



# **LABOR MARKET SEGMENTATION: THE ISRAELI CASE**

**Shoshana Neuman**

**Department of Economics,  
Bar-Ilan University, Israel;**

**CEPR, London;**

**IZA, Bonn**

# THE ISRAELI POPULATION AND LABOR FORCE - BACKGROUND STATISTICS (END OF 2011)

Israeli population: 7,836.6 thousand

Classification of the Israeli population by **religion**:

- Jewish: 5,907.5 thousand (75.4%)
- Israeli-Arab Moslems: 1,354.3 thousand (17.3%)
- Christian (Arab and other): 153.1 thousand (2.0%)
- Druze: 129.8 (1.6%)
- No-religion and non-classified: 289.9 thousand (3.7%)



# THE ISRAELI POPULATION AND LABOR FORCE - BACKGROUND STATISTICS (END OF 2011)

Classification of the Jewish population by **ethnic origin**:

- Eastern (Sepharadi— originating from Asia/Africa): 26.8%
- Western (Ashkenazi— originating from Europe/America): 32.8%
- Second generation Israeli: 40.4%

Recent **immigration** figures (since 1990, including non-Jews):

- From Europe/America: 924.6 thousand (73.8% of them—Jewish)
- From Asia: 17.5 thousand (80.6% - Jewish)
- From Africa: 84.7 thousand (90.9% - Jewish)



# THE ISRAELI POPULATION AND LABOR FORCE - BACKGROUND STATISTICS (END OF 2011)

Classification of the Jewish population by **level of religiosity** (in 2010):

- Haredi (ultra-Orthodox) - 14%;
- secular – 41%;
- traditional/religious – 45%

**Labor Force Participation Rate (LFPR) – 57.4%.**

Very low among: Arab-Israeli Moslem women (22.5% vs. 58.8% among Jewish women), and among Jewish Haredi Men (about 25%).

Starting in the mid-1990s, an increase in the number of **foreign workers**, and a change in the **compositional mix**: from Palestinian to non-Palestinian labor-migrants.



# TABLE 1: DESCRIPTIVE STATISTICS FOR THE ISRAELI ECONOMY (1990-2011)

Year	Growth of GDP (per- capita) (%)	Gini Index of net (gross) income	Infl. Rate (%)	Unemp. rate (%)	Number of immig.	Unemp. rate among immigrants (%)
1990	6.3 (3.0)	0.326 (0.480)	17.6	9.6	199,516	
1991	5.7 (-0.5)	0.327 (0.490)	18.0	10.6	176,100	38.9
1992	6.8 (5.1)	0.339 (0.498)	9.4	11.2	77,057	28.7
1993	3.8 (1.1)	0.329 (0.494)	11.2	10.0	76,805	19.4
1994	7.0 (4.4)	0.344 (0.502)	14.5	7.8	79,844	13.3
1995	6.6 (3.9)	0.336 (0.497)	8.1	6.8	76,361	9.6
1996	5.5 (2.8)	0.328 (0.496)	10.6	6.6	70,919	9.2
1997	3.4 (0.8)	0.333 (0.504)	7.0	7.5	66,221	10.0
1998	4.1 (1.6)	0.347 (0.507)	8.6	8.6	56,730	11.7
1999	3.4 (0.7)	0.355 (0.512)	1.3	8.9	76,766	11.3
2000	9.3 (6.4)	0.350 (0.509)	0.0	8.8	60,201	10.4
2001	-0.2 (-2.6)	0.357 (0.528)	1.4	9.3	43,473	10.6
2002	-0.6 (-2.6)	0.362 (0.532)	6.5	10.3	33,570	11.8
2003	1.5 (-0.3)	0.363 (0.521)	-1.9	10.7	23,273	11.2
2004	4.8 (3.0)	0.375 (0.519)	1.2	10.4	20,899	10.4
2005	4.9 (3.1)	0.383 (0.519)	2.4	9.0	21,183	8.5
2006	5.6 (3.7)	0.386 (0.518)	-0.1	8.4	19,269	7.2
2007	5.5 (3.6)	0.375 (0.507)	3.4	7.3	18,131	6.3
2008	4.0 (2.2)	0.378 (0.506)	3.8	6.1	13,701	5.4
2009	0.8 (-0.9)	0.382 (0.503)	3.9	7.5	14,574	7.1
2010	4.8 (2.9)	0.378 (0.506)	2.7	6.7	16,633	5.6
2011	4.7 (2.8)	0.31 (0.45)	2.2	5.6	16,892	5.5
OECD	1.9 (1.4)	0.31 (0.45)	2.9	8.0		



## TABLE 2: DESCRIPTIVE STATISTICS OF THE ISRAELI LABOR MARKET (1990-2011)

Year	Labor Force Participation Rate (LFPR) (%)	percent (out of LF) employed part-time	Immig. (arrived after 1989) LFPR	Foreign-workers in business sector (%)	Work-days lost due to strikes	Real monthly income (Israelis, index, 2004=100)
1990	51.5	26.5		9.0	1,071,279	88.35
1991	51.7	25.1	44.9	8.2	97,923	86.75
1992	52.0	24.6	52.0	9.8	386,658	87.86
1993	52.8	24.8	54.0	8.0	1,636,866	87.60
1994	53.6	24.6	54.9	8.0	792,533	89.35
1995	54.0	24.8	53.1	9.7	257,796	91.04
1996	53.6	24.1	53.5	11.9	189,792	92.33
1997	53.4	24.0	54.0	13.8	2,416,254	94.70
1998	53.4	24.7	54.1	16.1	1,438,944	96.76
1999	53.8	24.2	55.3	16.6	1,640,891	99.12
2000	54.3	23.6	56.6	16.1	2,011,263	105.07
2001	54.3	24.9	56.7	15.5	2,039,974	107.65
2002	54.1	23.8	56.8	15.2	1,488,120	100.95
2003	54.5	24.7	57.2	13.8	2,725,159	97.80
2004	55.0	26.3	58.1	12.1	1,224,423	100.00
2005	55.2	26.8	58.2	11.5	244,236	101.13
2006	55.6	26.7	59.5	11.1	136,189	102.45
2007	56.3	27.1	60.4	11.4	2,548,627	104.24
2008	56.5	26.8	61.1	12.0	87,151	103.90
2009	57.0	26.3	62.8	12.3	208,691	101.26
2010	57.4	26.8	63.1	11.7	168,864	102.01
2011	57.4		64.0	11.9		102.43



# SEGMENTATION IN THE ISRAELI LABOR MARKET: A GROWING SECONDARY LABOR MARKET AND A COMPOSITIONAL CHANGE

- Economists refer to the **dual labor market model** that includes the **primary and the secondary** segments, when referring to labor market segmentation.
- Jobs in the secondary labor market are **unstable**, provide **low wages**, almost **no training** and **no promotion** prospects, **no returns on human capital investments** (education, experience, firm tenure), and **very low mobility into the primary** sector.
- Evidence for duality in the Israeli labor market: Till the early-1970s, the secondary labor market was characterized by an over-representation of **Israeli Arabs and Sepharadi Jews**.



# SEGMENTATION IN THE ISRAELI LABOR MARKET: A GROWING SECONDARY LABOR MARKET AND A COMPOSITIONAL CHANGE

- In the early-1970s a new stratum has been added: **Palestinian workers from the territories of the West-Bank and the Gaza strip**, occupied mainly in the sectors of agriculture, construction and services: 25 percent of jobs in agriculture and 45 percent of jobs in construction (replacing Israeli-Arabs and Sepharadi Jews). One third of West Bank workers and about half of Gaza workers were employed in Israel.
- Since the late-1980s, a decrease in the size of Palestinian employment and their replacement by **overseas foreign-workers** and also **new immigrants** from the former-USSR. Recently, a new layer was added: **cross-border labor-migrants** (mainly from Eritrea and Sudan, crossing the border with Egypt at the Sinai).





**TABLE 3: ISRAELI AND (NON-ISRAELI)/FOREIGN WORKERS: NON-PALESTINIAN FOREIGN-WORKERS AND PALESTINIAN WORKERS (THOUSANDS) (1990-2011)**

Year	(1) Non-Palestinian foreign-workers	(2) Palestinian workers	(3)=(1)+(2) Total: foreign/(non- Israeli) workers	(4) = (1)/(3) Share of non- Palestinian foreign- workers (%)	(5) Share of foreign workers in LF (%)
1990	2.5	107.7	110.2	2.3	7.4
1991	9.0	97.8	106.8	8.4	6.7
1992	16.6	115.6	132.2	12.6	8.0
1993	29.6	84.0	113.6	26.1	6.5
1994	51.6	70.0	121.6	42.4	6.5
1995	92.5	60.1	152.6	60.6	7.8
1996	137.4	58.3	195.7	70.2	9.7
1997	159.1	74.7	233.8	68.0	11.5
1998	173.7	106.0	279.7	62.1	13.5
1999	184.6	113.6	298.2	61.9	14.0
2000	206.0	96.0	301.9	68.2	13.6
2001	246.3	47.8	294.1	83.7	13.0
2002	254.5	30.3	284.8	89.4	12.5
2003	220.6	38.8	259.4	85.0	11.1
2004	195.8	37.4	233.2	84.0	9.7
2005	182.7	46.3	229.0	79.8	9.2
2006	180.3	48.9	229.2	78.7	8.9
2007	193.2	53.1	246.3	78.4	9.2
2008	211.3	58.9	270.2	78.2	9.7
2009	220.2	55.7	275.9	79.8	9.9
2010	215.2	60.6	275.8	78.0	9.4
2011	222.0	65.9	287.9	77.1	9.5



# TYPES OF LABOR CONTRACTS

## *COLLECTIVELY BARGAINED LABOR CONTRACTS:*

Based on the corporatist principles of the tripartite cooperation, between the:

- (i) General Histadrut;
- (ii) the employers' association;
- (iii) the state. The norm till the early 1980s. Coverage of labor collective agreements was almost complete.

Open-ended tenured employment; very rare dismissals; workers enjoy employers' contributions to pension schemes, training schemes and other fringe benefits.

The General Histadrut was the powerful player due to:

- (a) political alliance with the Labor Party that was in power since statehood and till 1977;
- (b) exceptional economic activities and ownership of holdings and assets;
- (c) control over the pensions' market;
- (d) provision of health-care.



# TYPES OF LABOR CONTRACTS

## *COLLECTIVELY BARGAINED LABOR CONTRACTS:*

Starting in the early-1970s: disintegration of the corporatist labor relations system (and its replacement by a pluralist system): By 1996 the union membership dropped to 49 percent, down from 84 percent.

In 2000, 46 percent of salaried workers were union members and 56 percent were covered by collective agreements.

In 2006, membership further dropped to 37 percent and the coverage rate did not change (56 percent).



# TYPES OF LABOR CONTRACTS

## *INDIVIDUAL / PERSONAL CONTRACTS:*

Can be classified into three sub-types:

- (i) Individual contracts at work places where the majority of workers have a collective labor contract, e.g., Public Administration;
- (ii) work places where all workers are employed by individual contracts, but the local workers' union participates in wage negotiations;
- (iii) work places where all workers have an individually negotiated labor contract and there is no local union of workers, common in high-tech industries.



# TYPES OF LABOR CONTRACTS

## *TRIANGULAR WORK CONTRACTS:*

Mode of employment that includes: outsourcing of functions; manpower agencies; and labor-contracting. In the two latter, the work is performed on the premises of the user where the worker is subject to his instructions and specifications. A 'legal construct' that is used in order to exploit workers and deprive them of their rights, by claiming that the workers are employees of another entity (the agency or the contractor). Established a new form of segmentation: between two types of long-term workers in the same workplace: in-house employees versus labor-contracted employees. Quite surprisingly, the Israeli public sector is a major employer of contracted-labor.

Contracted-workers compose over 5 percent of the LF, the majority in the sectors of cleaning, security and personal care-giving services. The disadvantaged groups of immigrants and women are disproportionately represented within the sector of contracted-workers.



# LEGISLATION, REGULATION AND ENFORCEMENT

- **Protective labor laws** that cover all workers: The Hours of Work and Rest Law (1951); The Annual Leave Law (1951); Apprenticeship Law (1953); Protection of Youth Labor Law (1953); Employment of Women Law (1954); The Severance Pay Law (1963); The Sick pay Law (1976); The Minimum wage Law (1987); Single Parent Family Law (1992); The Prevention of Sexual Harassment Law (1998).
- The 1996 Law of "**Employment by Labor-Contractors**" and its 2000 amendment with Article 12A that states that employment by a labor-contractor is limited to 9 month and after this time period the worker will automatically enjoy all benefits and collective agreements that apply to the user's in-house employees.
- The **1998 amendment to the 1987 "Minimum Wage Law"**, placed direct responsibility on the user to pay the minimum wage, if the contractor fails to do so.



# LEGISLATION, REGULATION AND ENFORCEMENT

- The Law of "**Enforcement of Labor Law**" enacted in **June 2012**: both the contractor and the user will be fined and also face criminal charges if the worker will not get the benefits that he is entitled to (minimum wage, sick pay, travel allowances etc.).
- The "**Foreign-Workers Law**" (1991), relates to foreign-workers' rights. There is also an **Ombudsman** for foreign-workers in the Ministry of Industry, Trade and Labor.
- In 1969 the Labor Court has been established.
- The legislature and the court gave increased attention to disadvantaged workers and to tighter enforcement procedures. However, the risks to employers violating the laws are still low and there are major enforcement problems.



# POLICY RECOMMENDATIONS

- Upgrade of skills and work options of Haredim and of Israeli-Arab women – active labor policies.
- Better enforcement of labor law and regulations.
- Tackling the problems associated with the growing share of foreign-workers:
  - (i) protect the rights of migrant-workers. In particular bilateral agreements on recruitment that will reduce rent-taking by recruitment-agencies and endorsing a mechanism that will grant them permanent permission to stay in Israel;
  - (ii) change the production modes of the agriculture and construction sectors from low-tech to high-tech, by also upgrading the skills of the Israeli workers in these sectors. This will lead to a decrease in the relative share of foreign employees and to an increase in wages; and
  - (iii) impose a sufficiently high tax on employment of foreign-workers, so that hiring Israeli workers will become considerably cheaper.





# POLICY RECOMMENDATIONS

- Round-Table forums and consensus agreements between the parties of: employers (the Federation of Employers), employees (trade-unions) and the state. Within an establishment: between the employer and the workers.

**THANK YOU FOR YOUR ATTENTION!**

