

Israel: a divided society

Results of a review of labour-market and social policy

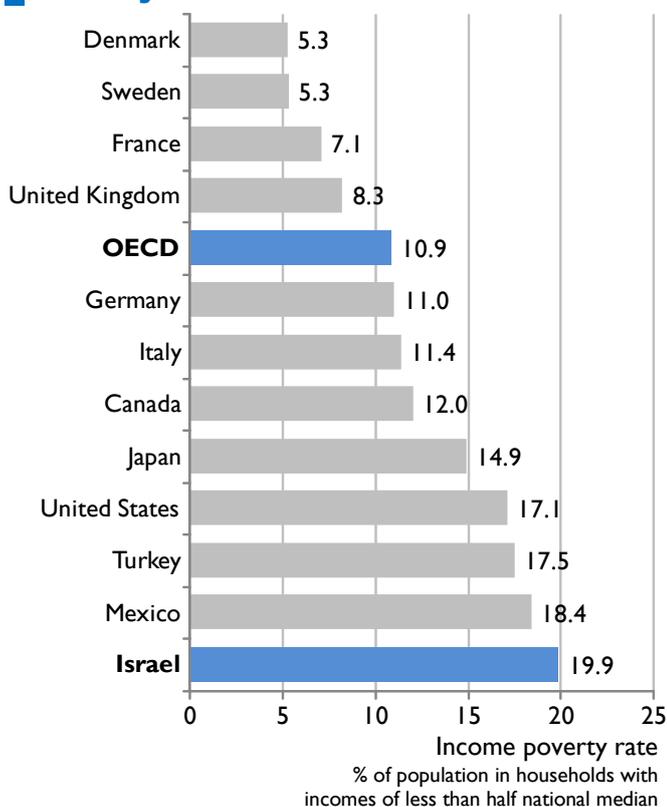


Two large minority groups in Israel – Arabs and the ‘Haredim’ (ultra-Orthodox Jews) – are much less likely to have jobs and more likely to be poor than the general Jewish population. But nearly half of children entering primary school belong to these two disadvantaged groups. Will their parents’ disadvantage be passed on to this generation and beyond?

Israel has enjoyed strong economic growth for most of the past two decades. Despite a slowdown in the early 2000s and the global financial and economic crisis in 2008-09, economic output grew by at least 4% a year. However, the benefits of economic growth are distributed unevenly.

Poverty in Israel is more widespread than in **any** of the 30 OECD countries. Almost one in five Israelis lives in poverty on the OECD benchmark measure: they live in households with income less than half of the national median. This poverty rate is nearly double the average in OECD countries of just 11% (Figure 1).

1 Poverty rates: Israel and OECD



Note: OECD countries’ data from mid-2000s; Israel’s from 2008.
Source: OECD (2010), *Labour Market and Social Policy Review of Israel*.

Families with a large number of children are over-represented among the poor. This means that almost one in three children in Israel live in poverty, compared with an OECD average of just 12%. There is an urgent need for policies to combat such widespread poverty.

Poverty and work

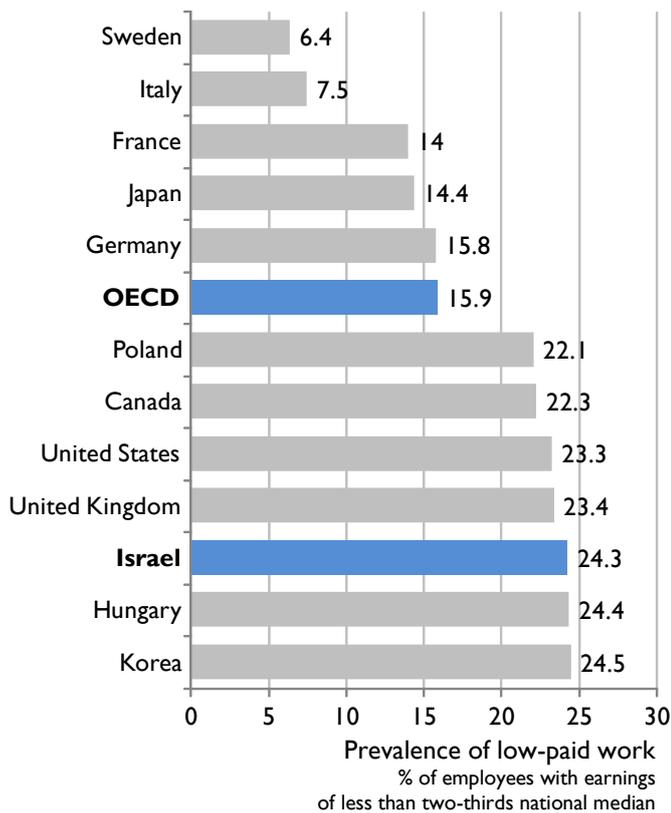
The high rate of poverty in Israel is a consequence of the fact that many people of working age do **not** work. About 40% of Israelis aged between 15 and 64 are not working, compared with an average in OECD countries of 33%.

Some 60% of Arab men are employed, but only 20% of Arab women. In contrast, among the Haredim, nearly half of women have jobs but only one in four men. The remainder of Haredi men are engaged full-time in religious study.

Furthermore, Israel has a highly segmented labour market, with Arabs and Haredi workers frequently having low-paid jobs. Overall, the proportion of people with relatively low earnings – two-thirds of the economy-wide median – is, like Canada, Hungary, Korea, Poland, the United Kingdom and the United States – in the 20-25% range (Figure 2). But Arab women and Haredi workers earn an average of around 70% of the economy-wide average wage. For Arab men, this figure is just 60%.

The dynamic high-tech sector, which accounts for 40% of Israel’s exports, offers attractive working conditions, but only provides 7% of jobs. Blue- and white-collar workers in long-established enterprises and civil servants also have good working conditions. But many workers outside these sectors – particularly those in low-skilled jobs in agriculture, construction and tourist services, for example – have low pay, few training opportunities and little job security.

2 Low-paid work: Israel and OECD



Note: OECD countries' data from mid-2000s; Israel's from 2007.
Source: OECD (2010), *Labour Market and Social Policy Review of Israel*.

Foreign workers

Working conditions of foreign workers are especially likely to be poor. Once the largest foreign group, Palestinian cross-border workers have declined from about 8% of the workforce in the late 1980s to 2% today. This is primarily a result of security concerns. But workers from elsewhere, particularly Asia, have taken their place. Foreigners made up 7% of the workforce in 2008.

Foreigners tend to be concentrated in jobs in domestic services, agriculture and construction. These workers often pay high (illegal) fees to recruitment agencies and suffer poor, illegal employment conditions. Unpaid overtime, especially among domestic employees, is particularly rife.

Israeli society: mind the gap

The divisions in Israeli society take many different forms. First, differences in the labour market – in employment rates and wages – lead to differences in incomes. In the general Jewish population, both partners in couples are often in work, which is a key reason why poverty rates for this group are about 10%, similar to the OECD average.

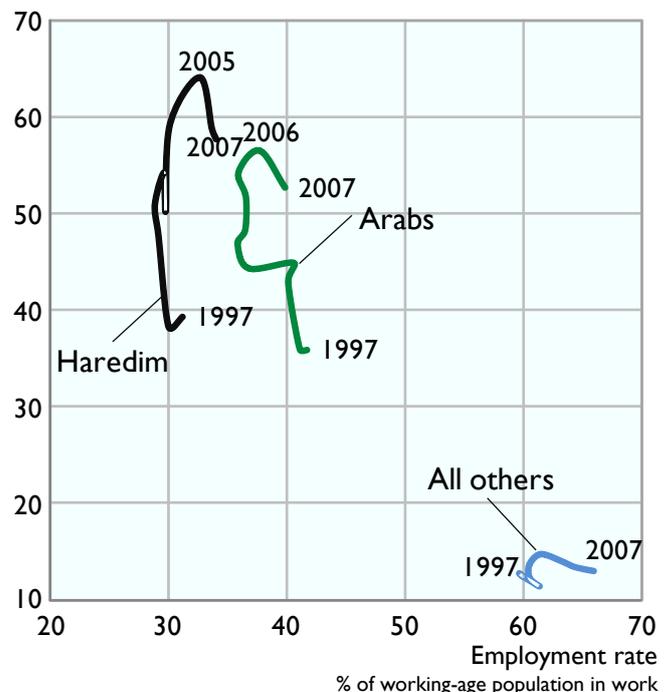
Because Arab and Haredi families are frequently jobless or are one-earner families in low-paid employment, poverty rates are around 50% for Arabs and close to 60% for Haredim. These two groups, which together constitute less than 30% of the population, make up more than 60% of the poor.

Moreover, the socio-economic chasm between the general Jewish population and the two large minority groups is widening. Since 2000, employment has increased and poverty declined among the majority population (albeit only slightly). By contrast, poverty rates for the Arab and Haredi populations have increased by nearly 20 percentage points. The proportion of these groups in employment has remained stable (Figure 3).

Social divisions go deeper than differences in incomes and employment. Arabs and Haredi generally live in separate communities and their children go to different schools. They do not typically serve in the Israeli Defence Force, which sometimes causes resentment among the majority. It also affects their job prospects because it excludes them from the public employment support provided to ex-servicemen and women. ■

3 Trends in poverty and employment

Income poverty rate
% of population in households with incomes of less than half national median



Source: OECD (2010), *Labour Market and Social Policy Review of Israel*.

Fighting poverty

Top priority for labour and social policy

Several factors explain why Arabs and Haredim tend to have poorer outcomes on a range of socio-economic measures. There are structural issues, such as differences in education systems. There are regional differences in infrastructure investment. Cultural influences, differences in access to social support and mistrust between communities arising from the Arab-Israeli conflict also play a role. Unfortunately, policies to redress discriminatory practices have had limited effectiveness.

International experience shows that work is the best way of lifting families out of poverty, but tackling the causes of such entrenched and wide inequalities as exist in Israel will not be easy. It will require a sustained effort across a broad range of policy areas. The OECD's labour-market and social policy review of Israel assesses the policy options, discusses the arguments and concludes with a series of recommendations to tackle disparities in living standards and job opportunities.

Labour laws: better enforcement

Israel has a general problem of failing to enforce its labour laws, such as minimum employment conditions for both resident and foreign workers. This is largely because it has not invested sufficiently in enforcement capacity: the Labour Inspectorate, for example, is underfunded and understaffed (see Figure 4). Sanctions for employers who fail to respect labour laws are also weak.

This has a particularly acute effect on low-paid workers in small firms, foreign workers and those employed through temporary work agencies or as sub-contractors. Such workers (among which are many Arabs and Haredim) are generally not in a strong enough position to take legal action against their employers.

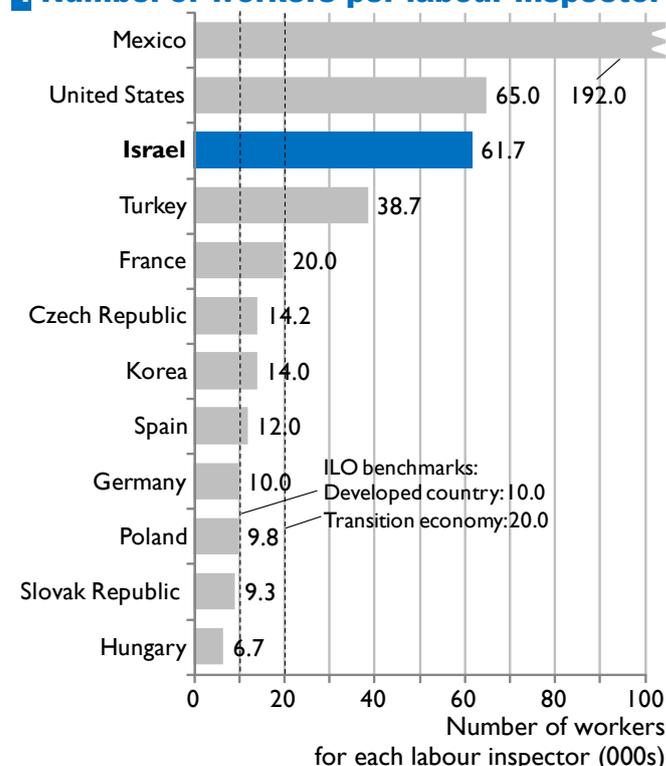
Employment opportunities for all

There is evidence that ethnicity affects employment. The government should take the lead by stamping out discriminatory practices in the public sector. For example, there are job quotas for minority groups in the public sector, with targets of 10% of employment and 30% of new recruits. But these are rarely met as

a result of weak enforcement from the centre. The government can also use its leverage as a major purchaser of private-sector services. For example, in tender processes, it could favour equal opportunity employers.

While the government has established an Equal Employment Opportunities Commission, its powers are relatively weak. The Commission needs to be able to assess workplace employment outcomes by monitoring staff composition. This could be initially limited to examining larger employers to avoid placing an undue bureaucratic burden on small businesses. One possible model for Israel to adopt is the Fair Employment Commission in Northern Ireland, which also aims to ensure a fair distribution of employment opportunities among different communities.

4 Number of workers per labour inspector



Note: OECD countries' data from mid-2000s; Israel's from 2009.
Source: OECD (2010), *Labour Market and Social Policy Review of Israel*.

Inclusive collective bargaining

The trade-union confederation (the Histadrut) and the main employers' organisation have been working together on a number of issues in recent years. However, many low-paid workers (including employees working for temporary work agencies and subcontractors) are not covered by collective-bargaining arrangements. Trade unions outside the confederation and non-governmental organisations

should be invited to the bargaining table along with organisations representing smaller enterprises so that the interests of all workers and employers are better reflected in industrial-relations negotiations.

Active labour-market policies

Israel's investment in active labour-market policies is tiny. Expenditure on these programmes – designed to help get people into work – is just 0.1% of national income. This contrasts with an average in OECD countries of 0.6% of national income.

This lack of investment has a clear impact. Less than 1% of the unemployed participate in vocational training. There are 350 unemployed people for each counsellor in the public employment service. This is far too high to provide effective support for job-seekers.

Israel has recently experimented with a welfare-to-work scheme, known as 'Lights for employment'. This is a welcome development: many countries have shifted social policies from passively paying benefits to people out of work to actively encouraging them into work as a way of improving their living standards. 'Lights for employment' has been piloted in four areas with large Arab and Haredi populations. Initial assessments suggest that progress has been made in screening 'undeserving' clients off welfare benefits. Employment rates in the pilot areas have increased. However, the evidence so far shows there has been very little effect on family incomes and there is no information on the quality or duration of the jobs obtained by participants.

There is a case for extending the welfare-to-work scheme nationwide. But some changes are needed to make it more effective. First, the programme is run through private employment agencies. There is effective competition for the initial contracts to provide services. But once signed up, providers have a monopoly of service provision within a given locality. This lack of on-going competition could prove to be a serious weakness. The remuneration of private providers also needs to be related closely to performance.

Secondly, the future role of the public employment service needs clarification. The service also needs adequate resources to carry out its assigned role. Thirdly, employment support needs to be better tailored to the differing needs of different clients. Finally, there is a need for wider employment support

such as vocational; training, but also childcare supports, as it only makes sense to engage parents with young children in the programme if childcare solutions are on offer.

Increasing returns to working

An earned-income tax credit (EITC) was introduced in 2008 to accompany the welfare-to-work programme in the same four pilot regions. This credit, like those in the United Kingdom and United States, is designed to increase the returns to working for the unemployed and low-income workers.

The EITC should be extended nationwide, as planned, along with the extension of the welfare-to-work programme.

Israel also has a system of universal child allowances paid for all children and child supplements are paid to parents in receipt of work-tested income support.

Taken together, these cash benefit programmes should be reformed to improve financial incentives to work and family living standards.

It would make sense to reduce child payments (through the universal allowance) for families who are able to work, but who do not do so. Instead, EITC payments and child supplements to those receiving work-tested income benefits should be increased.

Such a reformed scheme would be more effective in reducing in-work poverty than the relatively high minimum wage. A successful tax credit would allow the minimum wage to be reduced over time to increase demand for low-skilled workers without harming family incomes.

Education: improving standards

Israeli teenagers in secondary school perform poorly in international student tests: they rank close to the bottom at about 90% of the OECD average. Arab students in Israel have the lowest scores of all at just above 75% of the OECD average. The evidence suggests that public spending on education per child in Arab localities is about one-third lower than in predominantly Jewish municipalities. Israeli policy should aim to reduce the gap in educational resources and outcomes.

Authorities in OECD countries enforce adherence to an educational curriculum, typically agreed nationally or at regional level. These are designed to ensure a

broad education and provide the basis for a productive and well remunerated career.

The Israeli authorities should do likewise. In particular, there is a need for a curriculum with national, vocational standards for all children in Israel. English and mathematics, for example, should be compulsory. The OECD's *Economic Survey of Israel* contains a detailed assessment of Israel's education policy and puts forward recommendations for improving standards.

Reforming policies on foreign workers

Permanent migration to Israel is generally only possible for Jews and their families. Such immigration is actively encouraged by public agencies that recruit, advise and support immigrants on arrival. This help comprises cash grants, education and training vouchers, customised language training and employment subsidies.

This comprehensive immigration policy is generally successful at integrating migrants into Israeli society and the economy. For example, one million immigrants came from the former Soviet Union during the 1990s. (At the time, the Israeli population was less than five million.) Less than 8% of these had re-emigrated by 2005, revealing the success of integration.

There is no such wide-ranging public intervention to support non-Jews who come to Israel to work temporarily (often supporting families in their home countries through remittance of earnings).

The number of foreign workers is growing. They are a cheap source of labour, which undermines opportunities for less-skilled Israeli citizens. Much of the hiring and employment of foreign workers is illegal. The government has repeatedly avowed its determination to stop recruitment of foreign workers in agriculture. But these objectives have not been achieved.

Moreover, many of these foreign workers are exploited. Recruitment agencies often charge high (and illegal) fees. Employment practices often violate minimum working conditions as stipulated by law.

Israeli policy needs to be more active in stamping out illegal hiring and employment practices concerning temporary foreign workers. Investment in enforcement capacity is needed to ensure that the legal requirements are applied in practice. At the

same time, a transparent channel for temporary labour migration should be introduced. Many OECD countries have adopted such policies, from which Israel can draw inspiration. Any employment quotas by sector or occupation should be set according to transparent criteria. Employers should be required to advertise jobs in Israel. Hires from outside Israel must be justifiable with reference to the individual's skills.

The Bedouin: connections and inclusion

Within the Arab population, the Bedouin are particularly disadvantaged. The transition from a traditionally tribal and nomadic way of life into modern-day society is difficult for them. It is further complicated by land disputes between the state and Bedouin families. As a result, around half of the Bedouin live in 'unrecognised' villages, where basic amenities – electricity, water, sewerage, transport and telecommunications – are not guaranteed.

Education performance of this group is poor and employment rates are low. Coupled with large families, this means that four out of five Bedouin live in poverty.

The Goldberg Commission has come up with a compromise proposal to address the land question. The OECD urges the Israeli government to pursue these proposals and urgently connect Bedouin settlements with utilities, transport and communication networks. Efforts to improve educational opportunities and standards for the Bedouin – including vocational training – should be stepped up. ■

Pensions

Ensuring adequate incomes in old age

Israel's relatively widespread poverty includes older people. In Israel, 23% of older people are poor, compared with an average in OECD countries of 13.3%.

Public provision of retirement incomes includes a basic pension, which is set at a relatively low level. Means-tested top-ups are available for older people with low incomes. When the contribution conditions are met and people qualify under the means test, the payment is sufficient to ensure an adequate income: it is above the poverty line.

In practice, however, the means test (of both income and assets) is extremely strict. For example, there are tight conditions on car ownership. The result is that only about a quarter of older people receive the means-tested supplement and income poverty is widespread.

The most effective way to tackle poverty among today's older people would be to reduce the severity of the means test and contribution conditions. This measure would target extra support on people with incomes below the poverty line.

A less-strict means test would obviously involve additional government expenditure. However, one financial offset would be to extend the increases in the pension age for women, so that it equalises with the age for men at 67. Trends in life expectancy and the cause of equality between the sexes also support such a move.

Pensions: a long-term issue

Turning to the retirement incomes of today's workers, following agreement between unions and employers, a mandatory 'second-pillar' pension scheme has been introduced. Before reform, around half of the workforce was covered by occupational pension plans. This rate of coverage was a little above that in Canada, the United Kingdom and the United States.

The new mandate has already proved successful. Coverage of private pensions has expanded from one half to around two-thirds of the workforce. This policy will ensure that a greater proportion of each successive generation of retirees will have an adequate retirement income and will not need to rely on means-tested benefits in their old age.

There are two issues with the new scheme. One third of the workforce is still not covered. Further expansion could be achieved by increasing individuals' awareness of the new programme and improving enforcement of penalties for non-compliance by employers.

Secondly, low-paid workers often do not benefit fully from these pension provisions. Tax concessions are of greatest benefit to the highest earners. Also, it is not necessary to give highly favourable tax treatment to mandatory pension savings. Fiscal benefits should be limited to voluntary pension savings, above the mandatory level. And these should be more closely

targeted on low and middle earners, who are more at risk of under-saving for retirement than high earners. Germany and the United Kingdom, for example, have shifted from providing tax reliefs for pension saving to government matching individual contributions, up to a ceiling.

Disability benefits

Israel's population is ageing although more slowly than in most countries in the world. Nevertheless, the growing number of people over 50 has already contributed to an increase in the number of people on disability benefits, although this rise was also driven by cutbacks in other income-support benefits in the early 2000s.

There appears to be scope to control disability expenditure through a greater focus on work opportunities. Assessment procedures should focus more on ability to work and less on the degree of disability. ■

Investing in the future

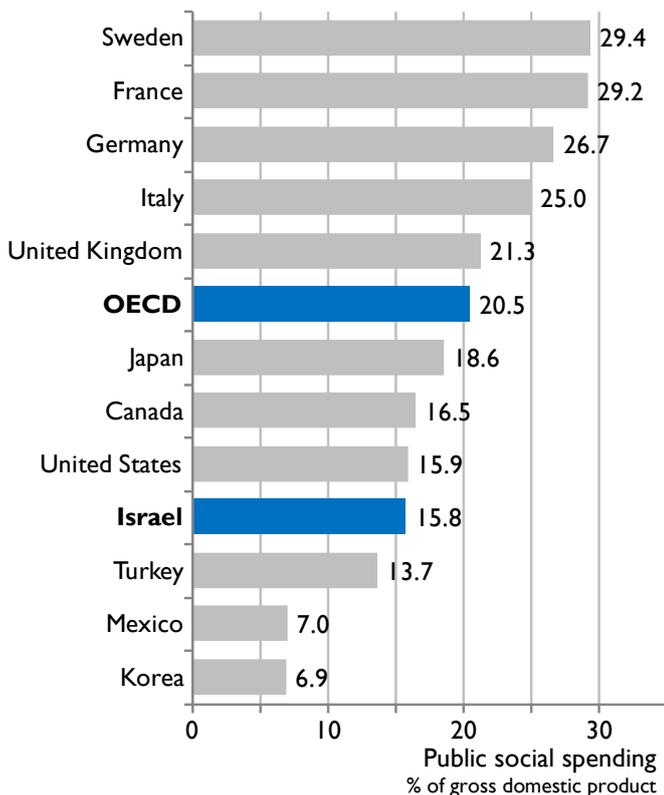
More effective labour-market and social policy

Public social spending in Israel is relatively low, amounting to 16% of national income. This compares with an average of about 21% in OECD countries (Figure 5). This difference in spending can partly be explained by Israel's relatively young population, which limits the demands on the public purse to pay for pensions, health care etc.

As shown above, there is a need for greater investment in some areas of labour market and social policy. However, Israel does not just need some more spending on labour-market and social policies, it also needs to spend more wisely. In OECD countries, the tax-and-benefit system typically reduces the poverty rate by about 60% (compared with household incomes before taxes and benefits are taken into account). In Israel, taxes and benefits reduce poverty by just 25%.

Access to means-tested benefits in Israel is difficult. International evidence shows that a stringent application of an availability-for-work test is desirable. However, it is counterproductive to have restrictive rules on car ownership and use for income support clients who live in areas with limited public transport.

5 Public social spending



Note: OECD countries' data from mid-2000s; Israel's from 2008.

Source: OECD (2010), *Labour Market and Social Policy Review of Israel*.

The primary aim of social policy must be to support employment wherever possible. Improved access to safety-net benefits and better targeting of benefits on the neediest will substantially improve the effectiveness of social spending.

The bottom line

Each country gets the poverty rate it is prepared to pay for. Cutting Israel's very high rate of poverty will only be achieved with extra resources.

The OECD has set out a number of ways Israel needs to invest in the future. Tackling the inequality grounded in deep societal divisions will require a mix of policy measures. Greater investment in human capital, such as education and training, would help ensure that all Israelis are able to participate in the labour market of today. Better support for jobseekers – such as improved childcare provision – would make welfare-to-work and related programmes more successful. Finally, more resources are needed to enforce legislation covering working conditions, for resident, cross-border and foreign low-income workers alike. ■

Note

The OECD's review of labour-market and social policies in Israel is not intended to cover the territories commonly known as the Golan Heights, the Gaza Strip and the West Bank. However, for technical reasons, the report makes use of Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

Acknowledgments

This media briefing was written by Willem Adema and Edward Whitehouse with contributions from Jonathan Chaloff, Maxime Ladaïque, John P. Martin, Mark Pearson and Ann Vourc'h, of the OECD's Directorate for Employment, Labour and Social Affairs. Philip Hemmings and Peter Jarrett of the OECD's Economics Department provided useful comments. © OECD 2010

Follow-up

Willem Adema

willem.adema@oecd.org

telephone: + 33 1 45 24 15 57

Jonathan Chaloff (migration issues)

jonathan.chaloff@oecd.org

telephone: + 33 1 45 24 18 49

Ann Vourc'h (labour-market issues)

ann.vourch@oecd.org

telephone: + 33 1 45 24 17 27

Spencer Wilson (media relations)

spencer.wilson@oecd.org

telephone: + 33 1 45 24 81 18

www.oecd.org/els/Israel2010



OECD reviews of Labour Market and Social Policies: Israel

OECD Publishing

ISBN 978-92-64-07925-0

286 pp. Price €40, US\$54,

¥5 000, £34, MXN 720

Published:

20 January 2010

www.oecd.org



In brief

Policy recommendations

- Effective enforcement of labour laws, including minimum-wage legislation and employment conditions for Israeli and non-Israeli workers. This will require an investment in regulatory capacity, including increased resources for labour inspectors and labour courts.
- Improve the capacity of employment and training services. Invest more in effective active labour-market policies. Reform the welfare-to-work programme and then extend it nationwide. First, clarify the roles of public and private employment services. Secondly, allow competition between providers of employment services within regions. Finally, adopt a system of profiling to better identify personal needs of clients, needs so that fees can also be more differentiated.
- Some income-support programmes are conditional on people's availability to participate in employment-oriented programmes. These people should receive adequate support – childcare, for example – to allow them to work.
- Extend the earned-income tax credit across Israel. Provide larger child supplements and increased payments to childcare users to increase the return from working for low-income families. Simultaneously, increase benefits (through larger child supplements) for those on work-tested, income-support benefits. Reduce child payments for families able to work, but who do not do so.
- Increase investment in education to mitigate barriers to work for minority groups. Additional investment would allow teacher-to-child ratios to be equalised across schools in Israel. Ensure that the curriculum has the same minimal vocational education standards (in English and mathematics, for example) for all children in Israel.
- Improve provision of childcare, particularly in peripheral regions and majority-Arab areas of Israel, where this is currently limited.
- Invest more in public infrastructure in peripheral areas and those with large Arab populations, where transportation is currently poor.
- Ensure that existing jobs quotas for disadvantaged population groups (particularly Arabs and Ethiopians) are met across the public sector. Use public-procurement contracts to ensure that employment conditions adhere to basic standards. Make fair employment of minorities a condition for receipt of public funds.
- Introduce reporting requirements on workforce composition in larger firms. Empower the Equal Employment Opportunities Commission to assess outcomes and suggest suitable targets.
- Urgently take practical steps to connect Bedouin settlements with electricity, sewerage and transport systems. Continue with efforts to improve their educational opportunities and outcomes, including vocational training.
- Monitor carefully the results of the pension reform. Actively ensure compliance with the new requirements by levying penalties on employers who fail to operate the schemes within the rules.
- Abolish favourable fiscal treatment of mandatory pension saving and reduce tax credits for voluntary private pensions. Use additional revenues to introduce a non-wasteful tax credit for pension savings of low-income workers.
- Adopt a more pro-active approach to police take-up of disability benefits. Provide a greater focus in disability policy on effective use of the work capacity of disabled clients.
- Before employers in Israel are allowed to recruit workers from overseas, ensure that they have exhausted the possibility of employing current residents. This requires rigorous enforcement of the 'internal-labour-markets test'.
- Ensure that employers provide minimum employment conditions for foreign workers and pay the minimum wage. Reject authorisation of employers who violate these rules.
- Favour employment of cross-border workers over foreign workers as far as possible.
- Promote bilateral agreements on recruitment to reduce rent-taking by intermediary agencies.
- Add a mechanism for granting foreign workers permanent permission to remain in Israel, as all OECD countries do.