased further. Bank of Israel analysis found evidence of a gradual decline in the wages of unskilled workers relative to those of skilled workers (BOI, 2007). In part, this is because of the rising wages in the fast growing (high-tech) sectors of the economy, while at the same time wage growth of low-skilled workers is limited because of the presence of low-wage cross-border and foreign workers in the Israeli labour market.

Compared with OECD countries, the degree of wage inequality in Israel is more closer to, for example, Canada, Ireland, Japan, Korea and the United States (with Gini coefficients in the upper 20s and lower 30s), but much wider than in for example, many European countries (*OECD Earnings database*).

The high degree of earnings disparity reflects in part the high incidence of low-paid employment in Israel. Compared with OECD countries, Israel ranks among a group of countries, including Canada, Hungary, Korea, Poland, the United Kingdom and the United States, where the proportion of workers earning less than two-thirds of the median wage ranges from 20 to 25% (Figure 1.4). Wages are particularly low for employees within the unskilled or low-skilled sectors of the economy, where wages are frequently below the official minimum wage. In 2007, about 3% of full-time employees (and almost 10% of all employees) earned less than half the minimum wage; and, 10% of full-time employees (and 16% of all employees) earned between 50 and 100% of the minimum wage (NII, 2008).

**Figure 1.4. The incidence of low-paid work in Israel is relatively high**

Percentage of full-time wage earners earning less than two-thirds of the median wage of full-time wage earners, mid-2000s[1]




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. 2000 for Hungary, 2001 for Belgium, Finland, France, Italy, Greece, Portugal and Spain, 2002 for Germany and Poland, 2003 for Canada and Denmark, 2007 for Israel and 2004 for the other countries.

*Source*: *OECD Earnings database* and OECD calculations using the ECHP; and Israeli Central Bureau of Statistics, Income Survey.

### *Employment by sector*

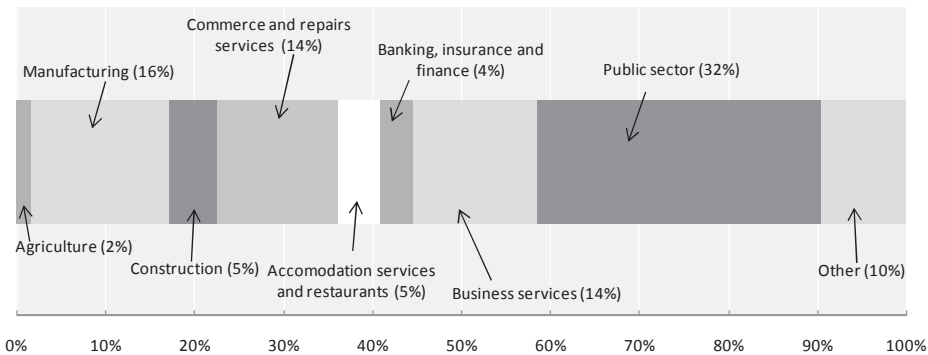
About one-third of total employment in Israel is in the public sector (Figure 1.5). Staff in the education sector (40%) and health and welfare service workers (30%) constitute the largest groups of public sector employees. Public sector employment peaked in 2002 at 34% of all employment, but in most recent years growth of public sector employment was lower than in the private sector (Annex Figure 1.A1.1). This is related to government restrictions on new hires to curb public spending. At the same time, indirect employment through sub-contracting and Temporary Work Agencies (TWAs) increased (Kop, 2008). Comprehensive and actual information on the size of employment through TWAs and sub-contractors is lacking (Chapter 2), but was estimated to concern about 5% of workers in 1998, of which about 45% worked in the public sector (Nadiv, 2004).

Employers in the private sector covered by collective agreements increasingly use TWAs and sub-contractors to curb labour costs (Mundlak, 2007).

In private sector employment, the number of employed workers in the manufacturing sector has been stable over the past 15 years, but its share in total employment fell from 20% in 1995 to 16% in 2008 (Annex Figure 1.A1.1). Over the same period, commercial services accounted for about 14% of employment, while the employment share of business services increased from 9% in 1995 to 14% in 2008. The rapid growth in value added by the financial services sector (see above) did not translate into similar gains in employment growth: employment in this sector has oscillated around 4% over the 1995-2008 period. About 5% of employment is in the construction sector and in the accommodation services sector. Agriculture accounts for 2% of employment (when foreign workers are accounted for this is 2.7%, see below).

**Figure 1.5. About one-third of total employment in Israel is in the public sector**

Employees by sector, shares in total Israeli employees, 2008




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: Bank of Israel.

Construction and Agriculture are two sectors which employ large numbers of both cross-border and foreign workers (the home-care sector also employs a large number of workers from overseas, Chapter 6).[5] Overall, cross-border workers (2%) and foreign workers (7%) constitute less than 10% of the workforce in Israel (Figure 1.6, Panel A). Jewish and Arab workers each account for just over one-third of the workforce in the construction

5. Foreign workers constitute about half of the workers in the home-care sector, see Chapter 6.

sector, with cross-border workers and foreign workers together making up the other third (Panel B). By contrast, among unskilled agricultural workers, Jewish and Arab workers make up only 20% of the workforce, another 20% are Palestinian cross-border workers, while 60% are foreign workers (Panel C).

**Figure 1.6. The share of cross-border and foreign workers is high in agriculture and construction**

Shares in employment of population groups, 2008




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: Secretariat calculations using data provided by the Bank of Israel, which include estimates on the number of cross-border workers and foreign workers without a work permit.

Many of these workers are employed under precarious employment conditions, a situation that the labour inspectorate has been unable to police effectively (Chapter 2), while the foreign labour migration system allows exploitation of foreign workers to continue (Chapter 6).

### *Labour market outcomes*

The civilian labour force participation rate rose from 57.4% in 1990 to 61.5% in 2002, reaching almost 64% in 2008 (Table 1.2). Male participation rates (and employment rates) changed little over the last 20 years, except for the shake-out of older male workers around the turn of the millennium. Female labour force participation and employment increased strongly over the past two decades from 47% to almost 60% in 2008. Female labour force behaviour has changed with gains in educational attainment among women (see below), and as facilitated by childcare (see below) and part-time employment opportunities. The share of part-time employment (the threshold is 35 hours in the Israeli LFS), edged up from 26.6% in 2002 to 28.6% in 2008 (CBS, 2009).

**Table 1.2. Labour force status of the Israeli population, 1990-2008**

Labour force participation, employment and unemployment rates

| Age category | Both genders | | | Men | | | Women | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1990 | 2000 | 2008 | 1990 | 2000 | 2008 | 1990 | 2000 | 2008 |
| ***Labour force/Population*** | | | | | | | | | |
| 15-24 | 30.2 | 33.9 | 31.6 | 31.7 | 32.4 | 30.1 | 28.8 | 35.5 | 33.3 |
| 25-54 | 72.3 | 76.1 | 78.1 | 85.7 | 84.0 | 83.9 | 59.0 | 68.5 | 72.4 |
| 55-64 | 50.4 | 50.0 | 61.2 | 73.7 | 63.9 | 71.7 | 30.2 | 37.7 | 51.5 |
| 15-64 | 57.4 | 61.5 | 63.8 | 68.1 | 67.1 | 68.1 | 46.9 | 56.1 | 59.5 |
| OECD average | 70.1 | 70.0 | 70.8 | 82.2 | 80.9 | 80.5 | 58.1 | 59.3 | 61.3 |
| 25-54 | 79.8 | 80.3 | 81.1 | 94.2 | 92.6 | 92.2 | 65.6 | 68.1 | 70.2 |
| ***Employed/Population*** | | | | | | | | | |
| 15-24 | 23.6 | 28.2 | 27.6 | 25.0 | 26.9 | 26.5 | 22.0 | 29.6 | 28.8 |
| 25-54 | 66.5 | 70.4 | 73.9 | 79.8 | 78.1 | 79.6 | 53.4 | 63.0 | 68.3 |
| 55-64 | 48.5 | 46.6 | 58.4 | 71.0 | 58.7 | 68.4 | 29.0 | 35.9 | 49.3 |
| 15-64 | 51.8 | 56.1 | 59.8 | 62.3 | 61.4 | 64.1 | 41.5 | 50.9 | 55.6 |
| OECD average | 65.7 | 65.6 | 66.5 | 77.5 | 76.2 | 75.7 | 53.9 | 55.2 | 57.5 |
| ***Unemployed/Labour force*** | | | | | | | | | |
| 15-24 | 22.1 | 16.9 | 12.6 | 21.0 | 17.1 | 11.9 | 23.4 | 16.8 | 13.4 |
| 25-54 | 8.0 | 7.5 | 5.4 | 7.0 | 7.1 | 5.1 | 9.5 | 8.0 | 5.7 |
| 55-64 | 3.8 | 6.8 | 4.5 | 3.7 | 8.1 | 4.6 | 4.2 | 4.9 | 4.3 |
| 15-64 | 9.8 | 8.9 | 6.2 | 8.6 | 8.5 | 5.8 | 11.5 | 9.3 | 6.6 |
| OECD average | 6.3 | 6.3 | 6.0 | 5.7 | 5.8 | 6.0 | 7.2 | 6.9 | 6.2 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

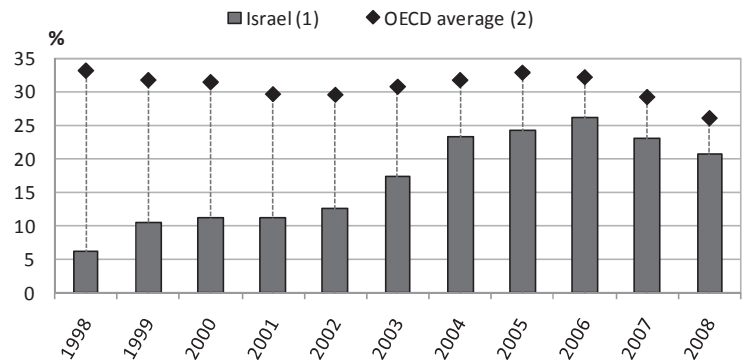
*Source*: OECD Labour Force Statistics for OECD countries and Israeli Central Bureau of Statistics.

Nevertheless, despite the upward trend, Israeli labour force participation remains low compared with OECD countries on average,[6] because of low participation among two population groups: Arab women and Haredi men (see below), while conscription around age 18 (three years for men and two years for women) into the Israeli Defence Force (IDF) curtails labour force participation among younger Israelis.[7]

The unemployment rate peaked at nearly 11% in 2003 (Table 1.1), before falling to 6.2% in 2008. From the early 2000s onwards, the share of long-term unemployment increased rapidly to over 25% in 2006 before declining to 21% in 2008, below the OECD average of 26% (Figure 1.7).

**Figure 1.7. A growing incidence of long-term unemployment, though below OECD average**

Persons unemployed for more than a year as a percentage of total unemployment




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Sought work for more than 53 weeks.

2. Sought work for 12 months and over.

*Source:* OECD Labour Force Statistics for OECD countries and Israeli Central Bureau of Statistics.

6. Comparisons suffer from some measurement issues likely to introduce a downward bias in measurement of Israeli labour force participation rates. For example, In Israel, members of the standing army and other security services are included in the working-age population but not in the civilian labour force, while the majority of OECD countries include military personnel as labour force participants in line with the ILO definition.

7. Dahan (2007) finds that taking account for military conscription would increase the participation rate for men aged 15 and over by 3.5 percentage points (data concern 2001).

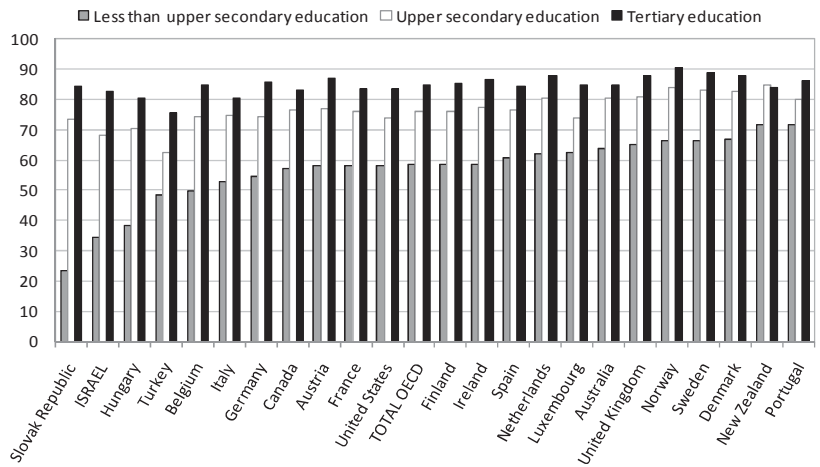
There are regional differences in the labour market in Israel, with the northern and southern districts (the so-called "periphery" where most of the Arab population lives) having relatively low employment and high unemployment rates.[8]

### *Very low employment rates amongst those with low levels of educational attainment*

Employment rates are lowest for workers with the lowest levels of educational attainment. This holds across the OECD, but the disparities are particularly large in Israel. On average across OECD countries, almost 60% of individuals who have not completed upper secondary education are employed. In Israel, this proportion is only 35% (Figure 1.8).

**Figure 1.8. In Israel, those with a low level of educational attainment are very likely to be jobless**

Employment/population ratios by educational attainment, persons aged 25-64, selected OECD countries, 2007




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: OECD (2009), *Education at a Glance*.

8. Israeli statistics distinguish six districts: the northern district, Haifa district, Tel Aviv district, the central district, Jerusalem district and the southern district. In 2008, the unemployment rates in the northern (7.7%) and southern districts (6.9%) were above unemployment rates in the more affluent Tel Aviv (4.8%) and the central (5.1%) districts. Labour force participation rates in the northern (52.5%) and southern (53.8%) districts were well below those in Tel Aviv (60.6%) and the central district (62.7%).

## Box 1.2. Israel's population is highly educated, but its students perform poorly in international tests

The Israeli population has high levels of educational experience across age groups: almost half of the 25-34-year-olds and more than 40% of the 45-54-year-olds have completed tertiary education, either in Israel or elsewhere (see figure below, Panel A).

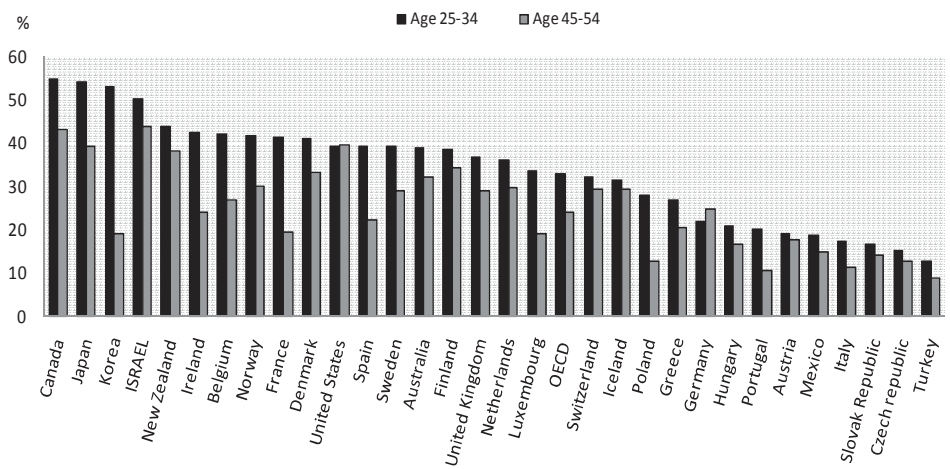
However, in view of the large socio-economic differences in Israel, it is no surprise there are considerable differences among different population groups; and the proportion of Arabs with an academic qualification is about 40% of that of the Jewish population (Habib *et al.*, 2010).

Educational attainment levels may be high, but Israeli teenagers in secondary school perform poorly in international student tests. The scores for Israeli students participating in the OECD's Programme for International Student Assessment (PISA) in terms of science (Panel B), but also in Trends in International Mathematics and Sciences (TIMMS), are about 90% of the OECD average and only Turkish and Mexican students have lower scores (OECD, 2009a).

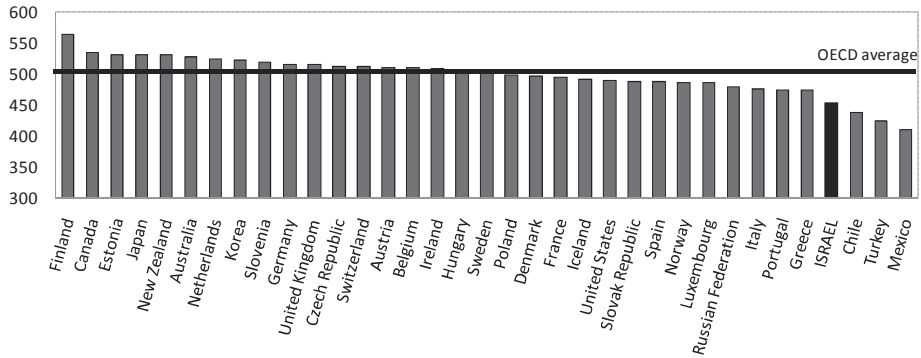
Arab students in Israel have the lowest scores of all at just above 75% of the OECD average in reading, mathematics and science, which is not surprising in view of the discrepancy in educational attainment with Jewish students (see OECD, 2010, for a discussion of Israel's education system).

### Many Israelis have completed tertiary education, but teenage students perform badly in international comparison

Panel A. Proportion of the population by age group with completed tertiary education, 2006



Panel B. Student performance: average PISA score for science in OECD countries and accession countries, 2006




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source:* Panel A: OECD (2009e), *Education at a Glance*; Panel B: *OECD/PISA database*, 2008.

Potentially, the returns to completing upper secondary education are large in Israel, as employment rates for this group are 30 percentage points higher (OECD, 2009c).

The Israeli population has had, and continues to have, a high average level of educational attainment. The proportion of people aged 45-54 who have completed tertiary education is higher than in any OECD country. However, OECD countries are catching up, while the performance of Israeli students in international ability tests does not bode well for the future (Box 1.2). In addition, low levels of educational attainment are concentrated among the fast-growing Arab and Haredi population groups (Chapter 4).

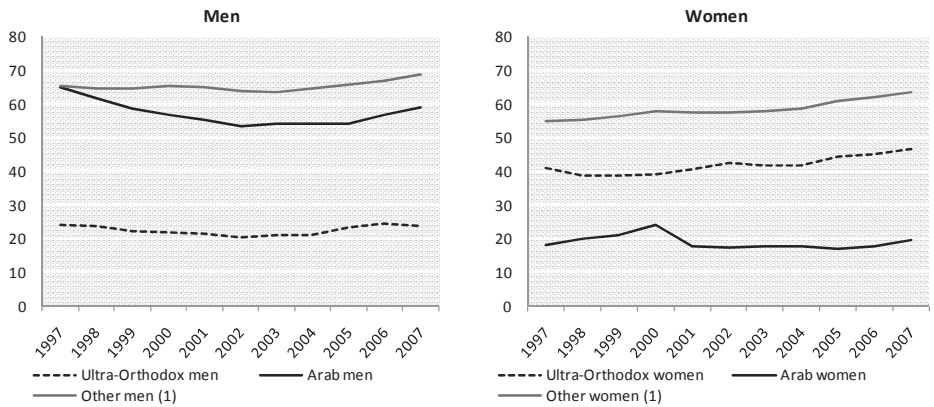
### *Minority groups: Arab women and Haredi men have poor labour market outcomes*

In 2007, the Israeli Government set employment objectives in its socio-economic agenda (NEC, 2007), including the aim to raise the employment rate among the working-age population to 71.7% by 2010 (BOI, 2009a). For this objective to be achieved, population groups with relatively low employment rates – *i.e.* the Arab and ultra-Orthodox populations and individuals with low levels of education – need to be integrated more closely into the labour market.

For the majority of the Jewish population, male employment rates oscillated around 65% in recent history, while the 2005-08 economic upswing facilitated an increase to almost 70% (Figure 1.9). From 1997 to 2007, the employment rate of non-Arab, non-Haredi Jewish women increased without interruption from 55% to almost 65%.

**Figure 1.9. Arab women and Haredi men have low employment rates**

Employment rates, population aged 15-65, Arabs, Haredim and other Jews




*Note*: For technical reasons this figure uses Israel's official statistics, which include data relating to the Golan Heights and Israeli settlements in the West Bank. Arabs living in Jerusalem are not covered here.

1. Non-Arab, Non-Haredim.

*Source*: Adapted from the Bank of Israel's *Annual Report 2008*.

The second Intifada and the growing number of foreign workers in Israel (Chapter 6) contributed to the decline in the employment rate of Arab men from around 65% in 1997 to 54% in 2002, but it increased again from 2005 to 2008. Over the same period, employment rates of Arab women increased somewhat, but at around 20% they remain at a very low level (Figure 1.9).

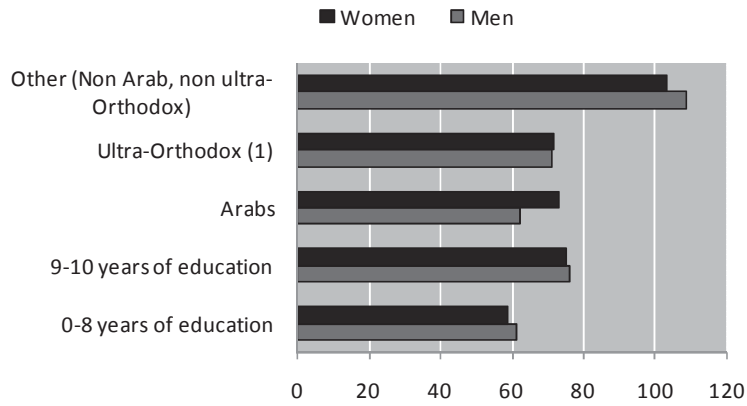
Male Haredim have very low employment rates, as they devote much of their time to religious studies. The employment rate of female Haredim is close to 50%, well below employment rates among Jewish women in general, but more than twice as high as employment among Arab women.

In addition to lower employment rates, Arab and Haredi workers have relatively low earnings (Figure 1.10). Arab women and Haredi workers earn on average around 70% of the average wage, while for Arab men this is around 60%. Clearly, the low wages are linked to low levels of educational attainment.

There are a range of reasons why Arabs and Haredim have relatively low employment rates. They include structural issues such as differences in education systems, regional differences in infrastructural investment, cultural influences, differences in access to social support, mistrust between communities arising from the recent history of Arab-Israeli conflict, and the limited effectiveness of policies to redress discriminatory practices. As Arabs, Haredim, and the general Jewish population often live in separate areas, attend different schools as well as have different labour force patterns, there is a social dichotomy in Israel that will not be easily bridged (Chapter 4).

**Figure 1.10. Arabs, Haredim and workers with limited educational experience earn about one-third less than the average wage**

Ratio of average wage to wage of the total population, by segment of the population, 2007




*Note*: For technical reasons this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. For a definition of the Haredim or ultra-Orthodox, see the notes to Figure 4.1.

*Source*: Adapted from the Bank of Israel's *Annual Report 2008*.

## 1.4. Poverty and income inequality

### *Trends*

Figure 1.1 showed that fighting poverty and finding a way to increasing employment rates are Israel's key twin labour market and social policy challenges. The factors underlying the trends in income inequality and poverty (Figure 1.11) include:

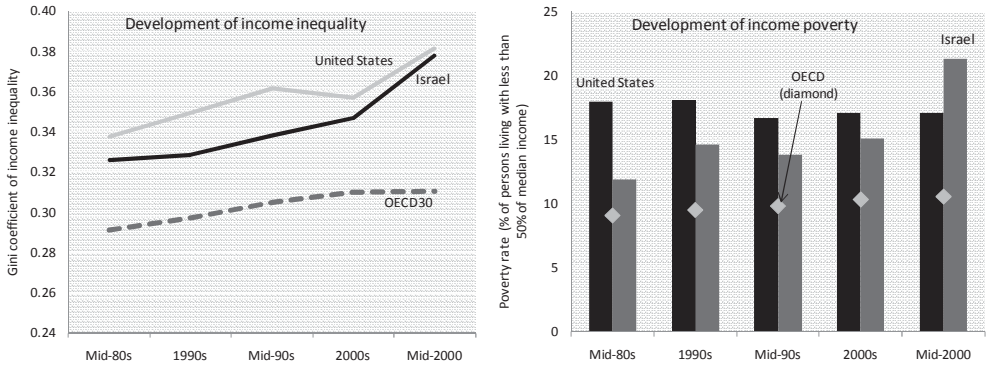
- A widening of pre-tax and transfer *market* incomes of the working-age population between the mid-1980s and mid-1990s (Annex

Table 1.A2.2). The widening earnings distribution was also related to large immigration of initially poor immigrants from the former Soviet Union in the early 1990s[9] which expanded the pool of low-wage workers (see Chapter 7).

- The combination of demographic trends and labour force behaviour: fertility is high among populations with low participation rates, including Arabs and Haredim.
- Cuts in benefit payment rates to the working-age population in the early 2000s (see below and Annex Table 1.A2.3).

The pattern of income growth across households has changed over time. Between the mid-1980s and the mid-1990s, real incomes in Israel increased at a faster pace than in OECD countries: 3% versus 2% per year on average. While income growth was highest for the top two deciles, income of lower income groups grew at almost the same pace (Annex Table 1.A2.4) By contrast, from 1995 to 2005, average real income grew by only little more than 1% and was distributed unequally: by 2% per year on average among the richest quintile, by 1% among the middle classes, while incomes for the bottom quintile *declined* by 1%.

**Figure 1.11. Compared with the OECD average, income inequality has widened and poverty deepened in Israel, since the beginning of the 1980s**




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: OECD (2008), *Growing Unequal?*, and data from the Israeli Central Bureau of Statistics.

9. In 1994 and 1997, the income surveys were extended to residents in smaller (poorer) communities (NII, 2009); this will have contributed to the increase in the Gini coefficient on income inequality and poverty rates during the 1990s.

### *Differences in poverty across population groups*

Poverty rates are high across all age groups, but are highest for children (29% see below) and senior citizens (28%, see Chapter 5). About 20% of households with a head of working age live in poverty (Annex Table 1.A2.3).

#### *The working poor and minority groups*

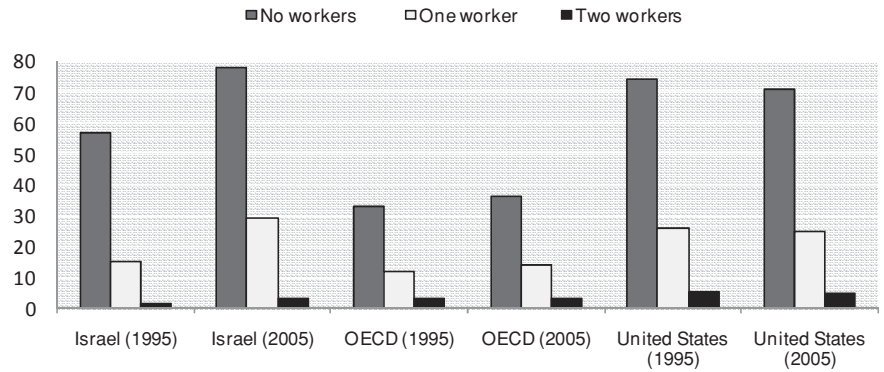
Employment clearly reduces the risk of poverty. Almost 80% of jobless households with a head of working age live in poverty (Figure 1.12). The incidence of poverty for households with one person in paid employment is much lower (almost 30%), but this proportion has more than doubled over the past ten years. As in OECD countries, the poverty risk is lowest when two adults in a household are in paid work, as in the majority of Jewish couple families.

Within Israel, the differences in employment participation among different employment groups (Figure 1.13) play a key role in explaining the very different poverty outcomes for Jews in general, and the Arab and Haredi minority populations. Because Arab families and Haredi families are frequently jobless or one-earner families (in low-paid employment), poverty rates are around 50% for Arabs, and close to 60% for Haredim, but only just over 10% for the rest of the Jewish population, where both adults in couple families are often in paid employment.[10] As a result, Arabs and Haredim who together constitute less than 30% of the population make up more than 60% of the poor population. Furthermore, Arabs and Haredi live in separate communities, go to different schools, and generally do not serve in the Israeli Defence Force which separates them from the majority of Jewish citizens, sometimes causing resentment but also limiting their access to support for ex-service men and women (Chapter 4).

10. These poverty rates were calculated by the Bank of Israel (BOI, 2009) using a different equivalence scale than that used in OECD poverty statistics. The different scale particularly affects the calculations concerning large families, of which there are many in Arab and Haredi communities. Poverty rates for Arabs and Haredim would be lower when calculated on the basis of the OECD equivalence scale (Annex Table 1.A2.1).

**Figure 1.12. Poverty risks are high and increasing for households with no or only one adult in paid work in Israel**

Incidence of poverty at 50% of equivalised median household income (equivalence scale elasticity = 0.5) in households with heads of working age, by employment status for Israel and OECD countries, 2005

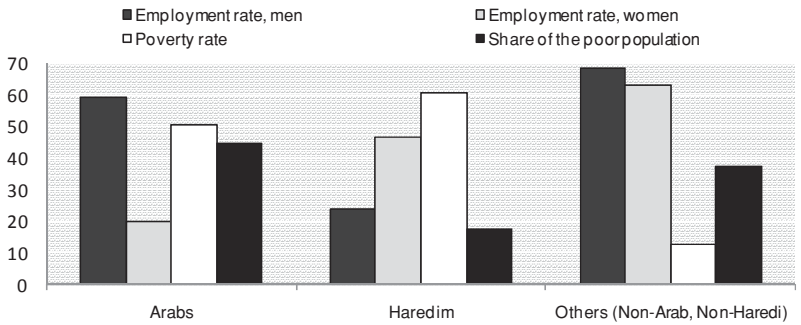



*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: OECD (2008), *Growing Unequal?*, and data from the Israeli Central Bureau of Statistics.

**Figure 1.13. Arabs and Haredim are frequently one-earner households, which contributes to the high poverty rates for these minority groups**

Incidence of poverty and poverty shares by employment participation and population groups[1]




*Note*: For technical reasons, this figure uses statistics provided by the Bank of Israel, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. These poverty data provided by the Bank of Israel are not based on the OECD equivalence scale elasticity of 0.5, but on a different equivalence scale commonly used in Israel, and are therefore not directly comparable with the other poverty indicators in this chapter. The different equivalence scale particularly affects the calculations concerning large families, of which there are many in Arab and Haredi communities. Poverty rates for Arabs and Haredim would be lower when calculated on the basis of the OECD equivalence scale (Annex Table 1.A2.1).

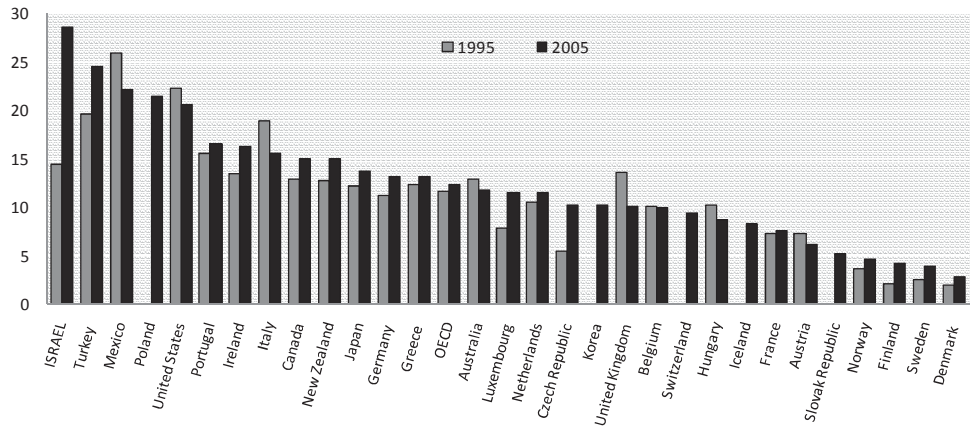
*Source:* Bank of Israel.

### *Child poverty and sole parent families*

With Arab and, particularly, Haredi families having many children (Box 1.1), it is no surprise that children in Israel are relatively more likely to be living in poverty than other age groups. One-third of the Israeli population was aged under 18 in 2005 and almost 30% of these children lived in poverty (NII, 2009); in 2005, Israel had a higher incidence of child poverty than any OECD country (Figure 1.14, and Annex Table 1.A2.5). Moreover, since the mid-1990s when the incidence of child poverty was close to the average across OECD countries, the situation of children in Israel has deteriorated markedly: child poverty doubled in Israel over the past ten years (Figure 1.14). The increase is largely related to the cutting of child allowances in the early 2000s, which contributed to an increase in child poverty from 17.2% in 2000 to 28.6% in 2005 (Annex Table 1.A2.3). Although data on poverty for larger families along the OECD methodology are not available, poverty rates for large families (at least six children) are at least 50%, and twice as high as for families with four children (BOI, 2009a).

**Figure 1.14. Child poverty in Israel is twice as high as on average across OECD countries**

Poverty for children under 18 years of age, 2005[1]




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Poverty thresholds are set at 50% of the median income of the entire population using an equivalence scale elasticity = 0.5.

*Source*: OECD (2008), *Growing Unequal?*, and data from the Israeli Central Bureau of Statistics.

The proportion of children living in sole-parent families in Israel is relatively low, but increasing. The vast majority of Israel's children live with both of their parents, but since the early 1990s the proportion of children living in sole-parent families has increased to 9% of all children, compared with an OECD average of 16% (OECD, 2009c). The share of sole-parent families in all families with children is 6%; about half the equivalent OECD rate.

Sole parents in Israel are increasingly in work. The cuts in income support have contributed to more sole parents looking for work, so while in 1995 about half of the sole parents were in work, this is now about two-thirds (close to the OECD average, see OECD, 2009c). Nevertheless, at 29% the incidence of poverty among working sole parents in Israel is higher than the average across OECD countries (21%), which suggests many sole parents are in low-paid jobs. Poverty among non-working sole parents is over 80% which contributes to almost half of all sole parents in Israel being poor, compared with one-third across OECD countries (Annex Table 1.A2.4).[11]

The bad overall child poverty outcomes stand in contrast to international comparisons of other status and outcome indicators regarding children in Israel. For example, health indicators such as the infant mortality rate and average life expectancy and education indicators such as enrolment rates among children and risk indicators such as the level of adolescents' substance abuse are comparable with outcomes in OECD countries (Gal *et al.*, 2010; and NICC, 2008). The strong child health outcomes may relate to the Israeli system of service supports to mothers with young children: "Mother and Well Baby Clinics" provide preventive care services and Child Development Centres identify, monitor and treat developmental concerns, with most intensive services available for children under the age of 3 (overall spending on such family services amounted to 0.2% of GDP in 2007, see Annex 1.A3).

## 1.5. Government spending

General government spending declined from 54.9% of GDP in 1990 to 43.2% in 2008. Over this period, defence spending declined from 13% of GDP to 8% and debt-service costs, more than halved from 8.4% of GDP to 3.7%. Public spending on education, health, welfare and housing support oscillated around 22.5% of GDP over the same period. Housing support is

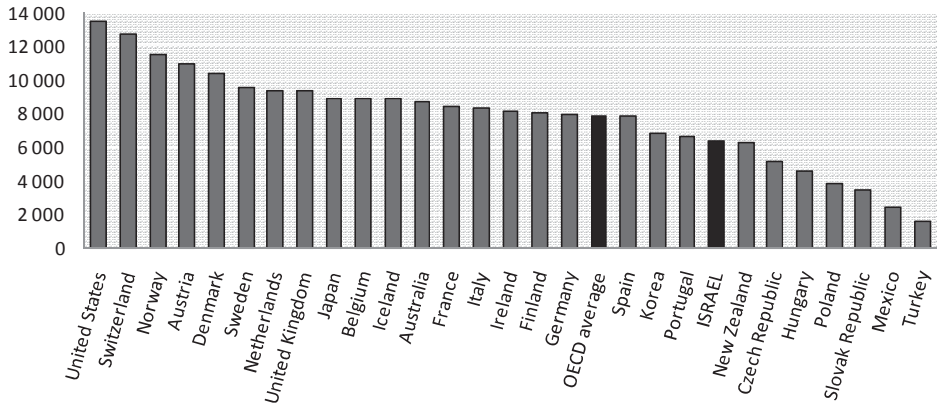
11. More stringent eligibility criteria limited the number of recipients of public maintenance support over the 2002-06 period (Gal *et al.*, 2010).

largely of an in-kind nature, and spending was 2.3% of GDP in 1990 with the construction of dwellings for the large number of immigrants from the former Soviet Union; by 2008, public spending on housing and community services had been reduced to 0.6% of GDP (CBS data on general government expenditure by type of intervention).

Compared with an OECD average of 5.3% of GDP, public spending on education in Israel is high at about 6.2%. However, as Israel is such a young country with many children, spending on education per student in Israel is relatively low (Figure 1.15).

**Figure 1.15. Spending on education per student is below the OECD average in Israel**

Expenditure on educational institutions per student in primary through tertiary education, equivalent USD converted using purchasing power parities, based on full-time equivalents, 2006




*Notes*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

Countries are ranked in descending order of expenditure on educational institutions per student.

*Source:* OECD (2009), *Education at a Glance* (*www.oecd.org/edu/eag2009*).

### *Public social spending*

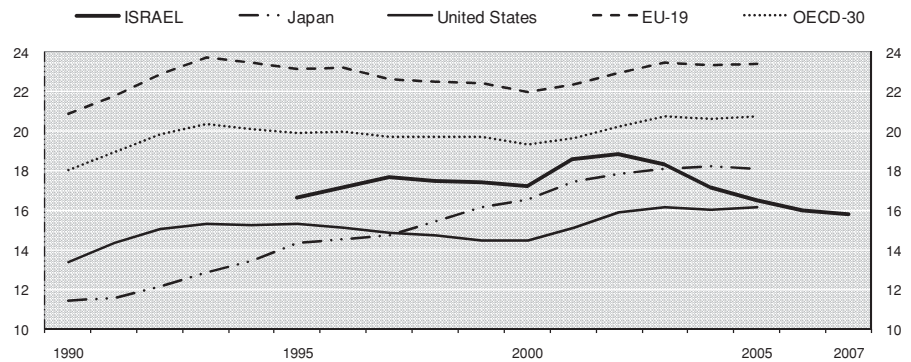
The contemporary Israeli welfare state has characteristics of a Beveridgean social insurance model with an emphasis on income-tested social assistance to the poor. Benefit levels are relatively low. Non-contributory universal benefits have, historically, played a major role in the Israeli welfare state. The National Insurance Institute (NII), the social security agency, and other government offices offer benefits that cover most contingencies (Annex 1.A3). Alongside these, Israel has a national health service that, since

1996, provides access to health service to all through four private providers and public hospitals.

Until 2002/03, public social expenditure trends compared with GDP in Israel were similar to those elsewhere (Figure 1.16).[12] However, while across the OECD the ratio of public social spending to GDP stabilised after 2002, in Israel the spending-to-GDP ratio declined due to cuts in benefit generosity, with the introduction of an employment-test for income support to the working-age population, and the sharp reduction of income support (social assistance) and child benefits. Planned cuts in disability payments were abandoned in the face of fierce resistance, and cuts in old-age pensions were quickly reversed (Chapter 5). As a result, public social spending declined from around 19% in 2002, to 16% of GDP in 2007 (NII, 2009).

**Figure 1.16. Public social spending in Israel has declined since benefit reform in 2002**

Public social expenditure as a percentage of GDP, 1980-2005




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: OECD (2009), *OECD Social Expenditure database* (*www.oecd.org/els/social/expenditure*) and data from the Israeli Central Bureau of Statistics.

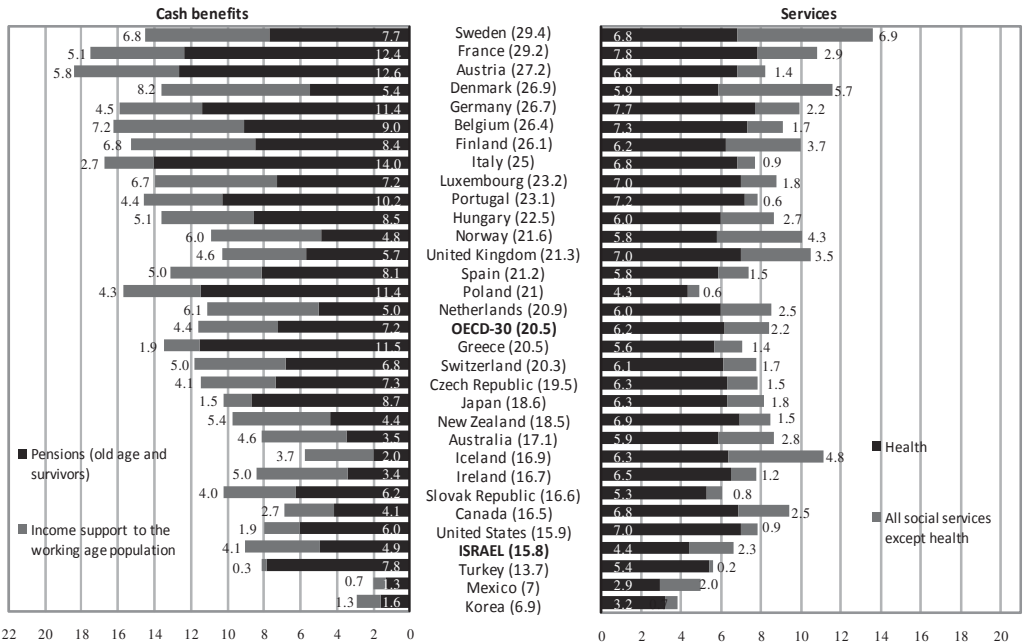
Public spending on pensions and to lesser extent on health is relatively low compared with OECD countries (Figure 1.17). This is related to the Israeli population being young and public pension payments being low

12. Public social expenditure, as it is defined in the *OECD Social Expenditure database* (SOCX), does not include spending on education nor on general in-kind housing supports (as on this item there is no internationally comparable data set). SOCX does include rent supports and in-kind housing support for the elderly and disabled (Adema and Ladaique, 2009).

(Chapter 5). Disability cash benefits (Chapter 5), child allowances (Chapter 4) and paid maternity leave[13] ensure that spending on cash transfers to the working-age population is close to the OECD average (Annex 1.A3), even though spending on labour market programmes, and active labour market supports in particular, is low (Figure 1.18 and Chapter 2).

**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**

Public social expenditure by broad social policy, 2005[1]




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

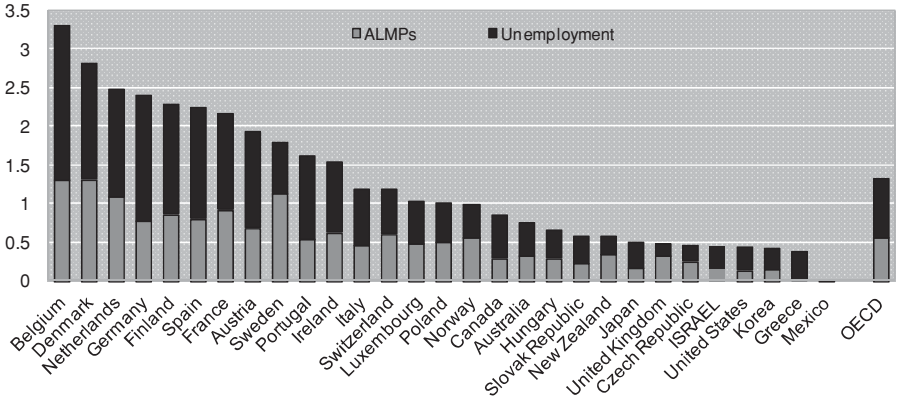
1. Countries are ranked by decreasing order of public social expenditure as a percentage of GDP. Spending on active labour market programmes (ALMPs) cannot be disaggregated in cash and services in a comprehensive manner for all countries and are not allocated to broad social policy areas; spending amounts are, however, included in total public spending (shown in brackets); 2004 data for Portugal, and 2007 for Israel.

*Source*: OECD (2009), *OECD Social Expenditure database* (*www.oecd.org/els/social/expenditure*) and data from the Israeli Central Bureau of Statistics.

13. Spending on paid maternity leave (paid at full wage for 14 weeks) amounted to 0.2% of GDP (Annex 1.A3).

**Figure 1.18. Spending on labour market policies is low in Israel**

Expenditure on active and passive labour market measures, as a percentage of GDP, 2007




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

Countries are ranked in decreasing order of total spending.

ALMPs: Active labour market programmes.

*Source:* OECD (2009), *OECD Employment Outlook*, and data provided by the Israeli Central Bureau of Statistics.

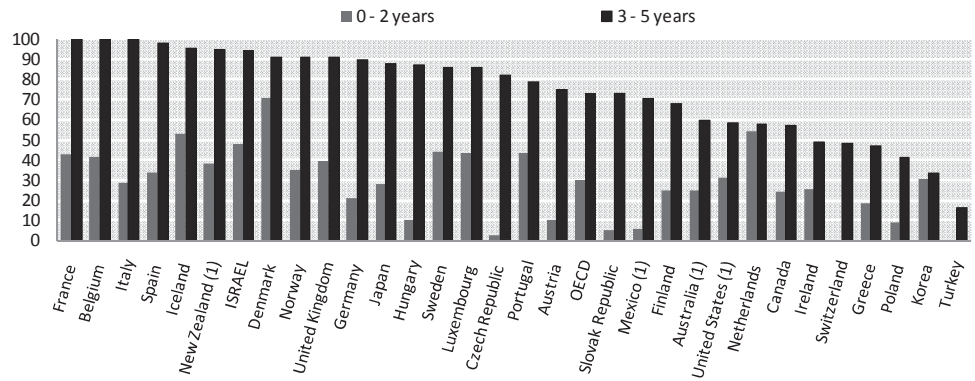
Spending on non-health-related social services is slightly above the OECD average. Long-term care services and family services are the most important items. Israel has a long-term care system largely based on subsidising home-care, with public spending being just over 1% of GDP.

Israel spends 0.8% of GDP on childcare and pre-schools (Kindergarten), which is above the OECD average, and just below that of those OECD countries with the most comprehensive childcare system: Denmark, Finland, France, Iceland and Sweden (OECD, 2009c). Israel has developed a fairly comprehensive early education system (for five hours of participation per working day) with coverage being almost universal for 3- to 5-year-olds. About half of the Israeli children under the age of 3 participate in private day-care arrangements, of which about half is publicly subsidised so that fees are lowest for low-income families (Chapter 3). Childcare quality issues are increasingly coming to the fore and there are issues with childcare delivery in areas predominantly inhabited by minority groups (Chapter 4). Nevertheless, judging from the high male and female participation rates among non-Arab and non-Haredi workers (Figure 1.19), formal childcare participation is key to the reconciliation of work and family life for many Jewish families.

Although spending on social services (including day care) is comparable with the OECD average, it is sometimes inadequate to address relevant needs. The Ministry of Social Affairs and Social Services estimates that only 30% of disabled people, one-third of children and youth at risk, 60% of the elderly, two-thirds of delinquents and 10% of homeless and drug and alcohol addicts receive a response to their needs (Kop, 2008).

**Figure 1.19. Participation in day-care and early education services is above the OECD average**

Enrolment rates in day-care (0-2) and early education services for 3-5-year-olds, 2006 (2007 for Israel)




*Note*: For technical reasons, this figure uses Israel's official statistics on kindergarten for 3-5-year-olds, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. New Zealand: data for children aged 0-2 concern 2008; Mexico: data for children aged 0-2 concern 2009; Australia and United States: data for children aged 0-2 concern 2005.

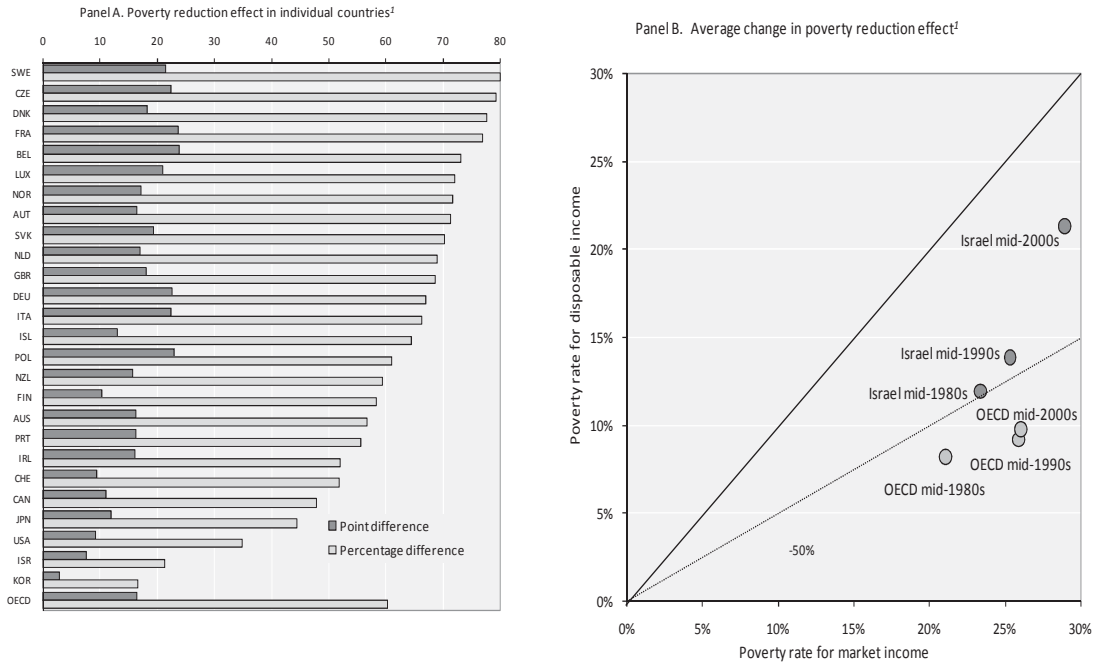
*Source*: OECD (2009f), *OECD Family database* (*www.oecd.org/els/social/family*), data from the Israeli Central Bureau of Statistics and Gal *et al.* (2010).

### *The tax/benefit system is not very effective in reducing poverty*

The *redistributive power* of the tax/benefit system in Israel is limited. Taken together, the system of income taxes and cash transfers reduces the poverty rate by 21.3%, from what it would have been in its absence, compared with a reduction of 60% on average across OECD countries. In percentage points the difference between pre and post-tax/transfer poverty rates is 7.6 in Israel, while this is 16.4 on average across the OECD (Figure 1.20, Panel A).

**Figure 1.20. The redistributive power of the Israeli tax/benefit system is limited**

Effects of taxes and transfers in reducing poverty among the entire population, mid-2000s and changes since mid-1980s




*Note*: For technical reasons, this figure uses Israel's official statistics on kindergarten for 3-5-year-olds, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. In Panel A, countries are ranked in decreasing order of poverty reduction in percentages. In Panel B, data refer to the simple average across 17 OECD. Poverty thresholds are set at 50% of the median disposable income of the entire population.

*Source*: OECD (2008), *Growing Unequal?*, and Israeli Central Bureau of Statistics.

Furthermore, the redistributive power of the system has weakened over time. In 1985, Israel's cash transfers and taxes reduced poverty by half and in 1995 the cut was 45% (Figure 1.20, Panel B and Annex Table 1.A2.2). The recent decline in redistributive power is strongly related to the benefit cuts in child allowances (Annex Table 1.A2.2, "Age of individual 0-17") and to a lesser extent to the cut in income supports to the working-age population aged 18-50.

The redistributive limitations of the Israeli tax/benefit system lie on the "benefit" rather than the tax side. Recent reforms which reduced the top tax rate may have somewhat reduced the tax-take from higher income groups,

but in 2007 the income tax system collected about two-thirds of total direct income tax receipts from the top income quintile, compared with an OECD average take of 49% (OECD, 2010). The targeted nature of social expenditure programmes is comparable with the OECD average as the share of public transfers to the lowest income quintile was around 25% in 2005 (Annex Table 1.A2.5). However, it is the relatively low level of social spending in particular that limits redistribution: public transfers on average only amount to 13.5% of household income, while this is 22.1% on average across the OECD (Annex Table 1.A2.5).

Stringent income, asset and employment-testing limit access to benefits. Information on the rejection of recent applications gives some indication on the importance of underlying reasons. Employment-related reasons make up about one-third of the reasons nationally (in Jerusalem this was 60%), including failure to show up at employment offices, refusal to take suitable job offers or successful placement; 11% of applicants failed the income test, and 6% the stipulations on car ownership. Incomplete information submitted to the authorities and a variety of other reasons account for about 50% of the rejections.

Evidence shows that a stringent application of the employment test is desirable, but the restrictive rules on car ownership are counterproductive, especially where in the relatively poor northern and southern areas of the country public transport is restricted. The primary aim of social policy must be to support employment wherever possible. The restrictions on care ownership and use run counter to this, giving primacy to what should be a secondary concern of appropriate targeting. Another anomaly is that while poverty among the elderly is around 24%, only 25% of pensioners receive the income supplement. As a result, the current pension system fails to meet its adequacy objectives (Chapter 5).

## 1.6. Conclusions

The key Israeli labour market and social policy challenges are to fight poverty and increase employment. Poverty rates in Israel are higher than in any OECD country, and income and wage disparities are wide. Many low-skilled Israeli workers, amongst which many Arabs, Palestinian cross-border workers and workers from overseas tend to be over-represented, are employed at wages close to or even below the minimum wage. Wage disparities are strongly related to educational differences, and while the Israeli population has a high level of education attainment, current Israeli students perform poorly in international student tests, raising serious concerns about the quality of education.

Poverty is concentrated among Arab Israelis and especially the Haredim. Households in these community groups frequently have one income earner, and often include many children, contributing to almost one in three children living in poverty. The redistributive power of the Israeli tax/benefit system is limited, reflecting low social expenditure in international comparison, and has weakened since 2002 with cutbacks in income support and child allowances. These latter have been reversed in 2009, which will have an immediate reducing effect on poverty rates, but benefits are not targeted at those in-work or who are ready to work, so that the overall challenge of increasing employment rates, which is needed to make significant inroads in the prevalence of poverty, remains as urgent as before.

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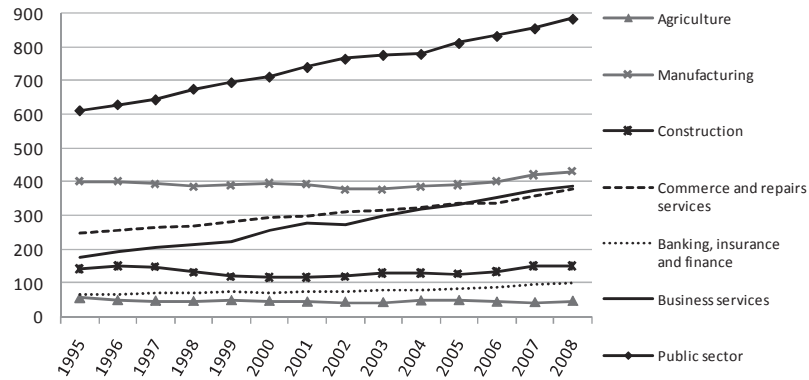
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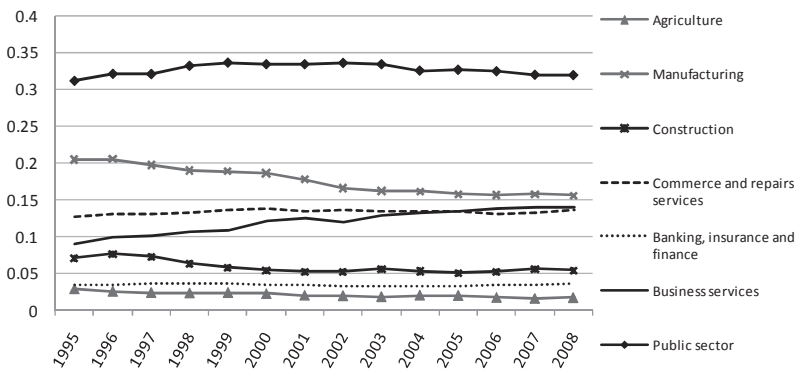
# Annex 1.A1.
# Employment by sector

**Figure 1.A1.1. Employment in main economic sectors, 1995-2008[1]**

Panel A. Number of Israeli employees in principal industries (000s)




Panel B. Employment shares of principal industries




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. There is a break in series in 2001 when a new extrapolation method was introduced in the Labour Force Survey.

*Source*: Israeli Central Bureau of Statistics.

# Annex 1.A2.

# Income distribution and poverty

In general, the analysis in this chapter on poverty and income distribution is based on data as published in OECD (2008), *Growing Unequal?*, as based on the response by countries to the OECD questionnaire on poverty and income distribution, and the response in 2009 by the Israeli Central Bureau of Statistics to the same questionnaire.

OECD poverty statistics and poverty statistics commonly used in Israel (*e.g.* by the Bank of Israel or the National Insurance Institute, NII) are both set against a benchmark of 50% of equivalised median household income. However, the equivalence scale used in the poverty calculations is different, and as the equivalence scale commonly used in Israeli statistics is higher, the relevant poverty rates are also higher. For example, in 2005, the child poverty rate according to the NII was around 34% (NII, 2009); it was 29% when calculated in line with the OECD methodology.

**Table 1.A2.1. Adjusted family sizes with different equivalence scales[1]**

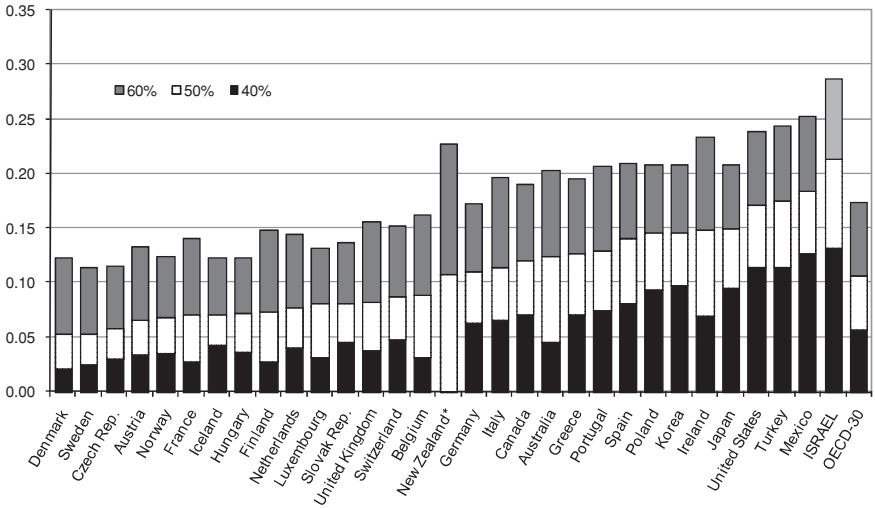
| | OECD poverty square root scale | Equivalence scale commonly used in Israeli statistics[2] |
|---|---|---|
| Single adult | 1.0 | 1.25 |
| Couple, no children | 1.41 | 2.00 |
| Couple, one child | 1.73 | 2.65 |
| Couple, two children | 2.00 | 3.20 |
| Couple, three children | 2.49 | 4.25 |
| Couple, four children | 2.65 | 4.75 |
| Couple, five children | 2.83 | 5.20 |
| Couple, six children | 3.00 | 5.6 |
| Couple, seven children | 3.16 | 6.00 |

1. Whiteford and Adema (2007) discuss alternative equivalence scales.

2. As from the ninth person in the household 0.40 is added.

### Figure 1.A2.1. Poverty headcounts at different income thresholds

Incidence of poverty at 40%, 50% and 60% of equivalised median household income, equivalence scale elasticity = 0.5




*Note:* For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

* Poverty rates based on a 40% threshold are not available for New Zealand.

*Source*: OECD (2008), *Growing Unequal?*, and preliminary data from the Israeli Central Bureau of Statistics.

### Table 1.A2.2. Income inequality before and after taxes and transfers, 1985-2005[1]

Gini coefficients

| | Taxes and transfers | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pre | Post | Pre | Post | Pre | Post | Pre | Post | Pre | Post |
| | Mid-1980s | | 1990 | | Mid-1990s | | 2000 | | Mid-2000s | |
| Population | 0.472 | 0.326 | 0.476 | 0.329 | 0.494 | 0.338 | 0.504 | 0.347 | 0.513 | 0.378 |
| Retirement age head | 0.413 | 0.188 | 0.438 | 0.313 | 0.500 | 0.375 | 0.477 | 0.373 | 0.489 | 0.391 |
| Working-age population | 0.688 | 0.317 | 0.673 | 0.321 | 0.670 | 0.329 | 0.671 | 0.340 | 0.669 | 0.374 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Israel went through a period of high inflation during the mid-1980s which eroded pension benefits, therefore post tax/transfer income inequality and poverty for the elderly was low in 1985 compared to 1990 onwards.

*Source*: Data provided by the Israeli Central Bureau of Statistics for the *OECD database on Income Distribution and Poverty*.

## Table 1.A2.3. Poverty rates before and after taxes and transfers by household type[1, 2]

Percentages

| | Mid-1980s | | 1990 | | Mid-1990s | | 2000 | | Mid-2000s | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Taxes and transfers | | Taxes and transfers | | Taxes and transfers | | Taxes and transfers | | Taxes and transfers | |
| | Pre | Post | Pre | Post | Pre | Post | Pre | Post | Pre | Post |
| Working age head | 19.1 | 11.4 | 20.4% | 13.2% | 22.2% | 12.4% | 23.4% | 14.0% | 26.4% | 20.7% |
| Retirement age head | 64.4 | 17.% | 56.7% | 27.2% | 59.1% | 29.4% | 58.0% | 26.5% | 56.7% | 28.2% |
| Age of individuals: | | | | | | | | | | |
| 0-17 | 21.9% | 12.7% | 23.3% | 14.6% | 27.3% | 14.5% | 29.6% | 17.2% | 34.5% | 28.6% |
| 18-25 | 22.2% | 14.8% | 20.4% | 14.5% | 18.4% | 12.6% | 21.8% | 15.9% | 25.5% | 20.5% |
| 26-40 | 15.5% | 9.9% | 18.9% | 12.8% | 20.3% | 11.9% | 20.5% | 13.0% | 22.5% | 17.7% |
| 41-50 | 15.4% | 9.7% | 16.1% | 10.6% | 14.8% | 8.6% | 17.0% | 9.4% | 20.9% | 15.8% |
| 51-65 | 23.8% | 9.9% | 21.0% | 11.8% | 24.1% | 12.4% | 22.9% | 12.1% | 21.6% | 13.0% |
| 66-75 | 53.7% | 13.4% | 51.5% | 22.5% | 50.7% | 23.0% | 50.3% | 21.4% | 46.6% | 22.6% |
| Above 75 | 68.9% | 17.6% | 62.1% | 33.4% | 60.5% | 30.5% | 51.8% | 23.1% | 52.8% | 24.6% |
| Total | 23.4% | 11.9% | 24.0% | 14.6% | 25.3% | 13.8% | 26.3% | 15.1% | 29.0% | 21.3% |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Relative poverty rates calculated on the basis of the poverty threshold of 50% of median income, while accounting for household size by means of an equivalence scale elasticity of 0.5.

2. Israel went through a period of high inflation during the mid-1980s which eroded pension benefits, therefore post tax/transfer income inequality and poverty for the elderly was low in 1985 compared to 1990 onwards.

*Source*: Data provided by the Israeli Central Bureau of Statistics for the *OECD database on Income Distribution and Poverty*.

## Table 1.A2.4. Trends in real household income by quintile[1]

| | Average annual change mid-1980s to mid-1990s | | | | | Average annual change mid-1990s to mid-2000s | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Bottom 2 deciles | Middle 6 deciles | Top 2 deciles | Median | Mean | Bottom 2 deciles | Middle 6 deciles | Top 2 deciles | Median | Mean |
| Australia | .. | .. | .. | .. | .. | 2.4 | 2.0 | 1.9 | 2.2 | 2.0 |
| Austria[1] | 2.5 | 2.7 | 2.8 | 2.8 | 2.7 | -2.1 | -0.5 | -0.4 | -0.6 | -0.6 |
| Belgium[1] | 1.2 | 0.5 | 1.2 | 0.4 | 0.8 | 1.4 | 1.3 | 1.7 | 1.2 | 1.5 |
| Canada | 0.3 | -0.2 | -0.1 | -0.2 | -0.1 | 0.2 | 1.2 | 2.1 | 1.1 | 1.4 |
| Czech Republic | .. | .. | .. | .. | .. | 0.4 | 0.6 | 0.7 | 0.5 | 0.6 |
| Denmark | 1.3 | 0.9 | 0.8 | 0.9 | 0.9 | 0.6 | 0.9 | 1.5 | 0.9 | 1.1 |
| Finland | 0.9 | 0.9 | 1.0 | 0.8 | 1.2 | 1.6 | 2.5 | 4.6 | 2.5 | 2.9 |
| France | 1.0 | 0.5 | -0.1 | 0.5 | 0.3 | 0.9 | 0.7 | 1.0 | 0.8 | 0.8 |
| Germany | 0.4 | 1.4 | 1.6 | 1.2 | 1.4 | -0.3 | 0.5 | 1.3 | 0.6 | 0.7 |
| Greece | 0.3 | 0.1 | 0.1 | 0.3 | 0.1 | 3.6 | 3.0 | 2.7 | 2.9 | 2.9 |
| Hungary | .. | .. | .. | .. | .. | 0.9 | 1.2 | 1.0 | 1.1 | 1.1 |
| Ireland[1] | 4.0 | 3.0 | 2.9 | 3.2 | 3.1 | 5.2 | 7.7 | 5.4 | 8.2 | 6.6 |
| Italy | -1.3 | 0.5 | 1.5 | 0.6 | 0.8 | 2.2 | 1.0 | 1.6 | 1.0 | 1.3 |
| Japan | 0.8 | 1.8 | 2.1 | 1.8 | 1.9 | -2.9 | -2.5 | -2.8 | -2.5 | -2.6 |
| Luxembourg | 2.3 | 2.5 | 3.0 | 2.4 | 2.7 | 1.5 | 1.5 | 1.7 | 1.5 | 1.6 |
| Mexico | 1.7 | 1.2 | 3.8 | 1.1 | 2.6 | -0.1 | -0.1 | -0.6 | -0.2 | -0.4 |
| Netherlands | 1.1 | 2.7 | 3.9 | 2.8 | 3.0 | 1.8 | 2.0 | 1.4 | 2.0 | 1.8 |
| New Zealand | -1.1 | -0.5 | 1.6 | -0.6 | 0.3 | 1.1 | 2.2 | 1.6 | 2.3 | 1.9 |
| Norway | -0.3 | 0.3 | 1.0 | 0.4 | 0.5 | 4.4 | 3.9 | 5.1 | 3.8 | 4.3 |
| Portugal[1] | 5.7 | 6.5 | 8.7 | 6.2 | 7.3 | 5.0 | 4.1 | 4.4 | 4.2 | 4.3 |
| Spain[1] | 4.4 | 3.2 | 2.4 | 3.2 | 3.0 | 5.2 | 5.1 | 5.0 | 5.5 | 5.1 |
| Sweden | 0.5 | 0.9 | 1.2 | 0.9 | 0.9 | 1.4 | 2.2 | 2.8 | 2.2 | 2.3 |
| Turkey | -0.6 | -0.7 | 1.4 | -0.8 | 0.4 | -1.1 | -0.5 | -3.2 | -0.3 | -1.9 |
| United Kingdom | 0.7 | 2.0 | 4.3 | 1.9 | 2.8 | 2.4 | 2.1 | 1.5 | 2.1 | 1.9 |
| United States | 1.2 | 1.0 | 1.9 | 1.0 | 1.4 | -0.2 | 0.5 | 1.1 | 0.4 | 0.7 |
| *OECD-22* | *1.2* | *1.4* | *2.1* | *1.4* | *1.7* | *1.4* | *1.8* | *1.8* | *1.8* | *1.7* |
| *OECD-20* | *1.3* | *1.5* | *2.1* | *1.5* | *1.7* | *1.6* | *2.0* | *2.2* | *2.0* | *2.0* |
| Israel | 2.8 | 2.9 | 3.4 | 3.0 | 3.1 | -1.1 | 1.1 | 2.0 | 1.0 | 1.3 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Changes over the period mid-1990s to around 2000 for Austria, the Czech Republic, Belgium, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not deemed to be comparable with those for earlier years). OECD-22 refers to the simple average for all countries with data spanning the entire period (*i.e.* excluding Australia, the Czech Republic and Hungary, as well as Iceland, Korea, Poland, the Slovak Republic and Switzerland). OECD-20 refers to all countries mentioned above except Mexico and Turkey.

*Source*: OECD (2008), *Growing Unequal?*, and data from the Israeli Central Bureau of Statistics.

## Table 1.A2.5. Child poverty and poverty in households with children by employment status of adults[1]

| | Poverty among children | | Poverty in households with children and a head of working age | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | All | | Single | | | Couple | | | |
| | | | | | Level, mid-2000s | | | | | | |
| | Mid-2000s | Point changes since mid-1990s | Level, mid-2000s | Change from 1995 | All single parents | Not working | Working | All couples with children | No workers | One worker | Two and more workers |
| Australia | 12 | -1.2 | 10 | -1.0 | 38 | 68 | 6 | 7 | 51 | 8 | 1 |
| Austria | 6 | 6.0 | 6 | 6.1 | 21 | 51 | 11 | 4 | 36 | 4 | 3 |
| Belgium | 10 | -0.8 | 9 | 0.1 | 25 | 43 | 10 | 7 | 36 | 11 | 3 |
| Canada | 15 | 2.2 | 13 | 1.6 | 45 | 89 | 32 | 9 | 81 | 22 | 4 |
| Czech Republic | 10 | 1.7 | 8 | 1.4 | 32 | 71 | 10 | 6 | 43 | 9 | 1 |
| Denmark | 3 | 0.8 | 2 | 0.7 | 7 | 20 | 4 | 2 | 21 | 5 | 0 |
| Finland | 4 | 2.1 | 4 | 1.9 | 14 | 46 | 6 | 3 | 23 | 9 | 1 |
| France | 8 | 0.3 | 7 | -0.2 | 19 | 46 | 12 | 6 | 48 | 12 | 2 |
| Germany | 16 | 5.1 | 13 | 4.2 | 41 | 56 | 26 | 9 | 47 | 6 | 1 |
| Greece | 13 | 0.9 | 12 | 0.9 | 27 | 84 | 18 | 12 | 39 | 22 | 4 |
| Hungary | 9 | -1.6 | 8 | -1.1 | 25 | 44 | 16 | 7 | 22 | 6 | 3 |
| Iceland | 8 | .. | 7 | .. | 18 | 23 | 17 | 6 | 51 | 29 | 4 |
| Ireland | 16 | 2.3 | 14 | .. | 47 | 75 | 24 | 10 | 55 | 16 | 2 |
| **ISRAEL** | **29** | **14.1** | **24** | **11.8** | **46** | **81** | **29** | **24** | **89** | **35** | **4** |
| Italy | 16 | -3.4 | 14 | -3.1 | [..] | [..] | 16 | 14 | 78 | 24 | 1 |
| Japan | 14 | 1.6 | 12 | 1.2 | 59 | 60 | 58 | 11 | 50 | 11 | 10 |
| Korea | 10 | .. | 9 | .. | 27 | 29 | 26 | 8 | 65 | 10 | 4 |
| Luxembourg | 12 | 4.5 | 11 | 3.8 | 41 | 69 | 38 | 10 | 27 | 16 | 5 |
| Mexico | 22 | -3.8 | 19 | -2.4 | 33 | 30 | 34 | 19 | 53 | 27 | 11 |
| Netherlands | 12 | 1.0 | 9 | 1.2 | 39 | 62 | 27 | 6 | 65 | 12 | 2 |
| New Zealand | 15 | 2.3 | 13 | 1.5 | 39 | 48 | 30 | 9 | 47 | 21 | 3 |
| Norway | 5 | 0.9 | 4 | 0.6 | 13 | 31 | 5 | 2 | 29 | 4 | 0 |
| Poland | 22 | .. | 19 | .. | 44 | 75 | 26 | 18 | 51 | 28 | 6 |
| Portugal | 17 | 0.0 | 14 | 0.4 | 33 | 90 | 26 | 13 | 53 | 34 | 5 |
| Slovak Republic | 11 | .. | 10 | .. | 33 | 66 | 24 | 9 | 66 | 18 | 2 |
| Spain | 17 | 1.9 | 15 | 1.1 | 41 | 78 | 32 | 14 | 71 | 23 | 5 |
| Sweden | 4 | 1.5 | 4 | 1.5 | 8 | 18 | 6 | 3 | 36 | 14 | 1 |
| Switzerland | 9 | 1.2 | 6 | 0.7 | 22 | [..] | [..] | 8 | [..] | [..] | [..] |
| Turkey | 25 | 5.0 | 20 | 3.6 | 39 | 44 | 32 | 20 | 28 | 19 | 20 |
| United Kingdom | 10 | -3.6 | 9 | -2.9 | 24 | 39 | 7 | 6 | 36 | 9 | 1 |
| United States | 21 | -1.7 | 18 | -1.1 | 48 | 92 | 36 | 14 | 82 | 27 | 6 |
| **OECD** | **13** | **1.5** | **11** | **1.3** | **32** | **56** | **21** | **9** | **49** | **16** | **4** |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

.. not available. [..]: Sample too small

1. Poverty thresholds are set at 50% of the median income of the entire population. Data for changes refer to the period from the mid-1990s to around 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain (where 2005 data, based on EU SILC, are not comparable with those for earlier years); and to changes from 2000 to 2005 for Switzerland.

*Source*: OECD (2008), *Growing Unequal?*, and data from the Israeli Central Bureau of Statistics.

## Table 1.A2.6. Redistribution of income through the tax/benefit systems in Israel and OECD countries, 2005

| | Gross public transfers paid to households | | | Direct taxes and social security contributions paid by households | | | [G] |
|---|---|---|---|---|---|---|---|
| | [A] | [B] | [C] | [D] | [E] | [F] | Net transfers to lowest quintile |
| | Average ratio of household disposable income | Share of public transfers paid to lowest | Transfers to lowest quintile (A*B/100) | Average ratio of household disposable income | Share of taxes paid by lowest quintile | Taxes from lowest quintile | (C-F) |
| Australia | 14.3 | 41.5 | 5.9 | 23.4 | 0.8 | 0.2 | 5.8 |
| Austria | 36.6 | 13.9 | 5.1 | 33.4 | 5.4 | 1.8 | 3.3 |
| Belgium | 30.5 | 24.1 | 7.3 | 38.3 | 3.9 | 1.5 | 5.8 |
| Canada | 13.6 | 25.7 | 3.5 | 25.8 | 2.3 | 0.6 | 2.9 |
| Czech Rep. | 24.3 | 23.0 | 5.6 | 21.6 | 3.5 | 0.8 | 4.8 |
| Denmark | 25.6 | 36.0 | 9.2 | 52.5 | 6.1 | 3.2 | 6.0 |
| Finland | 14.4 | 32.9 | 4.7 | 30.1 | 4.0 | 1.2 | 3.5 |
| France | 32.9 | 16.2 | 5.3 | 26.0 | 5.6 | 1.5 | 3.9 |
| Germany | 28.2 | 17.4 | 4.9 | 35.5 | 2.1 | 0.7 | 4.2 |
| Iceland | 19.2 | 22.3 | 4.3 | 53.1 | 9.3 | 5.0 | -0.7 |
| Ireland | 17.7 | 30.8 | 5.4 | 19.4 | 0.9 | 0.2 | 5.3 |
| **ISRAEL** | **13.5** | **25.4** | **3.4** | **24.2** | **1.8** | **0.4** | **3.0** |
| Italy | 29.2 | 12.6 | 3.7 | 30.2 | 1.8 | 0.6 | 3.1 |
| Japan | 19.7 | 15.9 | 3.1 | 19.7 | 6.0 | 1.2 | 2.0 |
| Korea | 3.4 | 25.0 | 0.8 | 8.3 | 5.8 | 0.5 | 0.4 |
| Luxembourg | 30.6 | 13.9 | 4.3 | 23.8 | 5.9 | 1.4 | 2.8 |
| Netherlands | 17.1 | 31.5 | 5.4 | 24.7 | 3.4 | 0.8 | 4.5 |
| New Zealand | 13.0 | 34.0 | 4.4 | 29.0 | 1.8 | 0.5 | 3.9 |
| Norway | 21.7 | 27.7 | 6.0 | 33.2 | 4.6 | 1.5 | 4.5 |
| Poland | 35.8 | 9.0 | 3.2 | 27.7 | 6.0 | 1.7 | 1.6 |
| Portugal | 25.5 | 12.8 | 3.3 | 29.0 | 2.5 | 0.7 | 2.5 |
| Slovak Rep. | 26.0 | 19.0 | 4.9 | 20.0 | 5.0 | 1.0 | 3.9 |
| Sweden | 32.7 | 25.9 | 8.5 | 43.2 | 6.5 | 2.8 | 5.7 |
| Switzerland | 16.0 | 29.2 | 4.7 | 36.0 | 12.4 | 4.5 | 0.2 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: OECD (2008), *Growing Unequal?*, and data from the Israeli Central Bureau of Statistics.

# Annex 1.A3.
# Public social expenditure by social policy area

**Table 1.A3.1. Main items of public social expenditure, as a percentage of GDP, 2007[1]**

| | Spending as % of GDP |
|---|---|
| **1. Old age** | **4.4** |
| • Former public employees (state and local) | 2.1 |
| • Old-age allowance (NII) | 2.1 |
| • Residential care, home-help, community and services for the elderly and subsidised public transport | 0.2 |
| **2.Survivors,** survivor cash benefits (NII) | **0.7** |
| **3. Incapacity-related benefits**[2] | **2.9** |
| • Disability benefits (NII), disability pensions, assistance to the disabled, work injury allowance, hostile actions injury allowance | 2.1 |
| • Residential, home-help, long-term care (NII), rehabilitation services and other services for the disabled | 0.9 |
| **4. Public expenditure on health** | **4.4** |
| **5. Family benefits** | **2.0** |
| • Child allowances, study grant, alimony[3] | 0.7 |
| • Paid Maternity leave and birth grants | 0.2 |
| • Childcare, pre-primary institutions | 0.8 |
| • Child and family welfare services | 0.2 |
| **6. Active labour market programmes**, including labour market training, employment administration, welfare reform pilots ("Wisconsin"), subsidised employment (including for the disabled). | **0.1** |
| **7. Unemployment compensation, u**nemployment benefits (NII) | **0.3** |
| **8. Housing**, rent subsidies[4] | **0.0** |
| **9. Other social policy contingencies** | **0.9** |
| • Income support and other cash benefits for the needy and social excluded | 0.7 |
| • In-kind social service supports to those in need | 0.2 |
| **Total public social expenditure** | **15.6** |
| Public cash benefits | 9.0 |
| Public benefits in kind | 6.6 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. This table is based on the more detailed (including many different small spending items) information provided by the Israeli CBS in line with the programme format of the *OECD Social Expenditure database*.

2. Continued (partial) wage payments in case of sickness are employer-paid as stipulated by law; were estimates available on the magnitude of such spending they would be classified as mandatory private social expenditure. The *Sick Pay Law, 1976* entitles employees to paid sick leave in the case of absence from work due to illness. Employees are granted one and a half-sick days for each month of employment up to a maximum of 90 days (there is no minimum number of sick days), No sick pay is stipulated for the first day of sickness; the employer pays 37.5% of the workers' regular wage for the second and third days of illness and 75%, collective and personal employment agreements often top-up the legal entitlements.

3. The Sick Pay Law, provides for a seven days of paid leave per year for medical treatments or exams connected with the partner's pregnancy or for the birth of a child, and for eight paid parental sick-leave days a year, in the case of the illness of a child under the age of 16. In the case of a child's terminal illness, the employee is entitled to 30 sick leave days.

4. In the absence of cross-nationally comparable data, this category does not include general in-kind housing support (*e.g.* construction) or mortgage relief.

*Source*: Israeli Central Bureau of Statistics.

# Chapter 2.

# Reforming Labour Market Institutions

*Israel needs further reform to improve the balance between labour market flexibility and employment security. Israeli labour market institutions have evolved over the past decades as the centralised bargaining system based on a high degree of unionisation has fragmented since the early 1980s. Wage bargaining is now decentralised, except in the public sector. The share of workers not covered by collective bargaining has increased, in part due to higher employment under non-standard contracts. Employment protection legislation (EPL) is not particularly strict in Israel, but the enforcement of labour laws is lax. Measures have been taken in recent years to improve enforcement by the labour inspectorate, but they are insufficient, which is particularly damaging to those workers not covered by standard collective bargaining. The public employment service is under-resourced and under-staffed, which prevents it from providing effective support to all job-seekers.*

## 2.1. Introduction

Israeli authorities aim to further increase employment rates. Labour market institutions and their functioning in practice have an important role to play to stimulate labour demand and supply. They are also instrumental to enhance the quality of jobs and equality of employment opportunities. This is particularly important in Israel, where the labour market is highly segmented with a large share of low-paid workers and high wage inequality (Chapter 1). OECD experience shows that equity goals can and should be compatible with economic efficiency, which is best served by a well-integrated labour market where everybody can participate on equal terms.

This chapter reviews the principal institutions of the Israeli labour market. First, it discusses the evolution of industrial relations and wage setting. Second, labour legislation and its enforcement are analysed. A subsequent section considers the employment services in Israel. The chapter concludes with a summary of the key observations and policy suggestions.

## 2.2. Collective bargaining plays a declining role in labour market regulation

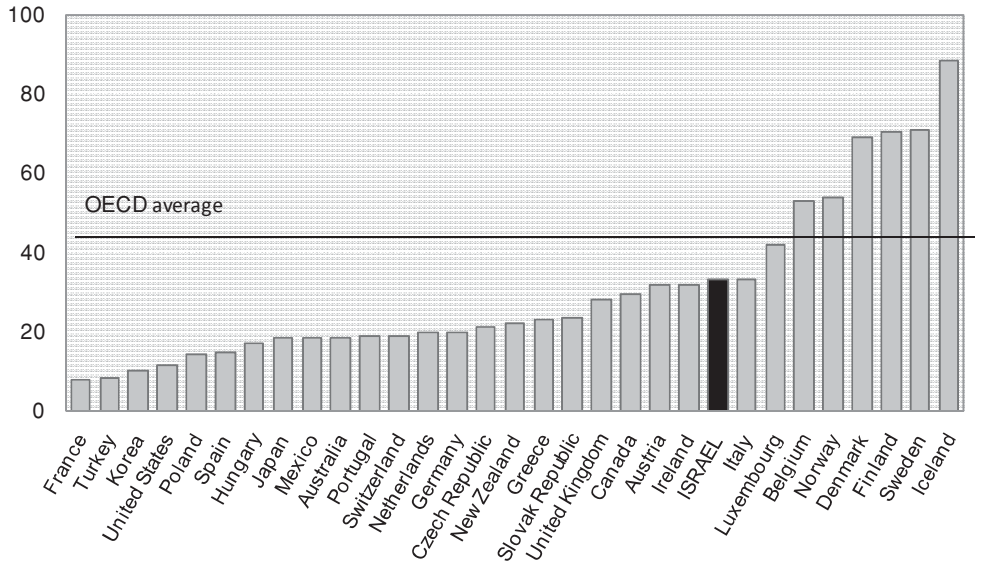
Since the mid-1970s, the system of industrial relations in Israel has been transformed from a centralised "corporatist" system, in which the social partners were mainly responsible for regulating the labour market through collective agreements with large coverage, to a more pluralist and fragmented system in which direct state regulation plays more of a role.

At 33% in 2006, trade union membership remains slightly above the OECD average (Figure 2.1). However, the rate has fallen sharply. Until the early 1980s, the General Federation of Labour (hereafter Histadrut) organised about 80% of the workforce. Histadrut, which was intimately involved in the construction of the state, had very close ties to the Labour party. Apart from this political alliance, Histadrut derived its bargaining strength from three other main sources: being a major employer in the economy; controlling the pension market; and managing the health insurance system (Kristal and Cohen, 2007). The decline of the Labour Party, the necessity to sell most of its industrial holdings and the government decision to open the pension market to competition and reorganise the health insurance system in 1995 eroded this strength. As in other countries, globalisation, demographic and technical changes also played a role in weakening union power (Mundlak, 2009). In addition,

Histadrut saw its share of total union membership declining from 95% up to 1990 to just two-thirds in 2000 (Cohen *et al.,* 2007). Other trade union members belong to the National Histadrut or to independent professional unions (for teachers, public university academics, doctors, journalists).

**Figure 2.1. Trade union density in Israel is close to the OECD average**

Union membership as a percentage of the workforce, 2007 or latest available year (2006 for Israel)




*Source*: OECD.Stat and Cohen *et al.* (2007).

Membership of the employers' association also declined steeply. Data on the topic is scarce, but Cohen *et al.* (2005 and 2007) suggest membership declined from over 80% of private employers in the early 1980s to about 38% in 2003-04. In addition, about a quarter of the 38% were not full members, but only affiliates, which means that they are not automatically covered by the collective agreements signed by their association.

Reduced involvement of workers and employers in collective representation institutions has been accompanied by decentralisation of wage bargaining. Fewer workers are covered by collective agreements; 56% in 2006 compared with about 80% in the early 1980s (Cohen *et al.*, 2005). The nature of the coverage also evolved, the agreements being increasingly negotiated at the enterprise level instead of at the industry or occupation level – local agreements accounted for 70-80% of the total number of

agreements in the first half of the 2000s (Kristal and Cohen, 2007). At the same time, the use of *extension orders* as a way of making industrial agreements applicable to broad segments of the relevant industries declined significantly.[14] After the 1986 national agreement aimed at halting hyperinflation, the content of subsequent national agreements has been limited and the regulation of wages disappeared from the bargaining table, with the exception of cost-of-living adjustments (Mundlak, 2007). The minimum wage was also removed from the sphere of collective bargaining by legislation in 1987 (see below). Overall, the process of decentralisation of wage bargaining has contributed to rising wage inequality over the period 1970-2003 (Kristal and Cohen, 2007).

In practice, some sectors are more concerned than others by collective bargaining. In the private sector, trade-union membership and workers' coverage remains relatively high in banking and manufacturing, but agriculture, construction, various services and small trade (which are generally low-wage sectors) have become predominantly non-union (Kristal and Cohen, 2007). In fact, three layers of workers can be schematically distinguished, with different benefits and rights. The highest layer includes workers from the high-tech industry, who voluntarily negotiate employment contracts with their employer at the individual level. The second layer includes the organised workers, whose rights and wages and non-wage benefits are set by collective agreements. The third layer consists of workers in small businesses, temporary work agencies (TWA) or subcontractors, with no union representation at the firm level.

In the absence of representation of this third group by the traditional trade union, alternative organisations such as non-governmental organisations (NGOs), have begun to play a role in trying to influence policy concerning these workers (Box 2.1). They have generally relied on legal action, although some have recently started attempts to organise workers at the work-unit level. Some newly created unions are also trying to organise workers under non-standard forms of contracts (*e.g.* workers from the security branch who are covered by collective agreements negotiated by the Histadrut which are not adequately enforced, including; freelancers and independent contractors in the entertainment industry; and ultra-Orthodox workers in day-care centers).

14. By 1992, only two out of 28 industrial agreements were extended (Kristal and Cohen, 2007).

### Box 2.1. The emergence of social NGOs in workers' representation

NGOs are not a new phenomenon in Israel, but their number and activity has increased dramatically since the end of the 1980s, including on labour and welfare issues. NGOs involved in these areas include human rights organisations, associations voicing regional and/or minorities concerns, political associations not represented as parties, and even employers' and employees' interest groups.

Except for some of the small employers' and employees' organisations, most of these NGOs deal with labour issues but are not specialised in this area (*e.g*. NGOs representing women view labour market conditions through the prism of women's rights). Unlike trade unions, many NGOs are not grassroots organisations, but are formed by social activists and funded by contributions and international funds. They are engaged in education, empowerment of their groups and raising public awareness, but they also rely heavily on legal representation, either seeking to influence the law or focusing on litigation (and thus influencing case law). For example, NGOs were instrumental in advancing the law against discrimination at work (*e.g*. The Employment Equal Opportunity Law), and they have been granted the right to represent workers in a lawsuit involving anti-discrimination legislation. They also deal with social rights and access to education, and have become increasingly active in the field of "core" wages and working conditions. This is especially the case for migrant workers, and to a lesser extent, for other workers on the secondary labour market.

Some NGOs are specialised on labour issues. For example the *Workers Advice Centre* (*Ma'an*) seeks to increase the participation of Arab-Israeli workers in the labour market through lobbying and providing an employment exchange service, although it was also recently involved in more formal organisation of workers of a television station under non-standard contracts; *Sawt el-Amel/The Laborer's voice* provides legal representation for Arab low-wage workers and unemployed in both individual and collective cases, including for access to social benefits; *Kav LaOved/the Workers hotline* represents the rights of migrant and Israeli workers.

*Source*: Mundlak (2007 and 2009).

The situation of the public sector vis-à-vis collective bargaining is rather paradoxical. On the one hand, union membership is much higher than in the private sector (Kristal and Cohen, 2007), implying that unions can support demands for wage increases. On the other hand, since 1985, the Ministry of Finance has had full control over wage increases in the public sector, since, according to the law, any wage or benefit arrangement (individual or collective) that deviates from the standard wages and benefits accorded to state workers must be approved by the Minister of Finance – this covers the public sector including all institutions partially funded by the state (Mundlak, 2007). This makes it one of the most centralised systems of public wage setting in the OECD, but with very little bargaining content. This may partly explain the very high strike record in Israel, stemming from long-lasting strikes in various public institutions (ports, hospitals, schools,

refineries, etc.).[15] It also explains why public sector wage growth follows private sector wage growth rather closely (Kristal and Cohen, 2007).

Despite reduced collective agreement coverage and decentralisation of wage bargaining, the social partners have been working together in recent years on a number of issues that do not pertain to usual collective bargaining over the recent years, and agreements have been signed or found, notably on.[16]

- *Mandatory pension*: the decline of collective agreement coverage meant that an increasing share of the workforce was not covered by pension savings schemes, with adverse consequences for old-age poverty (Chapter 5). An agreement was signed by the social partners in 2007 that was extended by the government to all employers in 2008, which makes pension provision mandatory, although at a lower rate than that provided to workers covered by collective agreements.

- *Temporary workers*: in 2000, an amendment to the law on temporary work agencies (TWA) stipulated that workers employed by TWA are entitled to rights equal to those of workers who are hired directly by the user of services. This amendment aimed to remove the possibility for employers to save on direct labour costs (wage and non-wage benefits) by using TWA workers. However, the law also offered a possibility to derogate from the equality provision, if a general collective agreement is concluded and extended by the Ministry of Trade, Industry and Labor (MOITAL). After two unsuccessful attempts, an agreement was finally signed and extended in 2004.

- *The 2009 budget pact*: in early 2009, the new government coalition faced the need to make large cuts in the state budget, despite the negative social and labour market impacts of the crisis. The social partners convened and agreed on a package that included concessions from both sides. The Histadrut agreed to a temporary halting of a compulsory non-wage benefit (convalescence benefit), while the employers agreed on legislation facilitating trade union activity at the workplace level, including the duty for employers to bargain with a

15. According to the Israeli Central Bureau of Statistics, the number of workdays lost because of strikes per thousand employees was 248 per year on average over the 2003-07 period. While international comparison are difficult in this area, due notably to varying coverage of the data, this places Israel much above OECD countries for which data are available. For example, in Canada, which has the highest figure among OECD countries for which data are available, the ratio was 159 days per thousand employees over the same period.

16. For more details on these agreements, see Mundlak (2009).

newly established union. The Histadrut also demanded heightened registration requirements for the TWA, and, for the first time, for subcontractors in the cleaning and security services.

Although this is a sign that collective bargaining still plays a role, the legitimacy of the agreements was challenged by a number of organisations, including through legal action, thus undermining the strength of the new agreements and of the social partners (Mundlak, 2009). First, a number of NGOs petitioned the Supreme Court with the argument that the mandatory pension agreement discriminates against workers who did not serve in the military, because the pension is mandatory only after the age of 20 for women and 21 for men. By providing for smaller pension contributions for workers on non-standard contracts, the agreement is also seen as legitimising the labour market segmentation. Second, in the case of the Temporary Workers agreement, a number of cases were brought to courts by lawyers defending low-wage workers to contest the collective agreement and recover the legislated equality provision. Third, trade unions outside the Histadrut did not agree to withdraw the convalescence benefit, because it would weigh equally on low-wage and high-wage workers; more generally, they questioned the legitimacy of Histadrut to represent workers outside their umbrella. On the employers' side, an association of small and medium enterprises filed a lawsuit against the social partners, demanding a halt to the legislative amendments required by the pact; the lawsuit was dismissed by the National Labour Court.

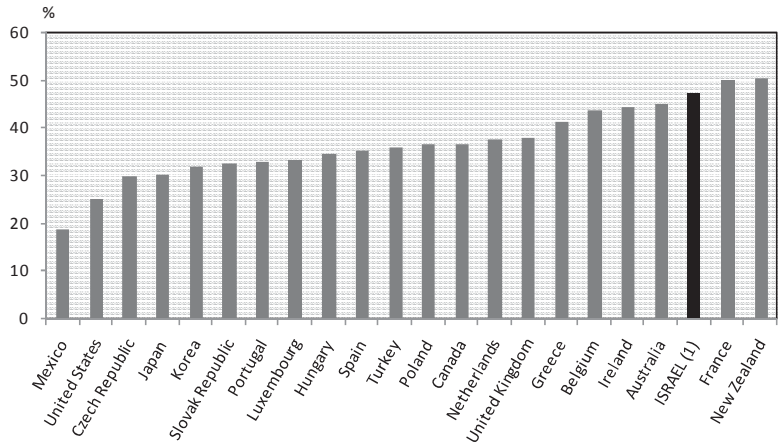
## 2.3. The minimum wage is relatively high

Since 1987, minimum wage legislation sets a floor to the ratio of the minimum to the average gross wage. For example a floor of 47.5% applies to all those aged 18 or above (lower floors apply to younger workers).[17] Higher ratios between minimum and average wages are found only in two OECD countries, New Zealand and France (Figure 2.2). At the same time, evidence suggests that the minimum wage is poorly enforced in Israel. There may be better ways of ensuring decent living standards for workers, notably through in-work benefits which are better targeted at low-income families. If it were generalised and increased in value, the earned income tax credit (Chapter 3) could be used in this respect.

17. The regulated minimum wage is described here as a floor because the process of determining annual increases can mean that the actual ratio can temporarily rise above the minimum wage. When this is the case, annual increases in the minimum wage level can be suspended. For instance, this was the case in 2009.

### Figure 2.2. The minimum wage in Israel is relatively high

Minimum wage as a percentage of the average wage in OECD countries and Israel

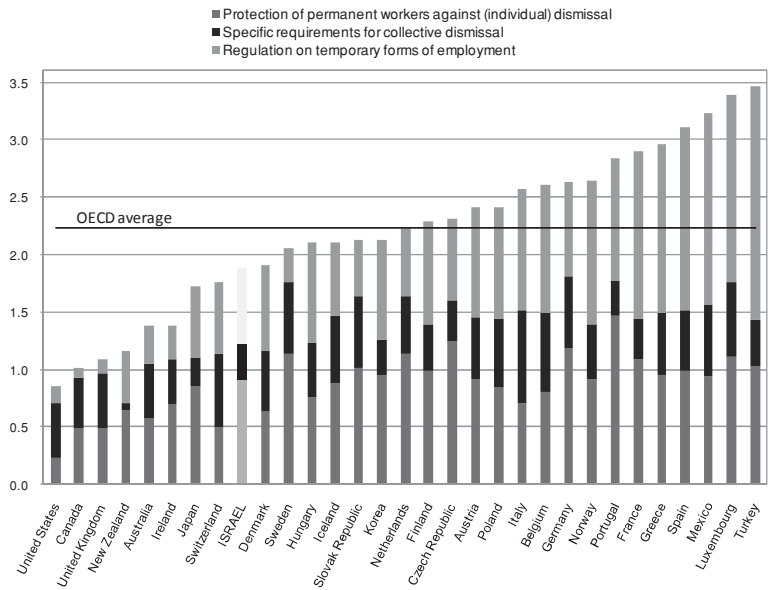



1. 2008 data for Israel, 2007 for OECD countries.

*Source*: *OECD database on Earnings Distribution*, CBS and MOITAL.

### Figure 2.3. Employment protection legislation in Israel is relatively flexible

Strictness of EPL in Israel and OECD countries, 2008; average scores 0-6 from lowest to highest strictness of overall EPL




*Source*: Venn (2009).

## 2.4. Employment protection legislation is relatively flexible

Employment protection legislation (EPL) is not particularly restrictive in Israel compared with most OECD member countries. The *overall* strictness of the EPL index was 1.9 in 2008 against 2.2 on average in the OECD (Figure 2.3). This is due mostly to low EPL indices on collective dismissals and on temporary contracts.

### *Dismissal is relatively easy but severance pay is relatively high*

The EPL index for regular contracts is at the OECD average. Procedural inconvenience scores are relatively low, the notice period being one month, and it is relatively easy to dismiss a regular worker. The employer is free to terminate the contract for any reason, except when a collective agreement, a certain statute of the worker, or case law indicates otherwise (see ILO, 2006). The absence of legislation regulating dismissal is probably linked to the fact that the vast majority of employees enjoyed job security through collective agreements for many years (Davidov, 2008). Over the past years, however, despite the lack of legislation regarding unfair dismissal, the labour courts have upheld a number of dismissal cases under this motive. In addition, as in other OECD countries (Venn, 2009), collective agreements often include more protection for the workers they cover. But, for workers not covered by such agreements, dismissal remains relatively easy by OECD standards. In contrast with other aspects of EPL, compulsory severance pay is relatively generous, as the employee is entitled to a month's wage per year of employment. Among OECD countries, only the Czech Republic, Spain, the Slovak Republic, Turkey and Portugal have equal or more generous stipulations on severance pay. In addition, collective agreements in most sectors top up compulsory arrangements (Venn, 2009).

However, one interesting feature of the Israeli severance pay system is that employers can choose to fund severance pay *in advance*, by contributing 8.33% of each monthly salary to a fund, attached to the individual worker (often in conjunction with contributions made to the occupational pension fund). When dismissing the worker, the employer can draw the amount deposited on this fund and complement it to get the required statutory severance pay amount (*i.e.* the product of final monthly salary and years of services). If, however, the employer has agreed to release the accumulated amount in the fund to the worker even in the case of voluntary departure, the accumulated amount will serve in lieu of severance pay. This seems to be the case for most employers in the high-tech sector, for example. Although not mandatory, this severance pay system comes close to that implemented in Austria since 2003 (Box 2.2). From the employer's point of view, funding the individual accounts in advance

eliminates the specific monetary costs of a dismissal. However, it also removes the disincentive to lay off older workers provided by the standard severance pay system. From the employees' standpoint, in the case where the employer agrees to provide the amount even in case of voluntary departure, it reduces the cost of job mobility which can become quite high for workers with long tenure in the standard severance pay system, as they no longer lose all of their entitlements when taking a new job. MOITAL estimates that about 10% of salaried workers are covered by these "individual severance pay accounts". In part the cost of these accounts is probably borne by the employee in the form of lower gross wage payments, but there is no empirical evidence on the importance of this feature.

**Box 2.2. Individual accounts for severance pay in Austria**

Austria converted its severance payment system to individual accounts in 2003. Employers' direct payments to workers were then replaced by individual accounts, to which employers must contribute 1.5% of the payroll during the contract duration. If a worker leaves before three years of tenure, the individual account balance is transferred to the new job. But if the contract is terminated after more than three years, the worker has the options of receiving a severance payment from the account or transferring the balance to the new position. At the end of a career, the accumulated balance can be used for a pension.

These individual accounts thus provide workers with a degree of security while allowing job mobility. The general coverage of all employees and all types of mobility means that the risk of distorting effects on labour market behaviour is relatively low.

Collective dismissal involves additional notification requirements, but rather less than on average in the OECD, and unlike in most OECD countries, they involve no additional cost compared with individual dismissals. The EPL index on collective dismissals is thus rather low, at 1.9 compared with an OECD average of 3.

### *EPL on temporary work agency employment has been recently strengthened*

The estimated EPL index on temporary contracts is 1.6 for Israel against 2.1 on average in the OECD, due mainly to the absence of restriction on the use of fixed-term contracts. Nevertheless, the use of fixed-term contracts has not developed strongly in Israel. This is probably because workers with fixed-term contracts are granted the same rights as workers on regular contracts in terms of wages, fringe benefits and severance pay, which makes fixed-term contracts not much less costly than regular ones, the remaining difference being possible litigation costs following dismissal in the case of regular contracts.

Regulations on temporary agency work, on the other hand, have been tightened since January 2008, with the entry into force of an amendment to the Temporary Work Agency Law limiting the cumulated duration of TWA contracts of an employee by a specific user firm to nine months. There are no restrictions on the type of work for which temporary work agency employment is legal, and as noted in Chapter 1, employment through TWA increased until recently. TWA employees were not granted the same rights as regular workers, and it allowed employers to reduce labour costs through bypassing collective agreements. In many cases, TWA workers were hired for duties that were not temporary in nature, working for several years for the same end-user employer. The public sector itself is one of the major employers of TWA workers,[18] ever since the 1985 general collective agreement led to restrictions in hires of civil servants.

The 2008 amendment, which had been proposed in 2000 but had been halted by the Ministry of Finance, is likely to result in a reduction of TWA employment, but the effects of the entry into force of this amendment have not been studied yet.

The Bank of Israel in its *2008 Annual Report* notes that public employment rose by 3.1% in 2008 (24 500 new hires) – with hirings increasing during the year – and attributes this phenomenon to the entry into force of the nine months limit, which would have led the public sector to hire TWA workers as regular workers. However, there are also examples of TWA workers being fired after many years of services.[19]

Finally, it may also result in increased used of subcontracted workers instead of TWA workers. With the increased regulation of TWA employment over the recent past, a switch from TWA employment to subcontracted employment – not subject to the same regulation – has already taken place (Mundlak, 2009).

18. 45% of the TWA workers were employed by the public sector in 1998 (Nadiv, 2004).

19. For example, one case, publicised by the Worker Advice Center (a NGO trying to build an independent labour association for workers in the secondary labour market), is that of dozens of excavators previously working as TWA workers for the Israeli Antiquity Authority (IIA). These workers had been working for years at excavation sites; instead of being absorbed by the IIA, they were dismissed by their TWA.

## 2.5. Labour law enforcement is weak

### *Public enforcement has been reinforced in recent years but is still weak*

Despite recent improvements, labour inspection services are under-resourced in Israel and enforcement is weak. In the early 2000s, the focus of labour inspection services was shifted from Israeli workers to foreign workers, with 80 out of the 100 labour inspectors being allocated to foreign workers, but to deal mostly with the enforcement of the Foreign Workers Law rather than the enforcement of labour law for foreign workers (see Chapter 6). In July 2004, the two functions were separated and the Regulation and Enforcement Administration (REA) was created in the MOITAL to deal with licensing and enforcing labour laws for Israeli workers. The REA started with 24 inspectors. Just before that change, 23 inspectors were dealing with approximately 2.4 million Israeli workers, against 109 inspectors for about 240 000 foreign workers. Harsh criticism regarding this allocation of inspectors was voiced by various parties, including the State Comptroller in its 2004 report on this subject, as it bore witness to the low status given to the enforcement of labour laws (NEC, 2007). Evidence on the weakness of labour law enforcement also came through surveys and campaigns lead by the REA itself (Box 2.3). This prompted some reaction by the state authorities. In February 2007, the REA was expanded to 47 inspectors, and 69 part-time students, working in pair with inspectors on their various missions. In April 2009, the REA staff included 45 inspectors and 55 part-time students, to deal with about 2.8 million Israeli employees. This puts Israel well below the ILO benchmarks for the number of workers per inspector, even when the part-time students are included (Figure 2.4).

The REA is responsible for the enforcement of 17 labour laws for which non-compliance is considered a penal offense, including the Minimum Wage Law, the law on hours of rest and work, the youth labour law, and the annual leave law. It operates through four regional offices in Be'er Sheva, Haifa, Jerusalem and Tel Aviv. Following labour inspections, the MOITAL legal bureau opens investigation files, which can result in removing the employer's relevant license (*e.g.* manpower company license, overtime work permits), imposing administrative fines or, depending on the severity of the offense, filing an indictment to court. In the latter case, the inspectors transmit the files to the legal prosecutors of the MOITAL in charge of labour law enforcement which employs ten lawyers.

### Box 2.3. Evidence on labour law enforcement

Starting in 2006, a number of surveys and campaigns were lead by the MOITAL and the REA, which all found widespread infringement of various labour laws by Israeli employers:

- A survey conducted in 2006 reported that 36% of the employed workers were working overtime without receiving due compensation.[1]
- A campaign to check work conditions in the security and cleaning industries recorded hundreds of complaints, which were, however, not dealt with because of manpower shortages (ACRI, 2006).
- In September 2006, an examination of adherence to labour laws among employers all over Israel was conducted, checking 4 000 workplaces and 30 000 workers during three days. 92% of the employers were found to be violating workers' rights, and 15% of the employers were gravely violating the laws (ACRI, 2006).

In its 2007 report, the State Comptroller concluded that enforcement of the Minimum Wage Law was incomplete and inefficient, and it was thus not deterring employers from breaking the law. The report estimated that 8 to 11% of the employees were paid less than the hourly minimum wage. Labour legislation violation particularly concerned minority groups.[2] The State Comptroller also found that labour inspection was not sufficiently targeted at minimum wage enforcement (only 11% of the cases inspected in 2006 dealt with this issue). In addition, 70% of the cases found were still left unattended after 15 months. The report also noted a significant decrease in the number of cases filed, as well as in the amount of the average fine.

Davidov (2006) indicates that violation of labour laws is particularly widespread among contractors supplying security and cleaning services, as also found by the REA in early 2006. Setting up a business in cleaning or security services requires very small capital and competition is fierce in these sectors. Given that wages are by far the biggest expenditure, competitive advantage is achieved by cutting labour costs. This is further encouraged by the fact that establishments use tenders to recruit the cheapest contractor every year. Workers in these sectors also have a weak bargaining position, as they are low-qualified, often not aware of their rights, and, if aware, not in a position to request anything for fear of unemployment. This provides large incentives to the firms in these sectors to infringe the laws by not paying overtime, not providing holidays, and/or not paying other benefits provided by the law. In fact, subcontractors are often using intermediaries, who themselves recruit workers and rotate their employers, preventing employees from accessing benefits.[3] Davidov (2006) also notes that labour law violations are also frequent in other sectors where workers are most vulnerable, for example, Arab villages where unemployment is high and employment opportunities are scarce.

The extent of violation of the Minimum Wage Law can also be estimated based on hourly wage data calculated from the Central Bureau of Statistics Income Survey. The figure below shows the hourly wage distribution for employees older than 18 and working 35 hours per week or more. According to this data, about 16% of the employees were paid less than the hourly minimum wage in 2007. Similar data for 1997 provides an estimate of about 15% of employees paid less than the minimum wage. These are probably lower-bound estimates, since data do not include foreign workers, who face widespread labour law violation (Chapter 6).

**Earnings distribution of full-time employees in 2007**

Kernel density function, log of gross hourly earnings




*Note*: The horizontal axis represents log earnings. The vertical axis represents the scaled density (so that the area under the curve is equal to one).

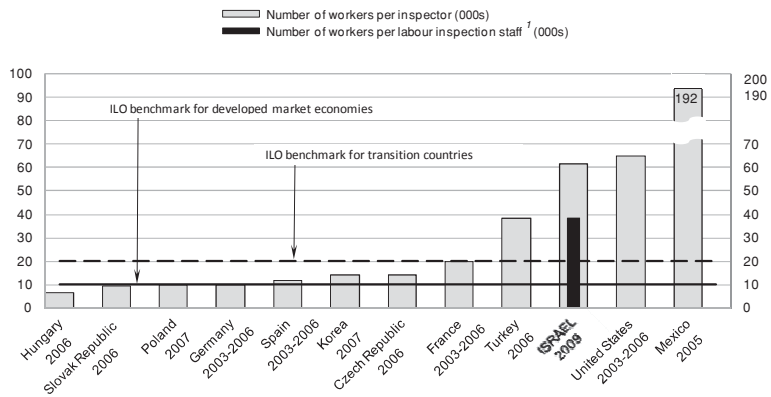
*Source*: OECD Secretariat based on CBS Income Survey.

In its *2008 Annual Report*, Table 8.5, the Bank of Israel also provides similar evidence: 14.3% of the households with one earner employed full time were paid less than the minimum wage in 2007/08, and 7.6% of the households with two earners with at least one working full-time were earning less than the minimum wage.

1. "Overtime work, compensation during training and the Notice to Employee Law", MOITAL, 2006.
2. The State Comptroller and Ombudsman – Israel, *Annual Report No. 34*, 2007.
3. *Source*: "Employers using middlemen to strip workers of benefits", *Haaretz*, 23/04/2009.

**Figure 2.4. Israel's labour inspectorate is understaffed**

Number of workers per labour inspector in Israel and selected OECD countries




1. Data include part-time students hired to help labour inspectors; it is assumed here that these staffers work half-time.

*Source*: Regulation and Enforcement Administration for Israel; OECD (2008) for the Czech Republic, Hungary, Korea, Mexico, Poland, the Slovak Republic and Turkey; ILO (2006) for the other countries.

However, significant under-staffing limits its activity. In 2008, only 2 400 inspections were conducted, out of which about 40% were initiated by workers' complaints and 60% were targeted inspections. It is important to have a rather high share of targeted inspections, because the weakest workers are most often not aware of their rights and/or not in a position to file a complaint. Further, complaint investigations have a very small deterrence effect as the information is generally limited to the employer. Planned investigations, by contrast, signal regulatory intentions to employers, industry segments or geographical areas. It is also important to establish a clear prioritisation of inspections, based on where and how the inspections are likely to have the most important deterrence effect. The REA has started to conduct some targeted inspections since 2006, but under-staffing limits their extent, as well as their follow-up (Box 2.3). It is also trying to establish links with third parties such as NGOs assisting vulnerable workers (not represented in the trade unions), notably Arab workers, in order to obtain their assistance as a leverage for enforcement. Despite a number of initiatives taken to improve their outreach towards Arab workers, however, the REA still receives very few complaints from this population group (Box 2.4). Given the attitude of many Arab-Israelis towards the Israeli authorities, more co-operation with NGOs assisting Arab workers, followed by effective enforcement actions, is required to have a more effective presence where efforts are most needed.

### Box 2.4. Initiatives by the REA to improve enforcement in the "Arab sector"

Increasing enforcement of labour law for Arab workers is a stated objective of the REA. The following initiatives have been taken to (as based on information provided by the REA, MOITAL):

- *Provide information to Arab workers.* Information material has been produced in Arabic and distributed in Arab areas. Information has also been transmitted through the Arabic media and the electronic press. Information campaigns have been led in Arab localities in the Western Galilee, in preparation for enforcement operations. In addition, since October 2008, 16 volunteers from the Civil National Service have been recruited and trained to operate ten public information centres in Arab localities.
- *Contact and exchange with NGOs active with Arab workers*. Adallah, a NGO providing legal assistance to defend Arab minority rights, has been contacted by the REA. Their co-operation was seen as important to provide leverage to enforcement operations.
- *Facilitate access to the REA by Arab workers and recruit Arab staff in the REA*. A telephone service in Arabic was also opened, where Arab workers could leave anonymous messages. When the REA staff was increased in February 2007, a number of non-Jewish employees were recruited. Mid 2009, seven inspectors (*i.e.* 15% of all the inspectors) and 11 part-time students (*i.e.* 20% of the total number of part-time students) are from ethnic minorities.

- *Carry out enforcement operations*. An enforcement operation was carried out in Shrafam in collaboration with the local government. The REA attempted to conduct similar operations in other localities (Rahat in the south of the country, Taibe in the centre), but here local governments refused to co-operate. Also, the REA sometimes combines targeted operations with regular operations, *e.g.* when visiting Arab localities in the context of enforcement operations for a given law (youth; sexual harassment).

These efforts will have to be sustained and improved to overcome the general mistrust of Israeli State institutions by Arab workers and their consequent reluctance to lodge complaints.

The greatest potential impact of labour inspection arises through *deterrence*, *i.e.* the perception that the expected costs of investigation are significant enough to lead firms to comply voluntarily (Weil, 2008), although the need to protect workers' jobs and the ongoing viability of the business should also be taken into account when designing sanctions. Unlike many labour inspection services in the OECD, the REA cannot issue administrative orders such as notice for improvement before sanctioning the employer. The probability and quality of inspection and the size of penalties associated with violations are two important factors in determining the effectiveness of sanction policy. Some progress has been made in the former area as the number of fines has increased since 2006, but expected penalties remain relatively small:

- The number of administrative fines imposed by the labour inspection increased significantly in 2008. 1 400 fines were imposed on employers in 2008, compared to an average of 300 to 550 per year between 2002 and 2007 (ACRI, 2006 and information provided by the REA), a trend which continued in 2009, with 1900 fines imposed on the first nine months of the year. Their average amount also increased somewhat (13% in nominal terms between 2007 and 2008), but remains relatively low, at about 10% of the average annual wage. The increase is probably related to the introduction in February 2008 of a bill that strengthened enforcement,[20] notably by clarifying overtime issues which made it easier to apply sanctions. Fines were most often imposed for breaches of the Youth Law – such as employment at night without a permit, employment on a weekly rest day, employment in excess of permitted hours, etc., followed by fines for violation of the Hours of Work and Rest Law (14% of the annual average wage) and the Minimum Wage Law (12% of the annual average wage). In the case Minimum Wage Law violations, the average fine amounted to about two and a half

20. The bill was passed following to the recommendations of a steering committee including state organisations and the social partners.

months of the labour costs for workers at the minimum wage,[21] thus providing very little deterrence for employers tempted to break the law. Furthermore, fines are not increased for repeat violations by the same employer. Finally, the collection process for fines appears inefficient, as several years can pass between the imposition of the fine and its collection (ACRI, 2006).

- Despite doubling between 2007 and 2008, the number of files taken to court is low (165 in 2008). In the case of violation of the Minimum Wage Law, for example, the decision to go to court is usually taken after the second or third offence, and only 18 cases were taken to court in 2008.

To improve detection efforts while reducing business compliance costs, the labour inspectorate and the tax and social security collection agencies should collaborate and share information as much as possible. At the moment, information can be shared between these authorities, but there is no systematic exchange of information or institutionalised collaboration. The labour inspectorate should be provided direct access to the National Insurance Institute database.

When it comes to the enforcement of labour laws by TWAs and subcontracted companies, labour inspection is not the only instrument in the hands of the government. As a major buyer of TWA or subcontracted services, the public sector can and should ensure that the services it buys are produced in conformity with labour standards. For TWA workers, the Minimum Wage Law was amended in 2000 to put direct responsibility on the end-user to pay the minimum wage when the TWA fails to do so (Davidov, 2006). For sub-contractors, an amendment was added in 2002, which prohibited public sector employers from hiring contractors convicted of violations of the Minimum Wage Law, unless a year has passed since the conviction, or three years in the case of multiple convictions (Davidov, 2006). These latter conditions weakened the deterrent effect of the amendment. The prohibition was further relaxed in 2004, at the initiative of the Ministry of Finance, allowing public employers to contract firms with multiple convictions if one year had passed since the last conviction, as well as introducing a number of other exceptions.

More recently, however, some positive steps were taken. In 2008, a legislative amendment entitled TWA or subcontracted workers to receive that part of the contract between the employer and the end-user which relates to his/her wage, thus reducing the possibility for their employer to pay less than stipulated in the contract. In June 2009, following recommendations made

21. The labour costs of a minimum wage worker amount to the gross wage of NIS 3 850 and social contributions of about NIS 148, *i.e.* NIS 3 898 in total.

in 2007 by the steering committee on enforcement, the law regulating public tenders was amended to include selection criteria for service providers (including, the exclusion of enterprises who have been found guilty of misconduct by the REA in the three preceding years; and, enterprises have to submit information on workers' wages in the bidding process). It remains to be seen how this will be implemented in practice. In September 2009, the authorities decided that the business licenses for security service companies that significantly and repeatedly violate labour laws will not be renewed. Companies will have to provide information on previous violations and the audit reports by ministries that employed the company. In addition, the licensing committee would audit the companies over the course of the year to ensure compliance with labour law (*Haaretz*, 4/9/2009). This is likely to require substantial resources given the size of the sector and the extent of the violations.

### *Enforcement activity of labour courts is high*

Most of the labour law enforcement activity takes place in the labour courts following individual complaints of workers. There are five regional labour courts in Israel, and the National Labour Court acts as an appeal court. They are in charge of labour and social security issues. In 2007, slightly more than 80 000 cases were handled, of which about 70% were related to labour issues, collective or individual, concerning wages, unfair dismissal, discrimination, etc.[22] The ratio of labour law cases, at around 19 per thousand workers, is very high in Israel compared with most OECD countries (Figure 2.5), reflecting the evolution of industrial relations discussed above and the "juridification" of the employment relationship (Mundlak, 2007). Relatively low costs associated to litigation – there is no or only a low court fee and the losing party is not liable to pay the litigation costs – have also allowed the large increase in the number of cases.[23]

There are no formalised statutory mediation procedures before workers go to court, but it is commonly included in collective agreements. An alternative dispute resolution procedure has been developed by labour courts to try to settle disputes without a formal trial.[24] In 2008, 13% of the labour cases were referred to mediation, of which 40% ended up in court (information provided by the MOITAL). These procedures have allowed a shortening of the period

22. A precise breakdown of the cases by type of complaint is not available.

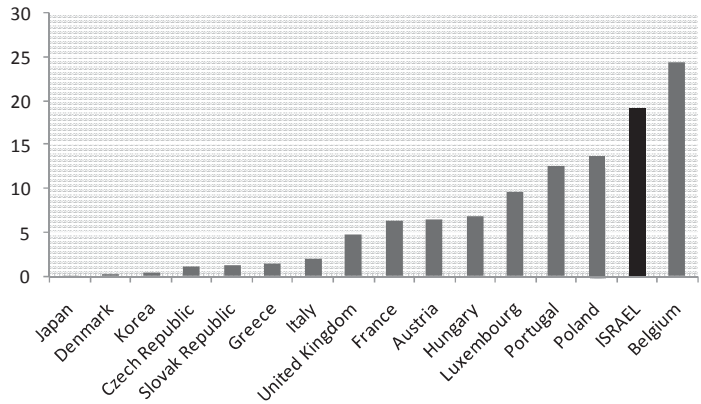
23. In 1974, labour courts handled about 10 000 cases (ACRI, 2006).

24. It includes various mechanisms, such as mediation by lay members in the court, mediation by a private party, early neutral evaluation in the court by an expert, and preliminary hearings with mediation.

required to settle a case, which was eight months in 2007. Although it is not particularly long compared with OECD countries (Venn, 2009), this period remains long for workers with low income and assets. Alternative dispute resolution procedures may also lead workers with little bargaining power and no legal representation to accept inferior settlement. The absence of legal representation also seems to be problematic for those workers during trials, since they often are not aware of their rights, many of them are not native Hebrew speakers, and the use of interpreters in courts is limited (ACRI, 2006). The government provides free legal assistance to some workers, but only to a limited number (1.5% of the labour cases in 2007).

**Figure 2.5. Israeli workers often take complaints about employment conditions to court**

Number of labour law cases per thousand workers




*Note*: Data refer to 2007 for Israel, and years in the period 2002-07 for the other countries.
*Source*: Venn (2009).

According to ACRI (2006), deterrence is limited by the fact that courts do not use the sanctions provided for in the law. Over the past few years, however, some labour court rulings on cases brought by the REA have been somewhat harsher on employers.[25] A further important recent change is the reversal of the burden of the proof in the case of overtime. While workers previously had to prove overtime work and the fact that the employer asked him/her to work for these hours, employers are now required to prove that the worker worked standard hours.

25. In January 2008, the Tel Aviv labour court, for the first time, sentenced an owner of a security company to three months in jail for paying his workers less than the minimum wage. He was also fined NIS 50 000 and his company NIS 100 000. However, the jail sanction was reduced and was likely to be commuted to community service (*Haaretz*, 28/01/2008).

## 2.6. The public employment service is under-budgeted and under-staffed

### *The PES budget has shrunk and caseloads are very high*

The public employment service (PES) was established in 1959 by the Employment Service Act[26] and is under the jurisdiction of the Ministry for Industry, Trade and Labour. As in most OECD countries, the main objectives of its local offices (69 in the five regions) is to serve as an intermediary between job seekers and employers, advise job seekers and those receiving income support benefits, as well as help to enhance their employability. The PES also collects and publishes labour market data. The PES officers run the "employment test" which is an eligibility requirement for social assistance. For those relying on social assistance, an outsourced "welfare-to-work" programme has been implemented in four pilot areas (see Chapter 3), thus significantly reducing the role of PES in those areas. The PES co-operates with external bodies including non-profit organisations (*e.g.* the American Jewish Joint Distribution Committee, JDC-Israel) on programmes targeted at special populations, *e.g*. ultra-Orthodox and Bedouin sectors, single mothers, older workers.

In recent years, the PES has made increased use of information technology. An interactive website for job seekers and employers was launched in 2007[27] and a computerised system has been introduced for the first interview. More remarkably, a self-service identification system – biometric identification stations placed in employment offices – is now used for registration. On arrival, clients register with the readers and when a job is available for the job-seeker, the reader refers the user to an employment counsellor. Otherwise, they are free to leave and their attendance is registered, guaranteeing entitlements to unemployment benefits.

The first interview usually lasts 20 minutes – the PES has recently started to outsource them – after which the job-seeker is classified into one of these groups: "directly placeable"; "placeable under certain conditions" (soft skill training); or, "hard-to-place" (*e.g*. health reasons). If not directly placeable, an individual employment plan is drawn up for the job-seeker. It can include professional (*e.g*. vocational training, small business counselling, vocational retraining among higher education graduates) and personal empowerment (*e.g.* job-search workshops, psychological employment counselling, support and supervision telephone "hot line", a career and employment internet

26. In Israel, the public employment service is called the Israel Employment Service (IES).

27 . It was launched in summer 2007 in Hebrew but has not yet been translated into Arabic and English as initially planned.

forum). Successful placement rates averaged 20.3% in 2008, falling to only 4.9% for long-term social assistance recipients.

The PES budget declined between 2000 and 2004 by more than 30%, but it has since stabilised. In 2008, budgetary allocations to the PES[28] were very modest by OECD standards – 0.02% of GDP compared with 0.4% on average across OECD countries.

The public employment service employs around 630 workers of whom about 520 are counselling co-ordinators directly engaged in placement and employment-related matters (other workers include about 20 occupational psychologists). Only about one fifth of these 520 workers has received certified training as job counsellors and case managers. The monthly number of unemployed per PES staff averages 350,[29] which is much higher than in most OECD countries (Table 2.1). While the use of a biometric identification system substantially reduces the effective caseload allowing staff to focus on placement instead of dealing with periodical job search checks, the caseload ratio is still too high for the effective provision of employment support to all clients.

Increased unemployment resulting from the current economic slowdown is putting further strain on the PES staff caseload. The number of registered job-seekers has surged since the economic slowdown by nearly 35% between April 2008 and August 2009.[30] The number of newly laid-off job-seekers doubled between March 2008 and March 2009. According to the latest forecasts made by the Bank of Israel, the unemployment rate will not fall before 2011. In such times of recession, it is important not to let unemployment duration increase further by keeping jobless people engaged in the labour market or training (OECD, 2009b). Nevertheless, it is not so easy to quickly increase the administrative capacity of dealing effectively with job seekers. Furthermore, evidence on the effectiveness of vocational training in Israel is lacking. An emergency programme has been designed that includes professional training courses for laid-off workers (the overall training budget has been significantly increased), training vouchers for employment mobility and incentives for job-seekers and employers to replace foreign workers with Israeli workers in the agricultural and care sectors.

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28. The PES total expenditures amounted to NIS 175 million in 2008 (not including training), of which NIS 147 million were aimed at placement.

29 . The number of placement and counselling co-ordinators in Israel PES is compared with the average number of unemployed as in the LFS in 2008. This latter number is close to the number of registered job seekers in Israel.

30. The number of registered job-seekers went from 169 575 in April 2008 to 228 646 in August 2009 (seasonally adjusted Data from the Israeli Employment Service).

**Table 2.1. Caseload-to-staff ratios are high in the Israeli Employment Service[1]**

Caseload-to-staff ratios for the public employment service in selected OECD

| | Israel 2008 | Finland 2007 | Germany 2006 | Ireland 2007 | Japan 2007 | Luxembourg 2006 | Norway 2009 |
|---|---|---|---|---|---|---|---|
| LFS unemployed including benefit administration per FTE staff member[1] | 346 | 29 | 39 | 37 | 177 | 44 | 9 |

*Note*: For technical reasons, this database uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. FTE: Full-time equivalent; LFS: Labour Force Survey.

2. Estimates are approximate because of data limitations, and differences in the responsibilities of the PES and its staff across countries.

*Source*: Grubb *et al.* (2009) for OECD countries; for Israel: Labour Force Survey unemployed from Central Bureau of Statistics.

### *Low spending on vocational training*

Government expenditure on vocational training amounted to about 0.08% of GDP for Israel in 2007, well below the OECD average (0.14% of GDP) and close to spending in Canada, Hungary and the United States (Figure 2.6). There has been a decline in spending since 2002; public expenditure on vocational training of adults[31] has been cut by three quarters. Legislative changes which occurred in 2002 and 2003[32] made eligibility for unemployment benefits stricter, particularly during vocational training. The result was a reduction in the scope of training for the unemployed – less participation in vocational training and shorter length of courses.

These past cuts on spending on vocational training caused the share of recipients of unemployment benefits who participated in vocational training courses to fall from 14% before the legislative change to close to 1% in 2004, a rate at which it has since remained (Figure 2.7). At the same time as investment in training was cut, it was decided to increase the focus of training

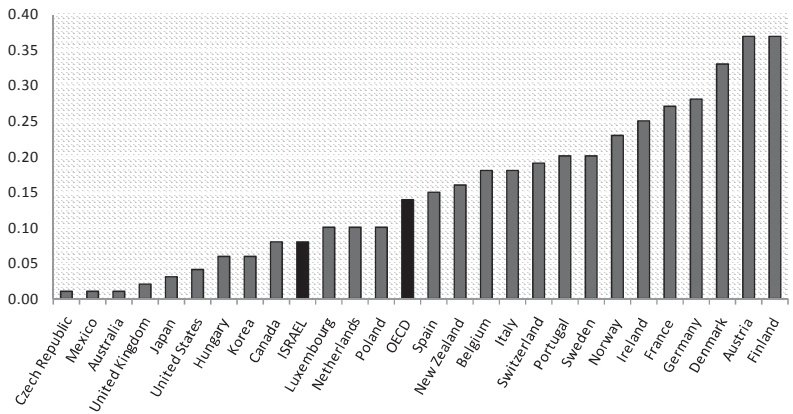
31. Public expenditure on vocational training of adults was cut from more than NIS 200 million in 2002 to just above NIS 50 million in 2008. The data do not include apprenticeship and training for engineers and technicians (information provided by the Department of Vocational and Labor Development, MOITAL).

32. In 2002, the newly unemployed participating in vocational training saw their unemployment benefits cut by 30%. Moreover, in 2003, the period of vocational training has been included in the number of days of eligibility for unemployment benefits for those with 12 or more years of education and the maximum length of unemployment benefits has been reduced to 138 days for those with less than 12 years of schooling (BOI, 2006).

on those unemployed with low education levels and recipients of income supports (BOI, 2006). Nevertheless, despite an increase in the number of income support recipients in vocational training, their share among recipients of training support remained low: it stood at 1.6% in 2005 (BOI, 2006).

**Figure 2.6. Public spending on vocational training is below the OECD average**

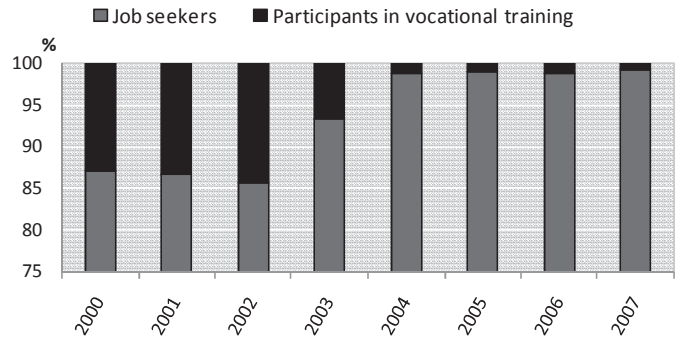
Public expenditure on vocational training, as a percentage of GDP, 2007




*Source*: *OECD database on Labour Market Programmes*; for Israel, Budget data 2007.

**Figure 2.7. Participation in vocational training among unemployment benefit recipients has fallen**

Share of unemployment benefit recipients[1] participating in vocational training programmes




*Note*: For technical reasons, this database uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Unemployment benefit recipients who were previously employed (*i.e.* excluding discharged soldiers).

*Source*: National Insurance Institute of Israel – Annual Survey 2007.

## 2.7. Conclusions

Over the past decades, the influence of collective bargaining on labour market regulation has been declining significantly, while that of labour legislation has increased. A large share of the workforce is not covered by collective agreements, part of them being employed under non-standard contracts.

This heightens the need for effective labour law enforcement. There is widespread evidence that labour laws are poorly enforced in Israel. At the same time, there is growing awareness in many parts of society and government of the problems raised by slack enforcement. In recent years authorities have taken step to improve enforcement capacity. The labour inspection staff has been increased, targeted operations have been conducted, and more fines have been issued. However, the efforts are still far from being commensurate with the scale of the problem. Resources available for the enforcement of labour law should be significantly up-scaled, in particular the number of labour inspectors. However competent and motivated they are, labour inspection staff is just too few in number to be able to provide effective enforcement.

Slack public enforcement has a much graver effect on vulnerable groups because: *i)* they have no access to extrajudicial institutions for dispute resolution, such as workers' committees at the enterprise level or arbitration proceedings; and *ii)* they are less likely to use labour courts. Therefore, enforcement should be primarily targeted on sectors heavily relying on the employment of such groups, such as security, cleaning, construction, and long-term caretaking. The steps taken by the REA to improve conditions among Arab workers should be sustained and intensified, (including co-operation with NGOs assisting Arab workers), leading to effective enforcement campaigns. While labour courts seem to work rather efficiently, more support should be provided to vulnerable workers, including through free legal representation and language interpretation.

A number of other changes would be required to effectively deter employers from breaking the laws:

- The level of administrative fines is currently too low and should be increased. They should also be made progressive with the number of infringements.
- The labour inspectorate should take more of its cases to court.
- Co-operation with the other relevant administrations (tax authorities, National Insurance Institute) is underdeveloped and should be made systematic.

When it comes to the enforcement of labour laws by temporary work agencies and subcontracted companies, labour inspection is not the only instrument in the hands of the government. As a major buyer of employment through TWA or subcontracted services, the public sector should ensure that the services it buys are produced in conformity with labour standards. Recent changes in the law regulating public tenders go in that direction, and these stipulations should be effectively implemented. Making contracts open would also ensure that the subcontracted employers actually pay the workers as stipulated in the contract.

The minimum wage is high in Israel compared with most other OECD countries. It is also poorly enforced. But there are probably better ways of ensuring a decent living standard for workers than high minimum wages. In the future, the authorities would be well advised to better address poverty among working households by expanding and increasing the earned income tax credit rather than by raising the minimum wage.

Active labour market policies are largely under-resourced in Israel. Past cuts in the budget of the public employment service contributed to very high caseload-to-staff ratios, far above those prevailing in OECD countries. This prevents PES staff from being able to provide effective support to job-seekers. Caseload ratios are about seven times higher than those requested by the authorities in their contract with private providers delivering employment services in the pilot welfare-to-work programme. Vocational training for registered unemployed has been almost eliminated. This stands at odds with the authorities' objective to increase participation in the labour market. OECD experience shows that well-designed ALMPs can reduce unemployment by improving the efficiency of the job-matching process and by enhancing the work experience and skills of the participants (OECD, 2006).

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# Chapter 3.

# Increasing Employment among Low-qualified Workers

*Increasing employment among low-skilled individuals has been a major policy objective in Israel for some years. Sizeable cutbacks in welfare benefits in the early 2000s, while motivated by public finance concerns, were also seen as a way to reduce dependency on welfare among the low-skilled groups. Overall, the financial incentives to work provided by the tax and transfer system are strong. This is because of low taxation, relatively low benefits for those out of work, and the availability of income support for those in work. In practice, however, access to benefits is limited, due to very strict eligibility conditions for both unemployment benefits and income support. Since 2005, a pilot welfare-to-work programme has been running in four regions with large minority populations, which was initially tilted towards getting participants off the welfare rolls rather than into sustainable jobs. Reforms implemented in 2007 have improved the incentive structure for private operators, but problems remain. For example, competition among the operators is limited and the payment structure varies little with the characteristics of clients. A pilot earned income tax credit has also been in place since 2008 in the same regions, but the amounts are currently too small for it to ensure a decent standard of living and reduce in-work poverty.*

## 3.1. Introduction

Low employment among low-qualified workers is the main cause of the relatively low aggregate employment rate in Israel (Chapter 1). Social welfare policy in recent years has attempted to increase the incentives for low-qualified workers to enter the workforce, primarily through significant cutbacks in welfare benefits. These cuts were motivated more by the public finance pressures resulting from the 2001-03 recession than by explicit labour market concerns, but also reflected the belief that relatively generous social benefits were partly responsible for the high unemployment and inactivity rates, especially among the low-skilled groups. The benefit cuts particularly affected the working-age population (*e.g.* unemployment benefit, income support and child benefits).

In 2005, a pilot workfare programme commonly known in Israel as the Wisconsin Programme was started in four geographic areas with large minority populations. As might be expected given this name, it was inspired by United States "Welfare Reform" thinking of the mid-1990s, which emphasises three main planks of policy: *i)* restricting access to benefit by tighter policing of eligibility criteria (especially availability for work); *ii)* better policies to promote job search and develop labour market skills; and *iii)* increase the rewards for those in work.

The Israeli programme initially emphasised the first of these planks, though over time a greater emphasis was also placed on the second plank. The third plank is only belatedly being addressed, with the introduction of an earned income tax credit (EITC) in 2008 in the same areas as the Wisconsin Programme. The effects on incomes of those in the affected areas vary: those denied benefit they might otherwise receive are unambiguously worse off; those who found work might expect to be a bit better off than were they to remain on benefit, though evidence is that, prior to the introduction of the EITC, such gains were small.

The overall combined impact of the welfare-to-work programme and the EITC therefore depends on whether there has been an increase in employment rates of the targeted population. This chapter reviews the evidence for this, and suggests improvements in the two programmes to help achieve the stated objectives.

## 3.2. Financial incentives to work are relatively strong

### *Those on benefits often have incomes*

Tax payments and social security contributions by those with low wages are relatively low in Israel. The personal income tax schedule is quite progressive, with rates ranging from 10% of income at the minimum wage level and below up to 49% for higher earners. "Wasteable" tax credits (*i.e.* reductions in tax payable but with no compensation if the credit is larger than the individual's tax bill) reduce the gross tax bill, and generally mean that low-income earners pay no income tax. Social security contributions are also modest for those with low earnings, with a rate of 3.5% applying to earnings up to 60% of the average wage, and 12% thereafter.[33]

Tax/benefit systems in Israel, as elsewhere, have to balance two key social policy objectives: providing an adequate standard of living, and ensuring that those who are in receipt of benefit continue to search for work if they are able to do so. The main benefits relevant for assessing the financial incentives to take up work are the unemployment-insurance-based benefits, the means-tested income support, some supplementary child benefits for families receiving income support, and the housing benefits (Table 3.1).

Figure 3.1 shows the level of replacement income for various types of households when out of work. Overall, welfare benefits provided to households with no income from work are low, and indeed are below the usual poverty line used in OECD comparisons of 50% of median household income adjusted for family size. This is not uncommon, as it is the case, for example, for most lone parents with two children receiving social assistance/welfare in OECD countries (Figure 3.2). Only households with two low-wage workers are always above the poverty line when the second person becomes unemployed, be he/she eligible for unemployment benefit or not, and this is due to the earnings of the first person. One-earner couples previously earning the minimum wage[34] who experience unemployment are left with a net replacement income significantly below the poverty threshold. One problematic feature of the benefit system is that one-earner households eligible for unemployment benefit are slightly worse off than those relying on income support, because they do not have access to supplementary child benefits. By contrast, single persons are much better off when eligible for the unemployment benefit; at 36% of the minimum wage, the net income of single persons on social assistance is about 50% below the poverty line (Figure 3.1).

33. The corresponding contribution rates for employers are 3.85% and 5.43%.
34. The monthly minimum wage in January 2008 was NIS 3710, or 40% of the average wage used by the tax and benefit model, which is measured based on NACE classification (sectors C to K).

## Table 3.1. Main benefits received when out of work

| | Benefit amount/replacement rate | Maximum amount (% of the AW) | Maximum duration | Entitlement conditions | Income disregard |
|---|---|---|---|---|---|
| Unemployment benefit | The benefit is based on previous earnings according to a scale. The implicit replacement rate decreases with previous earning levels:<br>• from 80% to 43% of previous earnings for workers above 28 years of age<br>• from 60% to 32% for workers below 28 years of age | • 100% for the first five months<br>• 66.6% after five months | • Four months in a 12-month period<br>• 5.5 months for persons under 35 with at least three dependent children and for unemployed between 35 and 45<br>• Seven months for unemployed aged 35 to 45 with at least three dependent children | • 12 months of contribution out of the last 18 months for regular workers<br>• Ten months of contribution out of the last 18 months for daily workers | None |
| Means-tested income support | The benefit is equal to the difference between the maximum amount and the income of the recipient as defined in the means test<br><br>Benefit rates are lower for persons under 25 years of age and higher for those above 55 years of age | Amount equivalent to:<br>• 16% for a single,<br>• 22% for a couple,<br>• 24% for a lone parent with one child or a couple with no child<br>• 26% for a lone parent or a couple with two children or more | Unlimited if entitlement conditions are fulfilled | Two years of continuous residence (one year for new immigrants)<br>Employment test applied to the claimant and his/her spouse (any job offered and refused implies two months benefit cut)<br>Means test:<br>• For those out of work, income from benefits (excluding child benefits, long-term care benefits and some others) and from capital and property should be inferior to the income support amount. Car ownership precludes entitlement to benefit, except for disabled, persons with disabled child, or with family member requiring medical treatment | Earnings equivalent to:<br>• 27% of AW for a single<br>• 37% of AW for a couples with less than two children<br>• 48% of AW for a couple with two children or more<br>• 59% of AW for a lone parent with two children or more |

**Table 3.1. Main benefits received when out of work** (*continued*)

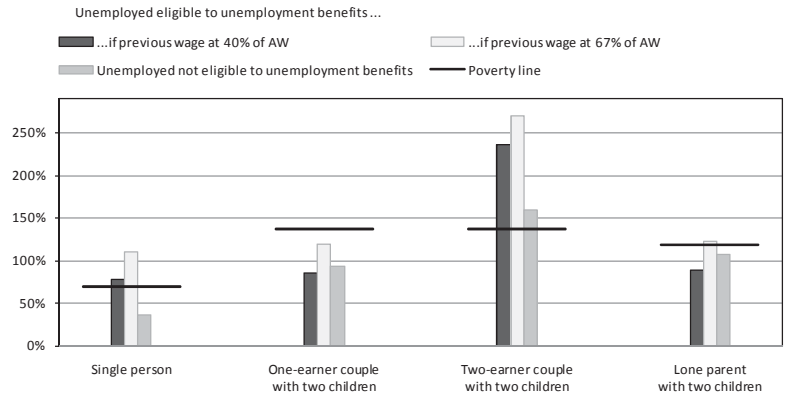
| | Benefit amount/replacement rate | Maximum amount (% of the AW) | Maximum duration | Entitlement conditions | Income disregard |
|---|---|---|---|---|---|
| Means-tested income support *(continued)* | | | | • For those in work, the income should be lower than defined in the income disregard. Low wage workers are allowed to have a car if it is relatively old and low power | After these thresholds, the withdrawal rate of income support is between 60 and 70% depending on the family composition |
| Supplementary child allowance | 1% of AW for the third and fourth children | - | Unlimited if entitlement conditions are fulfilled | Families of three and more children | - |
| Housing rent assistance | Depending on the income level, the benefit supplements the rent up to the maximum amount | Between 6% and 15%, according to family characteristics and income | Unlimited if entitlement conditions are fulfilled | Depending on age, disability status, type of family and income level | - |

*Note*: The reference average wage used is that corresponding to ISIC3, *i.e.* NIS 9 363 monthly in 2008.

*Source:* OECD Secretariat on the basis of information provided by the National Insurance Institute.

**Figure 3.1. Net income when out of work is relatively low**

Net income when out of work as a percentage of the minimum wage

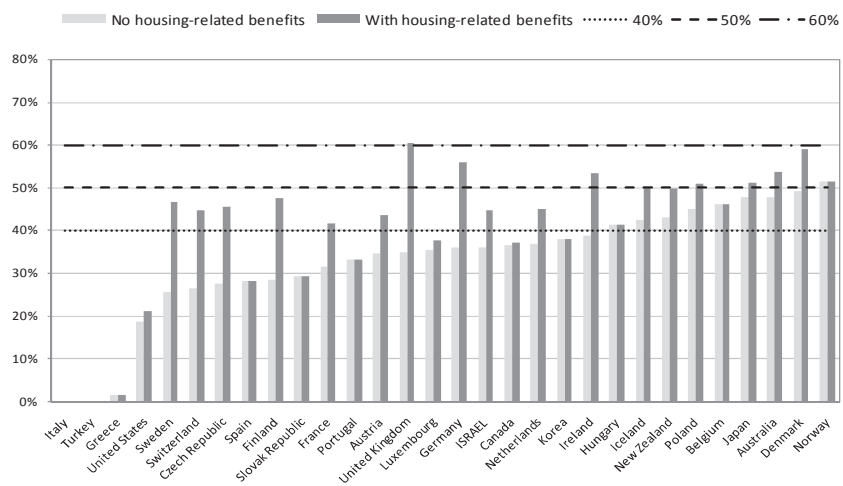



*Note*: Labels refer to the status of the household before one member of the household became unemployed. The first earner in the two-earner couple is assumed to be in work and to earn 67% of the average wage; poverty line for a standard person is at 50% of the median net income, and the OECD methodology is used to compute the thresholds for families.

*Source*: OECD Tax-Benefit Models and the National Insurance Institute for data on the median income in Israel.

**Figure 3.2. As in most OECD countries, lone parents on social assistance have low incomes**

Net income of lone parent with two children on social assistance, as a percentage of median household income in relation to alternative poverty lines




*Note:* 2007 for OECD countries, 2008 for Israel.

*Source*: OECD Tax-Benefit Models and the National Insurance Institute for data on the median income in Israel.

If claimants satisfy the strict eligibility criteria, the tax and transfer system provides income support to low-income one-earner families (Figure 3.3). The amount of income support ranges from 12% of the minimum wage for a one-earner couple with two children at the minimum wage level, to 29% of the minimum wage for a lone parent earning the minimum wage. Participation decisions for parents are also determined by the availability of affordable good-quality childcare. Israel has an extended system of childcare centres and early education supports, and while relevant costs are still high for working parents, fee supports are targeted at low-income families (Box 3.1).

### Box 3.1. Childcare and pre-school supports in Israel

Public policies that help parents reconcile work and family life promote labour supply, gender equity and child development objectives and are key in the fight against poverty as they help parents generate income to provide for their children. Israeli policy provides for three months paid maternity leave, there are some facilities for out-of-school-hours care, but there is no parental leave programme, and otherwise working parents have to rely on formal and informal childcare solutions to match their work and care commitments.

Reflecting female employment and gender equity objectives, childcare policy started in the 1970s. Non-government women's organisations continue to play a major role in childcare delivery under the overall supervision of MOITAL (the ministry also supervises the "Mishpachton programme" for family day-care supports). Unlike many other MOITAL budget items, support for day care for very young children has increased from NIS 425 million in 2002 to over NIS 700 million (about USD 185 million) in 2008, but childcare supports often do not benefit Arab children (Chapter 4). In the age group 0-2, about 90 000 children attend supervised (and subsidised) childcare, and around 110 000 children are in private facilities not supervised by MOITAL. In all, the implied enrolment rate of this age group is around 45-50%, well above the OECD average of 30%. In determining the amount of childcare support that will be awarded to a particular child/family, MOITAL works with a sliding scale of twelve steps. Children considered to be the most vulnerable (grades 1 and 2) receive most fee support, and fee support also increases with the working hours of mothers (not fathers), the number of children in a family, and is highest for infants (up to 15 months).

With about half the very young children participating in childcare, overall capacity constraints do not appear to be the major issue. As in many OECD countries (OECD, 2007a), quality concerns are coming to the fore in the Israeli childcare debate and changes under consideration include: additional budgets to extend support to unsubsidised centres and impose government standards; and improving existing quality standards, for example, by reducing the staff-to-child ratios from one to six children to one to three or four children (this would lead to a significant increase of fees).

Kindergartens (including day-care nurseries) – municipal, public, and private preschool kindergartens (age 5) and nurseries (ages 4 and 3) – all operate under the supervision of the Ministry of Education, which sets operational standards (including fee supports) and supervises their implementation. Kindergarten is free from age 5 onwards, and policy has moved to extend free kindergartens to 3- and 4-year-olds in an increasing number of regions as specified

by law. Enrolment rates are high at 94% across 3-, 4-, and 5-year-olds (compared with an OECD average of 73%), Kindergarten is for five hours per day (typically from 8h-13h), so other childcare arrangements are needed to facilitate full-time employment.

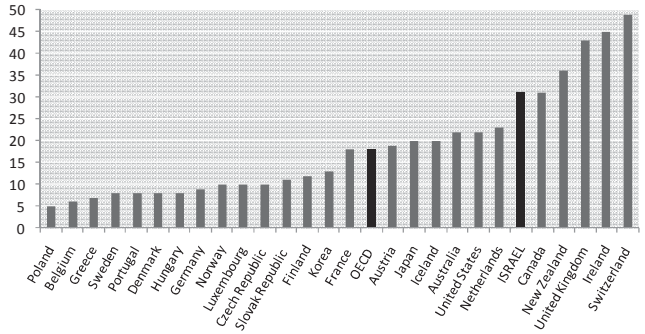
The manner in which childcare supports are phased out is such that many middle-class families receive no or limited fees support (Gal *et al.*, 2010). As a result, Israeli families with two parents at average earnings face net childcare fees of almost one third of the average wage, compared to an OECD average of 18% of average earnings (see figure below, Panel A). Dual-earner couples with each parent at two/thirds of average earnings face lower net childcare costs at 20% of average earnings, still high, but much closer to the OECD average (see figure below, Panel B).

A 2008 Supreme Court decision ruled that 100% of expenses towards private (unsubsidised) childcare should be tax-deductable and 63% of subsidised day-care and pre-school expenses (see below). This decision will reduce the cost of childcare to parents, but in a manner that is regressive in nature. The government will introduce a scaled tax advantage to limit the regressive nature of tax support to children not yet five years of age, and more generally policy should continue to prioritise childcare supports targeted at families among the working poor.

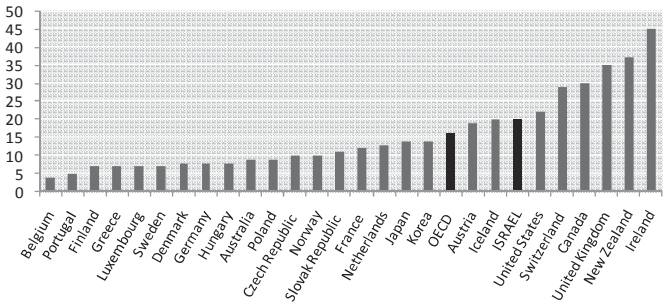
**Childcare support is targeted at low-income families**

Net childcare costs as a percentage of average earnings

Panel A. Dual-earner couple with each parent at average earnings



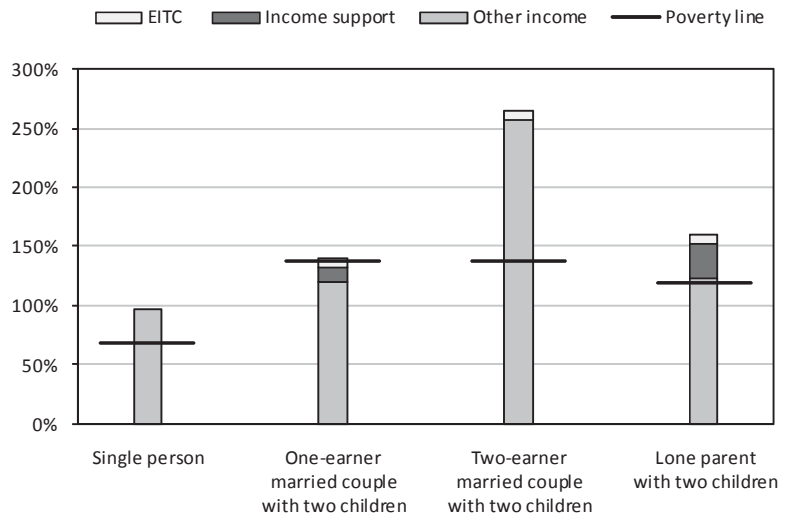

Panel B. Dual-earner couple with each parent at two-thirds of average earnings




*Source.* OECD (2007), *Benefits and Wages*; and, for Israel, Holler and Gal (2009).

**Figure 3.3. Income support can prop up incomes of lone parents in work**

Net income when working at a full-time minimum wage, as a percentage of the minimum wage




EITC: earned income tax credit

*Source*: OECD Tax-Benefit Models; National Insurance Institute for the median income.

### *Replacement rates are close to or below OECD average*

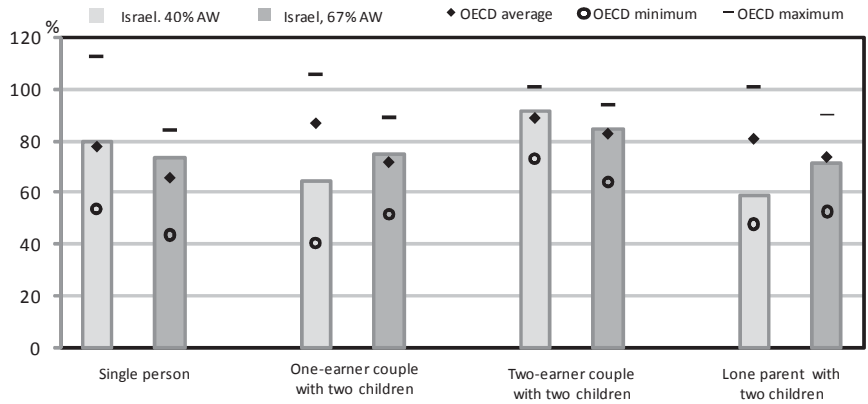
The comparison of out-of-work and in-work net household incomes captures key characteristics of the Israeli tax and transfer system for low-income households. Figure 3.4 shows net replacement for four standard household types, when potential earnings are 42% of average earnings – which corresponds to the minimum wage level – or two-thirds of average earnings.

In the case of workers eligible for the unemployment benefit, replacement rates are close to the OECD average, except for low-wage one-earner families, that have low replacement rates compared with OECD countries. This is because one-earner families at those wage levels have access to income support when the breadwinner is in work (Table 3.1.).[35]

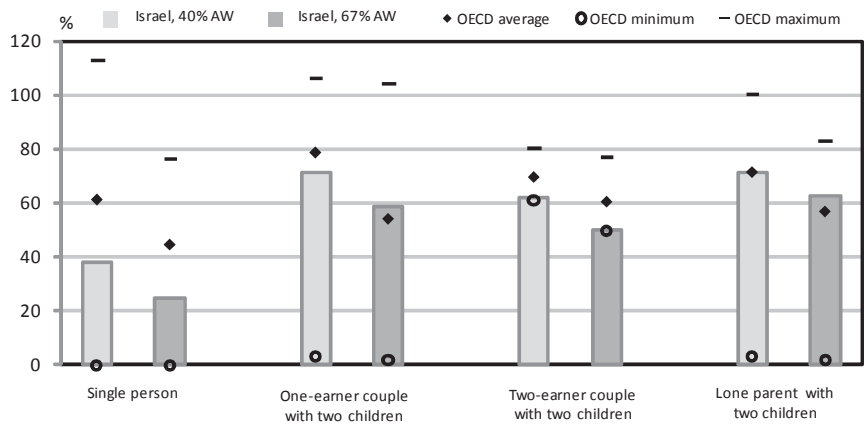
35. One-earner couples with two children have access to the full amount of income support until they earn 5% of the average wage (AW); after 5% of the AW, the amount of income support diminishes progressively until they reach earnings equivalent to 47% of the AW. For lone parent with two children, the amount of income support starts to be reduced at 9% of the AW and reaches zero when he/she earns 60% of the AW.

**Figure 3.4. Replacement rates for low-qualified workers are close to or below the OECD average**

Net replacement rates for unemployed persons by type of household, Israel 2008 and OECD average 2007




Panel B. Unemployed person not eligible for unemployment benefit




*Source:* OECD Tax-Benefit Models.

For workers not eligible for unemployment benefit, replacement rates are relatively low for single adults and two earner couples. For one-earner families, they are close to the OECD average. One the whole, the system provides strong incentives to work, but least so for one-earner families. However, in practice financial incentives to work are stronger as tax/benefit models suggest because access to income supports is curtailed by strict application of eligibility criteria.

### *Access to and duration of unemployment benefit and income support*

The unemployment insurance system is rather strict in Israel compared with most OECD countries. While already quite stringent in the early 2000s, the changes introduced in 2002 and 2003 – lengthening of the qualification period, reducing benefit levels, and shortening of the maximum duration ent period for payment of benefits – have curtailed generosity further (NII, 2004). First, there are strict entitlement conditions (12 months in 18 months) compared with OECD countries where it is most generally required to have contributed for half or a third of a given reference period.[36] This is especially likely to affect the growing number of workers on non-standard contracts (Chapter 1). Second, the duration of unemployment benefit – between four to seven and a half months depending on the age and the family status – is relatively short by OECD standards. Six months is the shortest maximum duration period in the OECD (in the Czech Republic, the Slovak Republic, the United Kingdom and the United States), and the maximum duration is generally much longer in the Nordic and continental European countries. In all, the coverage of unemployment benefit in Israel is rather limited, with only 24% of the unemployed receiving benefits in 2007 (against 45% in 2001).[37]

NII (2008a) acknowledges that "the level of generosity of Unemployment Insurance, after benefit restrictions introduced in recent years, is very low, a fact that makes Unemployment Insurance a deficient instrument for achieving its main objectives: *i)* to extend time in which the worker may look for work suitable to his/her skills and wage level, and *ii)* to provide a financial safety net until new work is found".

At the beginning of 2009, following the economic crisis and the ensuing increase in unemployment, an agreement was signed between the NII and the government by which the qualification period of unemployed persons above 25 years of age would be reduced from 12 to nine months out of 18 months prior to their dismissal, if the unemployment rate reached at least 7.5%. However, entitlement would be restricted to half the maximum benefit period defined by law (Table 3.1). This measure became operational when the unemployment-rate threshold was reached in the second quarter of 2009. While this policy is likely to increase the counter-cyclical role of the unemployment insurance system – which serves as an important automatic stabiliser for the macro-economy while providing income support for the

36. Only Portugal, Turkey and the Slovak Republic have stricter entitlement conditions than Israel, and in the Netherlands and Poland they are similar (OECD, 2008a and 2008b).

37. Calculated as the number of unemployment benefit recipients (NII, 2008) divided by the number of unemployed (ILO definition, Labour Force Survey).

rising number of unemployed, the restriction put on the already relatively short entitlement period will limit its effect. In response to the crisis, a relatively large number of OECD countries have eased eligibility criteria for unemployment benefits, and some have even increased the maximum benefit duration (Canada, Finland, Japan, Portugal, and the United States) (OECD, 2009). NII (2008a) is advocating an even greater strengthening of the counter-cyclical role of unemployment insurance, with coverage being extended significantly when cyclical unemployment rises, and reverting to its previous dimensions when unemployment goes back to its structural/long-term level, and contribution rates increasing in times of recovery to ensure financial equilibrium of the unemployment insurance scheme. Given the current strictness of eligibility criteria, a permanent reduction of the qualification period should even be considered to improve the coverage of the scheme.

Access to the income support scheme is also restricted. In 2008, 112 000 families were receiving income support, down from over 150 000 in 2002 and 2003 (NII, 2009). This is a low compared with the number of poor families both before tax and transfer payments (670 000 families in 2007) and after tax and transfers: 413 000 in 2007 (NII, 2009). Although income support to low-wage workers seems quite high on paper (see above), a relatively small number of persons actually receive such support (32 000 in 2008, or 22% of all the income-support recipients).[38] This is also low when compared with the number of poor families with a working head of household, which was 378 000 before the tax and transfer payments and 253 000 after the tax and transfer payments (NII, 2008b).

One factor restricting access is the unusually strict condition regarding car ownership or use by applicants. To be eligible for income support, an applicant should possess or use no car if out of work, and, since 2008, only an old car with an engine below a certain capacity if working for low wages. There are exceptions, such as in case of a disabled child or if a vehicle is required to attend a medical treatment. However, such stringent conditions on car access or ownership for welfare eligibility are counter-productive as they create barriers to finding work, especially in rural areas where public transport is underdeveloped, as, for example, in areas with predominantly Arab populations (Chapter 4). Such limitations on car ownership and use are extremely rare in OECD countries: limits on the value of vehicles are sometimes set, but ownership is typically not ruled out and denying benefits because of access to a car is unheard of. In the United States, there are even programmes that help those on welfare buy

38. Data provided by the NII are available by number of recipients, not by households.

cars, on the grounds that this widens job opportunities; these incentives have been found to have positive effects on the employment prospects of the persons concerned (Raphael *et al.*, 2001).

### *The pilot earned income tax credit increases incentives to work for low-wage workers and alleviates poverty, but only very slightly*

Since September 2008, a non-wastable earned income tax credit (EITC) has been implemented in the four regions where the welfare-to-work programme (see below) is in operation (Jerusalem, Ashkelon and Sderot, Nazareth and Upper Nazareth, and Hadera). At the end of 2007, these regions covered almost a fifth of the Israeli labour force. The benefit is targeted at families with two children or more and at workers aged 55 and above. The wage level for eligibility and the benefit level depend on the number of breadwinners in the home, their age and the number of children, and on the net income of the family. The targeting on family income, as in the United Kingdom and in the United States, means that it could potentially be a powerful anti-poverty tool, as well as increasing the work incentives for at least one adult in the household. There are basically two types of benefit:

- Workers aged 55 and above and families with a head of household above 23 years of age and one or two children are eligible to a tax credit up to the equivalent of 3% of the average wage; and,
- Workers with three children and more are entitled to a larger increment up to 4.5% of the average wage.

In both cases, the benefit starts at earnings equivalent to 19% of the average wage (or almost half of the minimum wage), reaches its maximum at 33% of the average wage and starts to be phased out at 45% of the average wage (*i.e.* slightly above the minimum wage).

As illustrated in Figure 3.3, the current level of the benefit is low, and does not make much of a difference in terms of net income for a family earning the minimum wage compared with the benefits already existing, in particular the income support. When compared with the average wage, it is similar to the level obtained through the *Prime pour l'Emploi* in France, and not far from the level of the Slovak EITC. It is, however, much lower than what British workers can get (up to 13% of the average wage with a supplement for children) or what families in the United States can receive (between 8.5 and 14% of the average wage) (OECD, 2008b). Table 3.2 shows that it provides a much smaller support to one-earner households at all earnings levels than in the United States, and a smaller one than in the United Kingdom at low earnings levels.

**Table 3.2. In international comparison, the Israeli EITC provides limited financial support**

Earned income tax credit for one-earner households with two children in Israel, the United Kingdom and the United States, as a percentage of the average wage

| Earnings level | EITC Israel | Working tax credit United Kingdom | EITC United States |
|---|---|---|---|
| 30 | 2.5 | 7.5 | 11.9 |
| 40 | 3.1 | 3.8 | 11.9 |
| 50 | 1.9 | 0.1 | 10.7 |
| 60 | 0.0 | 0.0 | 8.6 |

*Note*: 2008 for Israel; and 2007 for the United States and the United Kingdom.

*Source*: OECD Tax-Benefit Models.

The amount of payment is based on last year's income and the programme is managed by the tax authorities. In practical terms, workers who want to apply for the EITC have to obtain an application form at the post office and submit it to the tax authorities. The benefit is paid quarterly. Over the September 2008-January 2009 period, the take-up rate estimated by the Israeli tax authorities was 38.5%, a rate similar to those observed in their initial phase of implementation in other countries (BOI, 2009a). One of the obstacles to higher take-up lies in the fact that Israeli households pay income tax at source, do not fill in an annual tax declaration, and are not used to dealing with tax authorities. The tax authorities have taken some steps to increase take-up, notably through writing a letter to workers potentially eligible for the EITC. Given the closer proximity of the NII to the low-income population, it would have been a possibility to designate them as the implementing institution for the EITC. But this possibility was ruled out by the Ministry of Finance, who chose to invest in improving the computational capacity of the tax authority instead (all tax operations were computerised on the occasion of the EITC implementation). Another issue is that the one-year delay weakens the link between additional work and perceived financial benefit, thus reducing the efficiency of the tool. The coverage of the scheme was initially planned to be extended to the whole country in 2010, but the latest decision is that it should be generalised in 2012, unless the Wisconsin Programme is generalised before, in which case the EITC would follow. The government considers that the two schemes are linked in its strategy to improve labour force participation of the low-skilled.

The current economic crisis might also temporarily reduce the efficiency of the EITC. The employment effects of in-work benefits are larger during upswings than during downturns, but on the other hand, they might be a way to alleviate poverty while maintaining incentives to work. In downturns, they might not be as efficient, although it depends whether the downturn results in reduced working hours (in which case the EITC still plays a role) or reduced wages, or plain dismissal (Immervoll and Pearson, 2009).

## 3.3. The pilot welfare to work programme requires further improvement

The welfare-to-work programme was implemented in August 2005 in the four regions quoted above. Following widespread criticism by the public, NGOs and government entities, as well as recommendations by two committees (Yaari and Dinur), the programme was reformed and renamed as Orot Letasuka or "Lights for Employment" starting from August 2007.

### *The Mehalev programme was tilted towards getting people off welfare rather than into work*

As other welfare to work programmes, the objective of the Mehalev programme was to reduce the number of people receiving income support (*i.e.* reduce welfare expenditure) by integrating them into the labour market through promotion of job-search and investment in the human capital of the individuals concerned. One important aspect of the change was that the responsibility for performing the employment test and helping people get back to work was transferred from the state (the employment offices) to private businesses, although the rules for entitlement to income support were still set by the public sector. The four private providers, selected by tender,[39] were remunerated partly on operating costs (fixed in advance according to the number of participants to the programme at the beginning of the contract period) and partly in proportion to the saving in benefit payment. The absence of a link to the effective placement of people into work made this an inappropriate design structure. For example, Australia and New Zealand reward private sector providers for placements in employment and not for denial of benefit (see below). Compensation based on saving in benefit payment, combined with the transfer of power for the decision on benefit eligibility – *via* the employment test – to the private providers, implied that the programme was mainly geared towards reducing the number of people on income support.

Individuals registered in the programme underwent an assessment and were set a personal programme, generally involving reporting to the operating agency for 30 to 40 hours per week. During this time, clients would receive personal counselling and some training, operated by the employment centres. They could also be required to do community work, in principle, especially those with little or no work experience. The private providers also have a budget for providing some work-support services, such as support for day care for children and transportation. If

39. The private providers had to be a joint venture between an Israeli company and a multinational company, with experience in job placement.

the participants did not meet the number of hours participation required in their personal plan, their income-support benefits could be withdrawn for one month.

Overall, based on descriptive statistics (Table 3.3) and a number of evaluation studies, in particular one commissioned by the government (hereafter called the official evaluation study),[40] the following observations can be made on the Mehalev programme:

- *Change in employment*: over the two years of implementation, about 40% of the individuals participating in the programme were placed into a job or increased their working hours (Table 3.3). Not all placements were successful and, in one year of activity, 30% of them were registered for two or more placements (NEC, 2007). The official evaluation study found that over the first 15 months of implementation, the increase in the percentage of persons employed was 10 percentage points higher in the experimental group participating in the programme than in the control group not participating in the programme. The increase in the number of hours worked was 4 percentage points higher.
- *Savings in income support*: during the first year there was a decrease of approximately 50% in income support payments in the areas where the programme operated. According to the official evaluation study, 47% of the families in the experimental group had become ineligible for income-support benefit against 20% in the control group. Out of these, 43% of the families became ineligible for benefits because of a positive change in their employment situation, and 57% because they were sanctioned.
- *Family income*: the programme did not affect total family income *on average* because the increase in income from work was offset by the decline in income support. According to the official evaluation study, the average hourly rate of pay was close to the minimum wage.

Looking at it from a purely short-term fiscal view, the overall expenditure for the programme amounted to NIS 313 million while it saved NIS 243 million in income support.

40. Evaluation Study of "From Welfare to Employment", Summary Report, Myers-JDC-Brookdale Institute and National Insurance Institute [*http://brookdale.jdc.org.il/files/PDF/Mehalev/Mehalev6ES-ENG.pdf*].

**Table 3.3. The "Mehalev" and "Light for Employment" programmes**

| | Mehalev August 2005-July 2007 | Light for Employment August 2007-June 2009 |
|---|---|---|
| Number of individuals participating in the programme | 26 549 | 22 752 |
| Number of individuals who found a job or increased their working hours | 10 524 | 6 823 |
| Number of negative monthly reports for the employment test sent to the authorities[1] | 21 068 | 9 234 |
| Average monthly wage (over the period, NIS)[2] | 2 479 | 2 665 |
| Average hours per week spent by participants in the programme[3] | n.a. | 20 |
| Length of stay in the programme (share of the participants in June 2009[4] | | |
| Up to 12 months | n.a. | 29% |
| 12 to 24 months | n.a. | 36% |
| More than 24 months | n.a. | 35% |
| Number of participants eligible for perseverance grant (December 2007 to October 2008) | -- | 4921 |
| Average perseverance grant payment (NIS) | -- | 1244 |
| Number of appeals made to the Appeal Committee | 3 671 | 1 139 |
| *Of which* Rejected | 41% | 32% |
| Accepted, wholly or partially | 21% | 27% |

1. The operators report to the National Insurance Institute once a month regarding each participant's fulfilment of the employment test (a negative report means that the participant did not fulfil the requirements).

2. Data for May 2005-June 2007 and August 2007-January 2009.

3. Data for participants required to attend a personal plan for January 2008-June 2009.

4. The length of stay does not indicate consecutive stay.

*Source*: Bank of Israel (2009b) for average wage, number of participants eligible to perseverance grants and grant amount; Ministry of Industry, Trade, and Labour for the rest.

The Yaari report summarised the criticism on the programme.[41] First, on the operational framework, the committee recommended to change the operators' payment structure to reflect *sustainable* placements in jobs. Furthermore, NGOs and purely Israeli firms should also be allowed to compete for business under the tender procedure. Second, there should be more selection in who is sent to the programme, notably through an independent assessment of clients to determine whether the person is fit for the programme or not, and what limitations may apply. The Yaari report also recommended including a special "track" for those with occupational disabilities and facilitating voluntary participation for those benefit recipients

41. "Recommendations Regarding the Future of Israel's Welfare to Work Program", Counsel and Evaluation Papers of the Israel Academy of Sciences and Humanities, December 2007.

who are not obliged to engage. Finally, it was recommended to enhance professional training, on-the-job-training and basic education. All actions to support the establishment of positive incentives for the participant in the form of professional advancement, professional training mechanisms, work-support services, and additional financial rewards for long-term integration in work were to be encouraged.

### *The incentive structure of the new programme is more balanced …*

The Lights for Employment programme differs from the Mehalev programme in five main respects:

- The payment structure was changed. First, the variable payments to operators, in addition to the payment for welfare benefit savings (equal to 7% of the amounts saved), now include a payment for the placement of the participant equal to between 20 and 30% of the participant's annual wage.[42] The payment thus depends both on the wage level and on the job duration. Second, the budget allocated for work-support services is now earmarked, removing incentives for operators to economise on it.
- A so-called "perseverance grant" (between NIS 1 000 and NIS 4 200) is paid to participants and the operators that increases with the participant's duration of employment.
- The target population was revised and restricted to persons up to 45 years of age; those above 45 can participate on a voluntary basis.
- The operators were required to design special tracks for four groups (immigrants, clients with tertiary education, long-term income benefit recipients, and persons with disabilities). Individuals from these groups were released from the standard participation to the programme and had to come at the employment office only one hour per week until the programmes would be finalised. The special programmes became operational in March 2009 for the first three groups and in August 2009 for the last group. They include the same type of services that regular participants can get, but with different emphasis.
- Medical and psychological screening of participants was made compulsory for participants in these special groups, and is now carried out by a private operator, independent from the employment service providers.

42. 20% in the general case, 25% for participants in the special groups, and 30% for voluntary senior participants.

An evaluation of the programme over eight months (November 2007-July 2008) has been conducted by the research group in charge of the first official evaluation. It was conducted based on the same methodology as the first study, but only in the new areas added to the programme, thus not covering people involved in the first programme. Overall, despite the change in the payment formula, the change in employment attributed to the programme is similar to that of the Mehalev programme (plus 9% for the experimental group compared with the control group) (National Insurance Institute, 2009). 30% of the participants were placed into jobs or increased their working hours over the first 22 months of implementation (Table 3.3); this is less than under the first programme and probably partly reflects the effects of the crisis. A smaller share of families (40%) were also taken out of the benefit recipient pool than in the initial programme, but the decrease was nevertheless 20 percentage point higher than in the control group. Although information on the average number of hours worked by those in work is not available, the average wage of those in work corresponds to 70% of the 2008 minimum wage (Table 3.3). In terms of the change in net income, as in the Mehalev programme, the positive effect on income from work is offset by the loss of income support, so that the programme does not improve the financial situation of participants who found work or increased their working hours (NII, 2009). Information on the hourly wage of ex-participants and on the sustainability of the jobs they hold is not available.

### *… but the policy setting could be further improved*

Introducing competition among various providers in a given area would also likely result in better outcomes for the society at large. At the moment, it is limited to competition when bidding at the tender stage, not in actual administration of the programme. And fixed costs incurred at the beginning of the programme give incumbents a large advantage for the next round of tenders as well, thus making any change of operator in a given area unlikely. Having several providers in a given area and designing an evaluation mechanism along the lines of the Australian Star Rating system would probably ensure better service provision, as it would allow to select the best performers (Box 3.2). On the other hand, high fixed costs for the providers combined with a relatively small number of participants to the programme in each region may make it costly to have several providers in one area, while a concentration of resources would provide better services for the participants. Nevertheless, experiences with multiple private providers in Denmark (at the regional level), in some small states of the United States and Australia show that having different providers in one employment service area appears practicable also in regions with small populations. In

any case, non-profit organisations, and possibly the public employment services, should be allowed to compete in the tender. In many OECD countries which have reformed the provision of activation/placement services, it is done concurrently by for-profit private, non-profit private, and public entities.

### Box 3.2. Private employment services in Australia[1]

Employment services in Australia have been run by private providers since 1998. The system is managed by a public agency (now called Jobs Services Australia), under the auspices of the Department of Education, Employment and Workplace relations. It has been reformed several times since its inception, most recently in 2009. Recent reform aims notably at unifying the various previously existing programmes proposed to job-seekers, at better handling the need for investment in human capital building through training, and reducing the red tape. The evaluation system of employment service providers was also changed.

When becoming unemployed, a person first has to go the benefit administration agency (Centrelink), which is running a profiling system called the Job-Seeker Classification Instrument (JSCI) that will determine job seeker's relative levels of disadvantage, based on their expected difficulty to find a job due to their personal circumstances, location and labour market skills. The JSCI currently includes four categories of job-seekers, namely those: *i)* not disadvantaged and ready for work with a minimal service; *ii)* moderately disadvantaged; *iii)* highly disadvantaged; and *iv)* severely disadvantaged. The last three groups receive more intensive employment services. Barriers to employment are measured by proximity to a labour market, access to transport, job seekers' English-language skills, job seekers' partial work capacity and income-support histories. Where the JSCI indicates a potential need for the most intensive employment assistance from Jobs Service Australia or participation in a programme for disabled persons managed by Centrelink, the job seeker will undergo a more comprehensive Job Capacity Assessment (JCA) before referral to the most suitable specialised service.

Once the assignment to one of the four job-seeker groups has been made, the unemployed person can chose between the various private employment service providers available in the area (generally about five), and a provider cannot refuse him. Job Services Australia providers are a mix of large, medium and small, for-profit and not-for-profit organisations, operating in employment service areas of different size. If the worker expresses no choice, then Jobs Services Australia will direct the person to ensure that each provider gets a reasonable share of the total number of unemployed persons in that locality.

Employment service providers are selected through tenders for multi-year contracts with the government. More than a quarter of job service providers were not renewed in the last tender in Spring 2009. They are remunerated for each job-seeker that they serve through a fixed amount and a variable amount based on outcome; both fees vary with the categorisation of the job-seeker, increasing with the difficulty to place the person. In addition, since July 2009, they are provided with a sum for work-support services, including training, provided to job seekers, with larger amounts for the more disadvantaged categories of workers. The total amount available for these services is not capped and will be demand-driven. Hence, the payment system has the flexibility to accommodate the changes in economic circumstances. Workers

laid-off as a result of the current economic crisis are also automatically classified in the second category (moderately disadvantaged), while they would otherwise most likely have been qualified as not disadvantaged under more favourable economic circumstances, thus providing access to more funding.

The performance of employment service providers is also regularly assessed through the Star Rating system measuring their performance relative to other providers, based on two criteria: the time taken by providers to achieve employment outcomes in comparison with other providers, and the relative number of outcomes providers have secured for their job-seekers in comparison with other providers. When Star Ratings are calculated, the differences in labour market conditions and job-seeker characteristics that can impact on job-seeker outcome rates are accounted for through statistical regression. The rating is public and can be used by job-seekers to inform their choice as well as by employers to decide on where to lodge vacancies. For those workers who do not express a choice, it can also be used by JSA to direct job-seekers towards the best-performing providers. [2] The rating will also be used by JSA to reallocate job-seekers among the various providers during the period of contract. This setting provides incentives both to attract the largest number of job-seekers and to place them.

1. This box largely draws on information available at Jobs Services Australia website.

2. For more details, see *www.deewr.gov.au/Employment/JSA/PerformanceFramework/Documents/ Job20 Services20 Australia20Performance20Management20Advice pdf*.

Although the bonus payment is slightly higher for participants in the special groups than for regular participants, the differentiation remains small so that the incentive structure for private providers is unlikely to properly reflect the perceived difficulty in placing the participants.[43] Moreover, given that *i)* outcome payments are based on the savings in welfare benefits and a proportion of the wage resulting from placement, and *ii)* the fixed payments (operational and for work support services) are determined on the signature of the contract and do not depend on the number of participants providers are actually dealing with, providers may face incentives to push the most difficult-to-place participants (such as those who have been on their books for long time) out of the programme. These persons may then be left without income support and no particular assistance to find a job.

It is not clear to what extent the capacity of income recipients to work is properly taken into account in the new programme. The official evaluation study of the first programme indicated that 18% of the participants had at

43. The operators have received a fixed amount for the development of the special programmes (NIS 150 000 per operator). Operating fees are the same as for regular participants. Operators receive a supplementary NIS 200 on top of the NIS 280 already available for regular participants for work support services, which have to be fully spent.

least three serious disorders in the functioning of their limbs. The new programme, "Lights for Employment", requires a systematic medical screening for participants of the special groups, and regular participants can undergo such a screening at their own request or at the provider's request. Screening was initially done by a medical committee appointed by the private providers, which raised concerns about the actual independence of decisions due to conflicts of interests. Since mid-2008, the professional screening and evaluation mechanism for participants has been transferred to a private firm through a tender process. After examination, the committee can propose reduced hours for the participant (22 hours instead of 30-40). It can also request a more in-depth medical assessment.

Lone parents and mothers of more than five children are automatically placed under a "reduced activation regime", while those over 45 years of age are not obliged to participate. This age limit sends out a wrong policy signal, as most people aged over 45 are able to work, and there are plans to raise the threshold to 60 years of age in progressive steps. At the same time, criteria might be introduced so as to release some individuals from the programme. While this might be appropriate in some cases, it is important to ensure that requirements on participants and payments to providers properly reflect the capacity to work of participants and the investment required for them to regain employment.

In order to properly assess the effectiveness of the programme in terms of placing people into sustainable jobs, the Israeli Authorities should systematically collect information about the job duration of the individuals who have been placed in to jobs, as well as on their wage level. Such information is currently not available.

The current incentive structure is not appropriately taking into account possible fluctuations in the economic environment, unlike the Australian scheme of remunerating private employment services (Box 3.2). The operating budget and the funds for work-support services relate to the number of participants at the beginning of the programme and are not revised with actual inflows. The measurement of outcomes also does not account for the evolution of the labour market conditions. This is particularly problematic in times of economic crisis, because the private employment operators have to provide services to an increasing number of participants who are increasingly difficult to place within a constant budget. Such conditions obviously lower the quality of services and outcomes, and may compromise the sustainability of the workfare scheme.

In fact, in times of economic crisis, some programmes to stimulate the demand for poorly educated workers and workers in the peripheral areas may also be required for the welfare-to-work programme to be effective

(BOI, 2009b). OECD (2009) identifies three types of active labour market support that can help to improve the short-term and long-term labour market prospects of benefit recipients and to maintain the mutual-obligation ethos in a context of limited direct job opportunities: employment subsidies, public-sector direct job creation and training. While the cost-benefit evaluation of such measures is not always conclusive (job subsidies imply deadweight losses, direct public job creation is not effective in helping participants to later find permanent employment in the private sector, and training has low average and highly variable labour market returns), they may become more cost-effective in times of crisis, especially for disadvantaged workers who become even more difficult to place into jobs. Many OECD governments have moved promptly to reinforce their active labour market policy offerings in the early stage of the current downturn (OECD, 2009).

There is also a concern that the current settings do not allow proper provision of work support services, such as childcare and transportation. The overall amount available to operators is fixed and based on the number of participants at the signature of the contract (initially NIS 280, and since August 2009 NIS 500 per participant). The state fixes the maximum amount to be spent on some work-support services (*e.g.* on childcare spending for each children under the age of 11), but the operator can choose on which participant to spend the funds. Given that the overall sum is capped, there is no guarantee that *all* participants in need of such support would receive it. This might be problematic on a number of counts. First, as described in Chapter 4, childcare availability is generally lower in Arab areas to which the pilot areas belong (and enrolment rates for children not yet 3 years of age significantly lower). Mothers of children represent 60% of the Lights for Employment participants, and their children need to be cared for. Private providers sometimes arrange for childcare solutions, but often without imposing formal requirements to the quality of care. According to the official evaluation report for the Mehalev programme, 44% of single mothers required assistance from their private employment centre in caring for their children, but only 15% received it (Alternative Information Centre, 2009). In many OECD countries, the availability of childcare is ensured before activity requirements are imposed (Tergeist and Grubb, 2006). Second, public transport facilities are also lacking in the areas concerned (Chapter 4), and most of the participants are not allowed to use a car (see above).

Given that most of the participants to the programme belong to minority groups (in Mehalev, 40% were Arabs and 33% recent immigrants), it would also be important to ensure that the programme is targeted and "culturally designed". This would require more interaction with representatives of these groups, notably NGOs, which have become increasingly important actors in society (Chapter 2).

The introduction of the welfare-to-work programme has been done with no involvement of the public employment services (PES) at any stage. In fact, it was introduced after an attempt by the Ministry of Finance to have employment services privatised at large, a measure that naturally faced strong opposition from the ministry in charge of labour issues (Helman, 2009). In the current setting, the PES deals with people on unemployment benefit, the NII with those on disability and the private providers with those on social assistance. They will thus at times be competing to place these various benefit recipients in work. How will this be managed so that it is in the best interest of the various participants remains to be clarified.

## 3.4. Conclusions

Financial incentives to work embedded in the tax and transfer system are relatively strong, also for low-income workers. Access to income replacement benefits is rather limited and there is a need to make it easier. For social assistance, the eligibility conditions regarding car ownership or use are counterproductive in terms of job search and should be completely reformed. There should be no restriction on the use of a car, and car ownership should be allowed. It would even be appropriate to consider programmes to help the low-income households to purchase or rent a car in areas where public transport options are limited. For unemployment benefits, there seems to be a consensus that the qualifying period for entitlement to unemployment benefits is too strict, preventing the unemployment insurance from fulfilling its objectives. The recent shortening of the qualification period above a certain unemployment threshold partly deals with the problem in times of crisis, but a general shortening is required (and a corresponding increase in the contribution rate, currently very low, if needed).

Chapter 2 showed that the minimum wage does not apply across all economic sectors and its enforcement would be a first step towards improving the employment conditions of low-income workers. In addition, rather than raising the minimum wage, the EITC could make a contribution to ensuring a decent living standard and reducing in-work poverty. For this, it would have to be raised significantly and also be part of a larger toolbox including greater emphasis on training and human capital formation. As outlined in Immervoll and Pearson (2009), the effect of policies on employment level for low-wage workers matter, but also their effect on the quality of employment.

While targeting scarce public resources on families most in need may be desirable in theory, there are some practical issues. Take-up under the current EITC-pilot scheme is limited, as many potential clients are not used to dealing with tax authorities (income tax is withheld at source, and Israeli

workers are not obliged to file annual tax returns), and the tax authorities have no experience with supporting low-income workers. Thus, a coherent administrative framework will have to be developed involving both tax authorities and the NII which delivers income support, including the setting of mutually consistent benefit rules and direct access for staff of both institutes to each other's tax and benefit records.

The pilot welfare-to-work programme, Lights for Employment, is better designed than its predecessor, the Mehalev programme, which provided too strong incentives to simply get participants off the welfare rolls rather than into sustainable jobs. However, a number of problems remain, many of which would require more investment in the short-run to be solved:

- Introducing competition among employment service providers in a given area and allowing different type of entities (for profit-private, non profit-private and public) to participate in the tenders would certainly improve the quality of the employment services provided. Relevant reform should be introduced before generalising the programme to the whole country, since it will be much more difficult to achieve afterwards.
- The financing system could be further improved. The system currently caps the overall budget; this obviously helps to contain costs, but compromises the efficient delivery of services. To enhance the quality of services and appropriate reflection of economic conditions, operational and service payments to providers should also be made proportional to the number of participants actually receiving services. Outcomes should be measured while accounting for local labour market conditions. Policies need to be evaluated regularly to ensure that the payment structure for employment services is properly differentiated across different categories of workers, so that providers have strong financial incentives to help all the participants into employment.
- The introduction of independent screening and evaluation mechanisms for participation in the programme is a good step. At the moment, the screening committee cannot decide to exempt someone from participating in the programme, but the government is currently envisaging that possibility. Removing the 45 year age limit for participation in the programme is appropriate as it provides just focus on the employment capacity of older workers, although it is not efficient and/or fair to enrol everybody in the programme. In any case, it is important to ensure that disadvantaged workers who participate in the programme receive appropriate assistance.
- More information should be collected on the quality of the jobs into which people are placed (in particular on the wages and the duration of the placements).

Further consideration of design issues seems appropriate, especially in view of the planned extension of the Lights of Employment programme across the country. In addition, for any comprehensive activation strategy to be effective, the government has to clearly define the roles of private and public providers of employment services and adequately resource both employment support networks.

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# Chapter 4.

# Poverty and Employment Issues for Minority Groups

*This chapter looks at Israel's social chasm between the majority of Jews in Israel's population and the Arab and ultra-Orthodox minorities. The chapter starts by setting out the vast differences in socio-economic outcomes between these minorities and the rest of the population. These are explained in part by differences in education systems and infrastructural investment in the different communities, but also cultural influences which affect family size and employment behaviour. Socio-economic outcomes of the Arab minority are also affected by limited investment in active labour market policies, unequal access to social services, and failure to implement legislative provisions to tackle discrimination and apply employment quotas. The male ultra-Orthodox Jews or Haredim engage in religious studies rather than labour force participation. Public policy supports this lifestyle by means of exemptions from military service, stipends for religious students and recently increased child allowances. This chapter ends with a summary of the main conclusions.*

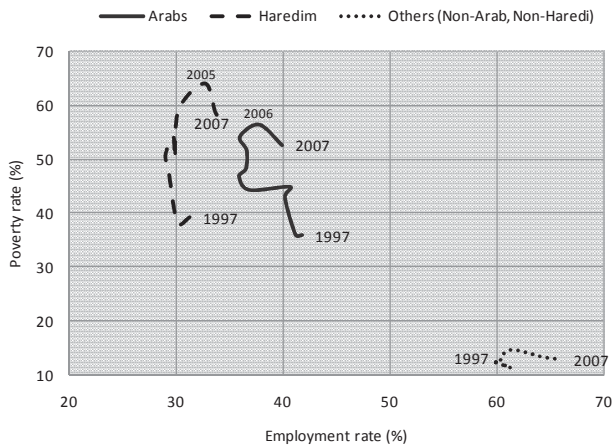
## 4.1. Introduction

As shown in Chapter 1, poverty and income inequality is higher in Israel than in most OECD countries. These poor outcomes are the result of Israel's socio-economic dichotomy. On the one hand there is the general Jewish population where the majority of men and women are in work, living alongside minorities where either the majority of women (Arabs) or men (Haredim or ultra-Orthodox) is not in paid employment (Chapter 1).

Figure 4.1 shows the recent poverty and employment trends of the different population groups. Since 2000, the majority population has experienced increasing employment and a slight decline in poverty. The Arabs and the Haredim have seen poverty rise by about 20 percentage points at employment levels which were not all that different in 2007 from what they were in 2003 (except for an increase in employment among Haredi women). As both Arabs and the Haredim have more children than the rest of the Israeli population, poverty and non-employment are concentrated among the youngest and most rapidly growing population groups.

**Figure 4.1. Israel is a divided society**

Employment and relative poverty rates by population groups benchmarked at 50% of median income, from 1997 to 2007




*Note:* This figure uses Bank of Israel official statistics, which include data relating to the Golan Heights, and Israeli settlements in the West Bank. Arabs living in Jerusalem are not covered here. The Israeli Labour Force Survey and the Income Survey have difficulties identifying Haredim. They are here identified as families in which the last educational institute attended by a male family-member was a Talmudic college (Section 4.3). This definition creates a bias with regard to people with a lower tendency to participate in the labour force, and it also does not account for those whose last educational institute is not a Talmudic college, as is often the case for Hasidic Jews (Gottlieb, 2007).

*Source*: Data provided by the Bank of Israel.

To fight poverty effectively, it is important to identify and address the underlying factors. Some of these cut across the Arab and Haredi populations, some do not. For example, low employment largely explains the high rates of poverty for both groups. This is a matter of choice for the Haredim, but not for Arabs. Male Haredim spend about 15-20 years of their life in religious schools, and send their children to schools where little attention is paid to secular topics of study. Cultural factors also play a role in the low Arab female employment rates, but the relatively low quality of schooling open to them is a matter of policy failure, not parental choice.

The State of Israel continues to grapple with the challenges of incorporating non-Jewish citizens in society in an equal manner. By and large, the Arab and Jewish communities live apart in Israel, and there is profound distrust between both population groups. Arabs are generally not conscripted into the Israeli Defence Force (IDF), and neither are Haredim, which is a source of resentment among the rest of the population which spends two (women) to three years (men) in military service. The distrust in society contributes to discriminatory practices which further contribute to the societal cleavage.

The negative effects of the historical legacy are most apparent when considering the Arab Bedouin population, which comprises around 2% of the total population. These traditionally nomadic tribes now live in localities, which are not all legally recognised (see below), often with little or no basic infrastructure. More generally, the Arab population often lives in the periphery of Israel (southern and northern districts of the country), with a relatively low density of available public services (including transport), and poorer local governments which contribute to a relatively low standard of social services: there is a regional aspect to the socio-economic divide in Israel.

There are different labour market and social policy measures that could be used to help address the very large socio-economic differences, including policies that promote mobility of workers, policies which effectively promote minimum employment conditions, active labour market policies and more general increased access to social services. Some such policies have been introduced, but have yet to have much effect. Some other policies are "missing". More commonly, some sensible provisions have been legislated, but the practical implementation often leaves much to be desired.

This chapter explores why it is that Arabs and Haredim have such low employment rates and such high rates of poverty in Israel. It begins by discussing the challenges facing the Arab population before turning to the Haredim. It complements Chapter 1 with further details on the socio-economic outcomes for Arabs and Haredim and attempts to link these to factors including education policy, cultural differences, regional issues,

discrimination, and the ineffective labour market and social policies. It concludes by summarising some key policy options that may help to address the societal inequities.

## 4.2. Towards a fair deal for Arabs

### *Poor socio-economic outcomes for different Arab population groups*

#### *Employment and poverty outcomes*

Figure 4.1 showed that the incidence of poverty within the Arab population increased from 1997 until 2006, before falling back slightly in 2007 because of increased employment. Nevertheless, the stark truth remains that over half the Arab population were poor in 2007, and their share of the total number of poor (45%) is more than twice their share of the total population (Chapter 1).

Poverty outcomes for the Arab population are related to it being a relatively young population group: 30.4% of Arabs are below age 25, compared with 20.8% for the Jewish population, while only 12.7% of the Arab population is over 55 years of age compared with 27.9% for Jews (Habib *et al.*, 2010).[44] The average Arab family is also larger than its Jewish counterpart: the average household size is 5.6 compared with 3.6 in Jewish households, and on average Arab mothers (aged 15+) have three children compared with 2.2 for Jewish mothers (Table 4.4). Furthermore, Arabs often reside in the less affluent "periphery" of the country (with most of the Arabs over 15 residing in the north of Israel and many Bedouin living in the Negev desert in the South).

The incidence of poverty correlates with the number of wage earners within the household (Table 4.1). Compared with jobless households, one-earner households are far less likely to live in poverty. Nevertheless, over half of the Arab one-earner households are poor. It typically takes two wage earners in each household to get out of poverty, and the higher percentage of households with two wage earners among the Jewish population accounts for a large part of the poverty gap between the population groups.

44. Life expectancy of Arabs is around four years lower than that of Jews both for men and for women, and (infant) mortality rates are higher for Arabs than for Jews (Annex Table 4.A1.1).

**Table 4.1. Dual earnership reduces poverty, but regardless of employment status, Arabs[1] are relatively poor**

Incidence of poverty of households, individuals and children, 2007

| | Arabs | | | | | |
|---|---|---|---|---|---|---|
| | Muslims, Christians, Druze | Bedouin | East Jerusalem | Total | **Jews** | **Total** |
| **Incidence of poverty** | | | | | | |
| Among families | 46.3 | 67.2 | 70.5 | 51.4 | 15.1 | 19.9 |
| Among individuals | 48.8 | 65.1 | 69.8 | 54.1 | 16.3 | 23.7 |
| Among children | 56.9 | 70 | 74.6 | 61.7 | 23.8 | 34 |
| **Household** | | | | | | |
| No wage earner | 80.5 | 91.7* | 95.1 | 84.5 | 36.1 | 42.7 |
| One wage earner | 51.7 | 74.5* | 73 | 56.2 | 15.6 | 23.4 |
| Two wage earners | 7.1 | 15.7* | 10.4 | 7.8 | 2.4 | 2.8 |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. The term Arabs refers here to Arabs who live in Israel (and have Israeli citizenship) and Arabs residing in East Jerusalem who do not have Israeli citizenship. Within the population group of 1.4 million Arabs (or 20% of the Israeli population), five groups can be distinguished according to legal status, religion or ethnicity: East Jerusalem, Christians, Druze, Moslems and Bedouin.

*Statistically insignificant.

*Source*: Central Bureau of Statistics, Income Survey, 2007, adapted from Habib *et al.* (2010).

Across household types (regardless of the number of wage earners), the incidence of poverty is about three times as high among Arabs as among Jews. Poverty rates among the Arab population are substantially higher than among the Jewish population: 54% *versus* 16% among individuals, 51% *versus* 15% among families and 62% *versus* 24% among children (Table 4.1).

The Arab population is made up of different sub-groups which have different socio-economic outcomes. In general, the poorest groups are the Bedouin[45] and those living in East Jerusalem, with poverty rates around 15 to 20 percentage points higher than other Arabs. More detailed information on labour force participation among Arabs shows that Arab-Christians have the strongest labour force position, but overall labour market participation rates remain considerably lower than for Jews (Table 4.2). For example, the unemployment rate of Arabs is more than 50% higher than for Jews, and

45. Central Bureau of Statistics data do not cover Bedouin in "unrecognised villages" (who are often very poor), which leads to a small downward bias in poverty rates while employment rates contain a small upward bias.

unemployment is particularly high among the Bedouin. The employment gap for Arabs and Jews is around 25 percentage points with employment rates highest for Jews at 65%, Arab-Christians (54%), Muslims and Druze (40%), and for Bedouin and Arabs in East Jerusalem as low as 30%.[46]

Table 4.2 also shows that a key factor in explaining differentials is female labour force behaviour. Labour force participation rates are around 20% for most Arab-population groups, while for Jewish women it is almost 70%. Arab-Christian women hold a middle position at almost 45%.

**Table 4.2. Labour market participation differentials are particularly pronounced for women**

Labour force participation, employment and unemployment, 15-64 population, 2007

| | Arabs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Moslems | Christians | Druze | Bedouin | East Jerusalem | Total | **Jews** | **Total** |
| **Total** | | | | | | | | |
| Participation | 44.8 | 57.8 | 41.5 | 37.6 | 38.4 | 44.1 | 69.5 | 64.9 |
| Employment | 40.1 | 53.4 | 38.8 | 29.3 | 33 | 39.2 | 64.7 | 60 |
| Unemployment | 10.5 | 7.6 | 6.5 | 21.9 | 14.1 | 11.1 | 6.9 | 7.4 |
| **Men** | | | | | | | | |
| Participation | 67.1 | 72.2 | 57 | 59 | 64 | 65.6 | 70.8 | 69.8 |
| Employment | 61.4 | 68.2 | 54.1 | 47.3 | 54.5 | 59.3 | 66.3 | 65 |
| Unemployment | 8.4 | 5.6 | 5 | 19.7 | 14.8 | 9.7 | 6.3 | 6.9 |
| **Women** | | | | | | | | |
| Participation | 22.2 | 42.5 | 24.5 | 15.6 | 12.4 | 22 | 68.2 | 60.1 |
| Employment | 18.4 | 37.7 | 22 | 10.9 | 11.1 | 18.6 | 63.1 | 55.3 |
| Unemployment | 17 | 11.3 | 10.3 | 30.4 | 10.3 | 15.4 | 7.5 | 8 |

*Note*: For technical reasons this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source:* Central Bureau of Statistics, Labour Force Survey, 2007, adapted from Habib *et al.* (2010).

Compared with Jewish men, Arab men are more likely to work in construction, agriculture, commerce and traditional manufacturing (Habib *et al.*, 2010). Among less educated workers, Arabs are more likely to work as skilled industrial workers or unskilled workers than their Jewish counterparts. Compared to low-skilled Arab workers, Jewish workers with similar qualifications are more likely to be employed clerks, agents and service workers (Annex Table 4.A1.2).

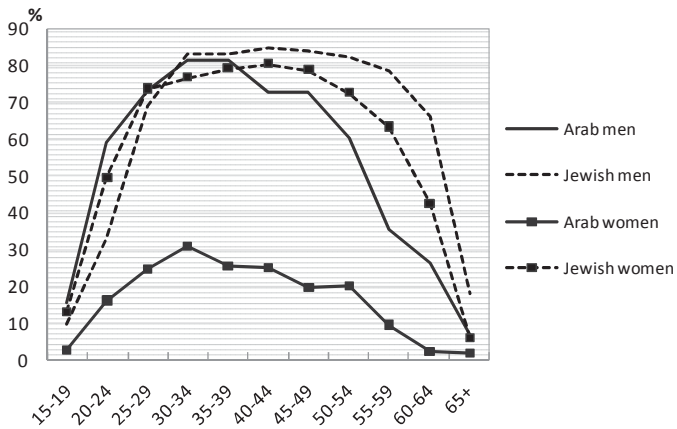
46. A comparison of employment outcomes of the Arab and Jewish populations for the 15-64 population is somewhat biased as it ignores the many Israelis (mainly Jews) who are in military service at age 18-21.

Arab men enter work at an early age, frequently in physically more demanding jobs than their Jewish counterparts (BOI, 2009), which is likely to contribute to the inflow into disability due to muscular impairments above age 50 (Chapter 5).[47] Figure 4.2 illustrates the differences in the employment profile over the life cycle between Jewish and Arab men. Employment rates among Arab men rise quickly with age, peak at around age 35-39 and then start to decline, particularly upon turning 50. Jewish men start to withdraw from the labour market around age 60. Labour force participation among Arab women is low across all age groups but particularly so among older age groups (Yashiv and Kasir, 2009).

Compared with their Jewish counterparts, Arab workers are less likely to be employed in their chosen occupations, sometimes accepting jobs for which they are over-qualified because they cannot find employment at the appropriate level. This is particularly the case for Arab men rather than women (Abu-Bader and Gottlieb, 2008; Yaakobi *et al.*, 2009).

**Figure 4.2. Arab men retire earlier on average**

Employment rates, Jews and Arabs, by age, 2007




*Note*: For technical reasons this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: Central Bureau of Statistics, Labour Force Survey, 2007; adapted from Habib *et al.* (2010).

47. The incidence of disability is about 25% higher for Arabs than for Jews, while the former are the "younger" population group by comparison. Yashiv and Kasir (2009) identified a significant decline in male Arab participation rates around age 40-44 (also when accounting for differences in education levels) and suggest this is related to a combination of physically demanding jobs and a cultural environment in which adult children are ready to support their parents.

### *Earnings differentials*

Wage gaps between Arabs and Jews are considerable. In 2007, the average hourly wage of Arab workers amounted to around 70% of that of Jewish workers. Wage gaps are larger for men than for women: the average hourly wage of Arab men constitutes 60% of Jewish male wages while this was 84% for women (Table 4.3).

**Table 4.3. Hourly wages are very low for Arab women, and earnings differentials remain substantial for workers with tertiary education, especially men**

Average monthly gross income and hourly wage, by highest educational certificate, salaried workers, age 15-64

| | Total | No schooling, primary or Intermediate certificate | Secondary school - but not matriculation | Matriculation | Post-secondary certificate but not academic | B.A., M.A. or Ph.D |
|---|---|---|---|---|---|---|
| | | | **MEN** | | | |
| **Total** | | | | | | |
| Monthly income | 9 279 | 5 788 | 7 132 | 6 991 | 9 468 | 14 652 |
| Hourly w age | 47.1 | 31.1 | 36.8 | 37.9 | 46.4 | 72 |
| **Jews** | | | | | | |
| Employed | 968 900 | 109 800 | 196 900 | 209 800 | 164 400 | 291 400 |
| Percentage | 100 | 11.3 | 20.3 | 21.7 | 17 | 30.1 |
| Monthly income | 10 001 | 6 342 | 7 482 | 7 338 | 9 682 | 15 113 |
| Hourly w age | 50.5 | 35.5 | 38.6 | 39.7 | 47.2 | 73.4 |
| **Arabs** | | | | | | |
| Employed | 198 300 | 86 900 | 35 700 | 40 200 | 10 400 | 25 900 |
| Percentage | 100 | 43.8 | 18 | 20.3 | 5.2 | 13.1 |
| Monthly income | 5 754 | 5 087 | 5 202 | 5 175 | 6 094 | 9 470 |
| Hourly w age | 30.7 | 25.7 | 26.8 | 28.2 | 33.3 | 55.4 |
| | | | **WOMEN** | | | |
| **Total** | | | | | | |
| Monthly income | 5 970 | 3 406 | 4 366 | 4 598 | 5 526 | 8 411 |
| Hourly w age | 40.2 | 26.6 | 30.3 | 31.8 | 38.1 | 54.2 |
| **Jews** | | | | | | |
| Employed | 1 042 400 | 81 000 | 152 800 | 259 200 | 194 200 | 360 800 |
| Percentage | 100 | 7.8 | 14.7 | 24.9 | 18.6 | 34.6 |
| Monthly income | 6 069 | 3 479 | 4 413 | 4 655 | 5 608 | 8 570 |
| Hourly w age | 40.5 | 27.1 | 30.6 | 32 | 38.4 | 54.7 |
| **Arabs** | | | | | | |
| Monthly income | 4 358 | 2 864 | 3 338 | 3 281 | 4 227 | 5 931 |
| Hourly w age | 34 | 22.7 | 23.4 | 26.5 | 31.8 | 47.1 |

*Note*: For technical reasons this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: Habib *et al.* (2010) on the basis of the Israeli Central Bureau of Statistics Income Survey, 2007.

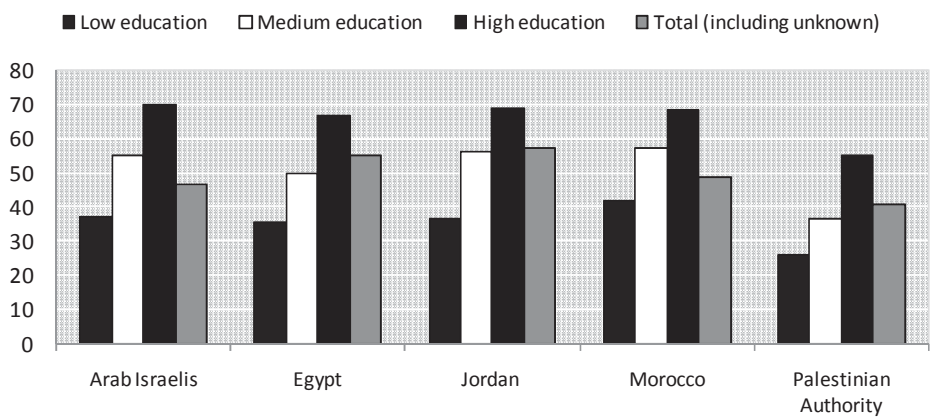
Hourly wages and monthly incomes increase with education, both for men and women. In Israel, the increase is modest for workers with a post-secondary school education, but the rise is significant for those with academic qualifications. Hourly wages of Arab men are about 75% of hourly earnings of Jewish men with tertiary degrees. Apparently even highly educated Arab men find it hard to close the earnings gap with their Jewish counterpart.

Across all educational attainment levels, Arab women earn about 85% of what Jewish women earn. In fact, Arab women earn more per hour than Arab men, although their monthly incomes are lower. These patterns reflect the fact that the relatively few Arab women in employment have relatively high levels of education, but their working hours are low compared with Arab men. Wages for unskilled female labour are very low at NIS 22.7 per hour (USD 6), and they are not much higher for other Arab women unless they have a university degree.

Although not fully comparable in view of the relationships between Israel and its neighbours, there are similarities with the situation of Muslim minorities in OECD countries (Figure 4.3).

**Figure 4.3. Employment rates of Arab Israelis and Arab immigrants in the OECD area by education level are not very different**

Employment rates of Arab Israelis and of Arab immigrants in OECD countries by country of origin[1]




1. Data for Arabs in Israel concern 2007 and the age group 25-64; data on Arab migrants in "receiving OECD countries" concern all OECD countries except Iceland and Korea, and pertain to the period around 2000.

*Source:* Adapted from Dumont (2006) for immigrants in OECD countries (*www.oecd.org/els/migration/dioc*) and Habib *et al.* (2010).

For example, despite data limitations (see notes to Figure 4.3), employment rates of Arab Israelis are not strikingly different from the employment rate of Arab migrants in OECD countries (Dumont, 2006).[48] Cultural factors affect female Arab employment rates in Israel as well as in OECD countries, and employment rates are lowest for Muslim women with low levels of educational attainment (see below).

### *Why are socio-economic outcomes so poor?*

Trends in labour demand have weakened the employment position of Arab workers. Chapter 1 showed that recent economic growth is predominantly concentrated in the high-tech and information technology sectors of the economy in which relatively few Arabs work (Kremer, 2004; and, Sadan and Khalabi, 2008). By contrast, the economic sectors in which Arabs workers are concentrated have stagnated or declined (labour-intensive industries such as textiles and food, construction and materials, and services).

In addition to demand factors, there is a wide range of factors that influence why socio-economic outcomes of the Arab population are so poor (*e.g.* Abu-Bader and Gottlieb, 2008). They include structural issues such as differences in education systems, regional differences in infrastructural investment, cultural influences which also affect family size, and the mistrust between communities arising from the long-standing of Arab-Israeli conflict. At the same time, there are issues that are related to Israeli policy failures which have exacerbated the socio-economic divide. These include policies towards (foreign) low-income workers (Chapter 6), social services and active labour market programmes (Chapter 3), and the limited effectiveness of policies to redress discriminatory practices.

#### *Human capital and education policy*

Compared with outcomes for the Jewish population, educational participation and attainment among the Arab population, though improving, still lag behind. Among the population aged 15 years and older, the average number of years of schooling is 10.2 for Arabs and 13 for Jews (Table 4.4). Nearly half of Jews have 13 or more years of schooling compared with only a fifth of Arabs. Drop-out rates for Arab students in 9$^{th}$ and 11$^{th}$ grade were 8.1% in the mid-2000s compared with

48. There is considerable variation in participation rates of Arab immigrants in OECD countries. For example, participation rates for Moroccans in Spain are about 74% (and higher than for the native born population), while the participation rates of Moroccans in Belgium is around 35% and as low as 14% for women (Dumont, 2006).

3.9% for Jews; with Arab students (and students from low-income families more generally) being most likely to encounter bullying and violence at schools (Gal *et al.*, 2009). In all, the percentage of Arabs with a post-secondary certificate is about one-third the proportion of Jews (CBS, 2008), and the majority of Arabs are not proficient in Hebrew, which does not help their labour market prospects (Habib *et al.*, 2010).

**Table 4.4. The Arab population[1] has completed fewer years of education**

Population, age, number of children and years of education by religious status, people aged 15+, 2007

| | Arabs | | | | | | Jews | Total |
|---|---|---|---|---|---|---|---|---|
| | Moslems | Christians | Druze | Bedouin | East-Jerusalem | Total | | |
| Population (N) - thousands | 483.8 | 84 | 68.7 | 73.1 | 151.2 | 860.7 | 4 279.4 | 5 140.0 |
| Percentage | 9.4 | 1.6 | 1.3 | 1.5 | 2.9 | 16.7 | 83.3 | 100 |
| Average age | 35 | 39.6 | 35.2 | 30.3 | 35.5 | 35.2 | 42.7 | 41.4 |
| Average number of children (mothers) | 2.9 | 2.3 | 2.6 | 4.7 | 3.1 | 3 | 2.2 | 2.4 |
| Years of education | | | | | | | | |
| 0-8 | 27.7 | 16.8 | 22.6 | 40.2 | 29 | 27.5 | 8.5 | 11.7 |
| 9-12 | 24.3 | 19.8 | 23.5 | 22.3 | 25.3 | 23.8 | 14.7 | 16.2 |
| 12 | 30.5 | 32.4 | 33.1 | 24.9 | 25 | 29.5 | 29.4 | 29.4 |
| 13+ | 17.5 | 30.9 | 20.9 | 12.6 | 20.6 | 19.2 | 47.4 | 42.7 |
| average | 10.2 | 11.7 | 10.5 | 8.2 | 10.2 | 10.2 | 13 | 12.5 |
| Highest certificate | | | | | | | | |
| Didn't study or didn't get any certificate | 11.5 | 5.6 | 11 | 28.7 | 10.7 | 12.2 | 3.9 | 5.3 |
| Primary or intermediate | 42.8 | 32.5 | 36.9 | 36.6 | 46.3 | 41.4 | 18.3 | 22.2 |
| Secondary school, without matriculation | 14.1 | 13.5 | 13.9 | 14.2 | 8.9 | 13.1 | 17.5 | 16.8 |
| Matriculation | 19.7 | 24.6 | 24.2 | 13.3 | 19.5 | 20 | 22.7 | 22.2 |
| Post-secondary | 12 | 23.8 | 13.8 | 7.3 | 14.5 | 13.4 | 37.5 | 33.4 |

*Note*: For technical reasons this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Bedouin in non-recognised villages are not included here.

*Source*: Habib *et al.* (2010), on the basis of the Labour Force Survey, Israeli Central Bureau of Statistics.

Chapter 1 showed that Israeli students perform poorly in international comparisons of reading, mathematics and sciences skills with scores of about 90% of the OECD average, with only Turkish and Mexican students faring worse, while Arab students only scored just over 75%. In part, these differences are related to the socio-economic differences among population groups, but even after controlling for these differences, literacy scores remain low in international comparison (OECD, 2010).

The marked differences in employment outcomes, educational attainment and literacy scores are related to characteristics of educational policy in Israel. Compared with an OECD average of 5.3% of GDP, public spending on education in Israel is high at about 6.2%. However, as Israel is such a young country with many children, spending on education per student in Israel is relatively low (Chapter 1).

Pre-primary, primary and secondary education in Israel includes five main "streams": the Hebrew-speaking stream includes state, state religious and Haredi schools (see below); a stream for the Arab speakers; and, a small separate system for the Druze. Public investment in education per child varies across Arab and Jewish children. Compared with OECD countries, Israeli schools have large classes, but this is especially the case for Arab schools. Primary and lower secondary classes in Hebrew-speaking schools have 24 and 29 students, respectively. For primary schools, this is 22 students on average across the OECD, and it is 29 students in Arab schools. Disadvantage in lower secondary education is even more pronounced with an average class size of 24 students across the OECD, and 33 students in Arab schools (OECD, 2010). In addition, teaching hours in elementary Arab schools are about 75% of those in Jewish schools. Gal *et al*. (2010) estimate that on average for the years 2004-06 spending on education per child in Arab localities was about 38% lower than in Jewish municipalities. Evidence by a non-governmental organisation (NGO) for the advancement of civic equality in Israel also suggests that budgetary spending per child (aged 0-17) in Arab localities is only half that in Jewish localities (Sikkuy, 2008).

Authorities are aware of the discrepancies, and have started to increase investment. For example, over the 2007-11 period 8 000 new classrooms are scheduled to be built and subsidised, of which 40% for the benefit of minority populations. However, a sustained investment effort is needed to address long-standing shortcomings (OECD, 2010, includes an assessment of the education system and policy reform thereof).

### *Regional variation in infrastructure and the plight of the Bedouin*

Discrepancies in public investment in infrastructure in Arab and Jewish communities are widely cited as key barriers to employment opportunities for the Arab population. Limited public investment in industrial and/or commercial business parks and the lack of regular public transportation make it difficult for Arabs, and in particular the poorest families who often do not own a car, to access education and employment opportunities outside their community (*e.g.* Dagan Buzaglo, 2008; and Rabin Margalioth, 2004). Administrative evidence on the issue is scant, and the quality of

infrastructure statistics should be improved. Survey-based indirect indicators suggest that many of those living in Arab communities face transport constraints, both within Arab communities and between them and Jewish communities. These limitations curtail labour market participation (especially among women), but also have a significant effect on school dropouts among Arab children (Abu-Bader and Gottlieb, 2004).

Aware of the shortcomings in infrastructure, in July 2006, the government designated all minority localities as National Priority Area A (giving employers access to investment grants of up to 24% of initial capital outlays and complete tax exemption for ten years) in order to promote the development of industrial and employment zones (MOITAL, 2009). It is too early to assess to what extent this policy has been effective in improving employment opportunities in Israel's periphery. Additional direct public infrastructure investment is also required to redress the infrastructure inequities that have developed over the past five decades.

The infrastructural problems are particularly severe for Bedouin communities in the southern part of Israel (Box 4.1). Abu-Bader and Gottlieb (2004) use survey data to measure inequalities in access to infrastructure, as for example, the distance to a public clinic, to school, to public transportation, access to electricity, sewage, telephone line, etc. Communities are ranked according to an index measuring access to infrastructure (from 0 to 100, with 100 meaning full access). On average Arab communities score 84, but in the Bedouin communities in the Negev scores are significantly lower and in some non-recognised villages, infrastructure is totally absent. Government policy needs to focus on addressing the issues concerning the Bedouin in a structural manner, starting with urgent interventions to connect the Bedouin settlements with electricity, sewage, and transport systems.

### Box 4.1. The Bedouin of the Negev

Socio-economic indicators such as poverty, employment and educational attainment are frequently at their lowest for the Bedouin who live in Israel (see Tables 4.1, 4.2 and 4.4), mostly in the Negev desert. Although the absolute numbers of Bedouin are not high – something under 75 000 people, just 25% of the population of the Negev – their condition has received a degree of international publicity and is seen as symbolising the indifference or even hostility of the Israeli Government towards its non-Jewish residents. The government, however, argues that it has attempted to address the issues of the Bedouin, but their good-faith attempts to resolve some extremely complex problems, with deep historical roots, have not been recognised as such.

The very poor outcomes of the Bedouin are the consequence of (at least) three major problems, which interact to amplify the negative effects that would be associated with any one of them.

First, the Bedouin are in the middle of a painful transition to adapt to modern society. In some key respects, culture remains tribal. Between a quarter and a third of Bedouin adult males have more than one wife, for example. Family sizes can therefore be large, with eight or more children being common. Tribal loyalties continue to influence attitudes towards education, and public sector appointments under the control of the community may be affected by tribal concerns. The community is not particularly unified, some people being the descendents of slaves or non-land-holding labourers. Educational attainment of women is particularly low, and their employment rates are very low. The average age of marriage of women has fallen from 20 in 1996 to 16.6 in 2007 (Habib *et al*., 2010). 37% of households have no wage earner (*op. cit.)*.

Second, there is a land dispute. This is a long-running problem, long predating the establishment of the State of Israel. Bedouin titles to use of land were not registered under either the Ottoman or the British administrations, despite many attempts to do so. One reason is that land in the desert is rarely in continuous use. A family will use it for a while, and then leave it barren for years, complicating official attempts to say whether or not a particular tract of land is in use or is "dead". Whatever the reason, under British law inherited by the Israeli Government, unclaimed land belongs to the crown – the state – so the Israeli State "owns" much of the land of the Negev. However, many Bedouin have now made claims to land. For security and developmental reasons, these claims have been contested by the state. Furthermore, all land issues in Israel are coloured by history. Jewish institutions used land purchases as a key instrument in developing the foundations of the Israeli State, so failure to reach an agreement with the Bedouin is seen, rightly or wrongly, as an attempt by the state to keep land for Jews alone.

The effects of the land dispute are devastating for the Community. Bedouin families are reluctant to develop disputed land. Hence, in Bedouin villages there are large tracts of unused land, and housing is scattered widely and is of very poor quality. Economic development in the affected areas is all but non-existent.

The land dispute is so very difficult to decide because it brings into conflict the ancestral "law of the desert" with the "law of the state". What is right on the one hand is wrong on the other. The only way forward is a compromise, made on practical grounds, not those of principal. Both the Bedouin community (*e.g.* the Regional Council of Unrecognised Villages) and the government agree that this is the only feasible strategy: the problem is finding the compromise.

The third issue relates to the problem of "unrecognised villages". Before 1966-67, the Negev was under military rule. There were no schools worthy of the name. If Bedouin wanted to visit a doctor in the main settlement in the region – Beer Sheva – they would need a permit from the military authorities. Since a High Court ruling, education has been provided to settlements. But the state has been reluctant to recognise all settlements in the region as legitimate and deserving of the amenities that are usual in developed societies. Hence, there are a large number of unrecognised communities, covering 40% of the community, who might receive basic educational services, but not electricity, sewage, transport, more advanced educational facilities, etc. As a result, the very high poverty rates among the Bedouin – perhaps as high as 80% among the unrecognised settlements (NII, 2008) – have to be understood as existing alongside a penury of infrastructure and public services which is not present to the same extent in the rest of the country. The government has argued that providing such services to remote communities in a desert is hugely expensive. It has, however, done so when a critical population size has been reached – roughly, 8-10 000 people. This is the case for seven "recognised" settlements. Whereas in the past, the government appointed people from outside

to run these communities, by now they have the same democratic institutions as other local governments in Israel. However, it is still the case that if local governments are ranked on their socio-economic situation, the recognised seven settlements are all at the bottom of the distribution. They are exceptionally poor, even by Arab Israeli standards.

There are tentative signs of hope for the community in the future. Education has improved, and much of this improvement is very recent. There has been an attempt to improve the quality of teachers, with a substantial majority of children now attending "modern" schools, with decent equipment. Unfortunately, but not surprisingly, this improvement remains concentrated among boys. Furthermore, there are no role models of educated Bedouin moving into modern areas of the economy. Insofar as educated Bedouin find jobs, they do so overwhelmingly in the education sector itself. Nevertheless, the improvements in education cannot be anything but a positive development.

Also positive are developments relating to the settlement of land claims and recognition of settlements. A high-court judge, Justice Goldberg, recently headed an eight-member commission to consider these issues. Such commissions have sat in the past, but have been seen by the community as a front for the government. Government representatives were a minority in the Goldberg Commission; there were Bedouins on the commission and the Regional Council of Unrecognised Settlements participated actively in the process. The commission reported in 2008. The two main sets of recommendations were:

a) Where possible, recognise all unrecognised villages, excepting only the very smallest. These suggestions would lead to recognition of between 60 and 75% of the population currently living in unrecognised settlements. Exceptions are those living in an area with environmental problems and a small number on military land. There would still be some who live in very small communities (50 families or under) where economic constraints suggest recognition to be impractical. Nevertheless, all settlements of 200-500 people or more would be recognised. About ten or so settlements are currently in the process of being recognised, with a mayor having been appointed by the government under a temporary arrangement. The authorities are supposed to be in touch with representatives of the community in other settlements to start the process of recognition. Poverty in recognised communities is still high, but the fact that it is a quarter less than in unrecognised communities (NII, 2008) suggests that there are some tangible benefits which flow from recognition.

b) The previous government indicated to the Goldberg Commission an amount of land it could allocate to "solve" the land ownership issue. It is a much larger allocation of land than previous attempts to resolve the problem. The commission came up with proposals that left both the government and the Bedouin unhappy, which is perhaps a sign that compromise may be possible. However, the process will be long: by their very nature, land claims are settled on a case-by-case basis.

The current government has yet to give its response to the Goldberg recommendations. If agreement is reached, the potential is there for the Bedouin community to catch up with the Arab community more generally. Certainly, the potential gains from sorting out infrastructure issues are high: differences in employment and education between Bedouin and other Arab groups can be explained essentially by differences in infrastructure, not by cultural differences (Abu-Bader and Gottlieb, 2008).

In addition, the government has established an *Authority for the Regulation of Bedouin Settlements in the Negev as part of the Ministry of Construction and Housing* (in 2007) and allocated funds to improving economic development in the Negev, and the economic position of the Bedouin more generally. The very ambitious 2005 strategic plan for the development of the Negev, involving investments of NIS 17 billion (USD 4.5 billion), has not yet got underway. Some more limited (NIS 55 million; USD 14.5 million) investments (in wage subsidies and transportation; vocational training; small business development, and the development of two local employment offices) have been allocated, as have some additional funds for roads in the Negev. The previous government, in its last cabinet meeting, also approved a broad programme for the growth of social services for Bedouin in the south. This has been developed under the guidance of the Minister of Social Affairs (who has remained in place in the new government).

### *Cultural factors*

It is impossible to be precise on their magnitude, but cultural factors contribute to the high levels of non-employment among Arab women and their labour force behaviour more generally. For example, Bedouin women are not encouraged to travel and work outside their community of residence without being accompanied by their husbands, while educated women tend to lower their expectations upon marriage to being a working woman contributing to household income rather than a "career woman" because of pressure from the immediate and extended family (Abu-Baker, 2002; and Habib *et al.*, 2010). Using the 2005 CBS Social Survey, King *et al.* (2009) find that approximately 75% of Arab men and women are positive about women working, but that in the presence of young children in the household, just over half of Arab men and women respond that mothers should stay at home, while a further quarter of respondents favour part-time employment.

These attitudes contribute to Arab women choosing professions that are considered suitable from a more traditional perspective and which facilitate mothers (not fathers) to combine work and care commitments, through choosing part-time employment preferably in their location of residence. Habib *et al*. (2010), shows that while Arab men are more likely than Jews to work outside their place of residence, the opposite holds for Arab women. Arab women in employment often end up in teaching (the case of almost 60% of employed Arab women with academic degrees) and in local administrative jobs which are poorly paid (Shekhade, 2004; Yashiv and Kasir, 2009; and Yonay and Kraus, 2005).

However, it is not the case that cultural attitudes are immutable; they may reflect the prevailing social and economic conditions and are therefore amenable to policy change. As already noted, public policy also

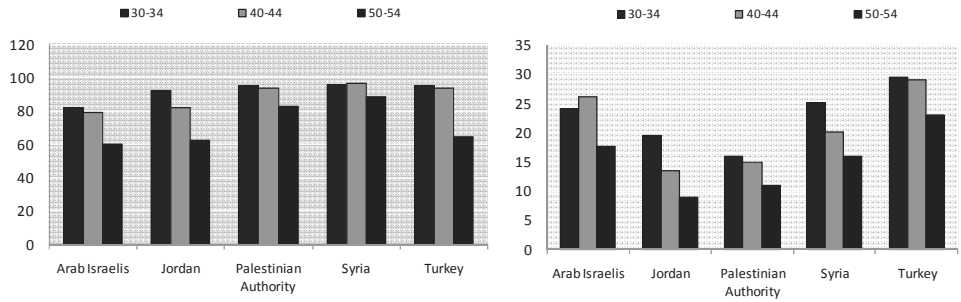
establishes barriers to employment. Public investment in infrastructure is limited in areas where Arab women reside or are connected to by means of public transport, while investment in childcare capacity (Chapter 3) in regions where Arabs live is also lower than in other areas. Differences in childcare participation are particularly pronounced for children not yet 3 years of age. For Jewish and "other" non-Arab children, enrolment is 53% for up to 2-year-olds (in subsidised and non-subsidised private care), while this is only 13% for children of the same age in Arab communities (Gal *et al.*, 2010).

Both attitudes and policy regarding female employment and early childhood care and education are changing. Arab women are increasing the intensity with which they participate in formal education. For example, the proportion of Arab women of working age with less than eight years of formal education was cut in half to about 30% over the 1990-2006 period, while the proportion of women with 16 years of education or more (often women with a tertiary qualification) increased from 2 to 10% (King *et al.*, 2009). At the same time, free participation in Kindergarten to 3- and 4-year-olds (Chapter 3) has been introduced, with poorer (Arab) communities being among the first to benefit. For Jewish and "other" non-Arab population groups, the enrolment rate in 2006/07 was 88% for 3-year-olds, 95% for 4-year-olds and 99% for the 5-year-olds. For the population of Arab children (not including East Jerusalem), enrolment rates for 3-year-olds were 74%, 83% for 4-year-olds and 100% for 5-year-olds (CBS, 2008).

The change in attitudes toward participation in education and employment is reflected in the reduction of fertility rates among Arab Muslims from 5.5 children per women in 1980 to 3.9 in 2007 (Chapter 1). The overall employment rate of Arab women was pushed up by the increase of the proportion of women with high levels of educational attainment (who are most likely to work), while the labour force participation rate for women with lower levels of education declined over the 1990-2007 period (Habib *et al.*, 2010). This contributes to (in particular) younger Arab women in Israel being more likely to be in work compared with other countries with a predominantly Muslim population with the exception of Turkey, while employment rates of Arab men in their 30s and 40s in Israel are low in comparison with such countries (Figure 4.4).

**Figure 4.4. Compared to some other Muslim populations, participation rates for Arab Israelis women are high, and those for men are low**

Labour force participation rates among prime-age workers in selected countries with predominantly Muslim populations




*Source*: Secretariat estimates based on information provided by the Bank of Israel.

### *Remedial policies have a limited effect*

Lack of education and poor infrastructure are issues which need to be addressed urgently if Arab-Israeli's are to reach the living standards of the rest of the population. But this will take a long time, and so Israel, as other countries, has a range of "remedial" policies, intended to offset some of the disadvantages faced by its underprivileged minority.

#### *Protecting workers from unfair competition*

The increase in the number of foreign workers since the beginning of the 1990s contributed to a decline in the participation rate of Arab-Israeli workers. This is because many of the foreign workers are employed at real hourly wages that are below the minimum wage (Chapter 6), which exerted downward pressure on the employment position and wages of unskilled Israeli workers, including many Arabs working in agriculture and construction (Asali, 2006; Haidar, 2005; Shekhade, 2004; and Yashiv and Kasir, 2009).

Labour law stipulates minimum employment conditions, but since these are not enforced effectively (Chapter 3), the labour market position of low-income workers is therefore weakened. The more general problem of the failure of the Israeli authorities to enforce legislation on employment conditions and foreign workers is particularly grave for Arab workers, as they are over-represented amongst low-income workers with precarious employment conditions. Such workers face a huge risk of job loss and lowered earnings prospects if they were to take their employer to court, and therefore rarely do so. Arab workers are also generally wary of the Histadrut

union movement (which in their perspective is essentially a Jewish organisation), and, while reliable data are not available, the unionisation rate of Arab workers is probably low. Since 2000, Arab advocacy groups have become more active in taking cases to court, but membership and coverage of Arab unions is fragmented and remains low.

*Employment policy initiatives*

Chapter 3 discussed the Wisconsin and negative earned income tax credit programmes which have been piloted in areas with high-risk population groups, including Arabs and Haredim. Moreover, and in addition to employment supports targeted at the Bedouin in the Negev (Box 4.1), in February 2007 a special unit in the Prime Minister's Office was established to promote economic development of minority populations. Policies are developed and implemented in co-operation with NGOs to tailor measures to clients' needs (Box 4.2), but so far the scope of these programmes has been too small to have affected aggregate employment and poverty outcomes (BOI, 2009).

**Box 4.2. Active labour market supports targeted at employment opportunities for Arabs**

Different agencies collaborate to promote employment in the Arab sector, including different ministries (Prime Minister's Office, Industry, Trade and Labor MOITAL, Social Affairs, Education, Housing, Agriculture and Tourism); international donor organisations and Jewish charities; and voluntary organisations such as the Jewish-Arab Center for Economic Development, the Arab-Jewish Center for Equality, Empowerment and Co-operation, Women against Violence in Nazareth (a city with a predominantly Arab population) and "Kav Mashve", an employers organisation for promoting Arab equality in employment. Involving these different agencies allows for the use of public budgets and private funds from abroad, as well as using local expertise to target and deliver programmes that are culturally aware and in line with the needs of local clients.

For example, TEVET is a partnership between the government and the American Jewish Joint Distribution Committee (JDC) which is designed to serve as an incubator for the development of programmes to increase labour force participation of minority groups whilst respecting their cultural background. TEVET is involved in different programmes, but the Women Empowerment Programme may serve as an example. This is a high-tech vocational programme developed by CISCO; it targets young non-employed Arab women age 18 to 32 with 11-12 years of schooling. Training sessions are in the morning to facilitate maternal participation (as from age 3, children are often in five-hour pre-school programmes, see above) and, because it trains for high-tech occupations, it should lead to relatively high wages. The programme combines the modern with the traditional: Arab women learn modern skills (*e.g.* computer skills) while the organisational framework facilitates traditional restrictions (*e.g.* studying in a separate framework for women only); an approach that is also applied in providing employment supports to the ultra-Orthodox community (see below).

Different active labour market policies towards Arabs that are being (further) developed under the aegis of the Prime Minister's office include:

- *Establishment of private investment funds*: The establishment of a joint investment fund by the government and the private sector for investment in existing businesses and to establish new businesses in minority communities. The fund will operate for a period of seven to ten years, during which the government will allocate NIS 80 million (about USD 20 million), conditional on the fund raising at least another NIS 80 million from donor organisations. The initiative is expected to provide funds for about 40 companies.
- *Promoting employment of Arab women*: A three-year programme will be implemented in selected geographic areas to help overcome barriers to work such as restricted access to childcare and public transport. The programme will involve employment counselling services, subsidised training for employment-related skills and collaboration with voluntary organisations that engage in job placement. In the 2009-10 budget, NIS 250 million (about USD 80 million) was reserved for vocational training and retraining, in addition to NIS 300 million for various childcare initiatives.
- *Wage subsidies:* Companies in the periphery which pay the minimum wage to Arab workers can receive a subsidy of up to 20% of the average wage cost of all additional employees hired, for a period of five years and up to a maximum of NIS 60 000 per employee (this can be up to NIS 120 000 per employee for wages above the minimum wage). In order to be eligible for the subsidy, the employer must hire at least five new Arab workers and employ them for 30 months. Since the introduction of the programme in 2005 until 2009, about 30 enterprises received government assistance and an estimated 1 700 jobs were created.
- *Research and development (R&D) centers in the North*: International companies that set up R&D centers in the north of the country will be eligible for government support, on condition that at least 20% of their employees are Arab university graduates. In the 2009-10 budget, NIS 900 million (about USD 225 million) was allocated to R&D specifically for the Arab sector.

An overall strategy to develop Arab employment opportunities also encompasses the development of nationally designed priority areas (see above) and the pursuit of avowed policy objectives to hire government employees from minority groups (see below).

### *Unequal access to social support*

Social supports, including cash benefits and social services, could help offset differences in employment and wages. However, this particular set of remedial policies does not work in this way in Israel.

The *redistributive power* of the tax/benefit system has different effects on poverty reduction for Arab and Jewish population groups. For example, in 2006 the direct contribution of transfer payments and direct taxes to reducing

the incidence of poverty was approximately 45% for Jews (and 40% for the total population), whereas it was less than 10% for Arabs (NII, 2008).

To a large extent, this difference is related to public pension spending. The public pension payment rate may not be high in comparison to other countries (Chapter 5), but in spending terms it is the most important element in the Israeli tax/benefit system. The fact that the Arab population is relatively young, and has an expected life-span four years shorter than for Jews in Israel (Annex Table 4.A1.1), explains much of the redistributive differential. Nevertheless, Graa and Cohen (2001) find that whilst controlling for both demographic and employment-related characteristics, the likelihood of being poor is still higher for Arabs than for Jews.[49]

Limited access to social services is another source of inequality. Public social service provision in Israel is a local government (LG) responsibility, with financing being shared by central government (75%) and local revenue (25%). A small number of LGs do not have sufficient local revenue to pay for the 25% of funding to procure basic social services, while many richer LGs provide services beyond the required minimum.[50] As a result, Arab localities have significantly fewer social workers per head of the population than Jewish localities despite the relatively worse social situation (Ben Arieh, 2009). Haider (2008) estimates that on average in 2006, public expenditure on social welfare per capita was around 30% higher in Jewish local governments than in Arab ones, and that across five different policy areas (education, housing, health, employment and social welfare), public policy spending had a strong bias in favour of the Jewish population.

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49. Possession of assets affects benefit eligibility. Despite being the relatively poor population group, 81% of Arabs own their house compared with 69% among Jews (about two-thirds of both Arabs and Jews own a car). Home-ownership (with houses that have been in the family for generations) does not disqualify for income support, but may serve as an indication for land-ownership and possession of land (no matter how barren), and thus lead to payment-rate reductions of 20%.

50. Local government responsibilities include emergency services, water and waste management, road maintenance, specified education services (*e.g.* not primary schools) and personal social services. There are 251 local governments in Israel (197 municipalities and 54 regional councils for rural communities). Property taxes and fees are the main source of locally generated income. Earmarked transfers from the Ministries of Education and Social Services account for about half of local budgets. There are three types of general grants to local authorities: *i)* "fiscal equalisation grants", which provide poorer local governments with additional resources; *ii)* "development grants" towards specific local projects; and *iii)* "fiscal recuperation grants" to local authorities under state administration because they failed to meet specified budgetary criteria (OECD, 2010).

### *Distrust, disadvantage and discrimination*

Within Israel there is broad recognition that distrust and discrimination contribute to the large socio-economic discrepancies between Arabs and Jews. Arabs and Jews grow up separately in different areas, different schools, and while Jews generally are conscripted into military service, Arabs generally do not serve in the Israeli Defence Force.[51] In this environment, where communities do not get to know each other, distrust and discrimination are inevitable. However, the extent of discrimination and its effect on labour market and socio-economic outcomes, are much more difficult to identify (Box 4.3).

**Box 4.3. Measuring the magnitude of discrimination on the basis of ethnicity**

"Field experiments", in particular correspondence tests, in which fictitious applications are sent to employers in response to job advertisement and discrimination is measured by comparing invitations to interviews amongst different groups is a reliable way of measuring discrimination based on ethnic origin in hiring practices – though limited in representativeness to an enterprise, an economic activity, an occupation or a region, etc. Such evidence is not available for Israel, but evidence for nine OECD countries suggests there is significant discrimination in hiring practices. Ethnic minorities applications receive considerably fewer call-backs to interviews compared with an application of otherwise identical *curriculum vitae* (OECD, 2008). For example, Cediey and Foroni (2007) in a study on discrimination against "second generation" migrants in France, found that applicants from ethnic minorities received around 50 percentage points less call-backs than the rest of the population when sending CVs in response to job advertisements.

Econometric studies are used to explain differences in wages and employment outcomes of population groups on the basis of observable characteristics, such as education, experience, occupation, and, when available, motivation, expectations, and field of study. These variables account for a large share of labour market differences between ethnic population groups, and cross-national evidence shows that for OECD countries and Israel education plays a large role in explaining labour market differences, particularly for employment, rather than for wage differentials. Nevertheless, at least a quarter of differences in labour market outcomes between ethnic groups remains unexplained (OECD, 2008), which could be related to discrimination, but also to cultural attitudinal differences towards employment (women), cultural and language barriers in assessment procedures and exams.

There are various studies on the Israeli labour market situation which point to the role of discrimination in labour market outcomes. These include:

51. In a similar vein, high-tech industries involved in military production do not hire Arab professionals calling upon security reasons (Sadan and Khalabi, 2008).

- Khattab (2006), having controlled for individual characteristics and place of residence, finds that ethnicity has a significant effect on employment. In particular Arab Muslims (as opposed to Christians and Druze) and to a lesser extend Sephardic Jews (with links to the Maghreb), face greater risk of unemployment relative to Ashkenazi Jews (with roots in Europe). Habib *et al.* (2010), after controlling for background characteristics and place of residence find that the probability of being employed is lower for Arabs compared with Jews. They also find evidence of an unexplained wage gap when controlling for employment in economic sector and occupation. On the basis of opinion survey data, Yaakobi *et al.* (2009) find employers are often reluctant to hire and promote Israelis of Ethiopian descent, ultra-Orthodox and Arab Israelis with academic degrees.
- Flug and Kasir (2003) point to the crucial role played by education in reducing poverty through its positive effect on both wages and the employment, and rate the quality of education provided to the Arab population as relatively poor. After controlling for education, family size and number of wage earners, they find a relatively high incidence of poverty among the Arab population, which they argue related to discrimination in the labour market. Graa and Cohen (2001), after controlling for demographic and occupational characteristics, also find that the probability of being poor is higher for Arabs than for Jews.
- Asali (2006) finds that 25-40% of the hourly wage gap between Jews and Arabs over the 1990-2003 period is unexplained (this study did not control for occupational segregation however).
- Levanon and Raviv (2007) focus on the northern part of Israel and find significant unexplained income gaps in favour of Jews over Arab Muslims, Christians and Druze. Further, the more educated the individual, the larger the gap. Jews have greater representation in the more lucrative occupations, and earn significantly more in them. Among Arabs, Muslims face the largest income gaps while Druze have the smallest, which may be related to their service in the IDF.

Changes in the intensity of conflict can lead to rapid changes in labour market outcomes, though their effect has a strong temporary component. For example, in the aftermath of the first Intifada in 1987 and second Intifada in 2000, Jewish consumers avoided markets in Arab localities leading to a fall in turnover, while Jewish tourism to the northern periphery (where a majority of Arabs live) also declined drastically. Miaari *et al.* (2008) show that before the second Intifada, Arabs employed in private sector firms which employed both Jews and Arabs had a 3 to 5 percentage points lower likelihood of separation from employers than Jews.[52] However, in the aftermath of the second Intifada,

52. Miaari *et al.* (2008) underestimate the overall effect of the increased intensity of conflict on labour market outcomes of Arabs as their study did not cover employer hiring decisions regarding Arab and Jewish workers.

job separation was 1-2 percentage points higher among Arabs, and this was largely due to increased lay-offs rather than voluntary quits.[53]

Workers from ethnic minorities and women in OECD countries find it more difficult to find good jobs than other workers, and racial and ethnic discrimination in the hiring process contribute to this unfavourable outcome (OECD, 2008). The OECD *Reassessed Jobs Strategy* of 2006 suggests the development of specific policies to bring under-represented groups into the workforce and effectively enforced anti-discrimination legislation is a quintessential building block of such a strategy (OECD, 2006). However, legal rules are most effective, if they do not rely exclusively on individual complaints for enforcement, but also benefit from the role of equality bodies to raise awareness and promote anti-discriminatory practices. Moreover, government measures should focus on helping under-represented groups in the labour market (see below). In the highly-charged nature of much of the discourse between representatives of the Arab communities and the Israeli State, it is striking that Arab groups make intensive use of the Israeli legal system through appealing the legitimacy of laws and practices (Box 4.4).

### Box 4.4. Discrimination or disadvantage?

When a society is divided, laws which affect one community more than another run the risk of appearing discriminatory, regardless of intent. In this regard, Israeli authorities have been challenged increasingly in the courts by advocacy bodies such as Adalah (the legal centre for Arab minority rights in Israel).

Two current high-profile cases that Adalah is highlighting include:

- The National Water Company cut off supply to all residents of Daliyat al-Carmel, an Arab municipality. This is allowed by law when a local authority has not paid its dues, but it deprives individuals of water even though they had paid their personal water bills. This law has only been invoked against Arab local governments.
- The Israel Railway Company (IRC) introduced a rule that its employees should have military service as a requirement for employment. This led to dismissal notices being sent to 130 Arab workers employed in March 2009. After legal challenge, the IRC responded by announcing that it will drop this requirement, but will still require someone to have had continuous employment for 18 months

53. Similar effects also emerged in the aftermath of the terrorist attacks that took place in the United States on the 11 September 2001. Employment outcomes worsened for Muslims in the United States and dropped from 62.3% in 2000 to 49.1% in 2002, and particularly affected men aged 16-25 with nativity profiles close to the terrorists. However, by the end of 2004 these effects had dissipated and employment rates for Arabs were back at 62.5%, although working hours and real hourly earnings remained somewhat below the level in 2000 (Rabby and Rodger, 2009).

in the same workplace and experience with working in an company or organisation "with a hierarchical structure" (and military service counts towards the employment requirements). In September 2009 a court decision stated that those requirements were still discriminatory and had to be revised. All Arab workers who were fired are to be returned to their positions.

The issue of favouring people who were conscripted into military service is a recurring theme in challenges to legislation and practice in recent years. It is not unusual for countries to reward those who have to spend one to three years of their life in military service. However, many Arab Israelis (not Bedouin or Druze) are unable to serve in the army, even were they to want to do so. As a result, provisions supporting ex-serviceman affect one community more than another. Examples that have led to legal challenges in the past few years include:

- The Israeli Lands Administration reduces the rents it charges to those who have served in the IDF or security forces. The issue is still the subject of legal action.
- In 2002, a challenge was made against a provision which cut child allowances by 4% for all, but by an additional 20% if neither parent (had) served in the army. The Knesset changed policy before the court ruled on this matter.
- A proposal has been made in the current Knesset to impose an additional 1% income tax on all those who do not serve in the army.

Examples of seemingly technical issues affecting one community more than another are all but inevitable in a divided society. One such is when car owners or indeed car users were made ineligible for income support payments (Chapter 3). Because of their income position, Arabs are more likely to claim social assistance, and because they are more likely to live in remote areas with poor public transport, this ruling particularly affected Arabs. The Supreme Court appeared to be leaning towards the NGOs challenging this provision, and it was (in part) withdrawn; at present eligibility criteria to income support refer to cars of twelve years of age with specified characteristics.

None of the laws referred to above are inherently necessarily discriminatory. After all, many countries have special benefits for ex-military personnel or on land use or on how to deal with local councils that behave in an inappropriate manner or contrary to the wishes of the central administration. But the peculiar features of Israeli society – the high proportion of one section of the population that has served in the army, the extent of the socio-economic cleavage between the mainstream non-orthodox Jewish population and the Arabs, etc. – means that many laws have differential effects on individuals belonging to different communities.

### *Fighting discrimination more effectively*

Discriminatory practices can discourage labour market participation, and are economically inefficient: a less productive worker might be hired because of tastes or beliefs. It can also discourage, upstream, choices regarding investment in education. Almost all OECD countries have adopted anti-discrimination laws (on ethnic grounds), though much illustrative evidence suggests that racial discrimination in the labour market remains (OECD, 2008). In Israel, *the Equal Opportunities in Employment Act* (of 1988) prohibited employment discrimination in the labour market. It was

amended in 1995 explicitly to forbid work-place-related discriminatory practices based on national origin, nationality and religion. Nevertheless, as in many OECD countries, those laws are in many cases not well enforced and individuals who want to bring cases before court often face strong barriers in terms of complex, time-consuming and thus, costly, legal action, in addition to worker concerns about the effect legal action may have on employment and earnings prospects (see above).

OECD (2008) showed that legal rules are most effective when the public policy environment is actively supportive in fighting discrimination. Legal rules have shown to be more effective when enforcement does not exclusively depend on the victims' willingness to claim their rights. For example, the High Authority Combating Discrimination and Promoting Equality (HALDE) in France supports individuals in bringing cases before court, collects and disseminates information and statistics, raises public awareness of discrimination and its concrete manifestation in the workplace (*i.e.* by ensuring that employers are aware of the composition of their workforce compared with the composition of the local population), and runs information campaigns to challenge public opinion. In many countries similar bodies are empowered to investigate discrimination claims, compel employer to provide information and sometimes to impose fines. For example, in France, Norway, Portugal and the United States, administrative sanctions can be imposed directly by equality bodies themselves (OECD, 2008).

The Israeli Government could follow the example of many OECD countries by reinforcing the Enforcement Unit at MOITAL and giving the newly created "Equal Employment Opportunity Commission" (the EEOC) the financial and legal means to fight discrimination, financially support plaintiffs taking cases to court, raise awareness on discrimination issues, provide information on best practice in personnel management to employers, and monitor the employment patterns of minorities in the civil service (see below).The Israeli Government could further signal its commitment to equal labour market opportunities by granting the EEOC the power to assess directly workplace employment outcomes. For example, firms of a certain size (large, to begin with) could be asked to report their staff composition, which the EEOC might then use to make suggestions on how to promote diversity in employment to better match the composition of the local population. Such a set-up would not be dissimilar to the work of the "Fair Employment Commission" in Northern Ireland, which is also grappling with fairly distributing employment opportunities among the different communities (Box 4.5). In fact, the EEOC and the Fair employment commission are engaged in a "twinning project" for the duration of 21 months, which involves UK staff working in Israel on enhancing the capacity of the EEOC.

### Box 4.5. Fair employment in Northern Ireland

The Equality Commission for Northern Ireland has responsibility for enforcing the Fair Employment and Treatment Order 1998 (as amended); working for the elimination of unlawful discrimination on grounds of religious belief and political opinion; and promoting equality of opportunity and affirmative action (ECNI, 2009a). It is unlawful for employers to discriminate on grounds of religious belief or political opinion in recruitment, selection and dismissal, in the terms of conditions of employment and access to fringe benefits, training and career opportunities (exemptions are made for occupations that are related to religious beliefs, as for example, clergymen or teachers in denominational schools). The commission provides free and confidential advice to people who believe they are subject to unlawful discrimination, and assistance can include arranging legal representation for cases to proceed to the Fair Employment Tribunal or County courts.

The Equality Commission's main powers include:

- Investigate employers at any time; including auditing employers' monitoring and review functions: all employers with more than ten employees are required by law to monitor the religion of their employees and report this information annually to the Commission, which has the power to suggest improvements in the area of hiring, training and promotion practices, and can set the timetable for the next review of the workplace practices.
- Issue legally enforceable actions, including affirmative action measures, with the specification of goals and timetables;
- Where necessary, disqualify employers and seek High Court injunctions to stop disqualified employers from receiving public contracts;
- Audit the public sector's adherence to the contract compliance regime.

The Fair Employment Code of Practice (ECNI, 2009b) outlines the role and *modus operandi* of the Equality Commission and the Fair Employment Tribunal and provides information on rules, regulation and best practices relevant to employers, unions, employees and employment agencies.

### *Enhancing public employment of minorities*

The Civil Service Law of 1959 obliges the civil service to provide suitable representation for Arab citizens within the civil service, at all ranks and professions within each ministry and internal unit (with amendments in 2000 including the requirement of vacancies to be reserved specifically for Arab employees). Once a year each ministry and agency is obliged to submit a report on the implementation of this amendment. Boards of directors of government-owned corporations must give adequate representation to the Arab population, and ministers must appoint Arab

directors whenever possible, until the goal of fair representation is achieved (Dagan-Buzaglo, 2008; Rabin Margalioth, 2004). In 2009, these objectives were restated, including a variety of measures to achieve the policy objective to have its workforce to be 10% Arab by 2012, through ensuring that 30% of new hires are Arabs (Dagan-Buzaglo, 2008; Haidar, 2008; and, Ministry of Justice, 2009).[54]

It is not yet clear whether this objective will be achieved. Past ones were never met, even though over the years progress has been made with getting Arabs into public employment. In 1992, the proportion of Arabs working in the public sector was 2.1% which increased to 5.2% in 2000 under efforts by the Rabin administration (1992-96) to integrate Arabs and Druze into the public sector (Or Commission, 2003; and Rabin Margalioth, 2004). With the second intifada, progress to further increase recruitment of Arabs stalled and in 2006, the proportion of Arab workers was about 5.9% (11% of male workers and only 3% of female Arab workers). This proportion increased to 6.7% in 2008, during which year the proportion of Arabs among new entrants was 11.7%. Notwithstanding this increase, the public sector should step up its efforts to meet its minority employment objectives and effectively enforce quotas across the public sector.

The government could also use its leverage and make the award of government contracts conditional on fair representation of minority workers in the private company involved in the tender process. For example, a UK government department contracting out its recruitment services requires that all jobs must be advertised on a part-time basis or with flexible working time unless there is a business reason why this is not possible. In the United States, the 1994 Federal Acquisition Streamlining Act established a goal of 5% for US federal contract spending with businesses owned and managed by women. Such public policy signals affect private sector behaviour as well: following the example of the public sector, 97% of the Fortune 500 companies in the United States have supplier diversity

54. Government measures announced in 2009 to promote Arab employment in the public sector include: designating 800 positions within the public sector to the Arab population; offering financial aid to Arab employees from the periphery regarding their rent and transportation costs; defining clearer mechanisms for implementation of decisions and setting defined procedures for all the ministries; enhancing efforts to disseminate information about positions available to the Arab population; encouraging ministries to fill this quota by stating that for every position filled by an Arab worker, the government will allocate an additional position to be filled by another Arab worker in that ministry; ensuring there is regular follow up regarding the implementation of these decisions and increasing transparency of the government and its various sub-units in this area.

programmes to promote use of historically underutilised businesses (GRI/IFC, 2009). Similar policies could be developed in Israel and be targeted at minority workers (perhaps, especially female Arabs).

## 4.3. Haredim: the need for a more sustainable balance of religious study and employment

The Haredim or ultra-Orthodox Jews are another population group in Israel with very high poverty rates, at 60% (Figure 4.1), and with Haredi families often having seven or eight children, child poverty is a major issue. To a large extent this results from relatively low employment rates. However, among this population group it is the women who are at work, not the men. Female employment rates are just below 50%, but fewer than one in four men are in paid work (Chapter 1). This uncommon pattern is related to the defining characteristics of the Haredi way of life (Box 4.6).

### Box 4.6. Background to socio-economic outcomes of the Haredim

This labour market and social policy review does not provide detailed information on religions and denominations. However, without some basic background information on Judaism and orthodoxy in particular, it is impossible to understand the motivations and socio-economic outcomes of, and possible effective policy measures towards, one of Israel's fastest growing population groups: the Haredim.

Judaism contains a wide variety of more or less religious groups and people: secular Jews, liberal Jews, modern-Orthodox Jews and the "Haredim" ("fearful of the Almighty"). Haredim can be found across the world with the largest groups in Israel and the United States, with smaller groupings in Antwerp (Belgium), Montreal (Canada) and London.

A basic Jewish belief maintained by the Haredi community is that the Torah ("Law") given to Moses comprises the "Written Law" (the first five books of the Bible) and the "Oral Law", or the explanation of the Written Law as relayed over the years by Jewish scholars and compiled in the Talmud around the year 500. The Torah is considered authoritative and to provide a set of codes ("Halacha") on what to do in almost every imaginable circumstance. Torah is the subject of intense study by men (not women) of different ages in Yeshivas and Kollels (these are religious schools, the latter for married men). By its very nature, human interpretation of the law differs, and within Haredi groups, Rabbis or rabbinical authorities have the final say on the practical interpretation of Halacha. For public policies to be effective, it is thus important to convince rabbinical authorities. In the United States, Haredi rabbinical authorities allow their men to strike a balance between study and employment to provide for their families (Gonen, 2001); the suspicion towards employment participation is much more a feature of Haredi communities in Israel than elsewhere in the world.

In the late 18th century, when some Jews began to assimilate in secular eastern and central European societies, the Haredim maintained their separation. This now translates into a rejection of the lifestyle in modern liberal western societies, and a preference to deal with

people from within the community rather than outsiders. Haredim are very recognisable, as in many ways they preserve traditions and dress codes of that time and place: Men are bearded, do not cut the ear locks, wear dark suits or long black formal overcoats and headgear; women dress modestly, long skirts, long sleeves, and when married wear some sort of head covering, scarf, hat, or wigs. Marriages are pre-arranged and having many children is part of religious fulfilment (*e.g.* Katz, 2006). Nevertheless, traditionalism should not always be equated to hostility to technological progress: rabbis carry mobile phones, and many Haredim work with computers: in fact, this often facilitates their lifestyle, *e.g.* teleworking (as in a TEVET programme for Haredim in Israel (see also Box 4.2); and Gonen, 2001, and 2006 for an overview of different programmes and their characteristics in the United Kingdom and the United States).

Political groupings representing the Haredim often have been the key to forming coalition governments in Israel, extracting significant favours and supports as a price for their participation. There is no general religious reason why Haredim cannot serve in the armed forces (and some Haredim do so on a voluntary basis), but as a price for joining the Begin Government in 1977, all Haredim engaged in full-time religious study were exempted. About 31 000 students were exempted in 2000 (Zarembski, 2005). Most recently in 2009, Shas (a party representing Sephardic Haredim and Mizrahi Jews more generally) gained 11 seats out of 120 in the Knesset, and its price for joining the current government included a significant increase in child allowances.

The Haredim are not separately identified as a population group within the Jewish population by the CBS, as for religious reasons they do not register. However, they are estimated to constitute 8.1% of the population in 2007 (BOI, 2008), and the population share of Haredim may well grow to 12-13% by 2025 (Berman, 2000). Furthermore, the proportion of Haredim children in all Israeli children is projected to grow from 8.1% in 1995 to 22.5% in 2025 (Berman, 2000).

### *Prolonged studies at religious schools*

Haredi communities attach great value to their men engaging in religious study (Box 4.6). From the Haredim perspective, there is simply nothing more important men can do with their time than study Torah at religious schools. This attitude applies to Haredim the world over, and young Haredi men in the United Kingdom and the United States generally attend religious schools on a full-time basis for three to five years (Gonen, 2001 and 2006), after which they enter work to provide for their families. Haredim outside Israel rarely remain in full-time study when they are over 25 (Berman, 2000).

However, in Israel Haredi men remain in religious schools for 15 to 25 years, and often do not enter the workforce before they are in their early 40s. This is related to the deferment of military services until age 41 (or 35 when having five or more children) which Haredim have as a right as full-time students at religious schools. If a young Haredi ends his full-time studies, he has to enter the armed forces for a three-year period; the alternative of prolonged military service contributes to Haredim remaining students.

The attitude to employment of Haredi women is somewhat ambiguous. On the one hand, all actions that facilitate male religious studies are welcome, but on the other hand, women should not be exposed to secular culture. Haredi men often fail the work-test applied as a condition for receipt of social benefits so Haredi families generally do not receive social assistance (income support payments). As full-time students, Haredi men receive a monthly stipend of about NIS 1 500 (USD 390) from their religious school (of which about half is financed by the Ministry of Religious Affairs). This amount can be topped up (by the school) to around NIS 2 000 for those who carry out special tasks and/or engage in evening study.[55]

Trends in transfer payments to the Haredi help explain changes in their behaviour over time and in comparison with Haredi communities outside Israel. Over the years, with increasing support from the public budget, the proportion of prime-age (25-54) male Haredim who were in full-time religious studies increased from 40% in 1980 to 60% in 1996[56] (Berman, 2000), and as Figure 4.1 showed, since 1997 the employment rate for Haredim of working age fell from 30% in 1997 to 20% in 2003 (when child benefits were cut, see below). In the absence of the extensive transfer payments, Haredi men outside Israel are much more likely to earn and provide for their own children; in Haredi communities in the United Kingdom and the United States, about two-thirds of the men are in some sort of employment highlighting the weak disincentive effects of such payments (Gonen, 2001 and 2006).

### *Child benefit reform in 2009*

Child allowances are another very important source of income for the Haredim as families in these communities often have six or more children.[57] During the 1990s average monthly allowances per child increased steadily (NII, 2009). However, during the early 2000s various reforms took place. Initially, payments to third and higher rank children were raised, but from 2001 onwards child payments were cut, and another reform in May 2003 saw further change. Apart from indexing-related adjustments, there was no

55. Net private transfers from abroad to Israel amounted to 1.5% of GDP in 2008 (OECD, 2010). A significant part of this amount will have gone towards the Haredi community, but more detailed information is not available.

56. By comparison, the proportion of prime-age Haredi men in Montreal in full-time employment was just below 80% in 1997 (Gonen, 2001).

57. In the late 1990s, stipends made up 39% of income of Haredi families, child allowances 32% and earnings only 18% (Berman, 2000). Unfortunately, more recent data are not available.

further reform of payment rates until May 2009. In all, child allowance payment rates were considerably lower in 2009 than in 2000, especially for larger families.

Immediately prior to May 2003, child payments were NIS 159 per month, while from the third child onwards an additional NIS 350 per child was added (Case A in Table 4.5). Reform introduced in May 2003 set a flat-rate benefit per child (Case B). However, the system did not apply for children under the old schedule (born before reform was introduced – Case A). Over time it would have meant that families with eight children would have received NIS 1 272 rather than the NIS 2 274 that they would have got under the old system – a significant cut. However, with the formation of the new government coalition in 2009, parents of larger families will once again receive additional payments of NIS 259 for second, third and fourth children. The opportunity to reform could have been used to unify payment rates for children born before and after the 2002 reform. Instead, the planned increase per child applies in the same manner to children born before and after 2003. As a result, large families with children (not yet 18) born before 2003 (Case C) benefit most from the recent reform. Moreover, when the reform is fully in place (Case D), it is more generous than the system in place since May 2003.

**Table 4.5. Child allowance payments across reforms in the new millennium**

| Number of Children | Payment rate in 2000 (2008 prices) | Child benefit in 2009 (including cut) | | Child benefit when reform is fully implemented in April 2012 | | Other child benefits (2009) | |
|---|---|---|---|---|---|---|---|
| | | *Children born before 2003* CASE A | *Children born after 2003 (hypothetical for large families)* CASE B | *Children born before 2003 with addition agreed in 2009 budget* CASE C | *Children born after 2003 with addition agreed in 2009 budget* CASE D | *Addition child allowance if on income support* [1] | *Study grant (4+ children and on income support) maximum rate* [2] |
| 1 | 199 | 159 | 159 | 159 | 159 | | |
| 2 | 399 | 318 | 318 | 418 | 418 | | |
| 3 | 797 | 509 | 477 | 709 | 677 | 111 | |
| 4 | 1 605 | 862 | 636 | 1 162 | 936 | 223 | 461 |
| 5 | 2 283 | 1 215 | 795 | 1 515 | 1 095 | 223 | 576 |
| 6 | 3 031 | 1 568 | 954 | 1 868 | 1 254 | 223 | 692 |
| 7 | 3 729 | 1 921 | 1 113 | 2 221 | 1 413 | 223 | 807 |
| 8 | 4 427 | 2 274 | 1 272 | 2 574 | 1 572 | 223 | 922 |

1. Those on income support receive additional allowances equal to 70% of regular child benefit for both the third and fourth children.

2. Eligible families have at least four children; Annual payments for when children are aged 6 to 14, payment rates are lower for children aged 12 to 14.

*Source*: Information provided by Israeli authorities.

The increase of child payment rates, as introduced in 2009, may well lead to a reduction in poverty rates across families in Israel, but it is also likely to lead to a further reduction in employment participation by Haredi men (adding to the poverty risk for this group).[58] The following two-pronged approach in child benefit design would make such allowances a more effective tool in an anti-poverty strategy:

- Link increased child payments to employment participation for low-income workers, as through the earned income tax credit (Chapter 3); and,
- Increase additional child allowances to income support benefits for those families wherein adults cannot work and/or who are available to work, but who are currently jobless.

A system of child payment rates coherently applied across in-work benefits and income support benefits would target public resources at those most in need (rather than also paying child benefits to families that are well-off) and avoid disincentives to work. Such a policy approach would contribute to helping the Haredim to increase their capacity for economic self-sufficiency, reduce their poverty risk, and diminish their reliance on public financial support.

### *The net income position of large Haredi families*

The effect of the 2009 child benefit reform on the income position of large families is illustrated in Table 4.6 (the net income position of smaller families is discussed in Chapter 3). The table shows the *net* income position of three "typical" families with six children: *i*) a family on income support; *ii)* a family with one earner at minimum wage levels and additional income support as well as EITC payments; and *iii*) a family with one earner at minimum wage level, without additional income support, but with a stipend for a husband in full-time study, and child allowances. The latter exemplifies a possible Haredi family, and the underlying earnings as modelled here are in line with available data on monthly earnings of Haredi women.[59]

58. Furthermore, in communities where having many children is valued, these financial supports will have an upward effect on fertility rates (Berman, 2000; and Katz, 2006). When they were reduced, as in 2003, they led to a decline in fertility rates (Cohen *et al.*, 2007).

59. Net earnings of the typical family, as assumed in columns 5 and 6 of Table 4.6 including the EITC, were assumed to be NIS 4 135 while the average monthly

Table 4.6 presents the net incomes for the different comparisons to both the minimum wage and the poverty line often used in OECD studies (somewhat below the relative poverty line as used in Israel, (see Chapter 1). For example, while the net income position of large jobless families ranges from 133% to 157% of the minimum wage depending on the age of the children in question (see column 1), net incomes of such family are around 20 to 30% below the OECD poverty line (column 2). Clearly it pays for families to earn at the minimum wage as, with in-work benefits and child allowances, net incomes are about 25 to 33% above the poverty line (and around 2.5 times the minimum wage (columns 3 and 4). Net incomes of large Haredi families with one (female) earner at minimum wage level, are around the poverty line as calculated by OECD-standards (column 6). Large families without earnings are poor (as they generally are across the OECD). In Israel, large families with at least one earner at the minimum wage level have net incomes well above the poverty line, provided they have access to income support and the EITC. Limited access to both these additional payments adds to working poverty concerns.

**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**

Net income position of families with six children in 2009 under different child benefit scenarios

| | | | No earners | | One earner at minimum wage with EITC and income support | | One-earner at minimum wage without income support, but with Yeshiva/Kollel grant | |
|---|---|---|---|---|---|---|---|---|
| | | | Minimum wage | OECD poverty line | Minimum wage | OECD poverty line | Minimum wage | OECD poverty line |
| | | | (1) | (2) | (3) | (4) | (5) | (6) |
| A | Pre-2002 | "old children" | 149 | 77 | 241 | 125 | 184 | 105 |
| B | 2003-2009 | "young children" | 133 | 69 | 236 | 122 | 187 | 97 |
| C | 2009 onward | "old children" | 157 | 81 | 260 | 135 | 210 | 109 |
| D | 2009 onward | "young children" | 141 | 73 | 244 | 127 | 195 | 101 |

*Source*: OECD Secretariat calculations.

Furthermore, all Haredim can tap into the community network which provides members with important benefits. Community members provide mutual assurance to each other through freely-provided services,

wage of Haredi women (regardless of hours worked per week) was NIS 4 279 in 2007 (BOI, 2008).

*e.g.* community members support the elderly and young mothers in the community, the community finances medical interventions not covered by health insurance, and, most importantly, interest-free loans are made available to community members (Berman, 2000). *In extremis,* deviations from accepted community behaviour can result in ostracism. Commitment to the community pays, and full-time study in a religious school is an important signal of that commitment on the part of males.

Apart from the support systems, financial incentives to work for Haredim are limited in part because their expected earnings are low. A key factor underlying these low wages is the relatively low level of job skills that Haredim possess.[60] This is related to their education, which takes place in schools run by Haredi communities themselves. There is an agreement between public authorities and Haredi communities which facilitates the financing of compulsory education and the compliance with educational laws and regulations. However, the attention paid in such schools to subject areas required by the state is insufficient, and compliance is not enforced (NEC, 2007). In particular, knowledge of English, Mathematics and Sciences would need to be improved to give Haredim in Israel better chances in the labour market.

## 4.4. Conclusions

Israel is a divided society with marked differences in socio-economic outcomes for Arab and Haredi population groups compared with the rest of the Israeli population. By and large, socio-economic outcomes for the Arab population of Israel are related to structural issues, including the profound distrust between communities who grow up, live and often work separately, and policy failures in the areas of education, and infrastructural development. Differences in cultural attitudes towards female employment are likely to also play a role in labour market participation differences, while remedial labour market and social policy measures have not been sufficient to "bridge the gap". Policy challenges regarding the Haredim are different, as the employment and poverty outcomes of this group are largely of their own doing abetted by public transfers. However, Israeli policy toward this group should diminish their reliance on public financial support and increase their capacity for economic self-sufficiency.

60. Tension between secular and Haredi parts of Israeli society (Zarembski, 2005) may contribute to wage gaps between workers of both communities, but there is no hard evidence that indicates discrimination plays a major role in wage differentials.

There are no quick fixes to the deep-rooted social chasm in Israel. Nonetheless, to make some inroads in the divide and enhance societal (and budgetary) sustainability, Israeli needs a continuous and concerted policy strategy towards a fair deal for its Arab citizens, which should include the following "policy building blocks":

- Ensure that investment in education is equitable for both Arab and Jewish children in Israel. Policy should ensure that educational infrastructure on offer to all Jewish and Arab children including issues such as class-sizes, educational facilities, basic standards in English, maths and sciences, is of a similar standard.
- Invest more in infrastructure in the peripheral regions of Israel where many Arabs live. Such investment should not just address transport issues, but include childcare and social services.
- The infrastructural constraints are particularly severe for Bedouin communities. The land disputes and issues with unrecognised villages require structural solution and the proposals of the Goldberg Commission provide a blueprint for the way forward. They should be acted upon swiftly. In the meantime, policy needs to move urgently with the connection of Bedouin settlements to electricity, sewage, and transport systems.
- Existing training and employment initiatives need to be extended and coherently tied in with future welfare-to-work strategies (Chapter 3).
- Public policy should effectively implement existing employment quotas in the public service. The public service should also use its leverage as a major purchaser of services by making award of public contracts conditional on fair employment of minorities.
- Give the newly created "Equal Employment Opportunity Commission" the financial and legal means to fight discrimination more effectively, including powers to help plaintiffs take cases to court, directly assess workplace employment outcomes, and monitor the employment patterns of minorities in the civil service.

Other elements of a comprehensive strategy to address poverty and social exclusion among the Arab population would include greater investment in the public employment service (Chapter 2); welfare-to-work policies (Chapter 3); and, enhance the monitoring and enforcement capacity of agencies in charge of upholding minimum employment conditions for Israeli and foreign workers (Chapters 2 and 6).

Policy challenges regarding the Haredim are different as public policy has chosen to support the Haredi lifestyle in different ways: men can avoid military service, receive stipends and (recently increased) child allowances. However, as Haredim will soon make up 10% or more of the population and their number continues to grow, this policy is becoming increasingly difficult to sustain.

To help find Haredim a balance in work and study life which reduces poverty risks, especially of their children, and which is affordable to public budgets, current policies have to be rebalanced. First, a solution needs to be sought for the issue of deferment from military service which currently precludes labour force participation by Haredi men not yet in their 40s. Second, child benefits should be redesigned and targeted to low-income earners by means of a non-wasteable earned income tax credit (Chapter 3) and increased child-related social assistance supports. Third, skills deficiencies among Haredim need addressing, though a mix of appropriate active labour market supports, and ensuring that yeshiva (religious schools) provide at least basic English and maths skills to their students to help them prepare for working life.

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# Annex 4.A1.

# Background data

**Table 4.A1.1. Life expectancy and (infant) mortality rates for Arabs and Jews, by gender**

| | Arabs | | Jews | | Total | |
|---|---|---|---|---|---|---|
| | Men | Women | Men | Women | Men | Women |
| Life expectancy[1] | 75.3 | 78.8 | 79.3 | 82.6 | 78.8 | 82.5 |
| Mortality rate per 1,000 residents (standardised[2]) | 6.6 | 5.3 | 4.7 | 3.3 | 4.9 | 3.5 |
| Infant mortality rate[3] | 7.7 | | 4.4 | | 4.4 | |

*Note*: For technical reasons this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. 2007.

2. The standard population is the total 1983 census population, by age group.

3. 2005.

*Source*: Central Bureau of Statistics, *Statistical Abstract, 2008.*

## Table 4.A1.2. Occupation by highest certificate for Arabs and Jews aged 15-64

| | Total | No schooling or no certificate | Primary or intermediate certificate | Secondary school, not matriculation | Matriculation | Post-secondary certificate, not academic | BA, MA or PhD |
|---|---|---|---|---|---|---|---|
| | | | | **ARABS** | | | |
| Employed | 306 100 | 9 300 | 96 100 | 54 300 | 64 700 | 27 800 | 53 700 |
| Percentage | 100 | 3 | 31.4 | 17.7 | 21.1 | 9.1 | 17.5 |
| Academic professionnals | 7.4 | .. | (0.1) | (0.2) | (1.2) | (3.0) | 39 |
| Associate professionnals, technicians, managers | 13.9 | (1.3) | 2.2 | 5.2 | 8.3 | 36.9 | 40.4 |
| Clerical workers | 7.3 | (0.5) | 2.1 | 5.1 | 13.3 | 13.5 | 9.8 |
| Agents, sales service workers | 16.5 | (8.5) | 14.1 | 18.3 | 28.4 | 18.5 | 5.3 |
| Agricultural, manufacturing, construction, and other skilled workers | 41.9 | 49.9 | 61.4 | 55 | 39 | 24.9 | 4.8 |
| Unskilled workers | 12.9 | 39.7 | 20.2 | 16.3 | 9.8 | (3.1) | (0.6) |
| | | | | **JEWS** | | | |
| Employed | 2.244 600 | 14 100 | 189 900 | 399 100 | 510 300 | 381 800 | 731 100 |
| Percentage | 100 | 0.6 | 8.5 | 17.8 | 22.7 | 17 | 32.6 |
| Academic professionnals | 15 | .. | -0.9 | 1.2 | 2.2 | 5.3 | 40.5 |
| Associate professionnals, technicians, managers | 23.9 | (2.1) | 6.9 | 12.1 | 18.8 | 36.5 | 32.1 |
| Clerical workers | 17.5 | (4.3) | 10.4 | 20.9 | 27.5 | 16.9 | 10.9 |
| Agents, sales service workers | 20.9 | 14.9 | 28.6 | 29.3 | 30.1 | 17.3 | 9.8 |
| Agricultural, manufacturing, construction, and other skilled workers | 16.2 | 26.5 | 33.1 | 27 | 15.4 | 18.9 | 4.9 |
| Unskilled workers | 6.6 | 52.2 | 20.2 | 9.5 | 6 | 5.2 | 1.8 |

*Note*: For technical reasons, this Figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: Habib *et al.* (2010) on the basis of the Labour Force Survey, 2007.

# Chapter 5.

# Preparing for Population Ageing and Fighting Poverty among the Elderly

*This chapter looks at Israel's pension, disability and long-term care policies in the light of demographic trends and the relatively high poverty rates amongst elderly people in Israel. The basic pension system provides a low level of support to nearly everyone, and additional public pension payments are either means-tested or depend on length of service. At their maximum public pension benefits exceed the poverty income threshold. However, strict means-testing limits access to income supplements, so that only a quarter of the elderly in Israel receive the maximum payment, while another quarter has incomes below the poverty line.*

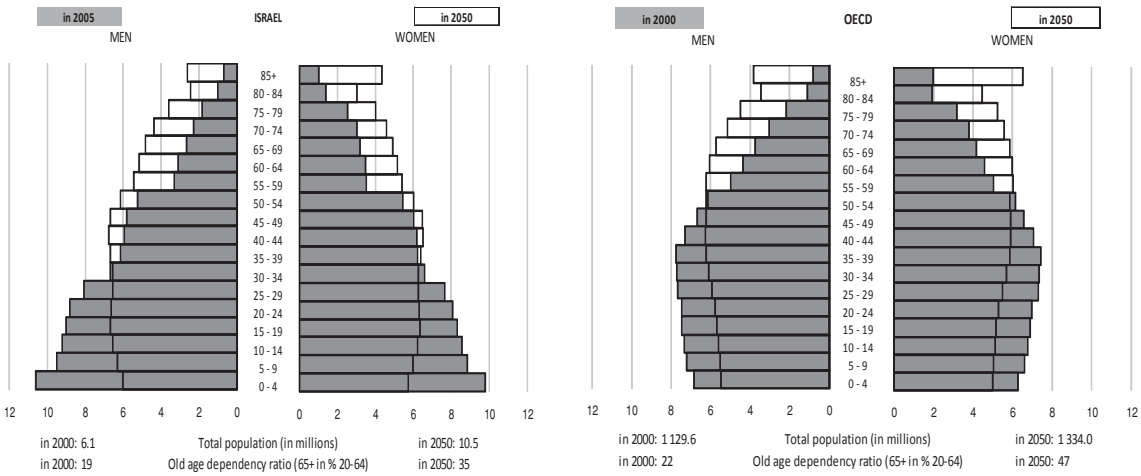
*The recent introduction of mandatory pension saving for all workers (including the self-employed) is expected to make a major contribution to poverty reduction among the elderly in the future, but system design can be improved to increase targeting of public resources on those who need it most. Recipiency of disability pensions is increasing but still well below the OECD average. Public spending on services for the elderly and disabled is on par with the OECD average, with Israeli policy having developed a comprehensive system of long-term care support since its introduction in 1988. In view of the demographic projections and likely fiscal pressures, a key Israeli policy challenge will be to find sufficient public resources in the future to avoid the burden of care being shifted back to informal care givers.*

## 5.1. An ageing population: setting the scene

Israel has a young population with relatively few senior citizens: in 2008, the age group 65 and older made up about 10% of the total population, while the proportion of elderly citizens on average in OECD countries is around 15%. However, the numbers of those born after 1945 exceed those before then by a considerable margin (Figure 5.1), and these larger cohorts will start to retire soon. In combination with gains in life expectancy (Chapter 1), these trends are projected to lead to an increase in the old-age dependency rate from 19% in 2000 to 35% in 2050. Nevertheless, population ageing will not unfold as rapidly as in most OECD countries where over the same period the old-age dependency rate could increase from 22 to 47% (Figure 5.1).[61]

**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**

Population by age group, gender, in 2000 and 2050, in percentage of total population in each group




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

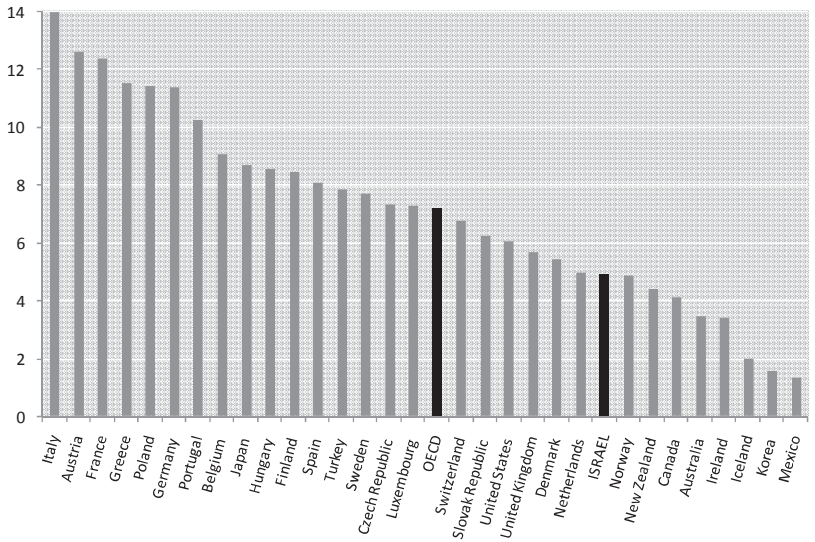
*Source:* Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2006 Revision and World Urbanization Prospects: The 2005 Revision (http://esa.un.org/unpp).*

61. Israel has a relatively small proportion of women among the elderly population: in 2000, this was 57% in Israel compared with 71% across the OECD. Differences in life expectancy across the sexes are somewhat smaller in Israel – five years in favour of women – compared with 5.7 years on average across the OECD.

Public spending on old-age and survivor pensions is not high compared with most OECD countries. Figure 5.2 shows that in 2005 public spending on such cash benefits was around 4.9% of GDP, well below the OECD average at 7.2%. Within this total, public spending on old-age civil servant pensions and basic retirement pensions amounted to 2.1% of GDP each in 2007.

**Figure 5.2. Public spending on pensions is relatively low in Israel**

Public spending on old-age cash benefits and survivor payments as a percentage of GDP, 2005




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

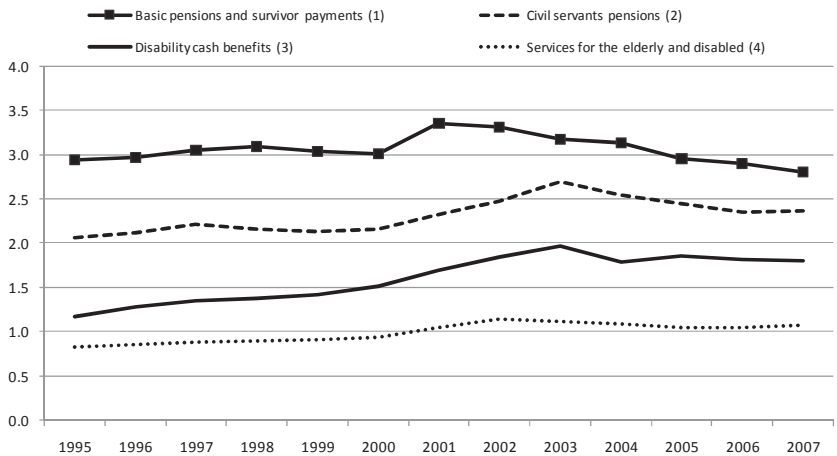
*Source*: *OECD Social Expenditure database*, and data provided by the Israeli Central Bureau of Statistics.

In 2002/03, fiscal pressures led to cuts in public pension spending (Figure 5.3).[62] Measures to curb public spending included a reduction in the value of universal public pensions paid by the National Insurance Institute: retirement ages were increased while payment rates were reduced in real terms. These latter cuts were reversed in 2005 and 2006 in view of their effect on pensioner poverty (BOI, 2008a) and since then payment rates have increased. However, wages have increased more rapidly than pensions, so relative incomes of those with no other source of income were still below the 2002 level in 2007 (NII, 2008).

62. Generous defined-benefit plans for civil servants had already been closed to new entrants back in 1995 (Box 5.1, below).

**Figure 5.3. Israel has curtailed spending on pensions while spending on the disabled has grown in line with GDP since 2003**

Public expenditure on cash transfers and services for the elderly and disabled as a percentage of GDP, 1995-2007




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Includes spending on rent assistance for the elderly.

2. Includes disability and survivor payment to former civil servants and their dependants.

3. Includes disability benefits (NII), assistance to the disabled (benefits for special purposes and tax returns), work injury allowances (NII) and hostile actions injury allowance (NII).

4. Includes residential care for elderly and disabled in institutions, housing provision, home-help services for the disabled, long-term care and spending on rehabilitation services.

*Source*: Israeli Central Bureau of Statistics.

Israel has joined Austria, Germany, Hungary, Italy, Japan, Korea, New Zealand, the Slovak Republic, Turkey and the United Kingdom in increasing the retirement age recently (Martin and Whitehouse, 2008). From 2004 onwards, pension ages were increased from 65 in 2004 to 67 in 2009 for men, while the normal retirement age for women is increasing from 60 in 2004 to 64 by 2017.[63] Considerations of life expectancy differentials (on average women live longer than men) and gender equity concerns have led many OECD countries to equalise retirement ages between men and

63. Among couples in which both spouses work (and 75% of men have spouses who work), the average age difference between male workers and their wives is three years (Brender, 2009). Thus, spouses in couples frequently reach the age of retirement at about the same time.

women.[64] Concerns about transitional equity have led to the equalisation being phased in slowly.

Spending on disability pensions has grown rapidly since 1995, but in recent years at least this has not exceeded the rate of GDP growth. Since 1995, public spending on services for the elderly and disabled has increased from 0.8% of GDP to just over 1% (Figure 5.3). However, underlying trends are very different. Over the 1995-2007 period, spending on (often residential) services for the elderly has been around 0.2% of GDP while spending on rehabilitation services for the disabled has been about 0.3% of GDP. By contrast, public spending on the insurance-based long-term care services programme has doubled from 0.2 to over 0.4% of GDP (data provided by the Israeli Central Bureau of Statistics).

Population ageing will accelerate soon but less forcefully than in most OECD countries. Because of the relatively low public pension benefits (see the next section) and past reform of civil servant pensions (see "Old pension funds" in Box 5.1 below), the effect of population ageing on future pension spending is likely to be limited. Public spending on the NII pension benefits (including survivor payments) is projected to increase to 3.4% of GDP in 2030, and spending on defined-benefit plans for civil servants will peak around 2020-24 and then decline rapidly (BOI, 2008a,). However, there is more uncertainty about future spending on health and long-term care services. An ageing population will certainly increase demand for services, but it is unclear as to how the relevant costs may further be affected by better enforcement of minimum employment conditions for long-term care workers (Chapter 6) or the effects of new technology on health care costs.

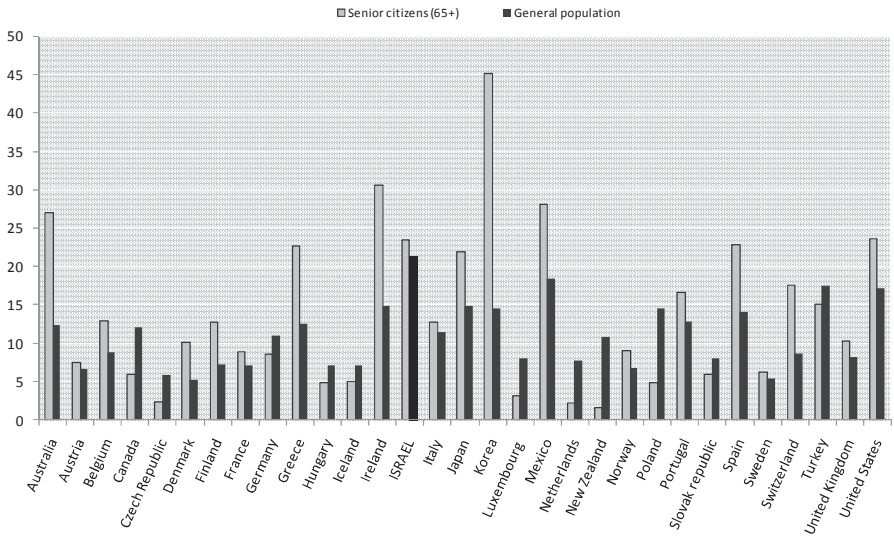
## 5.2. Fighting pensioner poverty

In 2005, the poverty rate among seniors in Israel was 23.4% (and 24.6% among those 75 years and over). Such rates are similar to those in Australia, Greece, Ireland, Mexico, Spain and the United States (Figure 5.4). High poverty rates among the elderly, in Israel as elsewhere, are a reflection of the fact that many elderly people have to rely on a first-tier pension, without having access to second-tier employment-related pensions (OECD, 2009a). Another reason is that high real wage growth leaves pensioners behind. Most countries, including Israel, index pensions to inflation and not real wages, and, hence, relative poverty of pensioners will increase (for example, this is a major explanation for old-age poverty in Ireland).

64. There are limits on the earnings from work for entitlement to the basic pension until age 70 for men and, as of 2009, age 67 for women, the latter is being gradually increased to age 70 too.

### Figure 5.4. Poverty rates among Israel's senior citizens are high compared with most OECD countries

Poverty rates 2004/05,[1] headcounts, share of people below the poverty line by age; the poverty income threshold (50% of median income) is set while adjusting for household size by means of an equivalence scale elasticity of 0.5




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. 2003 for New Zealand.

*Sources*: OECD (2008), *Growing Unequal?*, and data provided by the Israeli Central Bureau of Statistics.

This is also the case in Israel, where basic pension payments are set at a relatively low level and second-tier pensions have yet to mature. In 2006/07, almost 90% of the elderly population received a basic pension (the "old-age allowance") which pays about 22% of the average wage (see below), and which constituted about 45% of gross income among seniors. About half of the elderly population receive a private pension benefit, and these transfers make up a quarter of gross pensioner households income (BOI, 2008a).[65] About 55% of the elderly also receive private transfers (from abroad or private institutions, including public and private invalidity pensions and

65. NII (2008) reports that about one-third of the pensioners received a work-related pension income in 2005.

these amounted to 15% of income.[66] Finally, 15% of the elderly are still in work, accounting for 8% of gross senior household income (BOI, 2008).

The Israeli pension system has two tiers: a public pension pillar and a collectively private, employment-related system of pension plans (see below). In addition, there is a limited amount of individual private pension saving.

The first-tier public old-age allowance (OAA) has three components:

1. The basic insurance pension. In January 2009, this was NIS 1 268 (USD 320) per month for a single pensioner and NIS 1 906 (about USD 475) for a couple, with seniors aged 80 and over receiving slightly higher payments.[67]
2. A seniority increment: for each year of insurance coverage in excess of ten years, the pension is increased by 2% up to a maximum of 50% of the basic insurance pension. A single pensioner would be entitled to a maximum of NIS 1 902 (USD 475).[68]
3. A means-tested supplement: in January 2009, the guaranteed minimum pension payment was NIS 2 368 (USD 590) and for a couple not yet 80 was NIS 3 511 (USD 875). Income Support is withdrawn at a rate of 60% in the presence of income from defined-contribution pensions (rules on earnings are different, see above).

The OAA payments are partially financed out of general social security contributions (Chapter 1),[69] but in practice the link between pension

66. Almost 20% of Israel's seniors received capital income but individual amounts are small as overall such income constituted less than 5% of gross income of senior households.

67. The pension can be calculated with reference to an "old-age basic amount" per month; In January 2009, this was NIS 7 685 or (USD 1 921) per month. Supplements for spouses and children are available but payment rates vary with age. For more details, see the National Insurance Institute of Israel website (*www.btl.gov.il*).

68. If each of the individuals in a couple-family separately meets the entitlement conditions for an old-age pension, they will receive an individual pension.

69. The general national insurance contributory scheme out of which pensions are co-financed includes the following financing rules. Employees contribute 3.5% of earnings below, plus 12% of earnings above 60% of the national average wage. Minimum earnings for contribution purposes are NIS 3 850 (almost USD 965; equal to the minimum wage – with a person earning less than this amount paying contributions as if earning the minimum). Maximum earnings for contribution purposes are five times the national average wage as of January 1 each year; the average wage was NIS 7 928 at 1 January 2009 – almost USD 2 000. The

payments and contributions is weak. The government finances a large part of spending on the old-age allowance from the budget (and thus general tax revenue); in 2007, over 45% of spending by the National Insurance Institute was covered by the state budget.

At average earnings this first-tier public pension payment generates a replacement rate of 22%, somewhat below the OECD average replacement rate of first-tier pensions of 28% (OECD, 2009a). The basic Israeli payment rate is about one third of the minimum wage or two thirds of the poverty line. However, with a full contributory record a single pensioner would receive half the minimum wage, and receipt of the full income supplement raises income to over 60% of the minimum wage and above the poverty threshold; results for couples and those over 80 are similar (OECD, 2009b).

Although these payment rates are not high, public spending on pensions makes up about one-third of total social spending (Chapter 1) and these payments play an important role in the tax/benefit system. Indeed, the tax/benefit system is instrumental in reducing poverty among the elderly; for families headed by someone of retirement age, the poverty rate was 56.7% pre tax/transfers and 28.1% post tax/transfers in 2005 (Annex 1.A2 to Chapter 1).[70]

### *Access to means-tested supplements is restricted*

Low public pension payment rates need not lead to high poverty if everyone receives it and private savings are high. Neither condition is satisfied in Israel. To start with the former: the basic OAA payment is paid to all residents, except immigrants who were aged 60-62 at the time of immigration (who are covered by a different scheme, with the same maximum income support payment).[71] Many pensioners also receive the seniority increment based on their contributory record: in 2007, four out of five pension recipients received this payment worth on average 29.4% of the basic pension (out of a maximum 50%). Gender differences are large: the average increment for men was more than twice as high as for women (44 and 20.8 percentage points, respectively).

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employer pays 4.14% of earnings below, plus 5.68% of earnings above 60% of the national average wage.

70. In terms of reducing poverty among the elderly, the redistributive nature of the tax/benefit system has not changed significantly since 1990 (Chapter 1).

71. In 2007, there were 544 631 recipients of an old-age pension; there were 78 061 elderly who did not receive an OAA payment but who otherwise received income support "not under the national insurance law" (NII, 2008).

However, the means-tested OAA supplement is only paid to about 16% of OAA recipients[72] (26% if the older immigrants are included). As a result, *de facto* public pension payment rates are often below the poverty line. Income disregards are not high, and assets tests are strict (allowing only for a limited amount of savings). Until recently, ownership of a car disqualified for an OAA-pension income supplement; at present claimants are allowed to own a car, provided it is at least 12 years old. This is an unusually strict set of eligibility criteria compared with most OECD countries, which has effectively limited access to the income support supplement in the public pension system (BOI, 2008a).

### *Extending private pension saving*

As in many OECD countries, the Israeli pension system also relies on private employment-related pensions saving to reduce poverty risks in old-age and ensure adequate replacement rates. The first pension funds were established by the Histadrut back in the 1940s, and with time the funds developed as coverage was extended across sectors through collective agreements. Since 1995, successive reforms to curtail the generosity of employment-related pensions have led to the establishment of various private pension schemes (Box 5.1). Nevertheless, a strong reliance on private pension savings involves a risk that those with access to employer-provide benefits retire early from the labour market; Chapter 4 showed that many Jewish workers (who are most likely to have a second-tier pension plan) withdraw from the labour force between age 60 and 65.

On 1 January 2008, an agreement on pension saving was signed between the Histadrut and the Employer's Organisation. This was extended by the government to cover all employees and self-employed *not already* covered by collectively-agreed pension saving. The agreement obliges employers to insure employees who have worked for at least six months earning the average wage or less,[73] but favourable tax treatment applies up to four times the average wage. The agreement provides for total pension contributions to increase from 5% in 2009 to 15% in 2013, of which 5% will be paid by employees, 5% by employers and another 5% to be paid by employers towards severance payments. Assuming that someone who starts working at age 20 and remains in continuous employment until the new retirement age will have 47 years of pensions saving, this would generate a net replacement

72. The proportion of OAA recipients who received the income supplement was slightly higher at 18.3% in 1995 (NII, 2008).

73. This opens up the possibility that employers fire employees before the six months are up to avoid relevant outlays; it is unclear to what extend this happens in practice.

rate of 83% at average earnings, 108% at 50% of average earnings and 60% at 150% of average earnings.[74] However, without severance payments, replacement rates would be about 25% lower (see also BOI, 2008b). Both figures are shown in Figure 5.5, which makes similar assumptions for OECD countries reflecting national compulsory pensions and retirement ages.

### Box 5.1. Private pensions in Israel

The Israeli private pension system is supervised and regulated by the Capital Market Insurance and Savings Division (CMISD) of the Israeli Ministry of Finance. There are five main types of pension savings vehicles.

*i.* The "Old pension funds": defined-benefit (DB) plans which started to develop actuarial deficits in the 1980s. Participants generally accrued 2% of earnings as pension right; *e.g.* workers with a 25-year history would get around 50% of average earnings over the last three years prior to retirement. In 1995, these plans were closed to new participants (since then public employees enter employer-funded plans with non-subsidised private funds), and there were substantial cuts in the terms offered to participants. In an agreement to support the old pension funds, the state has committed itself to pay NIS 80 billion over 35 years; all remaining liabilities rest with the plan members (OECD, 2009c).

*ii.* Since 1995, participants have had to enter "New pension funds". These are pseudo-defined-contribution (DC) arrangements as retirement savings are converted into an annuity and can change once a year depending on fiscal sustainability criteria (deficit/surplus for the year, reflecting, for example, deaths among members). Over salaries of up to a maximum of twice average earnings, employees pay in about 5 to 5.5% of earnings and employers about 11 to 14.3% of earnings (including the contribution towards severance pay). The pension cannot be taken before age 60, and new pension funds have to provide disability and survivor insurance to their members. Both old and new pension funds have to invest 30% of their assets in non-tradeable government bonds, which have relatively high and stable rates of return.

*iii.* "New general pension funds" introduced in 1999 allowed savers to save for retirement only, rather than also having to cover disability and survivor risks, and also cater for savers with wages more than twice the average.

*iv.* "Provident funds" also do not provide insurance coverage, but save purely for retirement with member deposits in separate individual accounts. Capital returns are allocated among members in proportion to their share in funds' assets. Unlike new and old pension funds, provident funds may not invest in

74. OECD (2009), *Pensions at a Glance*, provides a detailed listing of the underlying assumptions for the net replacement rate calculations, including on inflation and earnings growth, real rates of return on funded defined-contribution pensions, discount rates for actuarial contributions and mortality rates.

non-earmarked government bonds. Until the end of 2005, savers could withdraw their savings as a lump sum after 15 years, nowadays this can only be done upon reaching age 60, subject to withdrawing a minimum amount as an annuity. These factors may limit the relative attractiveness of saving through provident funds in future (OECD, 2009c).

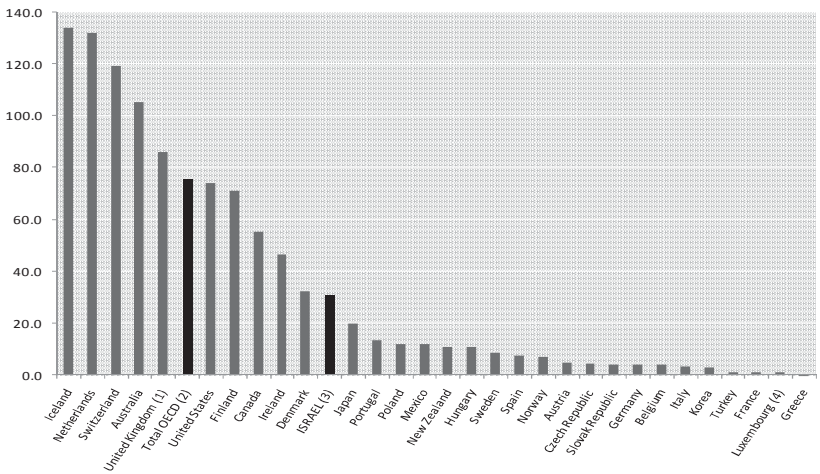
*v.* Life insurance policies which cover survivor and disability risks can also include a savings component.

Pension assets are held by external pension-managing entities and are segregated from employers. The pension-managing entities (which do not include banks) are set up as limited companies holding insurance licenses and are entitled to operate solely in two areas of activity: pension fund and provident fund management.

Private pensions are more important in Israel than in most OECD countries (figure below, and OECD, 2009d). Prior to the introduction of compulsory pension saving, about 50% of the workers participated in private pension saving, and the balances held by private pension funds amounted to almost one-third of GDP (available cross-national data concern 2007, and thus reflect values preceding the financial crisis that unfolded in 2008). In addition, balances held by life insurance companies amounted to about 20% of GDP.

**Private pension saving is more important in Israel than in most OECD countries**

Private pension fund assets as a percentage of GDP




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Pension fund asset data for the United Kingdom in 2007 are an OECD estimate.

2. This is a weighted (by GDP) average for OECD countries; the unweighted average is 33.1%.

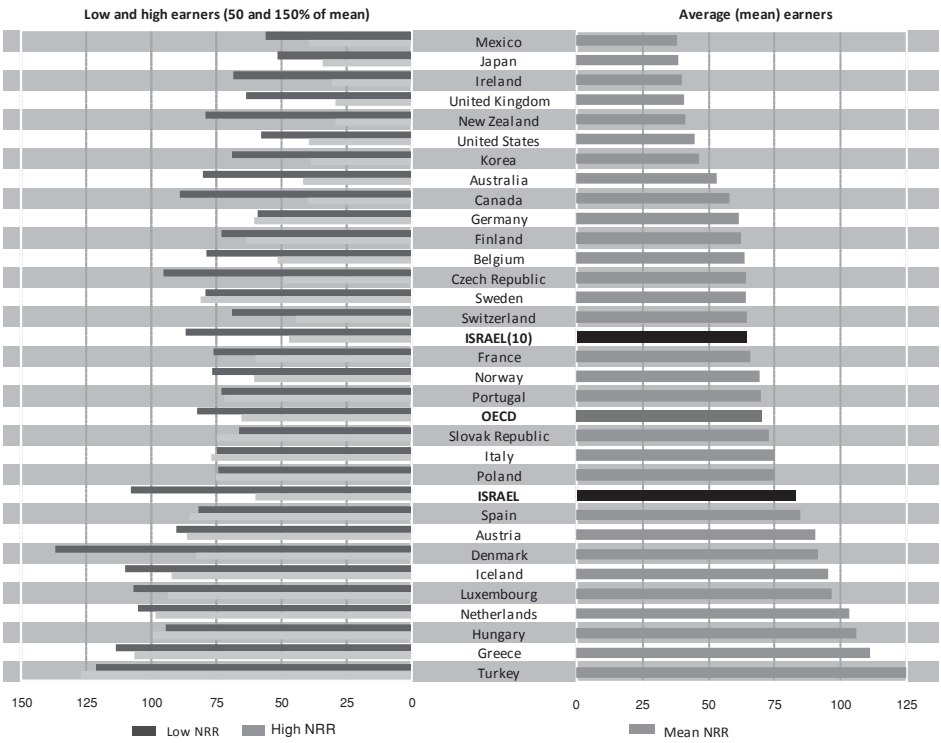
3. In line with data for the other countries, data on Israel do not include balances held by insurance companies.

4. Data for Luxembourg refer to the year 2006.

*Source*: *OECD Private Pension Outlook* and data provided by the Israeli Ministry of Finance.

**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**[1, 2]

Net pension replacement rates (NRR) by earnings levels




*Note*: Countries are ranked in order of net pension replacement rates (NRR) of average earners, *i.e.*, the mean NRR in the figure.

1. The age of entry is 20.

2. "Israel" denotes the NRR as based on the current system involving a contribution rate of 15% of earnings: "Israel (10)" assumes a contribution rate of 10%, *i.e.* without contributions toward severance payments (5%) as in the current system.

*Source*: OECD Pensions Models and information provided by the Israeli Central Bureau of Statistics.

The current system of public and mandatory private pension saving would position Israel's low and median income earners among the top one third of pension recipients in terms of net replacement rates; a pension system based on a 10% contribution rate would position Israel's low and median income earners close to the OECD average (and well above it for low-income earners). But the assumption of continuous employment is particularly unrealistic for low-income workers with short-term employment contracts, among which many workers from minority population groups (Chapter 4).

In 2007, only half of all employees were covered by a private pension fund. With the introduction of compulsion at 1 January 2008, participation in pension plans held by pension funds increased from 1.35 million people in 2007 to 1.85 million people in 2008. Coverage among the employed population increased from 50% in 2007, to 66% a year later (this number is likely to underestimate total coverage of pension saving[75]). With increased awareness of pension options and rights (see below) and better enforcement, coverage should further increase. However, thus far penalties for non-compliance by employers are generally not enforced. In addition to improving enforcement, new sanctions might be considered. For instance analysis by the Bank of Israel suggests not deducting wage expenses in the calculation of corporate income tax for firms that have not arranged the mandatory pension saving.

### *Supporting low-income workers more effectively*

By extending the Histadrut/Employers Association agreement, the Israeli Government makes use of existing infrastructures to develop pension saving, while fostering labour relations. However, the design of collective agreements for well-established workers may not be ideally suited to address the needs of low-income workers in more precarious employment positions, as for example many male Arab workers and female Haredi workers (Chapter 4).

One issue with reliance on private pension saving is that it provides insufficient benefits to those with weak labour market attachment, *e.g.* workers who have spent considerable periods of time out of work. Moreover, increased private pension saving for low-income groups could come at the expense of losing entitlement to the means-tested OAA benefit (which at present is withdrawn at a rate of 60% in the presence of private pension income), even though many low-income families do not pass the current asset test. By design, maximum public pension payment rates provide incomes above the poverty line: it seems appropriate to relax the current stringent asset-test (especially when it comes to the possession of a car), so that more low-income families receive the income-tested supplements, and phase out public payment rates in the presence of private pension income, whilst ensuring that incomes remain above the poverty line.

75. This number underestimates overall coverage of pension plans as it only concerns workers covered by private pension funds. Workers can also choose a pension plan operated by provident funds and life insurance funds, but including such data would lead to double counting, as workers may have multiple pension plans among different providers. However, data to illustrate the importance of this feature are not available.

The recent introduction of mandatory pension saving is likely to reduce old-age poverty in the future. However, through the pension contributions, the system reduces current incomes of the working-age population. By introducing mandatory pension saving, the government implicitly assumes that workers are myopic and unaware of their future needs. However, in view of the generally high replacement rates (see above) for those in continuous employment, it is argued that mandatory pension saving rates are "too high" for families with children and mortgages whose rational consumption-smoothing patterns would not involve such high pension savings as currently mandated (Brender, 2009).[76]

As in the past, pension savings on the basis of defined contributions is subject to favourable tax treatment. Subject to a maximum, employer contributions are not counted as taxable income and employee contributions are subject to a tax credit of 35%.[77] However, this tax credit is wasteable, and only relatively well-to-do workers (including many Histadrut members covered by collective agreements) benefit from these tax credits, while low-income workers do not earn enough to benefit. In practice, only 45% of all employees (30% of all working men) benefit from the tax credits.

Favourable tax treatment of pension saving reflects a government's objective to help people ensure that they have adequate living standards in old age. This explains why pension saving in many countries is fiscally advantaged. However, there is no rationale to provide fiscal advantages to mandatory pension saving, and, from a social policy perspective, there is a clear case to focus fiscal support on those who need it most. Indeed, initial government proposals on the introduction of mandatory pensions included a mandatory pension credit for low-income workers, but the latter was not prioritised by employers and the Histadrut (low-income workers are not their mainstream clientele) and did not make it into the final agreement. Equity concerns suggest this proposal should be revisited.

Finally, there is a risk that the introduction of mandatory contributions leads to an increase in the prevalence of own-account workers and so-called "false self-employment" (Chapter 3). Employers have incentives to sub-contract and may pressure employees into own-account work. The Chilean experience in this regard (OECD, 2009e), shows that the risk is real and developments should be monitored with an eye to curbing it.

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76. Brender (2009) reports that half of the elderly (in all income classes) continue to save after retirement.

77. Annuity pay-outs are taxed as regular income, but 35% of the annuity up to a maximum of NIS 2 000 is tax-exempt.

### *Re-assessing private pension mechanisms*

Following the financial crisis in 2008/09, countries have to re-assess their capital market structure and the design of private pension saving plans (OECD, 2009a). Already before the crisis unfolded, Israeli policy moved to introduce new minimum annuity regulations to address concerns that some pensioners were irresponsibly spending long-term savings. Before 2008, long-term savings products were either lump-sum (as saved through provident funds and fife policies) or annuities (through pension funds or life polices). Since 2008, Amendment No. III in the pension law arranges for all new pensions plans through provident funds, life policies and pension funds to pay out in annuities, unless the retiree already has an income of NIS 4 000 per month (60% of the average wage).

Since reform in 2008, the law stipulates *portability* between all long-term saving vehicles with mandatory and voluntary "pension savers" having the right to choose whether to save through a pension fund, a provident fund or a life insurance policy (in the past unions or employers often chose the savings vehicle). Agents can sell different products directly to individual workers with advisors being legally obliged to give the best advice. The question is, and not for the first time in Israel (Chapter 2): how is good behaviour of agents (selling pensions) defined and enforced? At issue is that pensions are a complicated product, and people across the world find it difficult to make a considered choice. The CMSID is aware of the importance of financial education and has released a "pensions handbook", is setting up an interactive website, and, in co-operation with the Ministry of Education, plans to introduce financial contents in school programmes (OECD, 2009c). Nevertheless, as the Chilean experience shows (Iglesias-Palau, 2009; and OECD, 2009e), a private pension system such as the one in Israel is vulnerable to agents being influenced by gifts and "commissions" from those providing long-term saving products. As a result, a balance has to be struck between being able to choose between many different pension products (*e.g.* with life and disability coverage), administration costs and transparency through the limitation of pension choices to a few options.

Finally, in response to the unfolding financial crisis, no OECD country bailed out workers who had lost money through saving in voluntary occupational or individual schemes. Israel, however, set up a scheme to compensate workers close to retirement for investment losses in voluntary pension savings plans since November 2008 through their DC-pension funds. To be eligible, workers have to be aged 57 or over with money invested in uninsured funds. Market conditions as of November 2008 are used as the basis for the guarantee. If fully triggered, the guarantee could impose a significant fiscal cost (OECD, 2009a), but the likelihood of this

occurring is small, especially because the economic downturn is turning out to be less severe than many feared in late 2008.

As the recent financial crisis has shown, there are risks involved in private pension saving, and there is a case for limiting the pension options for workers relatively close to retirement to less risky pension products, as, for example, recently required in Chile and Poland (OECD, 2009a and 2009e). The Israeli authorities are considering reform, which on the basis of age-based investment profiles, would introduce default options for savers who do not make an investment choice on their own initiative (OECD, 2009c).

## 5.3. Containing the upward trend in disability receipt

The number of disability recipients in Israel is growing rapidly. Since 2000, the number of recipients has grown by an average of 4.3% per annum, compared with 1.8% for recipients of basic pensions (NII, 2008). Disability receipt has increased from about 0.5% of the working-age population in 1975 to just below 5% in 2007 (Figure 5.6). This growth is significant. Nevertheless, compared to the experience in many OECD countries, the proportion of the working population on disability receipt is below average: in 2007 the OECD average was almost 6%.[78]

In 2007, about 44% of disability benefit recipients were female and over 80% of recipients are classified as 100% disabled and these proportions have changed little since 2000.

Almost 43% of the disability-benefit recipients suffer from mental impairments, which are the most common cause of disability among recipients between 20 and 45 years of age. The growth in the number of such clients is a major policy challenge which Israel shares with many OECD countries. However, it is as yet unclear what policies work best in this regard; this is an issue on which further research is needed.

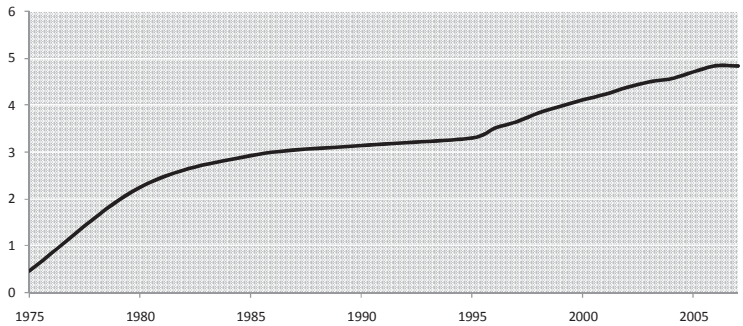
For older clients, muscular and other complaints constitute the largest cause of disablement. And so it is for new recipients: only 10% of them suffer from mental impairments, and by 2007 47% of them were over 50 (up from 43% in 1999). Many of these workers are low-income Arab workers who frequently retire after age 50 (Chapter 4), and whose employment in so-called "arduous jobs" contributes to their early withdrawal from the labour market (Zaidi and Whitehouse, 2009). The entrance of older workers limits the

78. The general disability programme also involves attendance allowances (for carers), disabled child payments, and mobility allowances. There are also work injury allowances, up to 91 days at maximum, and permanent work-injury benefits, which, in 2007, covered 27 800 recipients compared with 187 500 general disability recipients (*www.btl.gov.il/ENGLISH%20HOMEPAGE/BENEFITS/Pages/default.aspx*).

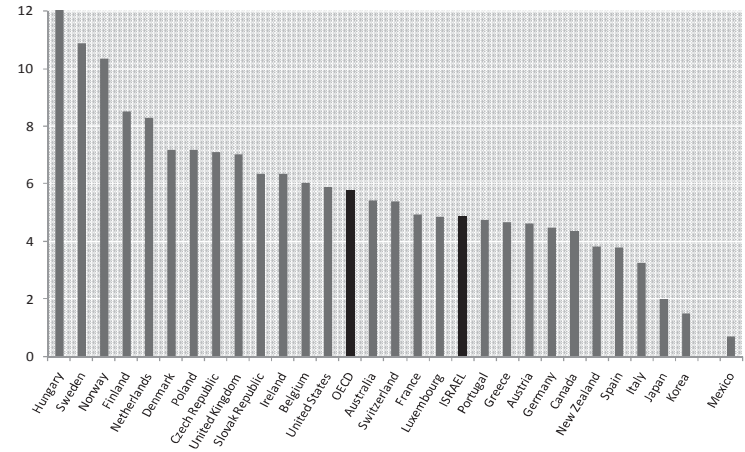
average duration of benefit recipiency (they move on to old-age pensions at some point), but with the large stock of younger claimants (who often face mental issues) the proportion of claimants who receive benefit for more than ten years has slowly increased from 38% in 1999 to 45% in 2007.[79]

**Figure 5.6. Disability receipt has grown rapidly in Israel, but is below the OECD average**

Panel A. Disability receipt to working-age population ratio (15-64) in Israel, 1975-2007[1]




Panel B. Disability receipt to working-age population ratio (15-64), Israel and OECD countries, 2000[2]




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Includes general disability recipients and permanent disability recipients under the work-injury stipulations.

2. 2006: Denmark, New Zealand, the Slovak republic, Spain, and the United States; 2005: France; and 2004: Switzerland.

*Source*: National Insurance Institute Annual Survey, 2007, and *OECD Disability database*.

79. This paragraph is based on data provided by the National Insurance Institute and the Central Bureau of Statistics in response to the *OECD database on Sickness and Disability* questionnaire.

In all, it is difficult to single out one reason for growth in disability benefit receipt, rather there seem to be different reasons (Achdut *et al.*, 2006; and OECD, 2009f): steady growth in the stock of younger claimants with mental disabilities; continuous inflow of older workers with a variety of complaints, and this influx is exacerbated by the size of cohorts of older workers (Figure 5.1) and the gradual increase in the standard retirement age since 2004 (see above and NII, 2008).

In addition, a spill-over from income support clients has probably contributed to the growth of disability benefit receipt, as disability payments are paid at a higher rate (Kop, 2008). Disability benefit pays NIS 2 081 at maximum (USD 533) and is therefore financially attractive compared with Income Support payments (NIS 1 537 for singles of prime age) and other NII benefits (disability pension payment rates are slightly above the basic pension payment with full seniority increment, but somewhat below the maximum means-tested old-age pension, see above).[80] Initially, disability benefit payment rates were going to be reduced in the early 2000s, in line with other NII benefits, but widespread protests reversed the plans (Barnartt and Rotman, 2007), and the disability payment rate was left unchanged. As a result, spending on general disability benefits doubled from 10% of the NII budget for cash transfers in 1990 to 20% in 2007.

Experience in OECD countries shows that in order to stem the growth in disability receipt, it is crucially important to contain the *inflow* into the programme. In Israel, the degree of disability is assessed by a doctor (or a set of doctors/specialists if appropriate) on the basis of medical conditions defined together with the associated degree of impairment as set out in the "examination book" in the National Insurance regulations. Using the report by the medical officer on the *medical degree of disability*, and in consultation with the NII rehabilitation officer, the NII claims officer determines the *degree to which the potential claimant has the capacity to earn and function.* Reform in 2009 established four categories of incapacity: 60%, 65%, 74%, and 100%.

It appears that, in the assessment of eligibility for benefit, the focus is on the disability of the client, not on his/her capacity to earn. The determination of the degree of incapacity is based largely on the earner's personal characteristics, such as his ability to return to his previous job (on a full-time or part-time basis), rather than his/her ability to work in a different job or ability to learn a new job. Furthermore, disability assessors can take the

80. There are additional payments for special services up to NIS 3 450 (USD 860), as well as the mobility allowance of NIS 2 500 (USD 620).

local unemployment situation into account[81] which is likely to have contributed to past increases in disability receipt, as it did in some OECD countries, *e.g.* the Netherlands (OECD, 2008b and 2009f).

Israel's disability system is being reformed following recommendations by the "Laron Committee", to facilitate labour market participation of recipients of disability pension. Measures introduced during 2009 include: no re-assessment of the degree of incapacity on return to work; a safety net for three years, so that on stopping work or in the face of wage cuts, claimants can return to receiving the disability pension, without additional examinations; and a new incentive pension will be paid to those whose earnings exceed the disregards in the disability pension legislation. Reform addresses barriers to work by reducing financial disincentives to work (Achdut *et al.*, 2006).

Given the nature of the existing stock of disability recipients (see above) and the current economic conditions, it is not certain that this reform will be effective in the short term. However, the policy approach is clearly focussed on supporting benefit recipients to make the most of their abilities and participate in the labour market as much as possible. The proportion of recipients of a disability benefit who completed a rehabilitation programme (of which 40% concerned pre-vocational and vocational training) increased from 5% in 2000 to 7% in 2008 (NII, 2009). These clients are more likely to get back into work than those without such assistance, but it is unclear to what extent this is related to participation in rehabilitation programmes. An important additional element of future reform may be to focus on the provision of training early on in the disability trajectory, when such training is likely to be most effective.

## 5.4. Sustaining long-term care insurance

National expenditure on health has oscillated around 8% of GDP since 1994 (CBS, 2008). Underlying this stability in health spending is a decline in public expenditure on health, from around 5% over the 1995-2003 period to 4.4% in 2007. Public expenditure on health in Israel is about 1.5 percentage points or 25% below the OECD average Figure 5.7). Public spending on services for the elderly is around 1% of GDP in Israel, similar to the OECD average. Public spending on home-help and residential services for the elderly is 0.2% of GDP and public spending on

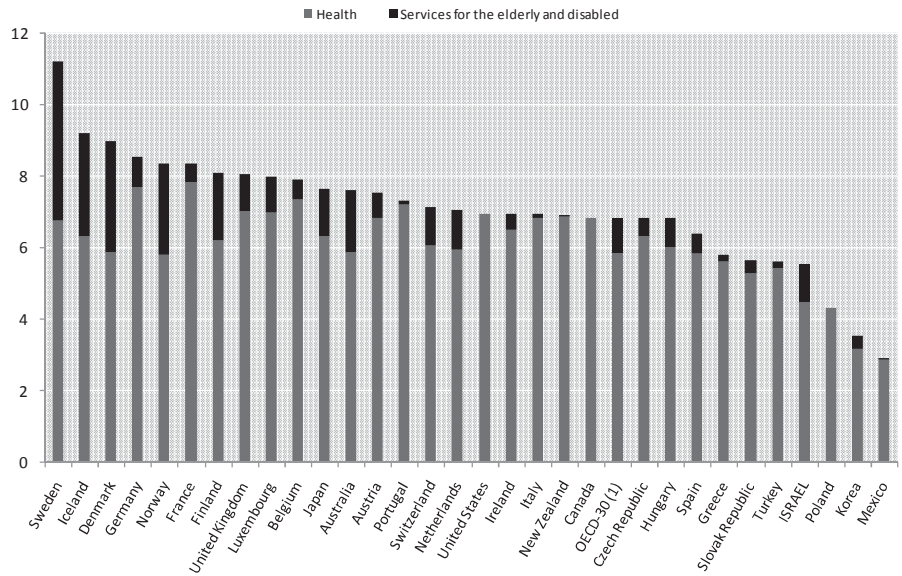
81. "In the assessment of the entitlement to disability benefit, the opinion of the vocational rehabilitation officer involved in the process may be influenced by variables such as the rate of unemployment in the disabled person's area of residence" (NII, 2008).

rehabilitation services is 0.3% of GDP. But with spending just below 0.5% of GDP, the long-term-care insurance system (introduced in 1988) has become a key element in Israel's "ageing policy".

The number of LTC benefit-recipients increased to 140 000 in 2008 (the vast majority of clients receive care at home, but 10 000 clients attended a day-care centre, NII, 2009), compared with 700 000 people over 65. Long-term care support is concentrated among those who are over 80, and in 2008 there were 193 000 people over 80 in of whom 41% received long-term care support. The size of the 80+ age group is projected to increase to 650 000 in 40 years time, which may serve as an indication of future growth in demand for long-term care and health services.

**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**

Public expenditure on health and services for the elderly and disabled as a percentage of GDP, 2005




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Data on spending for services for the elderly and disabled is not available for Canada, Poland and the United States.

*Source*: *OECD Social Expenditure database* and Israeli Central Bureau Statistics data on public social expenditure.

Elderly and disabled people can rely on different NII benefits to help them meet the cost of care in old age. Old-age benefits and/or disability pensions, as well as the additional disability payments for special services and mobility (see above), can add up to around NIS 8 000 (slightly more than USD 2 000). In addition, there is a system of means-tested long-term care (LTC) which entitles beneficiaries to a certain number of hours of domestic care. The basket of long-term care services covered by the benefit includes personal care at the home of the elderly (*e.g.* help with dressing, bathing, mobility, feeding, administering of medications, help with daily chores, general attendance) or at a day-care centre, supervision, transportation to a day-care centre, supply of absorption products (received by 17% of clients), and financing the use of emergency transmitters (received by 13% of clients). Two levels of LTC support are provided:

- 93% of disability benefit (equivalent to nine and three quarters hours weekly of home-help paid at the minimum wage) for a person who is dependent to a large extent on the help of other people for the performance of most of his/her everyday functions, as well as for a person who is in need of supervision.[82]
- 150% benefit (about 15 hours weekly of home-help paid at the minimum wage) and 168% (18 weekly hours of support) for persons who are completely dependent on the help of other persons for the performance of most of his/her everyday functions, as well as for a person who is in need of constant supervision.

The Ministry of Social Affairs and Social Services appoints local committees of a social worker, a nurse and a NII staffer which formulate care programmes for the elderly in their area, while also ensuring they receive the care they are entitled to.

The LTC benefit is not paid directly in cash to the recipient,[83] but is a "voucher" for services: the NII pays the benefit to the service provider (including 20% towards the overhead of providers). Almost three quarters of the hours of care is provided by private commercial organisations, with the remainder by non-profit organisations or public agencies.

The system has facilitated the rapid development of capacity of private care provision by licensed providers (Schmidt and Borowski, 2004). The

82. About 60% of claimants receive the low level of entitlement (including those whose benefit was reduced due to the means-test).

83. A cash benefit is paid only to those for whom there are no available services or services that can be provided according to the timetable prescribed by law.

provision of in-kind benefits is thought to help cost-containment, but there is an ongoing discussion on whether payments should be made directly to care recipients to increase their choice (since March 2008, there is a two-year pilot scheme in three regions of Israel providing cash benefits to the elderly under certain conditions).

The long-term care support has a strong and welcome focus on the provision of *home-help* rather than institutional care. The LTC law was not intended to completely replace assistance by family members, but to alleviate their burden of care (Schmid and Borowksi, 2004). Indeed, the carers are typically paid extra income by the household directly and are employed on a full-time, live-in basis. Frequently, these care workers are migrants from South-east Asia, and, with the increase in demand for long-term care associated with an ageing population, their number is expected to double from 48 000 in 2007 to 109 000 in 2025 (Eckstein, 2007).

The one weak point in the system is that the foreign care workers on temporary work permits are in a weak employment position, which has resulted in widespread abuse of employment conditions, an issue which will be discussed at length in the next chapter.

## 5.5. Conclusions

Compared with most OECD countries, Israel is a young country which will age relatively slowly. Nevertheless, the old-age dependency ratio will almost double over the period to 2050 to 35 people over 65 per 100 persons of working age. Population ageing has already contributed to increases in the take up of disability benefit, and more significant growth of demand for old-age cash benefits and long-term care support is projected for the future.

This demographically-driven increase in demand for supports has to be addressed in an environment which, by international standards, is already characterised by high poverty rates – 23.4% as compared with an OECD average of 13.5%. Public spending on pensions in Israel is relatively low at 4% of GDP. In part this is because of Israel's age profile, but also because of the basic nature of the public pension provisions. At maximum, public pension payment rates cover poverty thresholds, but strict means-testing limits access to full basic pension payments, as only 15% of the old-age allowance benefit recipients receive an income supplement. In particular, the stipulation that claimants may not possess a car less than 12 years old seems unduly harsh, especially in view of the lack of public transport facilities in some parts of the country where many low-income households live (Chapter 4).

In view of gender equity concerns and prevailing life-expectancy outcomes, standard retirement ages for men and women should be equalised gradually at age 67. This would help contain expenditures, permitting a considered increase of basic pension payments to those who need it most. For example, less stringent application of the asset-test could permit more low-income families to receive the income-tested OAA supplements.

The recent introduction of mandatory pension saving to those in employment will make a major contribution to poverty reduction in future. The policy builds on existing collective agreements between the Histadrut and employers which generally cover well-established workers and it continues to provide fiscal support for all employment-related pension saving, which does not benefit low-income workers without sufficient tax liabilities. Policy would be better targeted at those who need it most. For example, the existing tax credit rate could be reduced, and these resources could be used to provide non-wasteable tax credits to low-income workers and compensate them for the reduction in current disposable income caused by the mandatory levies.

Authorities should closely monitor the extent of the coverage of mandatory pension saving. In addition, to increased awareness among the populace of the importance of pension saving, authorities should also better enforce penalties for non-compliance.

Recipiency of disability pensions is increasing but remains below the OECD average. Eligibility assessment procedures should focus more on the applicants' abilities and capacity to earn, rather than their impairments. Policy reform that facilitates labour market participation of disability benefit recipients is under way, so it is clearly too early to assess its effectiveness. The OECD experience has shown that "medicalisation" of labour market problems is a grave danger, and Israel would be well-advised to remove the reference to local unemployment rates from the assessment procedure that establishes entitlement to disability benefit.

In terms of spending on services for the elderly and disabled, Israel is on par with the OECD average. Since the late 1980s, Israel has developed a largely privately-operated long-term care services system which has a strong focus on the provision of care at home. The system was intended to assist (rather than replace) informal family care workers, and in future, Israel's main challenge will be to find ample public resources to address care demands and avoid the burden of care being shifted back to the informal care givers.

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# Chapter 6.

# Better Managing Labour Migration

*Israel has a temporary labour migration scheme which provides a significant part of its labour force. It has recognised a need to reform the complex labour migration system to ensure that temporary foreign workers are not recruited when suitable local workers are available. The system, despite some procedural changes that have led to improvement of respect for contractual conditions, still leaves significant room for illegal practices by recruitment agencies and employers. This chapter considers the principal issues in temporary labour migration management in Israel in light of Israel's avowed policy objectives and OECD experience.*

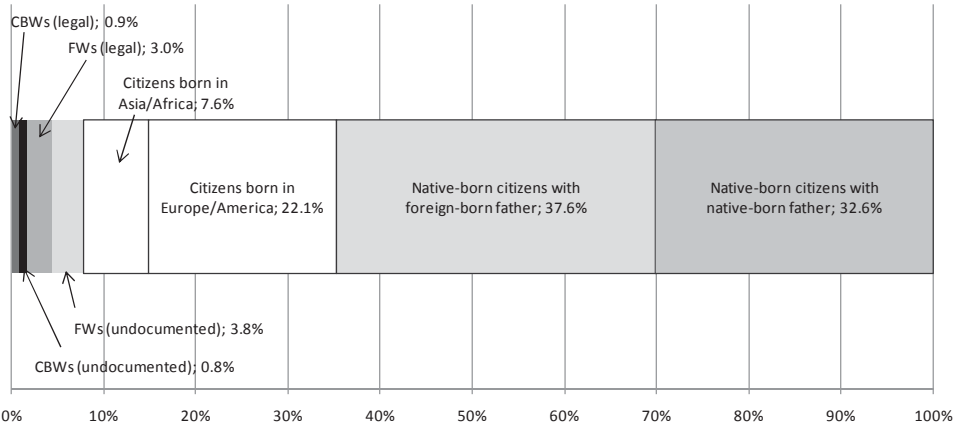
## 6.1. Introduction

Israel has two principal channels of migration. The first is permanent migration for Jews and their families, called *aliyah* (ascent). Citizenship is generally granted immediately to these immigrants, called *olim*. *Olim* comprise more than a quarter of the Israeli population, and about 30% of employment. The second channel is temporary labour migration, where the duration of stay is limited and no change of status to permanent residence is allowed. This channel comprises non-Israeli workers from the West Bank and Gaza (cross-border workers) and those from other countries (in Hebrew, *ovdim zarim*, "foreign workers"). This chapter examines the temporary channel, while Chapter 7 deals with *aliyah*.

Non-Israeli temporary foreign workers make up a significant share of the workforce (Figure 6.1) and are predominant in several occupations. Israel has a significant temporary foreign labour force recruited from abroad, despite more than a decade of policy strategy aimed ostensibly at reducing the number of foreign workers. In 2008, the number of foreigners holding permits to work in Israel was more than 125 000; of which about 25 000 were legal cross-border workers from the West Bank. In addition to work-permit holders, there were about 115 000 undocumented foreign workers, of which perhaps 25 000 Palestinians working without permits, as well as about 20 000 asylum seekers. Almost none of these workers are captured by the Labour Force Survey (LFS, see Box 6.1), but the Bank of Israel estimates that 8.7% of the total labour force – and 11.9% of private sector employment – comprised non-Israeli workers. The Central Bureau of Statistics produces a slightly higher estimate. These workers were almost entirely concentrated in the lowest wage occupations, in construction, agriculture and home care.

This chapter starts with an historic overview of the labour migration system and a description of its current schemes, then analyses some of its key problems. The question of substitution with domestic workers is examined more closely, especially the mechanisms to favour hiring Israelis, and the failure of policy changes to address concern over substitution. Other problems with the migration management system, such as insufficient inspection and the vulnerability of foreign workers, are examined. The chapter concludes with a series of recommendations.

**Figure 6.1. Employment by place of birth and citizenship, 2007, as a percentage of total employment**




*Note:* For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank. Available data also does not distinguish between native-born and foreign-born Arabs.

CBWs: Cross-border workers; FWs: Foreign workers.

*Source:* LFS 2007 for Israeli workers; Bank of Israel 2008 for cross-border workers, MOITAL for foreign workers (FWs) and CBS for undocumented FWs. "Citizens" include permanent residents (Box 6.1).

### Box 6.1. Definitions of immigrants, cross-border workers, and foreign workers, quality of statistics and difficulties in comparison with OECD countries

Israel has little information on temporary foreign workers, whether legal or illegal. As a result, the labour market impact of temporary foreign workers in Israel is difficult to measure. The Labour Force Survey is based on residents and covers only citizens and permanent residents. Administrative data from the NII on the wages and jobs performed by foreign and cross-border workers is partial and subject to classification errors.

Entry and exit are registered by the Border Authority, yielding double-card estimates of the number of people overstaying, but misclassified exit status and changes in status make this source less reliable. The estimates on the number of undocumented foreign workers vary widely as a result, but are consistently high (Figure 6.3). Inflow data by visa category has also been problematic. The population register ("Population Registry", kept the Ministry of Interior) contains information on legal temporary and permanent foreign residents by status and year of entry, but these data are not generally available, although the stock of legal foreign workers is available. The register also distinguishes between citizens and permanent residents, but contains many who live abroad. The previous census, in 1995, made no effort to capture foreign workers, who often live in irregular dwellings, and they will be added to the 2008 census based on administrative data and not on interviews. Family reunification and formation flows do not provide data on the country of origin.

Statistics on entry and stay under the Law of Return (Chapter 7) are much more reliable. The characteristics of permanent immigrants are also analysed in detail; for example, the LFS contains questions on country of birth, father's and mother's country of birth, and year of immigration (month of immigration for those immigrating in the past three years).

In international comparisons, for example of the role in the labour force of the foreign-born, most OECD countries include all foreign-born, making comparison with Israel difficult. In most current Israeli analyses, "immigrants" are only considered to be those *olim* arriving after 1990, rather than all foreign-born residents. Israeli analyses of immigrants in the labour market, such as those by the Bank of Israel, separate foreign-born Israeli citizens (and permanent residents entering under the Law of Return) from other foreigners (legal and undocumented "foreign workers" and cross-border workers). As foreign workers are excluded from public employment, Israeli analyses of foreign workers' share of employment also differ from those of OECD countries because they are calculated using private-sector employment, rather than all employment.

## 6.2. The current labour migration management system

### *Historical background*

As with many OECD countries, Israel had foreign workers before it had a foreign-worker policy. As a result, policy has chased the phenomenon rather than governed it. Kleinov (2006) identifies five past stages of policy: the regulation of Palestinian labour (1970); the Foreign Workers Law (1991) to link workers to employers; the policy to reduce Palestinian cross-border work (1993) and to establish quotas for foreign workers (1994); a decade of claims to want to reduce the number of foreign workers; and the High Court of Justice decision to facilitate employer mobility (2006).[84]

### *Cross-border workers first appeared in 1967 and quickly became significant*

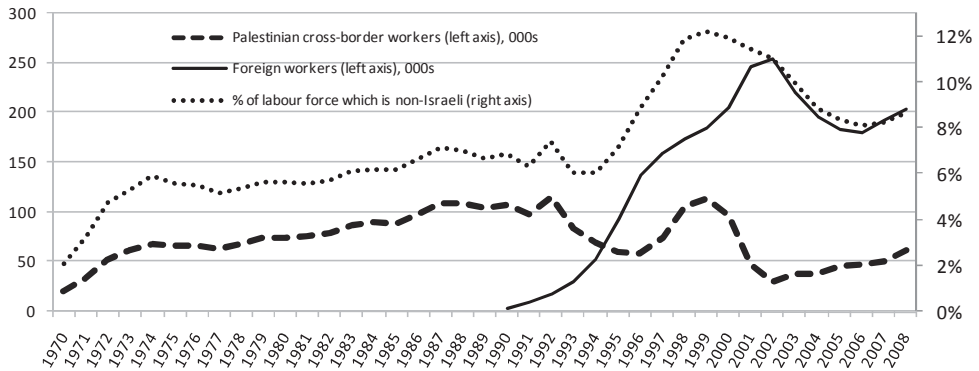
Non-Israelis first entered the Israeli labour market following the 1967 war, when Palestinians from the West Bank and Gaza crossed the previously sealed border to work. As the numbers increased (Figure 6.2), concern over the possible deleterious effect on wages of Israeli workers grew. In 1970, the first policy for regulating these workers was put in place, requiring Palestinians to hold a work permit, linked to a specific employer and subject

84. These stages are also evident in the intergovernmental commission reports appearing in 2001 (Tamir), 2002 (Rachlevsky), 2004 (Endorn) and 2007 (Eckstein).

to the same wages as Israeli workers.[85] Workers were hired through the Israeli public employment service (PES) offices in the West Bank and Gaza, and their wages and social contributions were paid to the PES, which remitted the wages and provided the social benefits. The system was designed to prevent undeclared and illegal employment and wage fraud in order to protect Israeli workers from unfair competition. The National Insurance Institute (NII) is still responsible for social benefits and contributions, although wages are now paid directly to cross-border workers.

**Figure 6.2. Non-Israeli workers make up about 10% of the labour force in Israel**

Palestinian cross-border workers and foreign workers in Israel, 1970-2008




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: Bank of Israel; Israeli Central Bureau of Statistics. Includes both legal and undocumented non-Israeli workers.

By the late 1980s, cross-border workers had become an important part of the labour force, reaching about 7% of total employment. In 1987, Palestinian workers constituted 49% of all employees in construction, and 45% in agriculture. The number of cross-border workers authorised to work in Israel peaked in 1992 at 72 000. It first began to decline in 1993 as a quota was imposed on cross-border workers, and employers successfully lobbied to be able to recruit workers from abroad. With the second Intifada in 2000, the quotas for cross-border workers were drastically cut for security reasons.

85. This policy was a Cabinet Decision (Ministers' Committee on Security, No. 1/B, 8 October 1970) and largely reflected the concerns of the Histadrut over the impact of Palestinian workers on Israeli wages (Mundlak, 2007, p. 193).

The decline in the number of Palestinian workers admitted in the early 1990s was due to a shift in employer interest to a more reliable temporary workforce, workers from abroad, one which would not be affected by closures of the border or security procedures.[86] The demand for labour in the construction industry was particularly acute due to the need to build housing for the enormous number of new immigrants arriving from the former Soviet Union (FSU) in 1990-92. Similarly, the agricultural industry could not afford the sudden loss of its non-Israeli workforce, and new citizens from the FSU refused to work in either sector under the prevailing conditions (Weiss *et al.,* 2003; and Boroski and Yanay, 1997). The large-scale arrival of foreign workers depressed employment opportunities for Palestinians in Israel (Miaari and Sauer, 2006), although other analyses using Palestinian labour force data (Aranki and Daoud, 2008) find the border closures had a stronger effect on Palestinian employment in Israel, while foreign workers depressed the wages of Palestinians working in Israel.

In 2007-08, the number of cross-border workers authorised to work in Israel rose to 27 000 (this represented about 9% of the employed in the West Bank). Palestinian workers must receive security clearance in order to work in Israel. They are dependent on their employers for their work permit, since they must demonstrate a full-time job offer prior to applying for security clearance. Currently, most workers must be over 30 and married with children to receive clearance, after which they are issued a work permit which must be renewed every three months. The permit system and the obstacles to free movement between the West Bank and Israel do not provide easy, rapid or reliable access to Israel for workers from the West Bank.[87]

### *"Foreign workers" appear in the early 1990s*

The first guidelines for recruiting foreign workers were formulated in 1990, with the intention of imposing high costs on employers to discourage them from using foreign workers (Borowski and Yanay, 1997). The Foreign

86. The nationalities of foreign workers changed over time, with the Philippines historically providing most care-sector workers and other occupations seeing a gradual shift from Southeast Europe to Turkey, Africa, and, currently, Thailand, China and Nepal (Annex Figures 6.A1.1a and 6.A1.1b).

87. Dependency in the West Bank and Gaza on work in Israel heightened the frustration with checkpoints and confiscation of permits, and has been even considered one of the factors of the 1987 Intifada (Gilbar, 1992; and Schiff and Yaari, 1990).

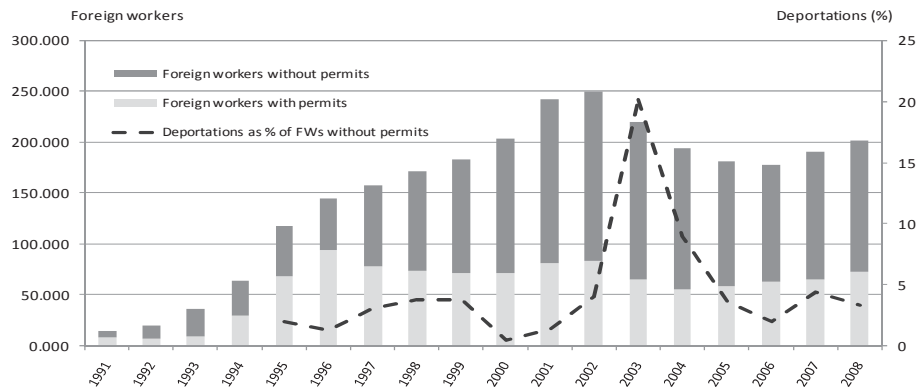
Workers Law (1991)[88] created a legal framework for employment of foreign workers and established penalties for illegal employment.

In order to regulate the access of employers to foreign workers, Israel imposed quotas on certain sectors. Quotas for foreign workers were introduced in September 1993 for agriculture and in May 1994 for the construction sector, based on estimates of demand by employers. By the end of 1994, the quota was over 50 000. The frequent closure of the Israeli labour market to workers from the West Bank and Gaza from mid-1994 to mid-1996 especially, contributed to the boom in employment of foreign workers.

Increases in the number of workers authorised also led to increasing overstay by workers whose permits had expired or whose contract with the employer had been broken (Figure 6.3). In 1996, the government formulated a policy to reduce both the quota and the number of undocumented foreign workers but did not implement it (Amir, 2000). While permits issued for construction work declined in the late 1990s, the care sector was drawing in more foreign workers. More significantly, the number of undocumented foreigners grew, in part due to illegal recruitment practices and the limits of the "binding system" described below.

**Figure 6.3. The number of foreign workers remains high and includes many without permits**

Foreign workers with and without permits, and deportations, 1991-2008



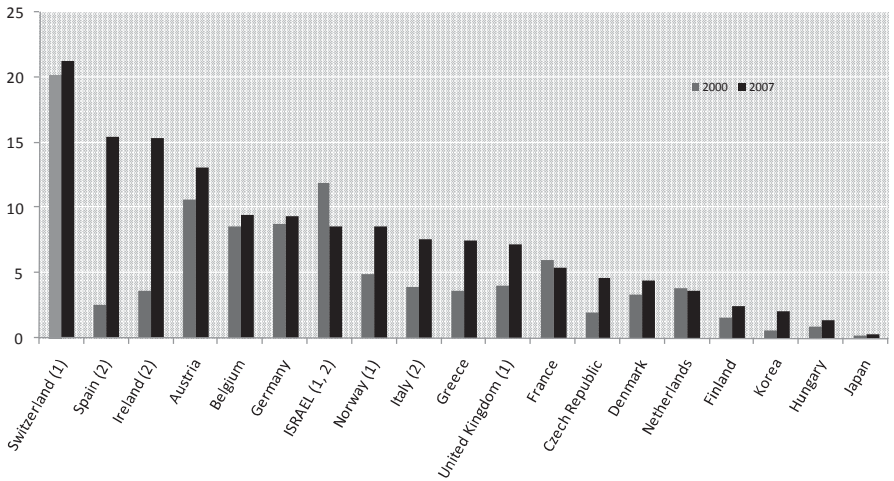

*Source*: Bank of Israel *Annual Reports 2007, 2008*; Central Bureau of Statistics; Friedberg and Sauer, 2003 (for 1991-95); Rosenhek, 2003 (foreign workers with permits 1996) and Amir, 2000 (for foreign workers without permits 1996); Ministry of Interior (Deportation data).

88. Published 21/4/1991 and amended a number of times. For workers from the West Bank and Gaza, the law was amended in 1994 to take into account agreements with the Palestinian Authority.

In 2000, the proportion of non-Israeli workers in the labour force (including irregular immigrants and cross-border workers) was higher than in most OECD countries (Figure 6.4), although many OECD countries use foreign seasonal workers which do not appear in their statistics. The number of undocumented foreign workers also rose until 2002. The Rachlevsky Commission Report (2002) linked underemployment of low-educated Israelis to the presence of foreign workers, and advised deportation of 100 000 foreign workers. The crackdown on irregular immigrants (2003-04; Figure 6.3) fell short of this target, but contributed to Israel reducing its foreign labour force in a period when most OECD countries saw increases. Even so, a large number of undocumented foreign workers ensures that the total remains relatively high.

**Figure 6.4. The foreign labour force in Israel has grown less than in many OECD countries**

Foreign workers as a percentage of the labour force, 2000 and 2007, selected OECD countries and Israel




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Foreign workers as a percentage of employment.

2. 2008.

*Source*: *OECD database on International Migration*, except Israel (Bank of Israel; includes undocumented workers), Italy, Spain and Ireland (2008 Labour Force Surveys).

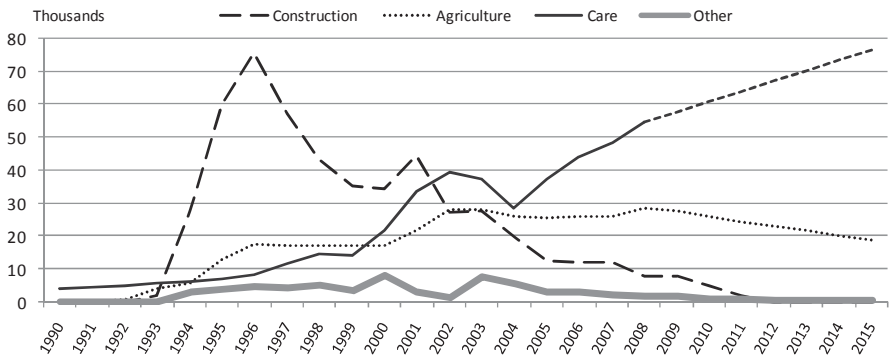
### *Three principal distinct sector schemes for foreign workers*

Israeli policy for foreign workers is aimed at ensuring that foreign workers do not settle permanently. The maximum stay is 63 months,[89] and no change of status to permanent resident is contemplated or allowed.[90] Candidates with first-degree family (except siblings) in Israel are not accepted, and there is no provision for family reunification.[91] Pregnant women do not receive visas, and if one has a child in Israel, her permit of stay is revoked after 90 days, although she may return alone within two years.

There are three principal permit systems for foreign workers: care, construction and agriculture (Figure 6.5). Each sector is subject to its own regulations and transfer among sectors is not generally allowed.

**Figure 6.5. The decline in foreign construction workers will be more than compensated by the rise in foreign care workers**

Foreign workers holding permits, 1990-2009, projections to 2015, by sector (000s)




*Source*: Israel Manpower Agency 1990-95; Bank of Israel 1996 to 2008; MOITAL decision 12/5/2009 from 2009-15, except for care workers, which are projections by Eckstein (2007) based on demographic trends and assuming the same rate of recourse to foreign care workers. "Other" includes industry, hospitality and chefs but excludes "foreign experts".

89. For foreign experts, a work visa may be extended beyond 63 months subject to special request and the approval of two ministers; for care workers assisting a dependent recipient extensions may be granted based on a social worker's assessment.

90. The absence of civil marriage means that foreign workers cannot acquire permanent residency by marrying an Israeli, unless the marriage occurs abroad, although a documented "common law" marriage may grant a temporary visa, convertible to permanent residence after five to seven years.

91. While no permits are granted to them, undocumented minors are admitted to school and are covered by one of the private insurance programmes available for foreign workers, under contract to the government.

The ***care sector*** comprises largely live-in care, for the elderly and/or the disabled. Since 1988 the long-term care LTC) benefit[92] has provided subsidies, allowing a large number of Israelis to employ foreign care workers. There were 54 500 foreign workers in the care sector in 2009, representing about half of total employment in the sector and almost all live-in care. There is no quota imposed on the sector. Candidates must appear at the Israeli consulate and are, in principle, subject to verification of language skills, although no written guidelines for screening existed until February 2009.[93] In May 2009, specific language requirements were imposed on care workers (Test of Spoken English). Employers are also subject to eligibility requirements (ADL score or, in exceptional cases, medical records).

Since April 2009, all foreign care workers must be registered with one of the more than 130 licensed recruitment agencies (Annex Figures 6.A1.2, 6.A1.3 and 6.A1.4). Recruitment agencies place foreign workers directly with the patient. If eligible for NII benefits, the patient registers the worker with a care-giving agency.[94] Care-giving agencies are paid an overhead by the NII and do not charge care receivers for their services.[95] Recruitment agencies, on the other hand, are required to provide certain services (such as quarterly visits, problem-solving and help with medical insurance, social security, visas and permits) for which they may charge the user. Workers and care receivers may change agencies as they wish, but pay no fees for mediation once they are in Israel. Since the recruitment agency has a strong incentive to favour fee-bringing international recruitment, the new

92. In addition to pension payments, in 2008, there was an LTC benefit of up to NIS 3 126 for the elderly, presuming 18 hours weekly of care. For the disabled the subsidy was NIS 1 937, NIS 3 450 for special services and NIS 2 500 for mobility subsidies. The subsidies can be combined (Chapter 5).

93. Care workers often have no prior experience in the sector. In 2002, according to a Brookdale survey, only 8% of the foreign workers had received training for their position, although 16% had a background in nursing (Korazim *et al.*, 2002). Currently, many of the care workers entering Israel are young women from Nepal, with limited language skills and no background in care.

94. Often, these agencies are separate entities of the same company, and this overlap is an issue the government is addressing.

95. There is also a pilot programme under which the NII pays the elderly or disabled user of care services directly (about 80% of the amount it would have paid the agency), and this employer is responsible for paying the care worker at least the minimum wage, although there are no reporting requirements to ensure enforcement.

legislation requires them to find a new job for its care givers who are unemployed, although this has not been enforced (see below).

Families or individuals may also employ a care worker exclusively, in the absence of an NII subsidy. If an NII subsidy pays for part of the care, the worker is jointly employed by the care-giving agency and the recipient; if there is no subsidy, the worker is directly employed by the receiver. More than half of the care workers are employed directly. Care receivers must pay social contributions to NII for the wages they pay directly, and file a short report, but do not have to provide workers with pay slips.

A provision in 2009 created a registry of unemployed foreign care workers. New entries of care workers were not to be allowed when the number of unemployed care workers enrolled in the registry reaches 1% of the total foreign care-worker population (currently, equivalent to about 550 unemployed). Yet the number of registered unemployed care workers was over 2000 in April 2009 and agencies continued to recruit new workers from abroad.[96] Further, in June 2009, the special registry of unemployed care workers was suspended.

In the ***agricultural sector***, the quota – currently 28 500 – of permits for employing foreign workers is allocated by the MOITAL to individual employers (about 5 500 in 2009) according to standards fixed by the Ministry of Agriculture and Rural Development (MARD). The demand for foreign workers significantly exceeds the overall quota.[97] Employers are not allowed to subcontract their workers (although they may legally transfer workers to another farmer), but a black market in agricultural workers exists, with farmers illegally renting workers from those who have received authorisation. Foreign workers generally are employed in year-round activities rather than seasonal work, which involves more cross-border workers.

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96. The registry was open for enrolment for three months. It did allow overstaying care workers or those who had lost their status because they had left their employer to receive a three-month tourist permit while waiting to be assigned a new job; about one-third found a new job. The non-implementation of the database means that those who became undocumented under the prior "binding" policy have little chance to benefit from the new system.

97. The MARD Planning Authority has established different criteria for allocation of permits for 600 different crops and livestock branches, according to the labour norms established for each branch. Preference is assigned to smaller and medium-sized farms over larger ones (OECD, 2009b). Demand may be inflated by rent-taking in recruitment (see below).

In the ***construction sector***, workers must be employed through one of about 40 agencies, which contract workers to the labour user. Employment is allowed only in one of five authorised trades (masonry, tiling, plaster, scaffold work and welding). Labour users must apply for authorisation to use foreign workers, and more labour users are authorised than workers available, in order to create competition for workers and, in principle, ensure full employment of the workers and increase the wages paid them. Construction companies also report paying hourly rates substantially above the minimum wage to the manpower companies, especially when pay is linked to worker productivity. Wages have not, however, been seen to increase in recent years, in part because there is no incentive for the manpower agency to transfer higher hourly rates paid by labour users on to the workers.

### *Some opportunities for high-skilled temporary labour migration exist*

Outside of the above sectors, there are two other channels for temporary labour migration. This first is specialists or experts. Employer applications for such high-skilled foreign workers are individually evaluated and approved. Wages must be double the Israeli average (*i.e.*, about NIS 13 000/month). Employers pay only a processing fee. There is little use of this channel, since Israel produces an abundance of high-skilled professionals, and can also recruit from the large diaspora of Israelis and those eligible for immigration under the Law of Return (Chapter 7).

Specialty industrial workers (*e.g.*, metalworkers) and "ethnic chefs" are the other category. Employers must advertise these jobs locally for at least 30 days and through the PES. There is also a salary threshold of NIS 5 000 and 7 000, respectively, and employers must pay the processing fee, annual fee and a 10% wage levy. Specialty chefs in "ethnic restaurants" are subject to a quota – set at 900 and due to drop to 500 in 2010.

## 6.3. Key problems in the labour migration management system

The primary objective of any managed labour migration system is to meet labour needs that cannot be satisfied with locally available labour without adversely affecting the local labour market. There is some question about whether this aim is being achieved in Israel. A recent OECD review of labour migration management systems (OECD, 2009a) has identified a series of elements that this review will consider in light of the Israeli policy. These elements are *i)* identification of needs which can only be met through foreign recruitment; *ii)* recruitment methods, and *iii)* enforcement mechanisms.

### *Evidence suggests that non-Israeli workers are substituting Israelis …*

In most OECD countries, research on the substitution effects of immigration has generally indicated no effect, or only a limited effect on the least educated, especially prior immigrants, and a positive effect on the more educated native population (*e.g.*, Card, 2005; Ottaviano and Peri, 2006; and Manacorda *et al.,* 2006). In Israel, too, permanent immigration has generally been shown to have no negative long term effect on the wages or employment of natives (Chapter 7). However, there is significant empirical evidence of a negative effect on the participation rate of Israelis due to the introduction of foreign workers, including a spillover effect as low-skilled Israelis crowded out of certain occupations and increase the low-skilled labour supply for other occupations. Gottlieb (2002) and Zussman and Romanov (2003) find crowding-out effects, specifically for Arabs. The substitution effect of foreign workers on employment and their spillover effect on Israeli wages are attributed to the low real wages and poor working conditions of many foreign workers, which are enabled by insufficient inspection and a system which makes them especially vulnerable to exploitation.

Table 6.1 shows the average monthly wage in 2007 for the four sectors which represented 86% of jobs held by non-Israeli workers for which wage data are recorded by the Israeli Central Bureau of Statistics (CBS). The CBS does not have wage data for care workers employed directly by families and individuals (who represent more than half the workers in the care sector) and those employed illegally (including almost all undocumented foreign workers). The wage paid to non-Israelis is significantly lower than that paid to Israelis in each category, which is not surprising, since Israelis occupy more productive positions. This table, however, masks a much larger wage gap, because it does not account for hours worked nor for the greater mobility among Israeli workers who can change employer much more easily than non-Israeli workers (which reduces average wage per job). Further, non-Israeli workers generally work at least the maximum monthly hours (186; 180 in construction), while part-time work is much more common among Israeli job holders.

The labour force group which has suffered most from competition with non-Israeli workers is the less educated Israelis (Gottlieb and Amir, 2005). The construction industry argues that its allotment of foreign workers is justified by the shortages in the five authorised construction trades. Its claim that these are qualified positions requiring years of vocational education is undermined by the observation that foreign workers substituted for unskilled Palestinian workers in the same trades, and that many of the Chinese workers currently employed in construction were farmers or assembly-line

workers prior to coming to Israel. There are certainly some skilled construction jobs, but if these jobs truly require years of training, than they could be subject to the procedures for industrial workers – perhaps with a fee exemption, since there are no Israeli workers with whom they compete.

**Table 6.1. Non-Israeli workers are paid less than Israelis**
Reported wages and employment of Israeli and non-Israeli workers, 2007

| | Gross average monthly wage (NIS) | | Non-Israelis | |
|---|---|---|---|---|
| Sector | Israelis | Non-Israelis | 000s | % of all jobs |
| Agriculture | 5488 | 4441 | 23.9 | 47.4% |
| Home care services | 2349 | 1988 | 20.4 | 32.9% |
| Construction | 6721 | 5888 | 10.1 | 7.5% |
| Temporary agency work | 3232 | 2424 | 5.1 | 5.0% |

*Note*: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: Central Bureau of Statsitics. Home care (Code 862) excludes those paid directly by families and those listed as maids or domestic helpers. Temporary work is CBS Code 74.

Even before the economic downturn in 2008, the ostensible policy aim was to reduce the number of foreign workers in Israel on the grounds that foreign temporary workers were crowding out low-educated Israeli workers, especially Arabs (*e.g.*, Ministry of Finance, 2005; Eckstein, 2007). Official labour market policy since 1996 has included the objective of reducing reliance on foreign workers, an aim which has been reiterated by all government coalitions. This has had an effect on the construction and industry sectors (Figure 6.5), but not in agriculture or care.

### *… yet there is no "labour market test" to encourage the employment of Israelis*

In contrast to all OECD countries, Israel does not conduct a labour market analysis or test before allowing foreign recruitment in low-skilled sectors. The sector and occupational restrictions and quotas are set through informal negotiations between different ministries, and are often strongly influenced by requests from the employer organisations. For example, the agricultural sector's quota has been unchanged since 2002, and it successfully overcame a 2008 attempt – supported by a Parliamentary commission – to reduce the quota to 7 500 by 2015.

Many OECD countries involve employers in setting targets for less skilled immigration, although generally as part of tripartite negotiations or based on employment data. Few grant such carte blanche to employers as Israel (OECD, 2008a). The predominance of the employers in setting quotas is particularly worrying because the system provides some perverse and illegal incentives for employers to exaggerate their demand for labour. Quotas, which were supposed to be eliminated for some sectors, will in fact be maintained for the next few years. The past failure to impose restrictions – in the face of strong lobbies – suggests that Israel should rethink the mechanism by which it determines how much foreign labour it requires and in what sectors.

Given the concerns over substitution and crowding-out, it is particularly surprising that employers wishing to hire foreign workers are not required to advertise the position. Israel could learn from OECD countries, but it already uses labour market tests and wage thresholds for foreign workers in industry and specialty restaurants, as noted above. These requirements have kept the number of foreign workers in industry and technology quite low, at less than 1 000, and actual wages of foreign chefs appear competitive. There is no reason why at least the PES listing and advertising requirements should not be extended to *all* sectors, and a wage threshold could be set based on the prevailing or average wage in the occupation or sector, as is done in other countries.

### *Israelis are willing to work in these sectors, but not for wages below the minimum wage, so employers prefer foreigners*

The claim is also made that wages are too low to attract Israelis. The average wage in construction is not high, but construction has historically been a relatively low-wage industry in Israel. The inflow of foreign workers corresponded to a relative decline in construction wages from 90% of the average wage in 1994 to 75% in 2001.[98] Overall employment grew while productivity declined. The recent Eckstein Report (2007) calculated that it would take an hourly wage of NIS 50 to ensure return of Israelis to the sector; the current gross wage for Israelis approaches NIS 40. Israelis are willing to work in the sector and some return to construction and rise in wages has been recorded. Low-educated Israelis came back to the construction sector – in the same occupations open to foreign workers – following the reduction in foreign workers in 2004, and this return helped lower the unemployment rate among low-educated Arabs from 16.8% in 2002 to 13% in 2008 (Bar Zuri, 2009).

98. In part, this was due to illegal employment. In 1998, undocumented foreign workers working illegally in construction were earning 62% the average construction wage (Fefferman, 2000).

Easy and excessive recourse to foreign workers has also been held partly responsible for the difficulty in helping the long-term unemployed back into the labour market (Tamir Committee, 2001). Access to cheap foreign labour can be considered a form of government support to the agricultural sector (OECD, 2009b). Some Israeli NGOs (*e.g.*, the Israel Center for Social Justice) hold that reduction in the number of foreign workers is a means of ensuring low-wage employment opportunities to the welfare-to-work programmes. There is certainly a significant labour pool of unskilled Israelis who are not participating in the labour market (Chapter 3). Yet when associations have pressured farmers to hire other workers,[99] at the minimum wage, farmers have preferred to recruit foreign workers. The Farmers Federation claims that Israelis will not do greenhouse work at any wages, but this claim has never been tested: agricultural wages have not risen, even in periods where farmers have complained of shortages of labour. There may be some long-term need for foreign workers for the most gruelling work, and to serve farms far from available labour, but the seasonal fluctuation in the Israeli agricultural workforce suggests that there is still a margin to increase employment of Israelis.

The live-in care sector is doubtless the sector where it will be most difficult to recruit Israelis. In addition to the inherent difficulty of the work, unpaid overtime and undeclared hours by live-in carers make the sector unattractive. A current six-month programme grants four additional hours weekly to recipients of the LTC benefit if they hire an Israeli rather than a foreign worker,[100] but these few additional hours are unlikely to attract many Israelis into full-time live-in care. Eckstein (2007) forecasts that, in light of ageing trends and the rate of recourse to foreign workers in the sector, the number of foreign workers in the sector could well double to 108 000 by 2025.

The LTC benefit is a major contributor to this employment, yet only half of the legally employed foreign workers in the care sector work for someone who receives the benefit (NII, 2008). 125 000 elderly received the benefit in 2007, of which 62 000 were eligible to hire a foreign worker. Only 44% did so. Other employers of care workers are presumably either disabled or excluded from the LTC benefit due to the means test. The stricter review of disability planned under the May 2009 amendment may lead to somewhat fewer authorisations to hire foreign care workers. Attracting Israelis into the sector will be difficult, because organising shifts, paying overtime and respecting the Minimum Wage Law – necessary to attract Israeli workers –

99. Arab women, in the case of the NGO WAC-MAAN; refugees, in the case of the Hotline for Migrant Workers.

100. NII agreement with the Ministry of Finance, 16/3/2009.

will raise the costs of 24-hour care substantially. As in some other OECD countries, 24-hour care is often economically accessible to large segments of the population only through resort to illegal employment practices (Fujisawa and Colombo, 2009).

### *High fees meant to favour hiring Israelis are not effective in the absence of enforcement …*

The principle of the fee system is to discourage employers from hiring foreign workers. Significant amendments to the 1991 Foreign Worker Law were proposed in 1996 but only adopted in December 1999 in the Economic Arrangements Law. These amendments were meant, according to the Ministry of Finance, to eliminate the "anomaly […] in which residents [and Palestinian cross-border workers] face discrimination relative to foreign workers" because they impose higher social contributions on employers. The law established a fee structure for employers and basic obligations (translation of the contract, private health insurance, etc.). It also raised sanctions on illegal employment.

The costs of employing a foreign worker have increased over time. There is a processing fee per worker (NIS 500, 250 in the care sector), an annual fee (NIS 10 000 in construction, 1 000 in agriculture and 4 000 for other sectors, the care sector is exempted). Non-care employers must also pay a 10% levy on gross salary (this was imposed in 2003). None of these fees may be deducted from wages. The application, annual and permit fees for the construction sector are to increase further under a 2009 decision.[101]

Palestinian workers – like other non-resident workers – do not receive full social benefits, and are excluded from all NII services except maternity, unpaid wage and benefits, and workplace injury insurance. Because unemployment, health care, income support and general disability insurance are excluded, Palestinian workers are subject to lower social contributions. In order to compensate for this discount compared with Israeli workers, an equalisation tax was imposed, bringing both employer and employee

101. Prime Minister Decision 147 on 12/5/2009 (Government Policy on Foreign Workers and Encouragement of Employment of Israelis), §15(a) and (b), aimed to double the application, annual and permit fees in sectors except agriculture and care. On 9/7/2009, the construction industry, after claiming that the price of new housing would rise by NIS 25 000 per flat if the fees were imposed, was able to have the fee increase halved. This despite the fact that labour costs are just 20% of the total price and the Ministry of Finance has in the past rejected this argument (Ministry of Finance, 2005).

contributions up to the Israeli level.[102] Workers do not benefit individually from this tax, about two-thirds of which is taken by the Payments Division as overhead (according to the Comptroller) and the rest is transferred to the Palestinian Authority. The real wages and costs of Palestinian workers are lower than that of Israelis or foreign workers (Table 6.2), and although they receive fewer benefits, they do not recover the lower cost in wages.

**Table 6.2. Labour cost structures are different for Israeli and non-Israeli workers**

Reported hourly costs of Israeli, foreign and Palestinian workers, by sector, 2005

| | Agriculture | | | Construction | | | Home care | |
|---|---|---|---|---|---|---|---|---|
| Hourly costs (NIS) | Israelis | FWs | Palestinians | Israelis | FWs | Palestinians | Israelis | FWs |
| Wage | 26.8 | 18.1 | 18 | 28.6 | 26.3 | 18 | 21 | 16.4 |
| Deposit | | 1.7 | | 3.3 | | | | 1.4 |
| Social security | 1.5 | 0.2 | | 1.6 | 0.2 | 0.1 | 1.2 | 0.1 |
| Medical insurance | | 0.5 | | | 0.5 | | | 0.5 |
| Social fees | 4.8 | 0.6 | 1.8 | 5 | 0.6 | 1.2 | 3.9 | 0.6 |
| Holiday | 1.1 | 0.8 | 0.3 | 1.2 | 1.1 | 0.3 | 1 | 0.7 |
| Levies | | 2.4 | 0.5 | | 7.2 | 0.8 | | |
| Total | 34.2 | 24.3 | 20.6 | 39.7 | 35.9 | 20.4 | 27.1 | 19.7 |

*Source*: Association of Contractors and Builders in Israel, 2009.

Foreign workers (FWs) do not pay the same health insurance contributions as Israelis and do not have access to the same Health Management Organisations (HMOs) in which Israelis must be enrolled. Employers must pay for separate private insurance, which costs about NIS 180 monthly. Israel's private health insurance requirement is unusual when compared with OECD countries with a national health care law. In OECD countries, non-seasonal temporary foreign workers are generally covered by the same health system which covers nationals. In Israel the requirement was implemented to avoid attracting workers with health problems and to reduce costs to the public.[103] Minimum standards of the insurance are mandated; however, there is no established limit to co-payment or deductibles, and prior conditions are not covered for

102. The equalisation tax is paid based on wages, 4.71% by the employer and 6.39% by the employee.

103. The "welfare shopping" explanation is tenuous, because labour migrants are generally young, must provide proof of good health, cannot bring family members, and lose their right to stay if they become unemployed through illness. If the illness is judged by the insurance company to incapacitate the patient for at least three months, the insurer can send the foreign worker home rather than pay for care.

three years. The coverage is inferior to that of the HMOs to which nationals have access.

The fees in Israel are higher than in any OECD country, both in absolute terms and in relative terms to the minimum wage and the wages earned by migrant workers. A number of OECD countries use visa fees for cost recovery or "cost recovery plus" (to finance additional related activity by immigration services). The fees in Israel are explicitly aimed at raising the costs of hiring foreign workers "in order to achieve a labour market based on Israeli labour and which guarantees fair working conditions for every worker" (Endorn Report, 2004). While there may be an argument for fees to compensate for negative externalities, especially where foreign workers consume public services, no OECD country uses fees on foreign workers as the principal lever to favour domestic hiring. The main lever to favour domestic hiring in OECD countries is some form of labour market test (above) and ensuring that competitive wages and contractual conditions are offered and respected.

In light of the tendency of Israeli employers to illegally pass these costs on to employees through unpaid hours, high fees are more of a revenue stream than an incentive to hire locally. If there are no local workers, the fees could be considered harmful. In fact, where there is a demonstrable labour shortage in certain low-skill and low-wage sectors, many OECD countries actually work to *reduce* the costs of migration for workers and employers so as to support the relevant sectors and make the workers less vulnerable to exploitation (OECD, 2004). This is a further argument to move forward with the bilateral arrangements, which could also provide a "carrot" for participating employers in the form of reduced fees.

### *Recruitment channels are plagued by illegal fee-taking and should be changed*

The 1991 Law on Foreign Workers did not establish a mechanism for recruitment. Employers used recruitment agencies in sending countries to identify candidates. This led to high fees being charged to aspirant workers in their home countries, with the promise of remunerative employment in Israel. Agencies transfer part – as much as USD 10 000 – of the fee to the employer in Israel, assigning a high value to employment authorisation received by employers. These fees far exceed the legal limit; fees charged to Chinese construction workers can reach USD 18 750 (Minghuan, 2009), although NGOs cite cases of even higher fees. The fees are problematic for a number of reasons. First, they create an incentive for employers to exaggerate the number of workers needed, since each worker hired represents an opportunity for fee-taking (Israeli State Comptroller, 2002).

Second, they reduce the incentive to hire workers within Israel, whether Israeli or legally present foreign workers seeking to change employer. Finally, the need to pay off the high level of debt assumed by many foreign workers makes them especially vulnerable to exploitation while employed and, when fired or at the end of their contract, more likely to overstay and work illegally. Hence Israel must take further steps to eliminate the possibility of fee taking in order to ensure that foreign workers are employed under the proper conditions.[104]

Israel took the positive step of legislating a NIS 3 050 limit to fees charged by recruitment agencies (1 July 2006), now NIS 3 276. Evidence from criminal investigations and from NGOs, however, indicates that it not being enforced. In part, the persistence of illegal fee-taking can be attributed to intentional deception practiced by private agencies recruiting workers. The agencies know that the permits issued may be withdrawn after as little as one year, yet assure workers that the visas are valid for five years. On the basis of expected earnings, aspirant workers incur debts to pay illegally high fees.[105] With the exception of care workers, the Israeli consulate does not require workers to come to receive their visa, and visas are put into passports brokered by the agency. The lack of contact unintentionally perpetuates the information asymmetry since the worker never receives official information regarding the validity of the visa. Israel should not allow brokers to handle all phases of recruitment and should require direct contact with the consulate in order to provide clear information on the duration of the visa and the limits to job mobility within Israel. Full information is not enough, however, since many migrants will still seek to come, hoping to stay and work illegally until their debt is paid and they have earned enough to return home (Minghuan, 2009).

One positive step in this direction was the start of negotiation of a bilateral agreement with Thailand. The farmers' representatives, however, refuse to support bilateral agreements for recruitment. Israel has also refused to commit to accepting a quota of workers under the agreement, since its policy is to reduce the number of foreign workers. However, a real reduction in the quotas has been frustrated by the nature of the political decision-making system (Bartram, 2004), and agricultural quotas

104. This situation, where agencies and employers split fees at the expense of the employer, is the opposite of that in managed migration, where public bodies collect a tax to cover the costs of managing the process and negative externalities.

105. Fraudulent misrepresentation of the duration of a visa is a common risk in private recruitment channels for temporary work permits, such as the H-2B programme in the United States.

have been extended at least through 2015. Since the reality has been that the agricultural and the construction sectors continue to obtain quotas for foreign workers, Israel should consider implementing agreements for temporary labour migration.[106]

Bilateral recruitment agreements work for seasonal and short-term employment in a number of countries, *e.g.*, Germany, Canada, Spain and France (OECD, 2004). A properly designed bilateral agreement will allow Israel to reduce or cease recruitment when necessary, while addressing the chronic rent-taking problem.[107] Illegal rents channelled to Israeli employers are a disincentive for participation in such a scheme, so the scheme should be mandatory and include the reduction or elimination of the fees currently imposed on employers.

Israel may also be able to benefit from bilateral agreements in other ways. For example, Israel has recruited a significant number of Nepalese workers (Nepal opened an embassy in 2007 after Israel refused to issue visas to citizens of countries without an embassy in Israel). Some Nepalese work in advanced agriculture in Israel, and this creates the opportunity to transfer skills and know-how via returning migrants in the framework of development projects. Such schemes have been successful in other countries, *e.g.,* Spain and Japan, and, when properly implemented, carry a number of benefits: lower fees, more qualified workers, reduced overstay rates, expanding commercial and diplomatic ties, and better outcomes for the workers themselves (OECD, 2004). This kind of policy coherence between developmental aid and labour migration is increasingly valued in OECD countries (OECD, 2007).[108]

106. Bilateral agreements for international recruitment can use non-governmental intermediaries, such as the IOM (as in Canada), but can also involve the public employment services of sending and receiving countries (see Spain, France, and Korea for examples); in all cases, the receiving country does not have to commit to fixed quotas.

107. Israel exercised this faculty on 23 April 2009, ceasing issuance of visas to Nepalese workers because of excessive fees and "flying visa" violations where workers paid high fees (USD 8-12 000), only to find no job once in Israel. Nepal responded by organising a Ministerial delegation to Israel and agreeing to reduce fees to USD 3 000, still far above the Israeli legal limit.

108. In terms of percentage of GDP, Israel's development aid is below that of any OECD country (Belman *et al.*, 2009). Nonetheless, it has focused on foreign trainees, especially in agriculture, suggesting possibilities for bilateral agreements.

### *Limits on occupational mobility make foreign workers especially vulnerable*

The 1991 law established the contingency of employment of a foreign worker on a contract from a *specific* employer; authorisation was granted to the employer and not the worker, who did not have access to the Israeli labour market and had to remain with the authorised employer. This came to be known as the "binding system". Linking stay and work permits to an employment contract is not unusual in OECD countries for short-term temporary migration programmes, or during an initial period of stay, or where foreign workers are restricted to certain sectors. The inherent risk in linking permits of stay to an employer is that the worker is more easily exploited, since losing the job means losing the right to stay and facing deportation. In the face of such a risk, workers are unlikely to take legal measures against their employer for contractual violations. These risks were long known and acknowledged in the Endorn Committee Report (2004).

"Binding", together with the system for allocating quotas, does not allow for efficient allocation of human resources, since employers are unable to hire workers from the existing pool. In the 1990s, this was overcome through illegal subletting of labour among construction manpower agencies (Amir, 2000), with higher costs for employers to be recovered from their workers. Sector and occupation restrictions fuel visa fraud, with some foreign workers illegally paying fraudulent employers to declare their wages while they work illegally elsewhere. This is a particular risk in the care industry, for which no quota is applied. The new regulations for the care sector, requiring higher disability thresholds for approval, and proof of co-residence,[109] may reduce fraud, but inspections will probably never adequately cover private homes.

Binding was also a major contributing factor to the sharp increase in the undocumented population in the late 1990s. Most of the undocumented were overstayers whose work permit had expired – not because the five-year limit had been reached, but because the workers had left their employer or their employer had not complied with contractual requirements.

To address the contradiction between mobility and the need to meet specific labour needs, OECD countries offering temporary permits have restricted mobility: Spain requires workers to stay in the same region and occupation for the first 12 months, but they may change employer; Korea requires foreign workers to stay in the same occupation but they may change to another authorised employer; and the United States allows H-1B workers

109. Prime Minister Decision 147 on 12/5/2009 (Government Policy on Foreign Workers and Encouragement of Employment of Israelis), §1 and §2.

to change jobs if they are in the same occupation and the new employer has petitioned for approval. Israel left open – in principle – the possibility to change to a new authorised employer in Israel, subject to the agreement of the employer or under exceptional circumstances. In practice, there was no real mobility, and workers who left their employers lost their legal status – contributing to the rise in undocumented workers (Figure 6.3) – and were subject to deportation.[110] In 2006, the High Court of Justice (HCJ), in response to challenges from a number of advocacy groups, ordered the government to change its system to end "binding" in the agriculture and care sectors, excluding the construction sector where reforms were underway after the Endorn Report.

In principle, mobility is now improved. The construction sector had been reformed in 2005 to allow workers to change employers – to register with a competing manpower agency – by their own choice. The reform certainly appears to have increased mobility, with 5 079 transfers between manpower agencies in 2008 (in a pool of about 8 000 workers). Reform for the care and agricultural sectors – specifically indicated in the HCJ ruling – has been slow, and, according to non-governmental associations, deportations of workers who had left their employers continued. In 2009, the care sector was reformed, requiring all care workers to register with one of the licensed agencies and to allow workers to change agencies. Unemployed workers have up to 60-90 days to find a new job through their original agency or another agency before they lose their permit and are subject to deportation. Similar reforms are planned to be implemented in agriculture by the end of 2009.

Granting foreign workers mobility among manpower agencies will not address the allocation problem as long as illegal fees distort incentives. In fact, agencies are not legally allowed to charge workers already in Israel placement fees for finding them new jobs, and can only charge a fee to the labour user (up to NIS 2 000). New workers from abroad "net" significantly more for the agencies in both legal and illegal fees. The quotas in construction and agriculture are meant to prevent agencies from recruiting more workers from abroad, but they also have an incentive to push their foreign workers into illegal status so as to take fresh recruits who bring rents. It is noteworthy that, according the NGO *Kav LaOved*, new foreign construction workers continued to arrive in Israel throughout 2008, despite the freeze on new entries.

110. Most workers left because of abuse by employers (Ida, 2004).

### *Measures to encourage hiring from within Israel have not been implemented*

When the agricultural sector received an additional "export" quota of 3 000 workers in 2008, foreign workers were allowed to be authorised contingent on hiring an Israeli worker, although the employers did not have to prove the hiring of an Israeli worker until after the foreign worker was already in the country. The foreign workers were granted a short permit, and when it came time for employers to prove that they had hired an Israeli, the measure was not enforced in the face of pressure from the farmers' federation, and employers were granted an extension until the end of 2009, at which time renewal will be contingent on proof of hiring an Israeli. Meanwhile, the overall quota was increased during negotiations in May 2009 and again in July 2009.

### *The inspection system has not been able to ensure payment of the minimum wage*

Enforcement of labour law for non-Israeli workers has been lacking in the past (Friedberg and Sauer, 2003). In 2000, conservative estimates of the violations of the Minimum Wage Law were 48% for male migrant workers and 35% for female migrant workers, compared with 25% for Arab women, 16% for Arab men, 7% for Jewish women and 5% for Jewish men (cited in Davidov, 2006). High fixed costs for importing workers led agencies to demand illegally long workdays for the minimum monthly wage (Amir, 2000).[111] The NGO Kav LaOved claimed an average real hourly wage for foreign workers in the agricultural sector of NIS 12.8 in 2008, far below the minimum wage of 20.7, largely due to unpaid overtime, and Eckstein (2007) reported similar figures. Reported wages for agricultural workers were actually closer to NIS 26/hour, based on a 186-hour work month.[112] Foreign live-in care workers draw a salary of USD 600-1 000, according to their language skills and experience. In live-in care, work hours are difficult to

111. The margin for manpower agencies ranges between 12 and 25%; with low-wage workers and high up-front fixed costs, it can be difficult to recover investment without resorting to abuses such as fee-taking and illegal underreporting of hours. This is one reason why manpower agencies generally shun involvement with low-wage temporary migration in OECD countries: there is little legal margin to be made.

112. A recent indictment of an agricultural employer in southern Israel, accused of exploiting 17 foreign workers, indicates how reported pay can differ from real wages: false pay slips, illegal deductions, unpaid overtime, extended working days (15-20 hours) and seven-day workweeks. The same indictment notes the vulnerability of the workers, who were threatened with deportation if they complained.

calculate but employers generally expect at least five and a half extended days and night-time availability. This brings their real hourly wage below the minimum level (NII, 2009). It is worth noting, however, that most complaints by foreign workers do not relate to minimum wage and overtime violations, which are part of the implicit agreements they make prior to work, instead they relate to withheld and unpaid wages.

International brokerage agencies must post substantial bonds; under the May 2009 Decision, these bonds are NIS 500 000 in construction and NIS 150-300 000 in care, depending on the number of workers mediated (200 or 400, respectively). The bonds are meant as safeguards against unpaid salaries or in case of bankruptcy of the agency. They are not forfeited in case of violations of labour or other laws, which seems irrational.

At present, inspection services in the MOITAL are in parallel, with the enforcement division of the Foreign Workers Division (ED-FWD) covering violations of the Foreign Workers Law and the Regulation and Enforcement Administration (REA) violations of labour law (see Chapter 2). The ED-FWD investigates violation of the Foreign Workers Law, of which violation appears frequent. The department opened about 3 000 files each year in 2007 and 2008.[113] Inspection figures are comparable to those for the REA which inspects all Israeli employers for compliance with labour law, indicating the greater enforcement of compliance with the Foreign Workers Law (*i.e.*, private insurance and other specific obligations to which employers are held). Enforcement of labour law for foreign workers is much more limited; reports from NGOs underline the lack of follow up by labour inspectors of reported violations and a lack of interpreters to allow direct interview of the foreign workers, especially in the agricultural sector.

The Immigration Authority proposed by the Rachlevsky Report (2002) is only now being fully constituted, as the Population, Immigration and Border Authority (PIBA), formally established in July 2008 within the Ministry of Interior. Authority for many foreign-worker issues is being

113. The number of indictments rose sharply from 693 to 4 400 as the MOITAL started to subcontract the preparation of charges to private law firms, although the charges were brought by the Prosecution Department of the MOITAL. Administrative fines were significant – NIS 35.7 million in 2007. Criminal charges brought to the labour courts also yielded fines (NIS 11.1 million in 2007 and 4.3 million in 2008). The administrative fine for employment of an undocumented foreigner is NIS 5-10 000, although criminal fines can be much higher; there were 1 581 administrative fines levied in 2008. Even using the lower estimate of the number of undocumented foreigners working (90 000), the risk faced by employers of undocumented foreign workers appears small compared with their potential savings.

transferred to the PIBA, along with personnel. The transfer will unite different functions of the ED-FWD, the Border Police and the Immigration Police. The idea of placing responsibility for application of quotas, regulation of agencies, permits for foreigners and determination of status of asylum seekers within a single agency is, in principle, a good one. PIBA is also to inherit the responsibility of the ED-FWD, and will have about 50 inspectors when operational. A Supervisor of Foreign Workers' Rights, at PIBA, will enforce labour law among employers of foreign workers.

The Israeli system involves different categories of licenses for agencies and employers and requires significant oversight. Co-ordination with the REA (MOITAL) will be essential so that labour law is fully enforced for employers of foreign workers. The MOITAL will maintain powers of control and investigation (and prosecution) in respect of labour rights of foreign workers (offences against provisions relating to employment contracts, deductions from wages, wage slips, failure to keep documents and lodgement of a deposit). Both MOITAL and the PIBA will enforce medical insurance and residence offences. It is still too soon to determine whether this reform will be successful in improving compliance with labour law and the regulations regarding agencies for foreign workers.

Enforcement of labour law for foreign workers is particularly difficult in live-in care, where many abuses occur (NII, 2007). The closure of the registry of unemployed care workers cited above, and the failure to block new entries based on the pool of unemployed care workers, increase the supply of care workers and the risk of abuse. The planned Supervisor of Foreign Workers' Rights at PIBA will, under the current proposal, not have jurisdiction over labour law violations in the home-care sector, on the ground that employers (the disabled) are a vulnerable category themselves. This seems particularly inappropriate in light of the risk of abuse in live-in care and the history of violations and fraud in the sector.[114]

114. The issue of overtime pay for live-in care workers is controversial. Most careworkers are paid the minimum monthly wage, while working more hours than reported. Labour Courts in Israel have given contradictory rulings on the right to overtime for live-in careworkers. At first, the Labour Court generally ruled that live-in care fell under the allowed exceptions to the 1951 Work and Hours Law (Mundlak and Shamir, 2008). Starting in 2004, some cases assigned a premium to the work (*e.g.*, a 30% bonus to the minimum wage or two hours per day) as recognition that longer hours were provided (Mundlak, 2005; Mundlak and Shamir, 2008). This premium has not been generalised to wages in the sector. More recent rulings have tended to exempt employers from paying overtime (ILC 157/03 in 2007), although others (ILC 270/08-12/2/09) affirm that the law applies in the live-in home-care sector.

### *Granting only limited rights to foreign workers requires authorities to take special measures to protect them from exploitation*

As noted above, the policy for foreign workers is aimed at ensuring that foreign workers do not settle or form families in Israel.[115] Temporary programmes with similar restrictions exist in OECD countries, but cover much shorter periods of stay, and exist alongside a system where skilled workers, or those meeting shortages, have the prospect of permanent residence and family reunification. For these reasons, in terms of its policy, Israel would be an outlier in the OECD, closer to Southeast Asian countries or the Gulf States than to any OECD country.

In order to increase compliance with the terms of stay, employers in construction (and agriculture, under the May 2009 agreement) must set aside a fixed amount of the foreign workers' wages each month in a fund to be provided upon exit and forfeited on overstay.[116] Workers are supposed to receive the minimum wage even after the withheld wages. Withheld wages belong to the worker, yet they can be forfeited to the state. It is possible to conceive of the withheld wages as a reserve to pay a possible fine for overstay, but in this case, the fine would unfairly vary according to the duration of stay in Israel, with people who worked longer forfeiting more. The same result could be achieved more equitably through a bond, which workers might be able to post if reforms are taken to eliminate illegal recruitment fees.

While there are several contact points for lodging labour complaints, the state refers foreign workers to civil society and volunteer associations for

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115. Some foreign workers do have children or bring them to Israel despite the regulations. While no permits are granted to them, undocumented minors are admitted to school and are covered by one of the private insurance programmes available for foreign workers, under contract to the government. The Eckstein Report (2007) notes that while women who give birth in Israel must leave, those who stay illegally with their Israeli-born children create "problems in the domain of civil status". In 2005, a regularisation granted permanent residence to Israeli-born children of foreign workers (with nationality granted upon completion of military service) and temporary status for their families (permanent when their children become citizens). 562 out of 862 applications were accepted, and about 2 000 persons acquired some form of status. The Eckstein Report expresses concern that such a policy will lead to "mass immigration" by foreigners hoping to stay in Israel.

116. The reserve is paid at the airport. Between December 2006 and July 2007, the service was closed and workers were supposed to leave bank details for later wire transfer of their funds; many foreign workers did not, and the State still holds the funds.

advice and for social, health and legal services. The municipality of Tel Aviv does provide a foreign workers advice centre, but it is 75% funded through private donations.[117]

The temporary nature of foreign workers – and their weaker position in the labour market and lower cost to employers – is also underlined by their exclusion from the 1996 Manpower Agencies Law, which requires employers to directly hire temporary workers after nine months. Because foreign construction workers can only be employed through agencies, and only direct employment is allowed in caretaking and agriculture, this is understandable. Yet, the purpose of this law is to prevent employers from using temporary workers as low-cost permanent employees. Foreign workers provided through temporary companies in construction, however, can be kept on until they reach the end of their maximum visa validity (63 months), making them potentially more attractive than Israeli workers for labour users.

Finally, access to workplace injury benefits is difficult for foreign workers. According to the NII (2009), there was serious underreporting of injuries of foreign workers, despite the fact they work in occupations where the expected rate of workplace injury is above average (0.3% of foreign workers submitted claims in 2008 compared with 2.5% of Israelis). The NII notes that in cases requiring hospital treatment, more than two-thirds of foreign workers did not submit claims, while half of Israelis did so. It attributes this to lack of information and fear of the consequences of reporting.

The presence of workers with a subordinate and precarious political status is a risk factor for segmentation. In practice, the extremely rigid status accorded to non-Israeli workers reduces their mobility and helps sustain the segmentation of the labour market (Rosenhek, 2003). Limited employment mobility and expulsion on loss of status mean that foreign workers cannot be full actors in the labour market (Kemp, 2004).[118] In

117. The centre, Mesila, had an operating budget of NIS 2 million in 2008, of which three quarters were covered by donations. It does capacity building for women's groups, mediates social and institutional conflict, and runs day-care centres for infant children of foreign workers. Tel Aviv is in the paradoxical situation of having to offer services, yet knowing that the presence of services will attract users from municipalities with no such services.

118. It should also be noted that while foreign workers have the active or passive right to collective bargaining, the Histadrut charter limits membership to Israeli citizens and it has only provided advice and services to foreign workers for a fee. In November 2009, the Histadrut leadership proposed a change to the charter to open to all

order to address this heightened risk, every effort should be made to ensure legal employment conditions for foreign workers.

### *The growing number of asylum-seekers are especially vulnerable and policy gaps should be addressed*

Asylum-seekers are a relatively new phenomenon to Israel. Israel's border with Egypt exposes it to illegal flows from countries to which repatriation is impossible. While asylum flows into Israel are relatively small compared with many OECD countries (Annex Figure 6.A1.5), the absence of clear regulations regarding the stay, rights and labour market access of asylum-seekers poses a potential threat to managed labour migration.[119]

Part of the current flow of asylum seekers (also called "infiltrators", as they are first imprisoned for violating the infiltration law) are Sudanese who cannot be repatriated and do not have access to the status-granting process because they are citizens of an enemy state, and Eritreans for whom Israel does not recognise risk in their home country. They receive "conditional release" (CR) without which they would be imprisoned; they must renew their CR frequently. There are no public services or reception facilities for them and CR does not grant access to the labour market, although legal precedent (based on parliamentary hearing) protects employers from prosecution for their employment.[120] Employers must respect labour law and the law for foreign workers in terms of private health insurance, but the absence of recruitment, equalisation or agency fees paradoxically makes the

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workers regardless of citizenship. Cross-border workers are subject to a wage deduction of 0.8% for unions, at least half of which goes to the Palestinian General Federation of Trade Unions; the remainder rests with the Histadrut.

119. Israel has taken steps to improve a previously undeveloped system for reviewing cases and deciding whether to grant refugee status under the 1951 Geneva Convention, to which Israel is a signatory. By 2010 there should be a number of UNHCR-trained staff at the PIBA capable of deciding cases. A small number of refugees have been recognised and have received temporary permits; many others have been admitted to the asylum process as asylum-seekers.

120. The concentration of those on CR in the Tel Aviv area, where both employment opportunities and social services are concentrated, overwhelmed the municipality and led to the decision in 2008 to require them to live outside the central region of the country (the "Hadera-Gedera line"). Those on CR moved in large numbers to a number of southern municipalities, aggravating already unfavourable employment conditions and weighing on social service budgets, although many violated regulations and stayed in Tel Aviv, where they were subject to arrest. On 30 July 2009, following protests from southern municipalities, the residence restriction was lifted.

asylum-seeker a lower cost alternative to any other worker in Israel, even when paid legally. In addition, there is ample evidence of abuse of the Minimum Wage Law and unpaid hours. Thousands work in the hospitality industry in Eilat and in the Dead Sea hotels. The availability of these workers tellingly corresponded to the end of pressure from the hospitality industry for a foreign worker quota.

While Israel has tried to reduce incentives for economic migrants by imprisoning new arrivals for extended periods, providing no services or assistance,[121] and denying access to the labour market, asylum flows are often independent of receiving-country policies. Exploitation of asylum-seekers could undermine the objectives of the labour migration management system to protect low-educated Israeli workers from competition and to restrict foreign workers to shortage occupations. Even as Israel attempts to reduce illegal border crossing, it is also important to ensure that those who receive permission to stay in Israel – even in a tolerated status – are protected from abuse by employers.

The small number of recognised refugees, on the other hand, lacks any public integration or support programme. In light of the experience of Israel with absorbing immigrants (Chapter 7), and in light of the absorption services offered to recognised refugees in most OECD countries (OECD, 2008b), it seems advisable that absorption services (*e.g. ulpan*, youth villages for children) be opened to recognised refugees in Israel.

## 6.4. Conclusions

The admission of temporary foreign workers to Israel has not been an unequivocal positive contribution to growth. The lack of enforcement and vulnerability to exploitation has led to real wages for these workers below the minimum wage, crowding out Israelis in the same sectors and inducing negative spillover effects on low-wage work in general. Israel has not achieved its official policy objective of reducing the number of foreign workers, despite more than a decade of declarations, except through enforcement measures targeted at irregular immigrants.

Foreign recruitment for temporary work can be made to contribute more significantly to economic growth, where jobs cannot be filled through

121. The absence of the State from health services is particularly evident for asylum seekers. In an unsuccessful effort to force the State to address this issue, Physicians for Human Rights temporarily suspended its free clinic for foreign workers and asylum seekers, to which public authorities had referred the latter for health care.

domestic supply and where demand is seasonal or cyclical. These conditions may not be met in Israel, as widely recognised in the prevailing doubt over the suitability of the current scheme. Proposals have focused on lowering the quotas, although the agricultural lobby has successfully defended its quotas, and limits to free recruitment of foreign home-care workers have been put in place but immediately withdrawn.

Illegally low wages are mainly due to unpaid hours, facilitated by the vulnerable situation in which workers are placed by the mobility restrictions, by the inadequate inspection regime, and by the debts workers assume to pay illegal recruitment fees. There are some indications that the inspectorate is being strengthened, but it is unclear if the PIBA inspectorate will concentrate on employment violations or on violations of the foreign workers' law. High fees imposed on employers to favour domestic hiring have been far less successful than reductions in the number of authorised workers, because costs are simply passed on to the worker through illegal employment practices and recruitment fees.

Israel has adopted a number of policy responses to address this problem, but those which promised to be most effective – bilateral agreements for transparent recruitment, making entry of new workers conditional on full employment of those already in Israel – have not been implemented because of vested interests. The reductions of total quotas – or a block on new entries ("closed skies" in Israeli parlance) – have been successfully contested by industry groups.

The current sector-based policy is clearly unsatisfactory, harms many and provides unfair profit to some unscrupulous employers and recruitment agencies. Israel has recognised the shortcomings in its system but has been unwilling to implement the policies it has identified as necessary to rectify them. Israel should recognise the reality that its recourse to temporary labour migration will not stop – it should adopt a "normal" temporary labour migration system such as those used in OECD countries. These include a real labour market test and enforcement of the immigration regulations and of domestic labour law and working conditions. Further, and subject to security considerations, cross-border workers represent fewer negative externalities for Israel and should be preferred where possible, with some reform of the current "equalisation levy" to make it more transparent.

Israel has a large labour reserve due to low participation rates in several segments of its population (see Chapter 3). Despite this reserve, in a small country with a rapidly evolving economy, some specific labour needs will need to be met with non-Israeli workers. Israel already has a procedure, similar to those in a number of OECD countries, for workers who cannot be found locally.

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# Annex 6.A1.

# Background information on the recruitment and employment of foreign workers

**Figure 6.A1.1a. Inflows of foreign workers, by nationality and sex, 2007**

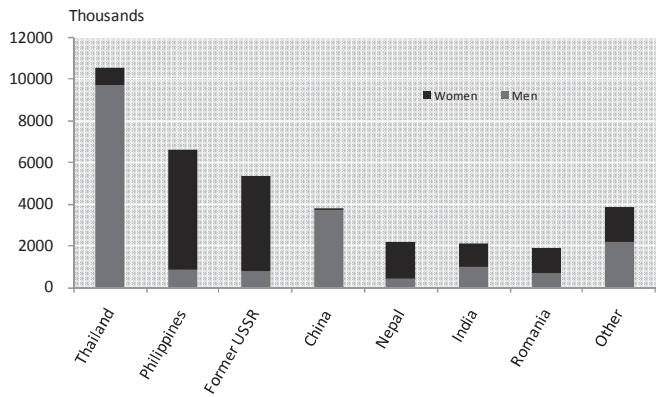
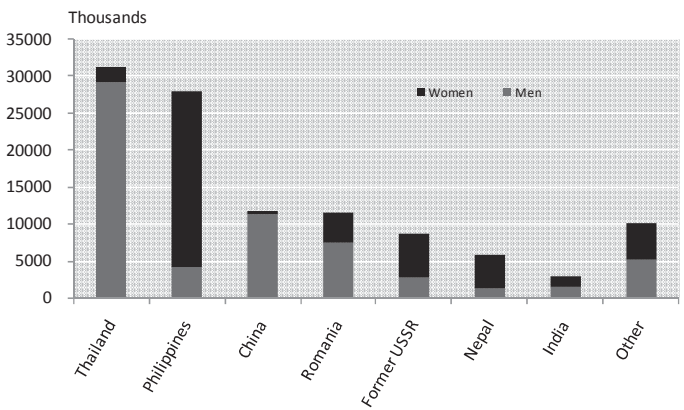
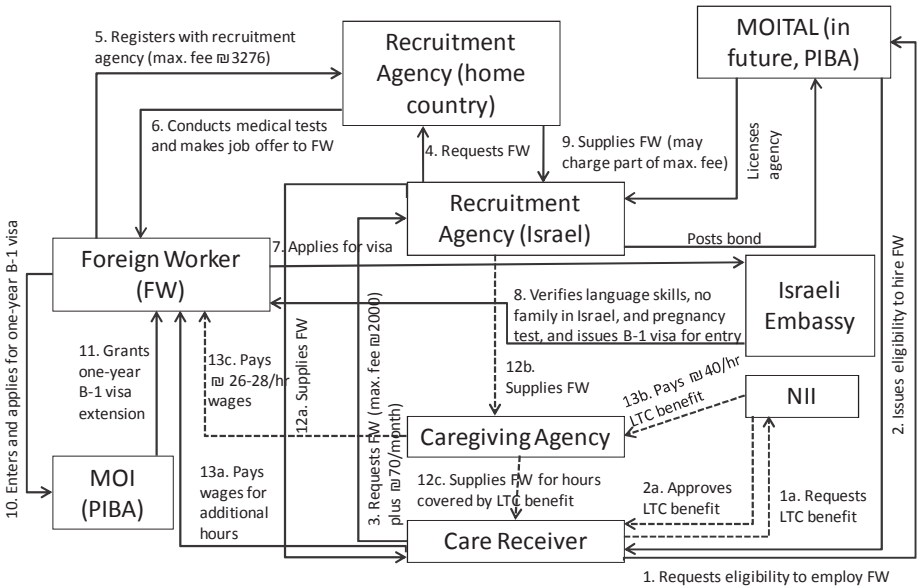



**Figure 6.A1.1b. Stock of foreign workers, by nationality and sex, 2007**




*Source*: Israeli Central Bureau of Statistics 2008.

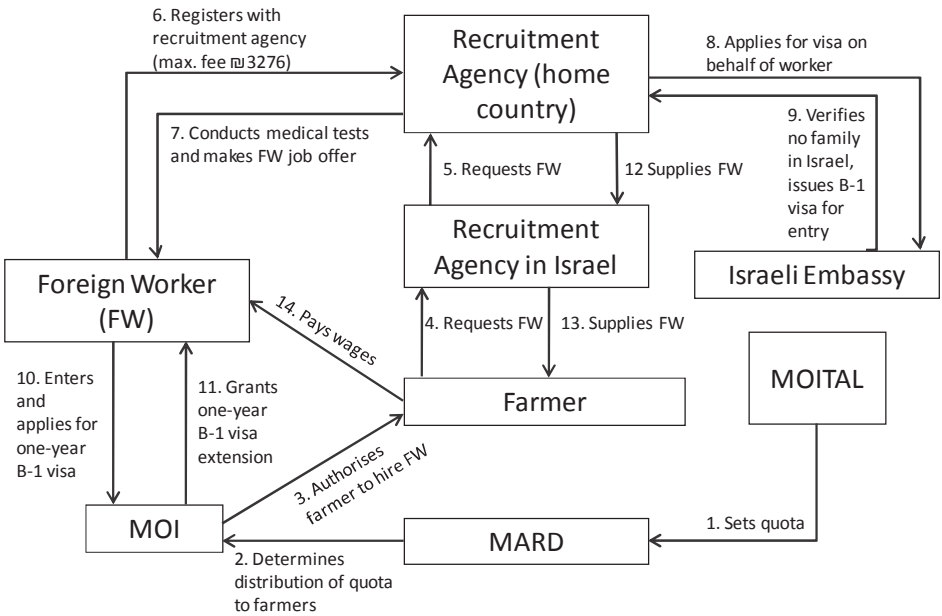
**Figure 6.A1.2. How recruitment and employment of foreign care workers occurs**




The care receiver applies for approval to hire a care worker to MOITAL, which (2) issues a certificate of eligibility to the care receiver. Elderly patients may apply for an LTC benefit (1a) to the NII which examines their eligibility and decides the level of benefit (2a). The care receiver requests a foreign worker (3) from a recruitment agency (previously licensed by MOITAL on receipt of a bond). The recruitment agency requests a foreign worker from an agency in the sending country (4) which can charge a fee to the prospective worker (5). These fees are limited by law but are in practice higher; in the care sector they reach SD 12 000 in the case of Nepalese workers. The recruitment agency conducts medical tests and selects candidates (6), who then apply for a visa at the Israeli consulate (7), which verifies their language skills and applies a pregnancy test to female candidates, checks if they have family in Israel, and issues a B-1 entry visa (8). The worker enters Israel and applies to MOI for a one-year visa (10, 11). At that point the recruitment agency either sends the worker to the receiver (12a) or to the care-giving agency (12b), depending on whether the LTC benefit will be used to cover costs. The care receiver pays the worker (13a). If an LTC benefit covers part of care, the care-giving agency receives payment from NII (13b), keeping some overhead and paying the rest in wages to the worker (13c).

The care receiver can also hire a foreign worker already in Israel, in which case there is no fee for (3).

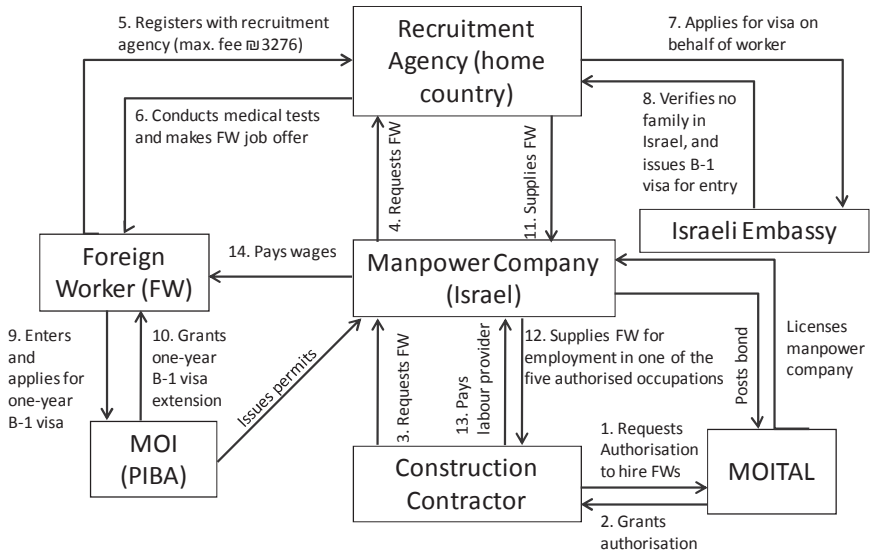
**Figure 6.A1.3. How recruitment and employment of foreign agricultural workers occurs**




MOITAL sets a quota for workers (1), and MARD divides it among farmers (2). The MOI authorises individual farmers to hire foreign workers (3), requests a foreign worker (4) from a recruitment agency (previously licensed by MOITAL on receipt of a bond). The recruitment agency requests a foreign worker from an agency in the sending country (5) which can charge a fee to the prospective worker (6). These fees are limited by law but are in practice higher; in the agricultural sector they can reach USD 14 000, some of which may be illegally transferred to the Israeli agency and then to the farmer. The recruitment agency conducts medical tests and selects candidates (7), and then applies for a visa at the Israeli consulate on behalf of the worker (8); the worker never meets an Israeli official. The consulate checks if they have family in Israel, and issues a B-1 entry visa (9). The worker enters Israel and applies to MOI for a one-year visa (10, 11). The recruitment agencies pass the worker to the farmer (12, 13), who is responsible for wages.

A worker can change employer (farmer) once in Israel, if the farmer is authorised to hire foreign workers.

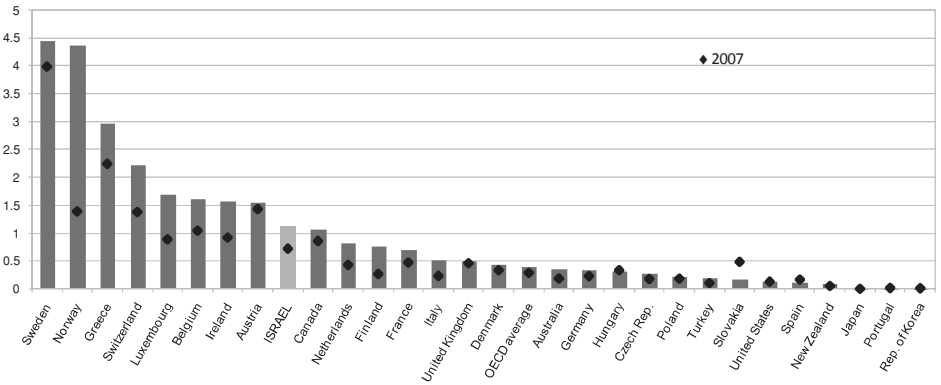
**Figure 6.A1.4. How recruitment and employment of foreign construction workers occurs**




Manpower companies must post bonds and be licensed by MOITAL. Manpower companies receive permits from the MOI from the quota. The construction contractor applies for authorisation to hire foreign workers to MOITAL (1) which grants a numeric authorisation (2). The contractor requests a foreign worker (3) from a manpower agency. The manpower agency requests a foreign worker from a recruitment agency in the sending country (4) which can charge a fee to the prospective worker (5). These fees are limited by law but are in practice higher; in the construction sector they can even reach USD 30 000, some of which may be illegally transferred to the Israeli manpower company. The recruitment agency conducts medical tests and selects candidates (6), and then applies for a visa at the Israeli consulate on behalf of the worker (7); the worker never meets an Israeli official. The consulate checks if they have family in Israel, and issues a B-1 entry visa (8). The worker enters Israel and applies to MOI for a one-year visa (9, 10). The recruitment agency passes the worker to the manpower company (11), which supplies workers to different contractors (12). The contractors pay the manpower company (13) who is responsible for wages (14) and reporting.

A worker can change manpower agency once in Israel. In principle, the construction sector is not allowed to admit new workers from 2009.

**Figure 6.A1.5. Asylum applications per 1 000 inhabitants, selected OECD countries and Israel, 2007-08**




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

*Source*: UNHCR.

# Chapter 7.

# Drawing Lessons from a Country Built on Immigration

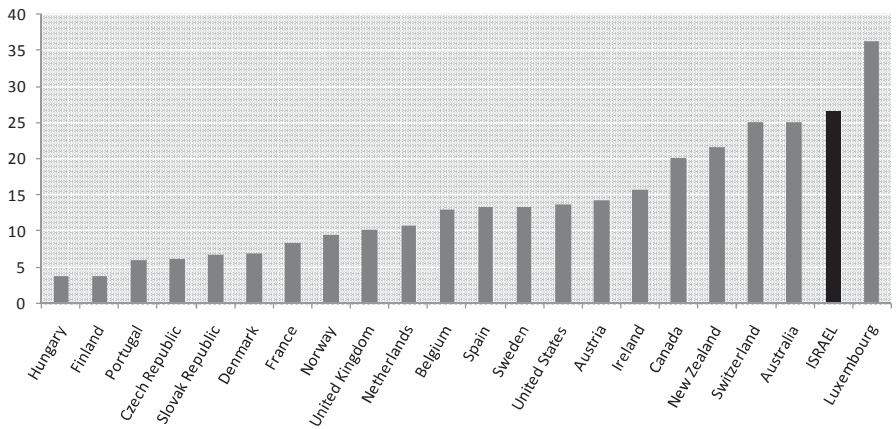
*Israel, a country founded on immigration, received unprecedented numbers of permanent immigrants in the 1990s, making it a laboratory for studying processes of labour market integration of immigrants. It has been largely successful in achieving the labour market integration of these immigrants: employment rates have reached or surpassed those of natives and prior immigrants, although gaps in wages persist. Some groups have, however, not been integrated. While permanent immigration rates have fallen in the past decade to levels below those of most OECD countries, Israel continues to invest heavily in immigrant absorption and offers a range of specific policies for facilitating integration, both for the highly skilled and the least educated immigrants.*

## 7.1. Introduction

Israel is a country of permanent immigration. Not including temporary foreign workers, about a third of the labour force (Chapter 6), and more than a quarter of the population (Figure 7.1), was born abroad. Almost all of these foreign-born permanent residents are Israeli citizens. The "Law of Return" allows Jews and their families to immigrate permanently to Israel and receive citizenship, generally immediately (this is called *aliyah*, "ascent"; immigrants who make *aliyah* are called *olim*). Almost all permanent immigration to Israel has been *olim*. This immigration is a central tenet and objective of the state and is actively encouraged.

**Figure 7.1. Many Israelis are foreign-born**

Share of the foreign-born in total population, 2007




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank, and do not distinguish between native-born and foreign-born Arabs.

*Source*: *OECD International Migration Outlook* for OECD countries; Central Bureau of Statistics for Israel.

The immigration rate to Israel has varied throughout the country's history; the two most significant waves followed independence, in 1948, and accompanied the breakup of the Soviet Union in the early 1990s. Israel's immigration rate in the early 1990s was higher than that of any OECD country at the time, and created significant challenges for labour market and

social integration of those who arrived. Since then immigration has declined and is currently below the average of many OECD countries.

Israel has developed a broad set of policies and initiatives to assist new immigrants with their integration. In this sense, Israel is a laboratory for studying a certain type of immigration – essentially unrestricted (with respect to skills and age) settlement migration of persons generally arriving without jobs, and, since 1990, largely from OECD and relatively developed countries – and its effect on native employment. Study of the integration of immigrants is much facilitated because the Labour Force Survey and much other administrative data not only allow identification of immigrants by their year of arrival and by their country of origin, but provide a wealth of detail unmatched in most other countries, such as parental origins, educational attainment abroad, and occupation in the country of origin.

The wide range of analyses reveals outcomes for a number of integration programmes, and lessons can be drawn from Israel's experience. Nonetheless, some integration issues remain, and Israel continues to develop its policies for the labour market integration of new and prior immigrants.

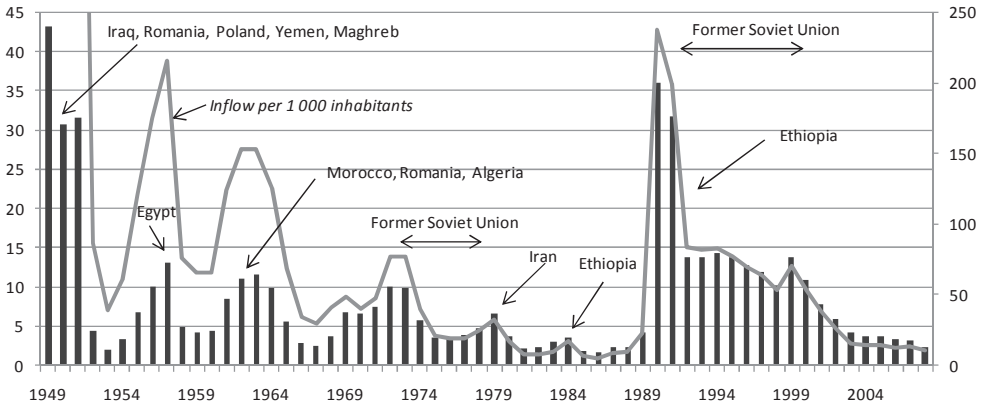
The chapter starts with an historical overview of immigration to Israel, including the legislative framework. The mass migration of the early 1990s is examined in detail, especially in terms of its impact on the labour market. The outcomes of immigrants are examined along with the policies in place to support their labour market integration. Problem areas in integration are identified. Finally, the chapter draws some conclusions regarding successes and challenges, placing them in perspective relative to OECD countries.

## 7.2. The State of Israel is built on immigration

Although this chapter only treats post-1948 immigration, the history of Jewish immigration to Israel also comprises five waves of pre-state immigration as well as post-WWII immigration. There was a significant wave of post-independence immigration of Jews (Figure 7.2), almost half of whom came from Middle-Eastern and North African countries (see Box 7.1 for a discussion of the "Law of Return"). Inflows were enormous relative to the population: 26.2% in 1949, 14.5% in 1950 and 12.8% in 1951. Immigration never achieved this relative importance again, although flows exceeded 2% of the population in the mid-1950s and again the early 1960s. In general, immigration to Israel corresponded to crises in the countries of origin (Figure 7.2). The main countries of origin of immigrants prior to 1990 were European (called "Ashkenazi"), Middle-Eastern and North African (both generally called "Mizrahi" and "Sephardi"). These distinctions continue to be relevant in Israeli society today.

### Figure 7.2. In recent history, immigration peaked in 1990/91

Annual inflows of permanent immigrants (*olim*)[1], 1949-2008 (thousands, right axis) and per 1 000 inhabitants (left axis), and main source countries during peak years




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Flows per 1 000 inhabitants in 1949-51, not shown, were 262, 145 and 128, respectively.

*Source*: Israeli Central Bureau of Statistics, 2009.

### Box 7.1. The Law of Return

Under the Law of Return (1950), any Jew is immediately entitled to Israeli citizenship, although the law did not define who was considered a Jew. In 1970, the law was extended to include spouses of Jews, children of Jews and their spouses, and grandchildren of Jews and their spouses. About half of the *olim* in 2008 were not Jews according to the religious definition (which requires that one's mother be Jewish), but were covered under the 1970 amendment; there are now more than 300 000 non-Jewish *olim* in Israel.

The Jewish Agency for Israel (JAFI) was charged with recruitment of immigrants and facilitation of immigration. While immigration of Jews to Israel has been unrestricted, JAFI was authorised to apply restrictive criteria in targeting potential immigrants in a number of countries in 1951, but has not done so. It has, however, applied positive recruitment criteria at times, targeting Jews with needed skills, such as physicians or industrial experts.

Because it applies no selection criteria beyond that of the Law of Return, Israel has often received the older, poorer and least educated Jews emigrating, while others able to meet selective criteria have opted to emigrate to OECD countries offering more opportunities: this was the case with Moroccans in the 1950s, and Russians through the 1990s (Cohen and Haberfeld, 2007; Lewin-Epstein *et al.*, 2003). Of the mass migration in the early 1990s, one in four immigrants was over 55 years of age.

Israel is not unique in allowing – or even promoting – "ethnic priority" immigration. Germany (for a comparison of Israeli and German ethnic migration, see Joppke and Rosenhek, 2001), Greece, Hungary and Finland all have programmes for the "return" of foreigners of national ethnic origin. Korea allows permanent migration of ethnic Koreans, and Japan allows unrestricted

recruitment of foreign workers of Japanese origin. In Israel, however, the Law of Return is a fundamental element of the identity of the state, the means by which most Israeli families arrived in Israel, and, outside of family reunification, the only channel for permanent migration.

In all, 82% of permanent immigration to Israel in 2006 was under the Law of Return, a much higher proportion than in any OECD country. *Olim*, however, are a heterogeneous group and include, for example, family members of prior *olim*, individuals fleeing persecution, Jews coming to Israel to seek employment or with a prior job offer, and retirees, in addition to Zionists for whom *aliyah* is an ideological choice.

Outside of these channels, family reunification and formation is generally allowed, with citizenship later granted subject to discretion; these flows are relevant (averaging more than 4 000 in the past seven years, and about 20% of total flows in 2007-08). Permanent residence – potentially followed by naturalisation – has also been granted exceptionally to specific groups: *e.g.* in 2000, to former soldiers of the South Lebanon Army and their families; in 2004, a group of about 2 000 African Hebrew Israelites originally from the United States; and in 2005, as mentioned in Chapter 6, almost 600 children of foreign workers.

The difference between immigration to Israel and that in OECD countries makes comparison difficult, especially in terms of outcomes. In most OECD countries, for example, labour migrants tend to have good outcomes, with employment rates higher than that of natives, while their family members have less good outcomes. Humanitarian migrants tend to fare worst of all. Migration under the Law of Return includes all these groups.

### *Mass immigration in the early 1990s came after a long lull*

Immigration declined to a trickle from 1973 until the unexpected and, in absolute terms, largest wave of immigration in 1990-91. This was due to the end of restrictions on Jewish emigration from the former Soviet Union (FSU). The United States, which had previously received a part of the outgoing flows of Soviet Jews, simultaneously ceased granting Soviet Jews asylum. More than 330 000 *olim* arrived from the FSU in 1990-91, and another 540 000 from 1992-2000, adding about 20% to the population. Another important – and very different – group of *olim* were brought from Ethiopia in 1991 and 1992 (Figure 7.3). These Ethiopian Jews came from rural areas and refugee camps and had very low education levels.

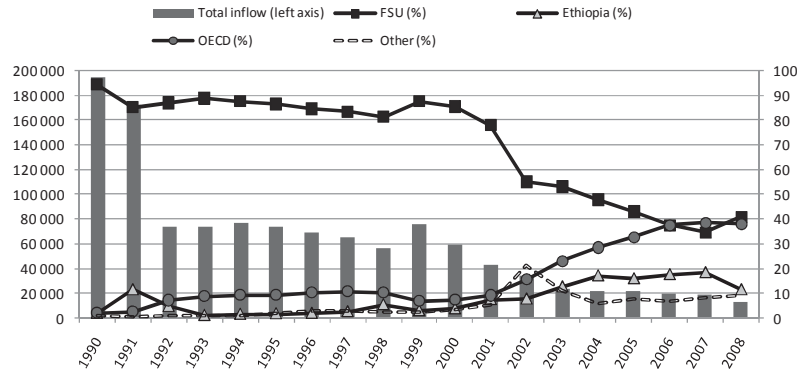
### *Immigration has slowed down and diversified in the 2000s*

In comparison with many OECD countries, Israel ranks relatively low in terms of inflow in recent years (Figure 7.4). Current inflows under the Law of Return are low, especially compared to the emigration of Israelis, which ranges from 12 000 to 18 000 annually. Since 2002, net immigration, including family reunification, has represented only 12% of population growth, compared with an OECD average of 50% in 2006. Immigration from the FSU has declined in relative importance, and *olim* from OECD countries now comprise almost 40% of the inflow (Figure 7.2). Immigrants continue to arrive from Ethiopia, although these flows now comprise non-Jewish immigrants, considered the descendents of Jews who converted to

Christianity in the 19th century. The number brought each year is determined by governmental decision. They are subject to special requirements, including the obligation to undergo conversion to Judaism before citizenship is granted. While some OECD countries may impose language and cultural knowledge criteria for naturalisation, no OECD country makes naturalisation contingent on religion.

**Figure 7.3. Total inflow of migrants has fallen to low levels since 1990**

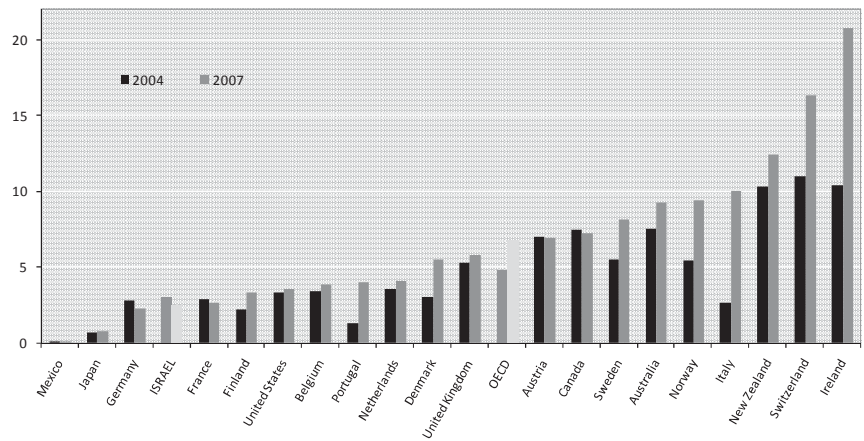
Inflows of immigrants, 1990-2008 (left axis), and country of origin (% of total flow, right axis)




*Source*: Israeli Central Bureau of Statistics, 2009.

**Figure 7.4. Recently, migration to Israel has been low in international comparison**

Inflows of permanent immigrants in OECD countries and Israel, per 1 000 inhabitants, 2004 and 2007




*Note*: For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.
*Source*: *OECD database on International Migration*, and data provided by the Israeli Central Bureau of Statistics.

While the Law of Return is not a labour migration channel *per se*, the combination of a highly skilled expatriate pool and a large Jewish Diaspora of educated potential *olim*, has allowed Israeli employers to recruit most necessary skilled workers without having to use the temporary labour migration channels described in Chapter 6. Even during the high-tech boom of the late 1990s, there was no recruitment of the highly skilled outside of the Law of Return.[122]

However, OECD countries which have restricted their basin of recruitment to ethnic or linguistic pools have had to loosen these restrictions to meet labour market demands. For example, Australia transformed its skilled migration policy to one which is more inclusive of persons from non-English speaking backgrounds and is purely based on skills in demand rather than country of origin. Israel may eventually have to consider permanent recruitment from beyond its traditional reserve.

## 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

Detailed data on immigration and on the uptake of active labour market policy initiatives by immigrants make the boom in immigration to Israel in the 1990s a natural experiment in unrestricted mass migration and its impact which has yielded a wide range of findings. *Olim* were granted citizenship immediately, eliminating the significant labour market effect of non-citizenship (Steinhardt, 2009), and were provided with benefits and support which reduced the need to enter the labour market immediately and eased the difficulty of acquiring language and professional qualifications. At the same time, the benefit horizon – seven months – is meant to remove disincentives for staying out of the labour market.

122. In some cases, even "trades people" may be recruited; for example, prior to the current downturn, JAFI, in co-operation with employers' associations, recruited 50 skilled metalworkers from potential *olim* in the FSU, including pre-migration vocational training, to meet demand from the Israeli industrial sector. For such recruits, immediate citizenship, the absorption basket, subsidies and services represent an additional incentive for migration.

### *The better educated Jews from the former Soviet Union went to the United States and Canada*

Israel received significant human capital through these immigrants, although much was not compatible with the demands of the labour market at the time. Throughout the 1990s, more than half of all immigrants had at least 12 years of education, and almost one in five had 16 or more years. The average education of new immigrants from the FSU and East Europe declined during the 1990s, perhaps because higher educated migrants enjoy a greater return for migrating earlier (Locher, 2000). The first wave of immigration also led to chain migration and greater information in the FSU about Israel as a destination.

However, historically, the better educated FSU Jews had gone to the United States, where they experienced much faster wage assimilation (Cohen and Haberfeld, 2007). From 1989-92, this selection was much weaker. A comparison of outcomes between FSU Jews immigrating to Israel and to Canada (Lewin-Epstein *et al.*, 2003) found that immigrants to Canada – who had been screened on the basis of their education and experience – ended up in higher status and wage occupations, while those in Israel entered the labour market more quickly. Canada received younger and better educated immigrants, and the selection process ensured that even older immigrants would have a skill set enabling them to find jobs.[123]

### *Extensive studies of their impact on the Israeli labour market find a short-term negative impact on employment and wages of natives*

One important question which has been explored by extensively looking at the mass migration of the early 1990s is that of the impact of migration on natives. The unique conditions of this migration, and the rich statistical data available, have led to many studies on the impact of the Russian immigration on Israel's labour market in the 1990s. Some of the lessons of this migration have implications for OECD countries.

Studies of the impact of the mass immigration generally find no negative impact on natives by the end of the decade, with some positive effects. Hercowitz and Yashiv (2002) find an initial positive effect on native employment due to increased consumption – a result of the "absorption basket" – but a negative impact one year after arrival. Cohen and Hsieh (2000) find that native wages and return to capital fell during the peak immigration but returned to prior levels by 1997. Skill premia for natives

123. No such selection was observed when comparing Jewish emigrants from the FSU in Germany and Israel, although their outcomes differed (Cohen and Kogan, 2007).

were not affected by the high education of Russians, because the latter suffered occupation downgrading and therefore did not compete. Friedberg (2001) looks at the occupational distribution and finds that native wage and employment growth was negatively affected in occupations which attracted many immigrants. Friedberg, however, then looks at prior occupation of immigrants, and finds that natives in these occupations suffered no effect from immigration. Immigrants appear to have entered occupations with low wage growth and employment contraction, or to have been complementary with natives in their prior occupations. Cohen-Goldner and Paserman (2004a) look at short- and long-term impact of immigration on natives' wage and employment, finding that a 10% increase in the share of immigrants lowers natives' wages in the short run (by 1-3%), but that this effect disappears after four to seven years. They find no effect of immigration on employment, neither in the short nor in the long run. In a separate analysis, they also find (2004b) that immigrants are negatively selected into occupations with high turnover, and do not cause a higher probability to exit among natives. In terms of transitions from employment, they do find that young men, educated men and private sector workers are adversely affected by the presence of immigrants.

Israeli labour market conditions vary significantly among the different regions, and the low-educated local population in less skilled occupations varies in different regions (see Chapter 4). Immigration appears to have had a significant impact on certain occupations, and therefore on specific local population groups. Shapira (2007) looks at the local labour market impact of highly educated migrants and finds a negative impact on native high-skilled workers. When looking at local labour markets, specific population groups and occupations, she also finds (2009) that there is a negative impact on wages for all groups, and for occupational outcomes for the – largely low-skilled – Mizrahi.

Compared with prior waves of immigration, per capita income increased during the 1990s (Neuman, 1999). The 1990s were a period of expansion of the high-tech sector in Israel, and one hypothesis is that the growth in that sector was fuelled by the arrival of Russian engineers (82 000 Soviet-trained engineers arrived in the 1990s, compared to only 30 000 engineers already in Israel). Paserman (2008) looks at the impact of high-skill immigration on productivity and finds no overall correlation between immigrant concentration in high tech firms and the productivity of individual firms, but a negative overall impact in low-tech industry and a slight positive effect on the high-tech industry as a whole.

Immigrant health professionals encounter difficulty in fully utilising their skills in many OECD countries (OECD, 2008a). Licensing is often an obstacle for immigrants planning to practice medicine in OECD countries

and delays entry into the profession. Israel, which received a large number of Soviet-trained physicians, does impose a mandatory licensing procedure which requires retraining. Kugler and Sauer (2002) look at Soviet-trained physicians and whether they go through the licensing procedure or not. They find negative selection into the occupation, as high-skilled Soviet-trained physicians opt for higher-paid jobs in other fields and lower-skilled physicians go through the licensing process. Licensing leads to higher wages for these Soviet doctors, but immigrant doctors earn significantly lower wages than Israeli-trained doctors. Importantly, neither the latter nor young Israelis entering medicine see their wages depressed due to greater competition from immigrant doctors.

### *The effect on native Israelis can also be noted in school outcomes*

The experience also allows analysis of other effects of immigration, such as on natives in the education system. Gould *et al*. (2005) look at immigrant concentration in elementary schools and its impact on long-term (high-school) academic outcomes of natives. They find no effect on tracks and dropout rates, but find that disadvantaged Israeli children (of parents from disadvantaged ethnic groups and/or with low education) are more likely to be adversely affected. Ethiopian immigrants had a stronger effect, on disadvantaged native Israelis, as did high immigrant concentration.

## 7.4. Immigrants have largely integrated to the labour market

Immigrants to Israel converge to Israeli participation and employment rates over time, although the process can take 15 years. Wages and occupational composition, on the other hand, do not fully converge according to LFS data.

Overall, immigrants have a higher employment rate than the native-born (Figure 7.5), placing it alongside the OECD countries where low native employment rates are surpassed by those of immigrants. However, outcomes differ significantly among immigrants, depending on a number of endogenous factors (gender, age, education, etc.) and exogenous factors (discrimination based on ethnicity; geographical placement).

**Figure 7.5. Employment rates of immigrants are high compared to the native-born population**

Employment rate of the foreign-born relative to the native-born population (right axis), 2007




*Note:* For technical reasons, this figure uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank. These data also do not include non-resident foreign-born workers.

*Source:* European Union Labour Force Survey; United States: Current Population Survey March Supplement; Canada: 2006 census; Israel: CBS (2009).

### *Former Soviet Union immigrants slowly left blue-collar jobs for white-collar jobs*

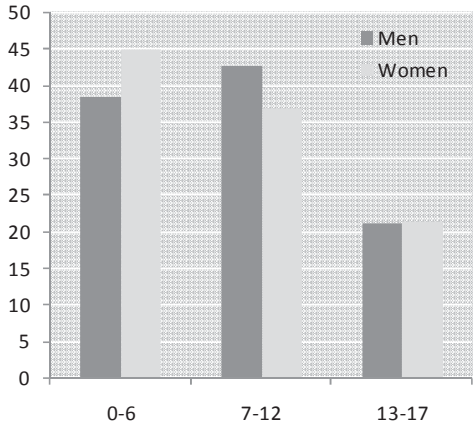
Many of the former Soviet Union immigrants were highly educated. While the return to their imported skills was initially zero, they experienced rapid wage growth, only in part due to the rising wages in Israel in general; however, while their occupational distribution converged over time with that of the natives, wages do not. Eckstein and Weiss (2004) find that wages of highly skilled immigrants rise by 8% annually over the 1990s, but that the long-run return to schooling converges to 0.027, below 0.069 for natives. They attribute this gap largely to low returns on their imported skills. For example, in a sample of FSU men arriving between 1989 and 1992, 70% had worked in white-collar jobs prior to immigration, but most slowly left unemployment for blue-collar jobs (Cohen and Eckstein, 2001).

The wage gap between immigrant and non-immigrant Jews is persistent (Figure 7.6) and present in all occupations, including the lowest skilled, although improvement is seen over time. The gap is largely due to lower returns to prior education, lack of local experience, and poor language skills. Still, only half of employed immigrants with more than secondary education were working in high-skilled jobs after 13-17 years in Israel.

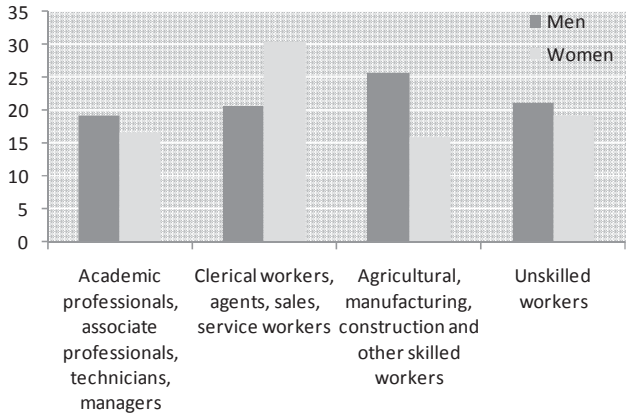
**Figure 7.6. Immigrants earn less than natives, even after years in Israel, and regardless of the job they occupy**

Wage penalty (%) of immigrants compared with non-immigrant Jews, 2007, according to:

Panel A. Years since immigration




Panel B. Occupational category




*Source*: Israeli Central Bureau of Statistics, Labour Force Survey.

It is useful to compare the outcomes of immigrants in the 1970s with those of the 1990s. The 1990s inflow was much larger than that of the 1970s, but the Israeli economy had also changed in the interim, particularly in terms of a very different labour market and a much less interventionist role for the state in the absorption process. Former Soviet Union immigrants in the 1970s, allocated jobs in a protected state sector, saw most of their convergence with natives very quickly, while their situation then changed

little over time and they had little occupational mobility (Shapira, 2007). The 1990s immigrants from the FSU entered a much more complex labour market, and started in lower-wage and lower-skill occupations, with occupation transition much more common than among the 1970s cohort.

### *At first, education abroad is wholly discounted, but can be "unlocked" over time through experience and retraining*

OECD research has shown that qualifications and work experience earned in origin countries are not necessarily recognised by many employers in receiving countries (OECD, 2007b and 2008b). This is true in Israel, where what appears to matter is the work history once in Israel (Buchinsky and Gotlibovski, 2006). Still, while there is no return to foreign qualifications upon arrival, there is some convergence – but not full convergence – over time and with experience (Eckstein and Weiss, 2002, and 2004). After five years, wages for FSU immigrants were 62% of those of Israelis; after 20, 80% (Eckstein and Weiss, 2002). Education and experience from the FSU was not valued in Israel, and this discounting explained the large wage gap.

The advantages and limits of additional training for immigrants have been examined, and the findings are that rather than increase employment, training increases wages and opportunities. Most importantly, training in Israel partially unlocks the benefits of prior education, as demonstrated for immigrants prior to 1983 (Friedberg, 2000). This is also relevant for the mass immigration of the 1990s, where many of the educated immigrants had Soviet training of little immediate relevance to the Israeli labour market. While the quarterly probability to receive a white-collar job offer was 12% (males) and 6% (females), training increased these probabilities by 50-100% (Cohen-Goldner and Eckstein, 2002). Looking at male immigrants from the former Soviet Union, Cohen-Goldner and Eckstein (2008) find that the returns to training, experience and the Hebrew language is significant at five years from immigration, as well as the transition from blue-collar to white-collar occupations. For women (Cohen-Goldner and Eckstein, 2004a), the wage impact is found only for white–collar jobs, and the greatest benefit of training is found via job offers rather than wages. They look at costs of training and conclude despite no reduction in unemployment, the gain in job quality justifies the investment.

Training significantly increased the propensity to work in high-tech jobs (Cohen-Goldner and Eckstein, 2004b), whereas imported schooling had no effect. On the other hand, vocational education from abroad gives no benefits (Neuman and Ziderman, 2001), and few immigrants with vocational education from abroad worked in matched fields in Israel.

## 7.5. Outcomes vary for different groups of immigrants

### *Most post-1990 immigrants have come from the former Soviet Union; they enter the labour force quickly …*

Immigrants from the former Soviet Union (FSU) to Israel generally followed the traditional pathway of finding low-skill and low-status jobs at first and gradually transitioning to higher status jobs closer to their educational level. Overall, the participation and employment rates for immigrants from the FSU are higher than those for non-immigrant Jews (Figure 7.7). Participation varies significantly among immigrant groups. The very low participation rate among immigrants from OECD countries is partly due to the presence of ultra-Orthodox in this group. Outcomes for Ethiopian immigrants are very poor, although the longer they have been in Israel, the higher their participation and employment rate.

### *… but the situations of Ethiopians is especially problematic*

The economic and social situation of the 110 000 Ethiopian immigrants and their children is far below that of Israelis. In 2008, the State Comptroller (2008) found higher drop-out rates (20% vs. 7%), lower graduation rates (41%), and lower university eligibility (19%). 68% live below the poverty line. They are spatially segregated – 25% of Ethiopian immigrants live in just 15 neighbourhoods. In part, this is a result of the lengthy time spent in absorption centres and the ties to these communities; in part, it is due to their poverty. The housing grant is usually not enough for Ethiopian families to afford anything but the poorest neighbourhoods, and they often lack information about the housing market (Offer, 2007).

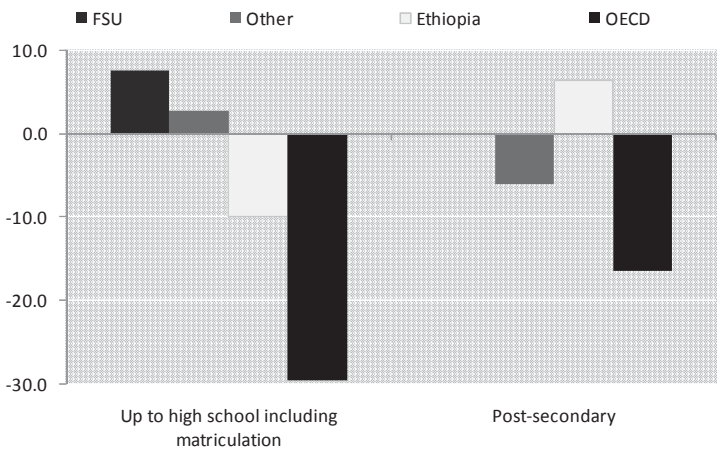
Ethiopians have a very high poverty rate – 51.4% – second only to that of Arabs in Israel. Labour force participation among Ethiopian women is very low, there is a high percentage of precarious employment, and university graduates are underemployed (Dagan-Buzaglo, 2008). The drop-out rate of Ethiopian students is more than double the national average and 47% of Ethiopian Israelis, aged 25-54, are not in the labour force. 66% of Ethiopian families are dependent on government welfare benefits in order to meet basic needs.

One positive sign is that employment rates for younger Ethiopians have been improving in recent years. In 2008, the rate for Ethiopians aged 22-44 was 71.8% for men and 65.1% for women, double the rate ten years earlier.

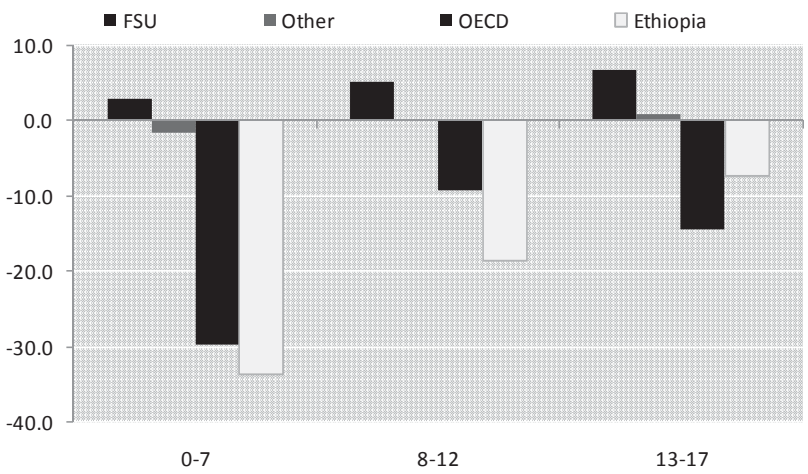
## Figure 7.7. Participation rates of immigrants from the former Soviet Union are relatively high

Participation rates of immigrants from the former Soviet Union (FSU), OECD countries, Ethiopia and other countries, compared with that of non-immigrant Jews (% difference), 2006-07

Panel A. By educational level




Panel B. By years since migration




*Source*: Israeli Central Bureau of Statistics, Labour Force Survey.

### *Emigration is significant, both by Israeli-born and by foreign born re-emigrating*

Emigration from Israel has ranged between 20-28 000 since 1990, although many of these Israelis later return, making net emigration rates fairly constant at about 12-18 000 annually. Emigration rates fluctuate largely according to the economic situation and opportunities abroad, rather than the political situation in Israel. Israeli emigrants tend to be more educated than those who remain. The *Database on Immigrants in OECD Countries* (OECD, 2007a) found about 160 000 Israeli-born between the age of 15-64 living in the OECD in 2000-01.[124] Israeli emigrants to the United States are positively selected and have higher wages than native-born Americans with the same characteristics (Cohen and Haberfeld, 2009). There is a substantial flow of university researchers to the United States (Ben David, 2008), and Gould and Moav (2008) argue that Israel offers a lower return to unobservable skills than the United States, enticing higher ability Israelis to leave the country.

The re-emigration rate from Israel is relatively low compared with most OECD countries – for immigrants arriving in the 1990s, it is 10.2% (Cohen, 2009). Even for permanent migrants, however, most countries see return rates of 25-35% (OECD, 2008c). The highest retention rates appear to be among those born in Ethiopia – those with the worst outcomes. Of the immigrants from the Former Soviet Union arriving during the 1990s, about 8% had left by the end of 2000. The retention rate for *olim* from OECD countries is however much lower – as low as 50%. As for Israeli-born, re-emigration depends on the conditions in the home country, so more Russians returned to Russia during Moscow's boom years, and some Argentineans who came during the 2002 crisis (Figure 7.3) returned when conditions improved.

## 7.6. Integration policy for immigrants in Israel is front-loaded and choice-based

### *It is difficult to compare Israel's migration with other countries, and therefore the context for its policy*

Israel's immigration policy for those entering under the Law of Return (*olim*) can be compared to the non-selective policies in place in some OECD countries for refugees, although refugee resettlement differs in its admission

124. Most (85%) were living in the United States (66%), Canada, the United Kingdom and Australia. DIOC does not include Germany and the Netherlands; Cohen (2009) estimates the total in OECD countries at 190 000.

criteria, in the scope of incentives and subsidies, and in the range of settlement support targeted at different groups. In both cases, policies must be developed for settling new arrivals who often have no prior knowledge of the language or culture. However, most refugees, at least in principle, hope to return home; *olim* aim to settle permanently, and their investment strategies therefore differ. The results of these policies on labour market outcomes have been generally positive, and some lessons can be drawn from these initiatives.

The policy of the State of Israel for immigrants has evolved since statehood, from emergency reception to the current institutional framework and a "basket" of benefits offered to immigrants. Until 1968, responsibility for integration was largely in the hands of JAFI. In 1968, the Ministry of Immigrant Absorption (MOIA) was created, and currently shares responsibility for integration with JAFI and other government bodies. The budget for MOIA in 2008 was NIS 1.27 billion, about 0.2% of GDP, and many services for immigrants are provided through other government ministries and agencies.

### *Failures with prior waves of immigrants is associated with persistent inter-group differences*

The immigrants who arrived in the early days of statehood were largely low-educated and low-skilled and their labour market integration were difficult. Israel also transferred many of the immigrants to new development towns in the peripheral areas of the country, far from employment opportunities (Smooha, 2008). OECD countries where refugees were assigned to peripheral areas for settlement have found similar negative effects and have also ended their dispersal policies. The random assignment of immigrants from the same origin allows analysis of the long-term impact of the initial settlement conditions, and indeed, Gould *et al.* (2009) find that, for example, Yemenite immigrant children placed in "good sanitary conditions, in an urban locality and not an ethnic enclave" accumulated more human capital and were more likely to be employed and in a white-collar job 50 years later. Initial destination and conditions can have a profound effect on long-term outcomes.

During the early years of the state, policy for immigrants was largely targeted at unskilled workers, through make-work programmes, the expansion of public employment of the low-skilled, need-based hiring

preferences in public employment and in state- and union-owned companies, subsidies for employers, and sector-specific minimum wage increases.[125]

For a variety of reasons, including differential placement of newly-arrived immigrants in geographically and economically peripheral areas (Yiftachel, 2000), as well as initially lower levels of development in countries of origin, Jews of Asian and North African ancestry have had lower socio-economic status than those of Ashkenazi origin.

Israelis of North African ethnicity have also been disadvantaged socioeconomically, and have patterns of educational attainment which are on the whole similar to those of Jews of Asian ethnicity (Friedlander *et al.*, 2002). Despite convergence in educational attainment over the course of several generations, gaps remain (Friedlander *et al.*, 2004). Occupational differentiation between Sephardi and Ashkenazi persisted from 1969 to 1982, even as occupational upgrading occurred for both groups (Lewin-Epstein and Semyonov, 1986). Intergenerational transmission of social exclusion remains an issue. For example, Cohen *et al.* (2007) match respondents in the 1995 census to their parents in the 1983 census to identify ethnicity at the third generation from immigration. They find that the gap in university education is still largely due to ethnic family background.

Haberfeld and Cohen (2007) show that the greater returns to human capital in recent decades has further accentuated the earnings gaps and increased inequality. However, they find evidence of discrimination mainly against Arabs rather than among Jewish groups. Correspondence tests looking at intergroup discrimination only found it towards immigrants from the former Soviet Union (FSU) and older people (Ben Hador *et al.*, 2005).

In the 1990s, the distinction between Mizrahi and Ashkenazi was complicated by the influx of immigrants from the Soviet Union and from Ethiopia, who represent two new groups in terms of outcomes. Regardless of their socio-economic status after immigration, however, what appears to be determinant of educational outcomes for the offspring of immigrants from the FSU are the educational levels obtained in the *home* country, especially among mothers (Bodovski and Benavot, 2006).

125. These policies contributed to an "anomalous" distribution of unemployment, with lower unemployment rates among the least and most educated rather than the middle (Weisberg and Meltz, 1999), until policy changes flattened the lower end of the curve. This new context, more similar to that in OECD countries, is the one faced by recent immigrants.

### *The policy is to provide a "basket" of benefits for immigrants*

Historically, the state played an active role in settling new immigrants; it took responsibility for reception centres and then dispersing the immigrants around the country according to central planning objectives. Policy changed in the mid-1950s, as immigration slowed, towards a more expensive in-kind services programme, based on reception centres for most *olim* (Gal and Leshem, 2000). Immigrant absorption policy changed in the late 1980s with the introduction of "direct absorption", a market-based approach with lower overhead, consisting in a "basket" of benefits for immigrants (Box 7.2).

#### Box 7.2. Evolution of the basket of benefits for immigrants

Cash payments and vouchers comprise a basket of benefits, and immigrants choose where to live and how to spend their benefits on housing, education and consumption. While the "basket" was originally developed in a period of low immigration, it became the policy for the large wave of immigrants from the former Soviet Union – almost all of whom took this "direct absorption" option rather than go into state-run reception centres. The basket originally varied according to the country of provenance, but since 2002 has been the same for all *olim.* The extension of the basket was allowed because as immigration declined, funds became available, and *aliyah* from western countries was encouraged. Targeted interventions for specific communities can also be developed. The basket is also available for children born to Israelis abroad who move to Israel, with greater restrictions and shorter duration. The absorption basket represented NIS 209 million in 2008, for 8 560 family units and individuals.

The main element in the basket are cash grants (see table below), paid during the first seven months (12 months for Ethiopians), which are above the minimum wage and approach the Israeli median, depending on family size. *Olim* have a customs exemption for their household belongings and white goods; those from all but the rich western countries may receive instead a cash grant to buy appliances. *Olim* who are not working after seven months may receive means-tested benefits until they become eligible for NII income support after 12 months. In general, *olim* become eligible for mainstream social coverage after one year.

Other substantial benefits are also available beyond the first years. The MOCH provides a rent subsidy, regardless of means, for up to five years (six years for single parents). This amounts to NIS 820 million annually. Mortgage subsidies are provided, *Olim* also enjoy a ten-year exemption on taxes on income from abroad.

Initial choice of residence and internal migration has been studied extensively. Public and subsidised construction concentrated on peripheral areas, while immigrants first favoured the central areas with more job opportunities. Many later moved to the periphery, although those who stayed in the centre were more highly educated and more likely to buy homes. Cheap rents in the periphery – where job opportunities are limited – have attracted the socio-economically weakest immigrants, slowing growth and burdening social services in those areas (Lipshitz, 1997; Semyonov *et al.*, 2001). MOIA also contributes 22% to the funding of the Ministry of Education's Ulpan Hebrew-language classes (see below).

**Cash benefits (NIS) for immigrants in general and from Ethiopia, 2009**

| | General | | Ethiopians |
|---|---|---|---|
| | Absorption basket | Additional grant if close to eligibility for pension | Absorption basket |
| Two-parent family, couple | 30 100 | 9 716 | 30 763 |
| Single-parent family | 25 524 | 8 167 | 20 880 |
| Single | 15 789 | 5 252 | 18 858 |
| Pensioners: family, couple | 24 937 | | 28 893 |
| Pensioner: single parent family | 20 440 | | 19 790 |
| Single pensioner | 16 579 | | 17 770 |
| Child 0-4 | 9 338 | | 5 121 |
| Child 6-17 | 6 203 | | 5 121 |
| Youth 18-25 | 8 223 | | 7 518 |
| Supplement for family 6+ | 4 308 | | |

*Source*: Ministry of Immigrant Absorption.

Since 2005, the MOIA, rather than pay directly for vocational training, has offered "vouchers" worth up to 80% of the cost of training courses, which are chosen by the immigrant from among those offered privately. Individual requests for vouchers must be approved by the MOIA, based on an application. The initial eligibility was five years, extended to ten years in 2008 (15 for Ethiopians). The vouchers do not cover professional licensing, which is facilitated by a separate grant. 76% of the beneficiaries (3 596 in 2008) are employed in the professions for which they trained, and 46% report a wage increase due to their vocational training.

Alongside the free-choice model for most *olim* there is a centralised approach to absorption for the Ethiopian population. Almost all Ethiopians are assigned to absorption centres, where they live with their families, so their "basket" differs. Their expenses in the absorption centre are covered and they are provided with more intensive, longer and culturally-specific Ulpan and cultural orientation.

### *Ulpan Hebrew language classes are aimed at rapidly transitioning immigrants into society*

Most *olim* come to Israel without prior Hebrew language instruction, or only rudimentary knowledge of modern Hebrew. Yet language skills are a key element in determining outcomes for immigrants. In one noted study, Chiswick and Repetto (2000) look back to the 1972 and 1983 censuses and find a 20% wage premium for (self-assessed) Hebrew skills (English earned a 15% bonus). Hebrew language skills are a clear predictor of employment (Beenstock, 1996), although the wage benefits of Hebrew language skills depend on the education and occupation of the immigrant. Berman *et al.* (2003) find that as much as 75% of the differential in earnings growth

between immigrant and native programmers and technicians is due to improved Hebrew skills, while construction workers and gas station attendants have no wage convergence with natives, with language acquisition having "no discernable effect".

Israel invests heavily in language education for immigrants and has developed a very effective approach and system called Ulpan (Box 7.3). The size of the Ulpan programme has varied according to the number of users – during the peak years in the early 1990s, there were 4 000 Ulpan teachers. Teachers are drawn from the education system and given additional training. In 2008, there were 420 full-time Ulpan teachers for 12 000 students – plus 1 700 in absorption centres for Ethiopians. Staff costs were NIS 61.9 million.

### Box 7.3. The Ulpan method for teaching Hebrew to immigrants

Ulpan is the method for teaching Hebrew to immigrants. There are six principles in the Ulpan (teaching) method:

1) Emphasis on imparting the language in its *cultural context.*

2) Starting with the needs of the students. For example, separate courses depending on educational background, ranging from those who are illiterate in their native tongue to scientists. During the 1990s, for example, courses were offered for actors and accountants.

3) The linguistic hierarchy is arranged from the more useful to less useful rather than from the easy to the more difficult.

4) The study unit is not based on a word or a sentence but on discourse, *i.e.* vocabulary, idioms, expressions and speech-acts which enable a natural discourse.

5) Emphasis is placed not on knowledge but on linguistic skills. Rather than focusing on one skill, the curriculum stresses the integration of the five skills taught under the Ulpan method: speech, writing, reading, listening comprehension and understanding a televised text.

6) Application – the ability to use the materials acquired in the Ulpan for personal needs outside of it. This is the overriding objective of the Ulpan. Application goes beyond the structured and graduated curricula and is tailored to the students' personal, cultural and professional and vocational needs.

*Source*: Information provided by the Ministry of Education, Division of Adult Education.

Ulpan is free for immigrants within three years of arrival (seven for Ethiopians and ten for those with learning disabilities). The basic module consists of 500 hours over five months, although there are special modules for

specific groups, the unemployed, and different contexts and occupations. Professional language courses provide an additional 450 hours of training, of which 150 hours is professional terminology. For example, a special course for medical professionals (187 in 2008) provides 960 hours of job-specific language training. Other courses were organised for immigrant schoolteachers. Evaluation is through nationally standardised written and oral tests.

In 2008, about 39% of Ulpan graduates had achieved a level of Hebrew language competence sufficient for complex interaction and free expression (Figure 7.8, Panel A). 14% failed to master sufficient language skills for even basic interaction. While some OECD countries offer more hours of subsidised language learning, the idea of Ulpan is to quickly assist immigrants into the labour market. Many of the immigrants who arrived in the early 1990s never mastered Hebrew (Figure 7.8, Panel B), although half of them now have sufficient written Hebrew skills for full labour market integration.

The MOE is responsible for language education for *olim* under the age of 18. Every immigrant child is entitled to six hours per week of Hebrew language education, even if s/he is the only student in the school, for the first year.[126]

Poor performers may benefit from extra hours of language instruction for up to ten years from immigration. The Ministry of Education also imposes a specific protocol for immigrant students on schools, requiring contact with families and tracking of their academic progress. For recent immigrants, matriculation exams are administered using simplified Hebrew and additional time is granted to ensure that competences are correctly assessed. Finally, the MOE employs 150 mediators to facilitate contact between schools and immigrant families.

### *Entrepreneurship support is provided*

Immigrants can apply for entrepreneurship support at any point within ten years of arrival. Business incubators, consulting, networking and support, as well as favourable start-up loans of up to NIS 100 000, are offered. There were 410 loans in 2008, for a total of NIS 22.4 million. In 2008, the survival rate of the 1 200 businesses started in the previous three years was 65%.[127]

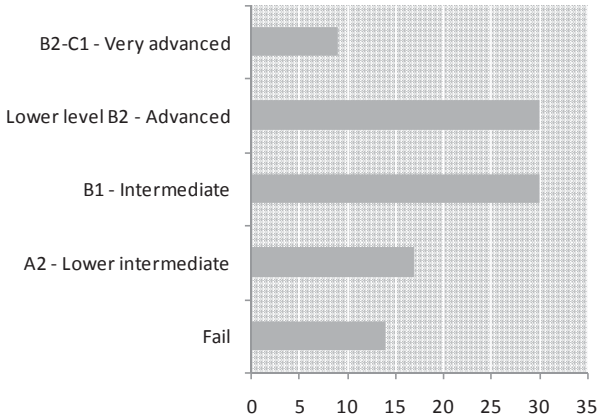
126. These may be combined: two comparable-level students in the school means 12h/week, three students 18h/week, topping out at four+ students and 24h/week.

127. The self-employment rate among immigrants is lower than that of Israelis (5.4% compared with 13%), although immigrants from OECD countries have higher rates (16%). The same distribution is observed in OECD countries.

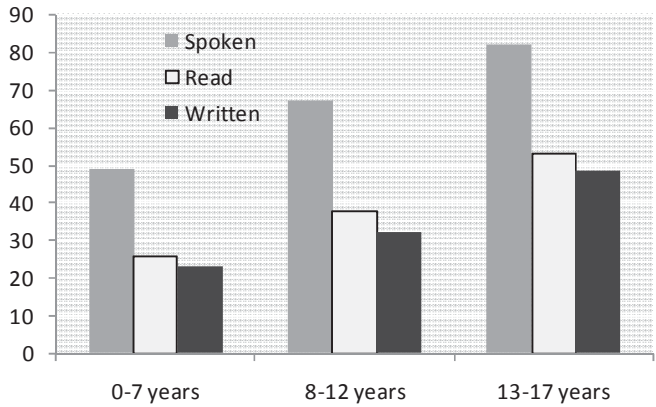
**Figure 7.8. Some immigrants quickly learn Hebrew, but many haven't mastered the language after more than a decade**

Hebrew language skills

Panel A. Outcomes of Ulpan language classes, by common European framework categories, 2008




Panel B. "Good/Very Good" spoken, read and written Hebrew skills, by years since immigration, 2007




*Source*: Panel A: Ministry of Education, 2009; Panel B: Israeli Central Bureau of Statistics, Labour Force Survey.

### *Accreditation and employer subsidies are aimed at overcoming barriers to recognition of qualifications*

Recognition of qualifications earned abroad is generally an obstacle to the labour market integration of qualified immigrants (OECD, 2007b). Israel's national qualification recognition service, the Department of

evaluation of Foreign Academic Degrees at the MOE, processes applications from immigrants and Israelis who have studied abroad or at extensions of foreign universities in Israel. However, its certificate of equivalency is valid only for salary, grading and classification in civil service jobs. Universities apply their own standards for recognition of prior academic training, and not only generally dismiss credits from abroad, they also rarely accept transfer credits from other Israeli universities.

Professionals must still undergo licensing through the relevant national licensing examination. The MOIA funds preparatory courses for these exams (medical professions, law, accounting, etc.). Medical licensing exams can be taken in Russian, English, Spanish or French. MOIA provides grants to immigrants in internships in professions requiring them.

One challenge faced by highly skilled immigrants, especially older ones, is convincing employers to assume the risk of hiring an untested immigrant with no local experience. In order to address this reluctance, and assist scientists in integrating to Israeli workplaces, the Center for Absorption in Science at the MOIA provides employer subsidies and workplace orientation for up to three years. 2 110 scientists were supported through the programme between 2001 and 2008, of which 42% were in industry and 32% in industry. The retention rate after subsidies cease is 88%, which compares favourably with employer subsidies in other countries.

A separate programme, the Fund for Promoting Placement, offers employer subsidies to hire immigrants with tertiary qualifications for high-skill occupations outside of science. The Fund placed 325 new immigrants in 2007 and 291 in 2008, and historically has a post-subsidy retention rate of about 75%. The Fund also supports public sector bodies for the employment of, for example, school teachers, or in ministries. These programmes demonstrate the benefits of employer subsidies in cases where discounting of foreign qualifications is delaying entry into skilled jobs.

### *There are many specific initiatives aimed at improving outcomes for* **olim** *from Ethiopia*

The problems of Ethiopian immigrants are recognised by the state, which extends immigrant benefits to 15 years for them, and allows Israeli-born children to benefit. The MOIA estimates that it spends at least three times as much, *per capita*, on absorbing Ethiopians as on other immigrants. A specific department for Absorption of Ethiopian Immigrants was created within MOIA and co-ordinates activities for this group. Additional benefits for Ethiopians include school-supply supplements and a grant for purchasing white goods. Housing benefits can be increased on a case-by-case basis. In

higher education, there is positive discrimination in admission, extended eligibility for a tuition subsidy, and a monthly stipend of NIS 600 for Ethiopian students.

Immigrants from Ethiopia (and from the Caucusus region of the former Soviet Union) who did not learn Hebrew during the absorption phase and are still struggling to integrate into the labour force are eligible for a special "Open Door – Employment through learning" programme. The programme, run by MOE in co-operation with MOITAL, JDC, NII and local authorities (see Abbreviations at the beginning of the publication), seeks to combine Ulpan with school certification and employment orientation. There were 1 690 students in 2008 in 94 classes.

In addition to benefits funded by the MOIA, foreign donors provide significant support, especially through the Ethiopian National Project (ENP), created in 2001 by an umbrella of organisations working to improve outcomes for Ethiopian immigrants (MOIA, MOF, MOE, JAFI, JDC, KH, UJC and Ethiopian organisations (see Abbreviations).[128] It focuses on interventions for adolescents (age 13-18), and starting in 2004 has provided a number of different programmes: after-school centres; tutoring support; pre-army preparation; leadership identification; school mediation; university scholarships; and other forms of counselling and support to Ethiopian adolescents in difficulty and their parents. By 2008, there were 24 youth centres for Ethiopian youth in Israel, reaching more than 3 300 adolescents. The school assistance programme reached 6 757 in 2007-08, and those participating had much better outcomes on the matriculation certificate (73% achieved it, with 37% qualifying for university). This appears to reflect a creaming effect, yet outcomes for participants have improved since 2005 even as the programme has expanded.

In Israel, the Army has been a powerful means of integration of immigrants, on the one hand, even as it historically reproduced social differences (Levy and Sasson-Levy, 2008). Ethiopians have a high enlistment rate but were disproportionately relegated to low-status roles and suffered a high rate of drop-out. To address this, the JDC has been experimenting a five-week pre-enlistment pilot programme to prepare Ethiopian recruits for the evaluation exam. The programme has improved their unit assignments.

Elementary school quality exerts a significant effect on later outcomes, and this has been demonstrated for Ethiopians. Gould *et al.* (2004) look at the random assignation of the Ethiopian children arriving in May 1991,

128. Funding in fiscal year 2005-06 was about USD 5.3 million, of which 80% was provided by UJC, with JAFI providing most of the remainder.

following the educational career of these students over the next decade. Depending on the school, rates of dropout, repetition and graduation varied, even after accounting for other variables.

### *"Youth village" boarding schools support integration of adolescents arriving alone or from newly-arrived families*

A long tradition of boarding schools ("youth villages") exists in Israel, and about 10% of adolescents are in boarding schools. The Ministry of Education budget for the system is about NIS 600 million. These schools are particularly important in integrating immigrants, who comprise 40% of the students, providing language and academic support. In 2008, there were 6 000 Ethiopian students and 9 000 students from the former Soviet Union, as well as 1 500 from other countries.[129] The first year is free and then fees are set according to income but kept low. Admission is open and children can leave at any time. The schools are multicultural but focus on sense of belonging. Matriculation rates are higher than the national average (62% compared with 57%), and induction into combat units – another indicator of integration – is above the national average.

## 7.7. Conclusions

Israel actively encourages immigration by Jews from abroad through public bodies which recruit advice and orient immigrants. As a result its labour force is about 40% foreign-born, higher than almost all OECD countries. The mass arrival of immigrants from the former USSR in the early 1990s and the sustained immigration through the decade led to a total inflow of a million immigrants in a country of less than 5 million inhabitants. By 2005, no more than 8% of these had re-emigrated. The integration policy for these immigrants draws lessons from the errors made in the early days of the state, when limited reception resources, long stays in transit camps and a policy of settling new immigrants in peripheral areas with poor infrastructure and limited employment led to social exclusion which was perpetuated over time.

Policy by the Ministry of Immigrant Absorption met mass immigration in the early 1990s with an "immigrant basket" of benefits, which can be

129. This includes youth from the "Youth Aliyah", wherein adolescents precede their families to Israel as pioneers, learning the language and integrating before their parents arrive. In 2008, most of the adolescents in "Youth Aliyah" were from the FSU, as well as about 900 from France, and others from South America, Germany and the United States.

spent as the immigrant wishes, including housing, training and education vouchers, and extensive Hebrew language and Israeli culture training (*Ulpan*). Integration policy is heavily front-loaded, with substantial benefits and services during the initial seven-month phase, meant to rush arrivals into employment. Immigrants do rapidly enter employment, although they never achieve the same wage level as non-immigrant Jews. The current policy considers the cultural specificity of each community in developing programmes. Support is longer lasting and more intensive for certain groups considered at high risk (especially Ethiopian immigrants), where 18-month stays in absorption centres, with special programmes, are common.

The *Ulpan* system has produced satisfactory language outcomes, and immigrants generally leave the first five-month module with sufficient Hebrew skills for interaction. Over time, immigrants have been able to converge towards the Israeli average in terms of labour force participation, although wage gaps persist. Overall, the immigrants of the early 1990s now earn 85% of the Israeli average, although this gap is largely explained by their distribution in less high-paying jobs. Israel has also achieved some success in bringing educated immigrants into high-skilled jobs, especially through additional training after immigration and employer subsidies. There are some lessons of the absorption system for OECD countries, especially where skilled immigrants have difficulty integrating into the labour force because of qualifications which are not recognised, insufficient language skills, and unfamiliarity with the culture.

There are currently two challenges in absorbing immigrants: *i)* ensuring that the weakest members of the previous wave of immigrants improve outcomes, and *ii)* preventing new arrivals from exclusion. The latter group largely comprises Ethiopian immigrants, who have very poor educational and employment outcomes, although there are special programmes in place to support and favour their entry into higher education and employment. The fact that mainstream policies are not enough for these immigrants even after years in Israel suggest that absorption policy has not been successful. There is a serious risk that an additional Israeli underclass could form over time unless more efforts are made to ensure inclusion.

Israel has managed so far to meet high-skilled labour market demand through its Jewish migration and low-skilled demand through its temporary programme. This approach may not be sufficient in the future. Indeed, all OECD countries grant permanent status to some labour migrants, especially the highly qualified or those who have worked for extended periods in the country, and Israel should consider a similar provision alongside its ethnic migration channel.

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**OECD Reviews of Labour Market and Social Policies**

# ISRAEL

Israel has enjoyed strong economic growth over the last decade, but the benefits of this are being distributed unevenly. Poverty rates are higher than in any OECD country, which reflects the deep social and economic divides in Israeli society. On one side, there is the general Jewish population with poverty and employment rates similar to those of OECD countries. On the other, there are Arabs and ultra-Orthodox Jews, or Haredim, who have large families, poor educational outcomes and low employment rates. As a result, just over half of Arab and Haredi families live in poverty. Almost half of all children entering primary school in Israel come from one of these two groups, so profound policy changes are needed to prevent future generations of Arabs and Haredim from being scarred by the disadvantages these population groups face today.

Tackling the root causes of such deep inequality would greatly enhance the dynamism of the Israeli economy. Greater investment to help workers improve their skills is urgently needed. Welfare-to-work programmes need to be restructured and extended, including by reducing child benefits paid to families who are able to work but do not and by sharply increasing the Earned Income Tax Credit to tackle in-work poverty more effectively. And access to means-tested income supports for the neediest should be improved. Israel has failed to enforce many aspects of its labour legislation, contributing to poor employment conditions for many resident, cross-border and foreign low-income workers. Rules to overcome discrimination against all workers need to be enforced, and the illegal hiring and employment of temporary foreign workers need to be stamped out.

Progress has been made in many of these areas. New legislation and initiatives have been introduced. The challenge is how to make reform work in practice. The consequences of not doing so would be devastating.

**Further reading**

*OECD Economic Surveys: Israel 2009*

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