

The labor market in Israel, 2000–2016

Unlike most OECD countries, Israel experienced a major increase in both employment and participation rates over the last 15 years

Keywords: employment, wages, policy, inequality, Israel

ELEVATOR PITCH

Following a decline in employment and participation rates during the 1980s and 1990s, Israel managed to reverse these trends during the last 15 years. This was accompanied by a substantial decrease in unemployment. New labor force participants are mostly from the low end of the education distribution, and many are relatively old. They entered the labor force in response to cuts in welfare payments and increases in the mandatory retirement age. Net household income for all population groups has increased due to growth in labor income; however, inequality between households has increased.



KEY FINDINGS

Pros

- + There have been significant increases in both men and women’s employment and participation rates, and unemployment has decreased to its natural level of around 4%.
- + Real earnings of the average and median worker have risen.
- + Net real household income increased for all percentiles and all population groups.
- + Employment gaps between Arabs and Jews have narrowed.
- + Employment gaps between ultra-Orthodox and non-Orthodox Jews have narrowed.

Cons

- Male participation is still lower than the OECD average.
- Wide gaps in earnings persist between the various population groups.
- There is high and growing income inequality between households.
- The employment rate for Arabs is still below that of the Jewish population.
- The employment rate of ultra-Orthodox Jews is still below that of the non-Orthodox population.

AUTHOR’S MAIN MESSAGE

Overall, the Israeli labor market is doing remarkably well. Since 2002, the employment rate has increased by more than ten percentage points, unemployment has fallen to its natural level of 4%, and real hourly wages have increased by eight percentage points. There are, however, serious challenges facing two large minority groups, Arabs and ultra-Orthodox Jews, who lag behind in both employment and earnings. Policymakers can address these challenges by maintaining the current successful policy of promoting employment with a special focus on these two groups, as well as by encouraging investments in their human capital through higher education and training.