

TAUB CENTER

for Social Policy Studies in Israel

The Rosshandler Bulletin Series

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This issue of the Bulletin focuses on some of the primary non-employment and demographic dynamics experienced by Israel over the past three decades. One striking characteristic of these trends is their stability during the last 30 years. Another striking characteristic is that – taken together – they will be unsustainable in another 30 years. The term “unsustainable” in as volatile and as dangerous a region as the Middle East is not a term to be used lightly, and its ramifications need to be understood and internalized. The topics highlighted here are detailed in the Taub Center’s recent *State of the Nation Report*, which will soon be coming out in English.

With this issue, we inaugurate the Taub Center’s Rosshandler Bulletin Series. The Rosshandler Foundation’s very generous support will enable us to put out the Bulletin on a regular basis every two

months. As in the past, the Bulletin will provide brief synopses of some of the Taub Center’s primary research findings and professional analyses of issues currently in the public spotlight – all of these in a language easily accessible to non-professionals.

Taub Center Policy Fellows and Program Chairs include some of the country’s top academics together with former and future leading policy makers. This Bulletin provides these individuals with an important forum for highlighting some of the key traits underlying Israel’s society and economy. We are greatly indebted to Greg Rosshandler and his family for identifying the importance, spotting the potential of such a Bulletin and for underwriting it.

Dan Ben-David

Executive Director

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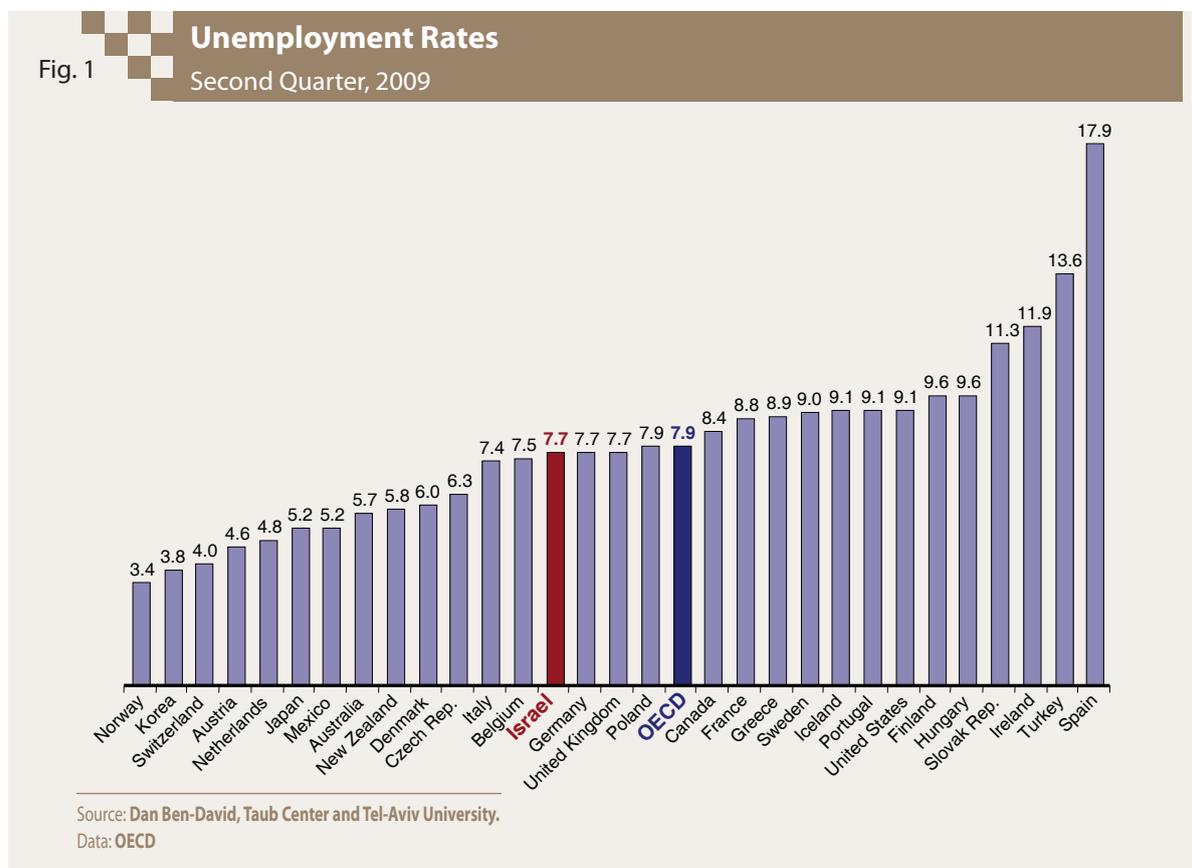
Unemployment versus non-employment in Israel

While unemployment appears to have reached average Western levels, the more relevant concept for Israel is “non-employment.” Among Israeli men, rates of non-employment have risen far above those of advanced Western countries.

For many years, unemployment rates in Israel were higher than the Western average. Even before the recession of the early 2000s, the unemployment rate in 2000 – a year of prosperity in Israel – reached 8.8 percent, compared with 6.1 percent on average in the OECD (the Organization for Economic Cooperation and Development – an organization composed of the world’s industrialized countries). With the outbreak of a major wave of terrorism and the concurrent onset of a deep recession during the first years of the past decade, unemployment in Israel reached 10.7 percent of the civilian workforce. Since then, unemployment rates began falling toward those of OECD. In 2008, unemployment rates in Israel were almost equal to the OECD: 6.1 percent in Israel and 5.9 percent in the OECD. As the world entered the recent recession, the

picture was reversed. By the second quarter of 2009, unemployment rates in Israel fell below the OECD average for the first time in decades: 7.7 percent in Israel versus 7.9 percent in the OECD (Figure 1). In fact, unemployment in Israel was lower than in most OECD countries, even as some of the latter reached double-digit unemployment rates – up to 11.9 percent in Ireland, 13.6 percent in Turkey and 17.9 percent in Spain.

Ostensibly, Israel's labor market is beginning to look like a typical Western labor market. But the actual picture is very different. While unemployment rates are one of the most common indicators for examining economic activity, they describe only part of the labor market. The working age population is composed of two groups: those participating in the labor force and those not participating in it. The



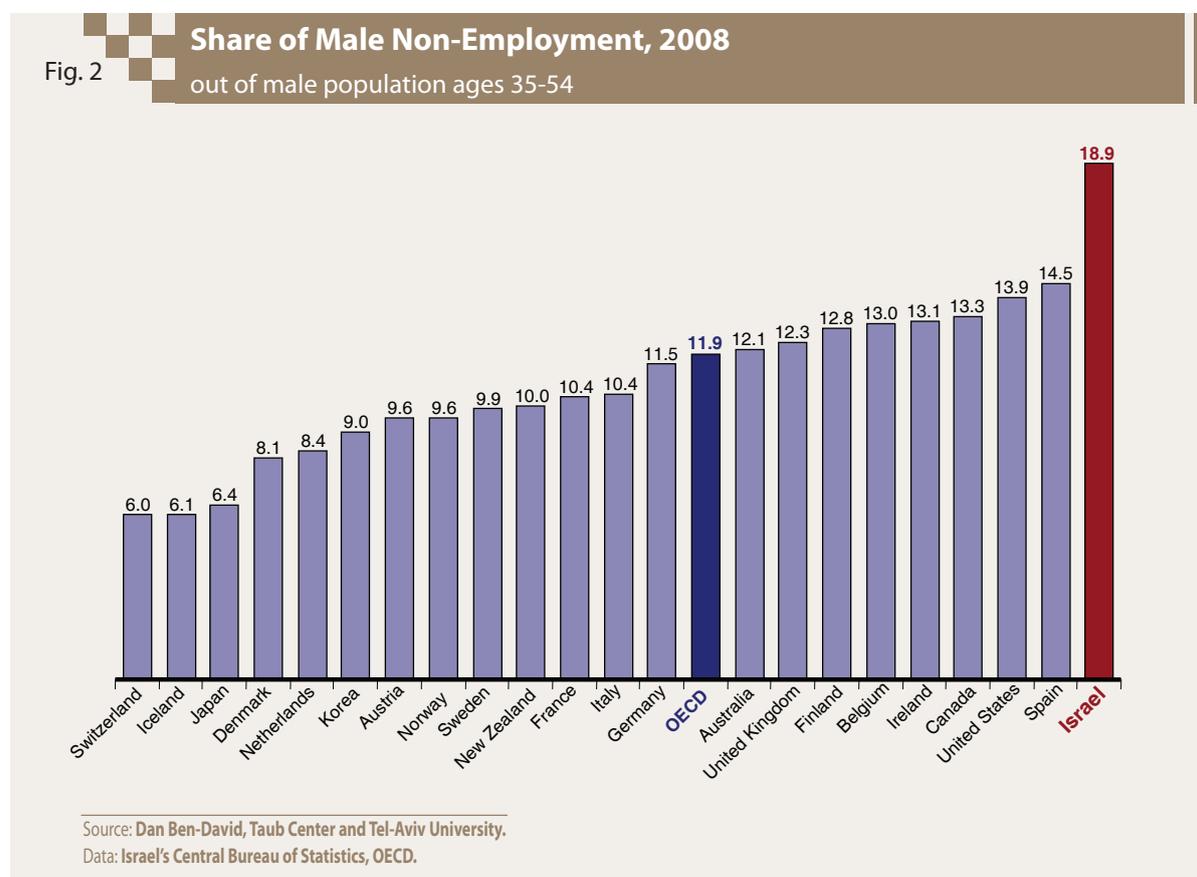
majority of those participating in the labor market find employment and become employed, while others are unable to find work and become “unemployed.”

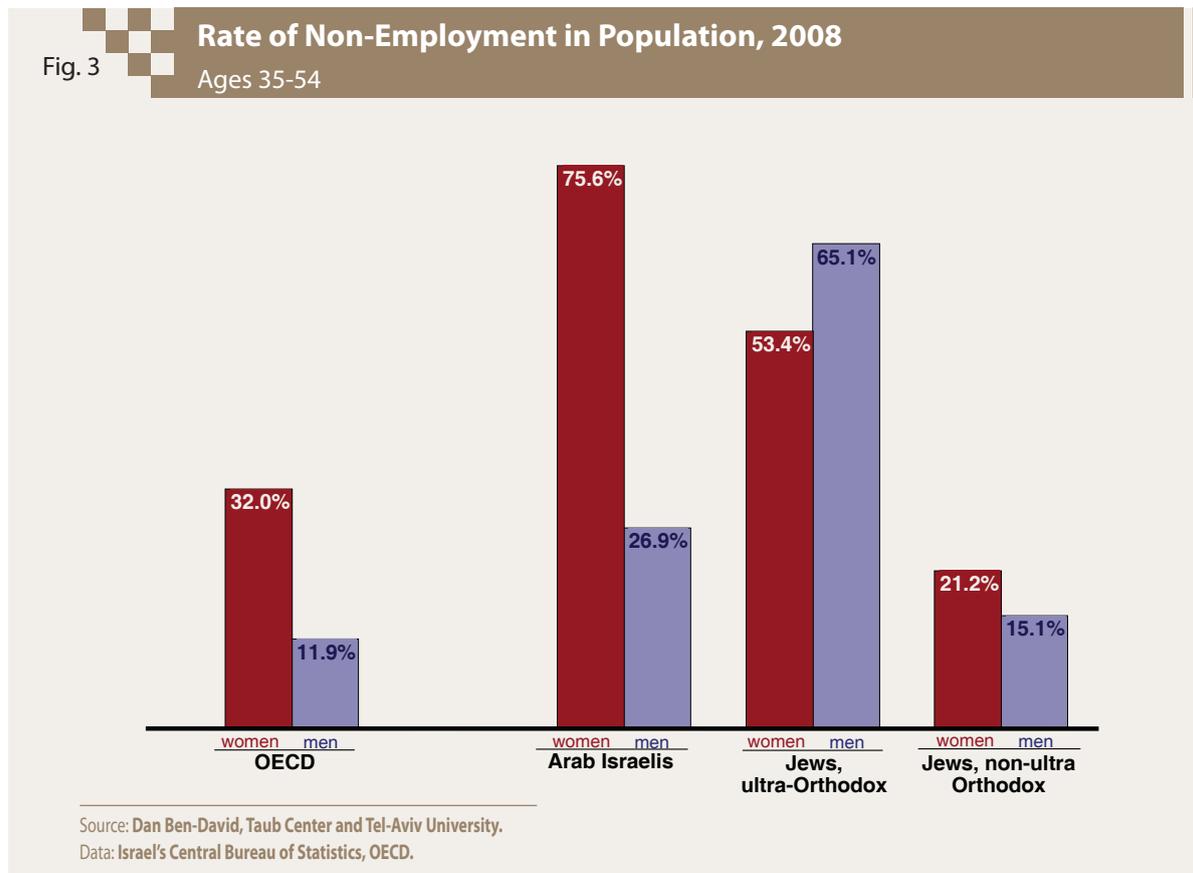
While Israel's rate of unemployment is currently similar to that of the OECD, it does not follow that the employment rates of the working-age population are also similar – and here lies the main problem of Israel's labor market. A very large share of Israel's working age population does not participate in the labor force. Therefore employment rates in Israel are very low.

Figure 2 shows rates of non-employment of men aged 35-54 in Israel and most OECD countries for 2008 (because of mandatory military service, many Israelis are still in college into their mid to late twenties, hence the focus here is on 35-54 year olds). While unemployment rates are based only on those who participate in the labor force, rates of non-employment reflect the ratio of all non-employed – whether the

individual participates in the labor force but is unable to find a job or does not participate in the labor force at all – for the entire prime working-age male population aged 35-54. Whereas non-employment rates in the OECD fluctuate around an average of 11.9 percent, the corresponding rate in Israel reached 18.9 percent. Even Spain, the unemployment leader in Figure 1, is far below Israel in rates of non-employment.

Who is not employed in Israel? Conventional wisdom is that the issue begins and ends with the ultra-Orthodox Jews (haredim) and Israeli Arabs. Rates of non-employment among these population groups are indeed high. However, most of Israel's population is neither haredi nor Arab. As shown in Figure 3, even after controlling for the two groups, the 15.1 percent non-employment rate among non-haredi Jewish men is still higher by over one-quarter than the OECD average rate of 11.9 percent. This reflects a substantial difference between a large part of the Israeli society and





much of the West in the ability to cope successfully in a modern and competitive economy. The picture differs considerably for non-haredi Jewish women, where the

21.2 percent non-employment rate is considerably lower than the 32 percent average for women in OECD countries. ■

Increase in male non-employment over past three decades

Male non-employment rates among prime working age Israelis have risen over the past 30 years – tripling among haredi (ultra-Orthodox) and nearly doubling among Israel Arabs and non-haredi Jews.

Three decades ago, the rate of non-employment among prime working age (35-54) non-haredi men in Israel was almost identical to the average rate of non-employment among industrialized countries belonging to the OECD (8.47 percent in Israel compared with 8.07 percent in the OECD). Since then (Figure 4), the average rate of non-employment in the OECD grew by about one-half while nearly doubling among non-haredi Jews in Israel. The similarity that existed between Israel and the OECD three decades ago has all but disappeared. Though relatively higher economic

growth in Israel in recent years (as a result of an emergence from the deep recession of the past decade) led to recent reductions in Israeli non-employment rates, the rate of non-employment among non-haredi Jewish men (15 percent) was nonetheless about one-fourth higher than in the OECD (12 percent) in 2008. Non-employment among Israeli Arab men grew from 15 percent in 1979 to 27 percent in 2008. Among the haredi males, the rate of non-employment in 2008 (65 percent) was more than three times the rate of non-employment three decades ago (21 percent).

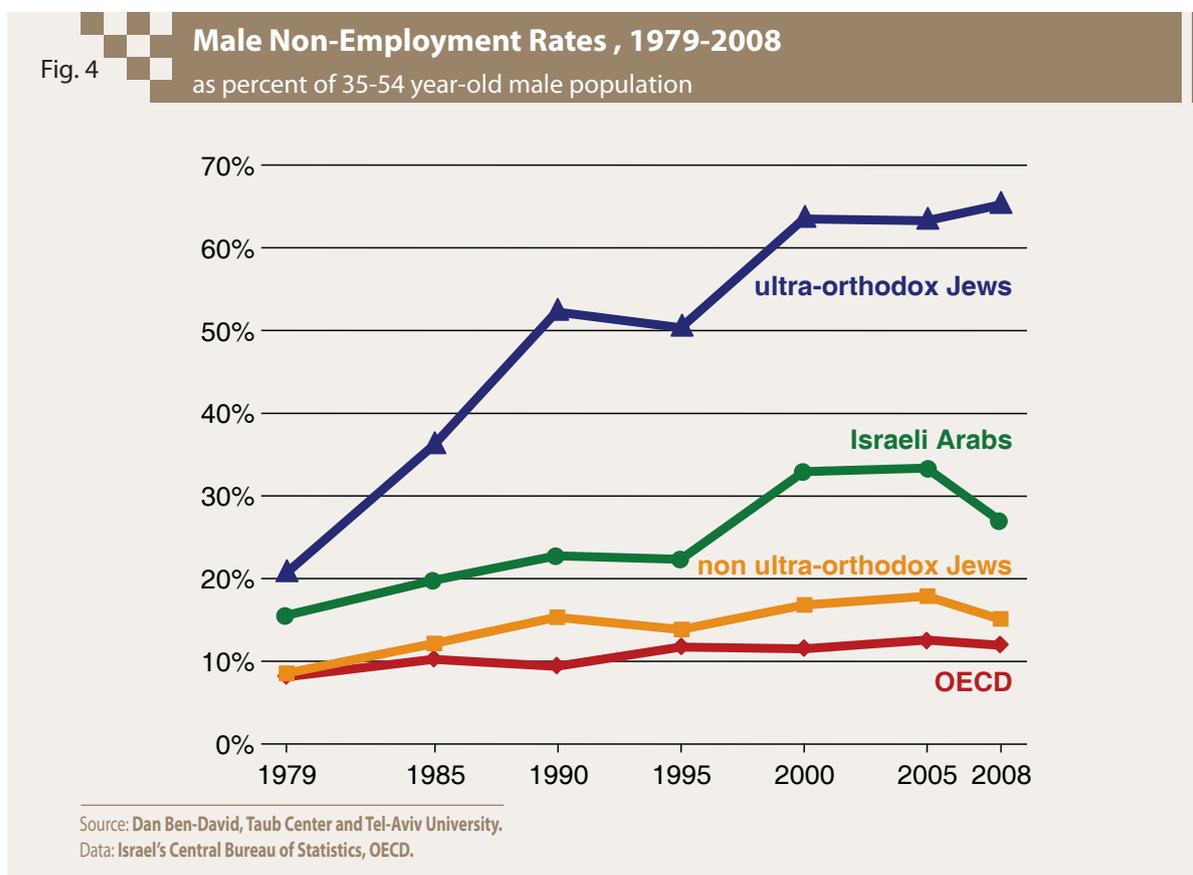
The substantial increase in government assistance programs over the years has enabled a growing part of Israeli society to choose life styles of non-employment, while multi-year neglect of human capital infrastructures (especially education) and physical infrastructures (especially transportation) prevents many people from obtaining the tools and conditions necessary for coping successfully in a modern and competitive economy.

In the case of men with less than 12 years of education, part of the explanation for the increase in non-employment is the economic growth process itself, which has led to an increase in the demand for skilled and educated workers – with a relative drop in demand for unskilled and uneducated workers. About half of Israel's prime working-age population has no more than 12 years of education. Another part of the explanation for the increase in male non-employment is the marked increase in the import of unskilled and uneducated workers from abroad – to the point

that one out of every seven workers in the country's business sector in 2008 was not Israeli. This has had the effect of crowding out unskilled Israeli's – in particular, Arab Israeli men – from the employment pool.

The issue of education is not just one relating to the quantity of years that each person has gone to school but also to the quality of education provided. As detailed in the Taub Center's recent *State of the Nation Report*, and highlighted in the November 2008 *Bulletin* ("The People of the Book and their Children's Education"), the level of education in core curriculum subjects in Israel during the past decade has consistently been lower than in each of the 25 main OECD countries. Achievements among Israeli Arab pupils have been even lower still, while haredi pupils do not even study the core curriculum.

The very high rates of non-employment among haredi Jewish men, and the fact that these non-employment rates have more than tripled over the past three



decades makes this issue unique in a number of ways. Not only are these rates high in comparison to other population groups within Israel, they are also very high compared to haredi Jewish populations abroad. Financial assistance from the government to this group within Israel comes in a myriad of different forms, with many of these not transparent in the government budget.

The fact that the majority of prime-working age haredi adults find it possible to choose life-styles of non work – albeit, in poverty – while able to support nearly five times as many children under the age of one as non-haredi Jews (children numbering in the double digits is

not an uncommon feature of haredi families in Israel) is indicative of the level of support provided these families. Cutting off much of the support to a society who denies its children an education that would enable them to compete successfully in a modern economy is difficult enough when this group is still a relatively small portion of Israel's population. However, the gap in population growth rates among the different segments of Israeli society makes this issue much more problematic for the future when its relative size will make it the dominant segment of society – particularly in view of the needs of a modern society for doctors, engineers and scientists, some of the professions that today's haredi education system has little hope of producing. ■

Decrease in female non-employment over past three decades

In the OECD and in Israel, female non-employment rates have fallen over the past 30 years – except among haredi (ultra-Orthodox) Jewish women.

The employment situation among women aged 35-54 is very different from that of men, both in Israel and in the OECD countries. While men's non-employment rates increased, women's non-employment rates dropped considerably. Average rates of non-employment among women in the OECD declined from 47.5 percent in 1979 to 32.0 percent in 2008, a decrease of 15.5 percentage points. The main explanation for the large decline in non-employment rates among women has to do with increased access for women to education and the fact that more women obtain higher education. Higher education is associated with increased income, and as incomes rise, the price of choosing non-employment alternatives rises, encouraging more women to join the labor market. Other factors that decrease non-employment include opening public or subsidized day care centers and kindergartens, laws forbidding discrimination against women, fully or almost fully paid maternity leaves, and the expansion of the service sector in the economy.

The picture among Israeli women is even more dramatic. In 1979 non-employment among women was 56.0 percent, or 8.4 percent above the corresponding rate in the OECD. Within three decades, the non-employment rate among Israeli women aged 35-54 fell to 31.0 percent, a decline of 25.0 percentage points, placing Israeli women in 2008 a full percentage point below the average for women in the OECD.

Two population groups contributed to the decrease in Israeli non-employment among women: non-haredi Jewish women and Arab Israeli women. In 1979 the rate of non-employment among non-haredi Jewish women was 51.2 percent, or 3.7 percent above the corresponding rate in the OECD (Figure 5). By 2008, their rate of non-employment dropped to 21.2 percent – a decline of 30.0 percentage points. The gap in non-employment rates between women in the OECD and non-haredi Jewish women in Israel has reversed since 1979. In 2008, non-employment rates among non-

haredi Jewish women were 10.8 percentage points lower than those of the OECD.

Among Arab Israeli women, 2008 non-employment rates were very high (75.7 percent). But 30 years ago, almost all Arab Israeli women of primary working age were not employed (95 percent), so a substantial change in their employment rates has taken place over the past three decades. In fact, from 1990 until 2008, the gap in non-employment rates between Arab Israeli women and non-haredi Jewish women was quite large, but it remained stable: the gap was at 54.3 percentage points in 1990, 54.8 percentage points in 1995, 50.9 percentage points in 2000, 54.6 percentage points in 2005, and 54.5 percentage points in 2008. In other words, for the past two decades, the rate of decrease in non-employment among Arab Israeli women was

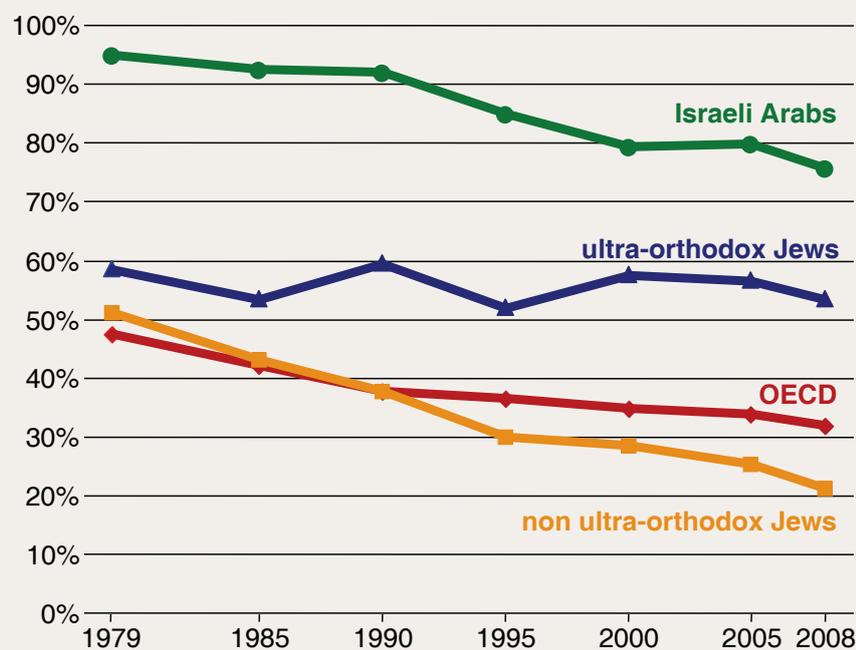
similar to that of non-haredi Jewish women – though rates of non-employment among Arab Israeli women still have a long way to go before they will resemble those of non-haredi Jewish women.

The main characteristic of non-employment among haredi women is its relative stability over the last three decades. On the one hand, they did not display the rise in non-employment that typified haredi men. On the other hand, they also did not display the substantial decrease in non-employment rates among women that occurred in other countries and in other sectors in Israel. In 1979, rates of non-employment among haredi women were 7.3 percentage points higher than those of non-haredi Jewish women, and in 2008 this gap increased considerably – reaching 32.2 percentage points. ■

Fig. 5

Female Non-Employment Rates, 1979-2008

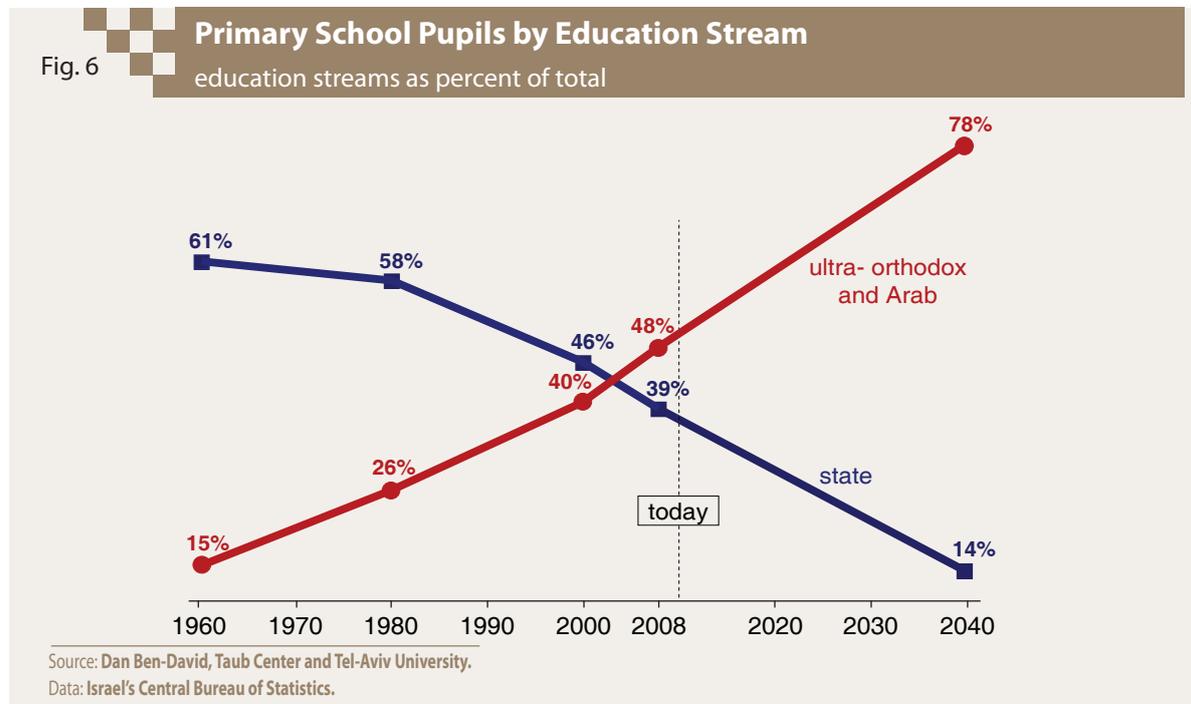
as percent of 35-54 year-old female population



Source: Dan Ben-David, Taub Center and Tel-Aviv University.
Data: Israel's Central Bureau of Statistics, OECD.

A demographic look ahead at Israel

In 30 years, 78% of Israel's primary school pupils will be haredi or Arabs, and only 14% will be in the non-religious State school system – if the trends of the past decade continue.



In 1960, 15 percent of all primary school pupils were enrolled in either the haredi (ultra-Orthodox) or in the Israeli Arab school systems, while 61 percent were in the non-religious State school system (Figure 6). Two decades later, by 1980, the share of ultra-Orthodox and Israeli Arab pupils rose to 26 percent. Those children are today's working age adults, whose rates of non-employment are described above.

According to Nachum Blass from the Taub Center, during the first decade of the 2000s there was a decline of three percent in the number of pupils in the State school system, an eight percent increase in the State-Religious school system, a rise of 33 percent in the Israeli Arab school system, and 51 percent more pupils in the ultra-Orthodox school system. As a result of changes over the past few decades, nearly half (48 percent) of primary school pupils in 2008 were ultra-Orthodox or Israeli Arabs.

If the changes of the past decade continue, then in 30 years, in 2040, the share of ultra-Orthodox and Israeli Arab pupils will be 78 percent of all pupils in Israel's primary schools, whereas the share of pupils in the State school system will fall to only 14 percent.

There are two main reasons why it is reasonable to assume that this situation will not materialize. If, as adults, these children will adopt their parent's current employment behavior, it will be difficult for the State of Israel to survive. Conversely, if as adults, they adopt employment rates close to Western norms, it is likely that future birth rates will also be different than today's. In order for tomorrow's adults to be employed 30 years from now, then today's pupils need to receive an education befitting the needs of a modern economy. This is not the situation today in Israel. The country's level of education in the core curriculum subjects is the lowest among advanced Western countries – and among haredi and Israeli Arab pupils, it is even lower. ■

Established in 1982 under the leadership and vision of Herbert M. Singer, Henry Taub, and the American Jewish Joint Distribution Committee (JDC), the Center is funded by a permanent endowment created by the Henry and Marilyn Taub Foundation, the Herbert M. and Nell Singer Foundation, Jane and John Colman, the Kolker-Saxon-Hallock Family Foundation, the Milton A. and Roslyn Z. Wolf Family Foundation, and the JDC.

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