

Chapter IX: Labor Policy

Introduction

This chapter addresses an issue central to every economy and society: the appropriate use of labor resources on the one hand, and the desire to fully recognize the employee's aspirations and needs, on the other. The global age and the significant, world-wide changes associated with it pose great challenges for policy makers. They must create policy tools that address the human behavior-related issues associated with the existence of the individual and the collective in the labor market. Our labor policy vision provides appropriate employment for individuals, aiming to attain near-full participation of working-age individuals in the creation of the economy's GDP.

The first part of this chapter addresses the world labor market's main dilemmas. A special discussion is dedicated to insights arising from relatively new developments in the labor market, some of which are already implemented in Israel while others are yet to be fully implemented. The discussion of these new developments will address a new conceptual field in labor policy, signaling a shift from the labor policy of the nation-state age, to one that addresses the ramifications of globalization, technological change and new social values. This conceptual field has been adopted by most developed countries and international organizations, including the International Labor Organization and the World Bank. In the EU countries, the new language serves as the basis for shaping uniform labor policy standards in the framework of the Lisbon Protocol.

The second part of the chapter focuses on analysis and recommendations for Israel's labor policy, based on new concepts and approaches to addressing the challenges of the global labor market.

Vision

The vision is aimed towards Israel's adoption over the next decade – long before 2028 – of labor policy that is appropriate for its economy's needs in the age of globalization. This policy will strive for rapid economic growth; the bridging of income gaps; increased participation rate among traditional groups; removal of obstacles faced by individuals struggling to integrate into the labor market; and promotion of life-long learning. In the framework of this vision, the state offers the employee a contract by which it shares in the risks and responsibilities, in accordance with the individual's various needs and positioning in the labor market.

The vision requires creating consistent labor policy that fits economic policy objectives that strive for economic growth; full employment; maintenance of a social security system; provision of basic and higher education; and economic activity appropriate to a market economy within a welfare state.

The coming generation's new and future labor market will be more competitive, dynamic and complex. Growing income disparity poses a challenge for policy makers, as it becomes increasingly difficult to intervene and exercise control over the labor market. While employment in itself does not necessarily prevent employees and their families from experiencing poverty, non-participation in the labor force almost always leads those who do not own property, to poverty. Citizens, employees, and employers expect the government to deal with the challenges of the new labor market, while the government must build support and safety nets that enable the active, responsible citizen with initiative to perform successfully within the new labor world.

Strategy

The strategy is based on cautious, selective intervention in the labor market. A strategy for realizing the vision will require action on three fronts:

- **The labor market:** intervention across the labor market, from the upper level, through the relatively-stable central level, to the lower level that involves low entry low thresholds and a high degree of instability. On this front, an effort will be made to attain four goals: increasing the rate of participation among various groups; providing protection and insurance for employment transitions; facilitating persistence in the work place; and removing obstacles to entry faced by traditional groups and groups with low employment skills.
- **Setting labor policy:** intervention that strives to produce consistent, long-term, measurable labor policy, which sets employment objectives for the shapers of economic policy, and energizes intervention in the labor market according to need. Consistent labor policy for Israel will be based on creating a continuum of services that assist employees; ensuring that it corresponds and is integrated with interfacing systems; repositioning of labor as an issue for government action and intervention. In this framework, **we propose re-instituting the Labor Ministry** as the source of policy, and reshaping existing activities and units accordingly.
- **Setting economic and social policy:** intervention that strives to produce coordination and integration of government labor activity between National Insurance, the Ministry of Education, the Ministry of Welfare and the Ministry of Finance. This coordination and integration will also be directed to a new partnership between employees and employers that is adapted to the changing structure of the labor market. Expansion of this partnership and coordination of policy-driving activities will try to help organize third sector organizations' increasing social role, and the new role of local government.

The growth target of over 6% on average per year, which is at the heart of this plan's macro-economic policy, is contingent upon ensuring high levels of participation and employment.

The New Conceptual Field and Labor Policy Dilemmas for the Coming Years

1. Labor Policy

The term "labor policy" refers to the state's basic approach to government involvement in the regulation, operation and management of all aspects of the labor market. It is derived from fundamental economic, social and political perceptions, from which a tool box is constructed and measures established that facilitate government policy making. Labor policy is not created in a vacuum, isolated from the state's circumstances and background, but rather is influenced by historical continuity, political culture, social structure, legal aspects, and foremost, by its convergence with other realms of social policy. The nation-state's market economy in the global environment requires that labor policy ensure human capital, technological development and the increasing economic competitiveness.

Core labor policy will focus on increasing the rate of participation in the labor force, promoting life-long learning, locating labor market trends, creating partnerships between government and business/civil sectors, and dealing with labor market failures in the context of the participation rate. These activities require developing progressive theory and sophisticated evaluation systems.

According to this approach, government intervention in the realm of labor is applied at the intermediate level: while it does not rely upon macro-economic policy alone to achieve industry/sectoral objectives, it avoids micro-economic policy that is appropriate for a single enterprise.

2. Labor Policy on the Supply Side

In customary terminology, labor market supply comes from the employees who offer their services, while demand comes from employers. Supply-side labor policy is distributed between improving human capital and employee skills, and impacting upon employees' quality and suitability to market needs, through various means. This plan relies on the assumption that, with the exception of a number of sub-topics, labor policy should be oriented toward employee supply; it is considerably more difficult to intervene on the side of demand, which risks creating distortions stemming from influencing employers' willingness to take on additional employees or impacting upon the scope of available jobs through employment subsidies. In a global, more competitive market, distorting resource allocation is costly in terms of loss of competitiveness and ultimately, in terms of employment.

This approach constitutes a shift from a policy of creating broad job demand through business or industry subsidies, to one that addresses unemployment, the low participation rate and improvement of human capital in accordance with the demands of the labor market.

3. Work First

Another new labor policy concept involves the ideological preference for "work first", which is at the heart of vigorous debate. According to this view, it is preferable to direct non-participants in the labor market toward low entry-level jobs, as opportunities exist beyond this threshold for employment mobility. The assumption is that work skills are better acquired in the framework of on-the-job learning in the workplace. Conversely, some claim that only higher threshold jobs along with an intention to persist will have good outcomes. They cite the working poor who lack stability, as a witness to the failure of "work first"-oriented labor policy. Some of the tension between the two approaches can be resolved through micro-management of policy to bring workers back to employment, as Israel has learned in recent years, from its experience with the *Mehalev* program ("from securing income to secure employment"), the Israeli version of welfare-to-work intervention (the "Wisconsin Program").

4. Work Skills, Employability and Removal of Obstacles

The term "employability" describes one objective of the new labor policy. This objective involves primarily removing obstacles to human capital and work skills, thus improving access to the labor market. This term comes from an awareness of the complexity and multiplicity of obstacles to the individual who does not participate in the labor force. Israeli society in the global age, with its diverse presentations of lifestyle and identity, requires a varied labor policy.

5. Two Basic Approaches

Labor policy philosophy distinguishes between two basic orientations. One emphasizes integration into the labor market, and the other stresses protection from the labor market. Those who fear placing emphasis on increased labor force participation, or the "work first" approach, propose the term "flexurity", which integrates the need for employer flexibility with assurance of security for the employee, incorporating a leisure-family-work balance. The two approaches may be appropriately balanced through practical application of programs aimed at integration into the labor force.

6. Active Labor Policy

In view of today's varied employment needs, multiplicity of specializations and diverse life situations, there is a need to produce "custom-made suits" to facilitate integration of the individual employee into the labor market. Intervention programs must be proactive as regards non-participants and the unemployed. The multiple presentations of disengagement from the labor market require a new, more personalized effort as opposed to the relatively simple "off-the shelf" solutions of the 1950s and 1960s, which included vocational training

and job placement services in the framework of the Employment Bureau.

The new category of individual-oriented policy, known as "Active Labor Market" policy, has become a widely accepted consensus. Some of its versions, which address the poverty trap faced by vulnerable, benefits-dependent populations, have been known as "Welfare-to-Work", costly programs that require creating theory and preserving knowledge.

7. Soft Non-Cognitive Skills

Alongside the emphasis on active policy that may involve producing "custom-made suits", a pedagogical innovation has emerged among employers stressing the importance of employees' soft, non-cognitive skills. These skills, required in many service sector jobs and in contact with customers, include learning ability, initiative, flexibility, teamwork abilities, diligence, reliability, accuracy and problem-solving ability. Additional soft skills include the ability to work under the stress of meticulous standards and monitoring of achievement. These new emphases multiply as the economy becomes more post-industrial and services-intensive.

As a large share of the labor market is "Wired" - regardless of whether a job is situated in traditional, service or knowledge-based industries – some approaches define soft skills in terms of one's ability to work in a technologically-controlled environment. While such demands are becoming part of the work reality, they do not make traditional skills redundant, but rather join them under the definition of "Multi-Skilled".

In contrast to pedagogical labor policy innovations that emphasize "New Skills", more skeptical approaches claim that while the new world of labor indeed complicates the skills issue due to needs differentiation, there remain sectors in which job training can be carried out through traditional tools; "Core Skills" exist including literacy in communications, technology, learning, math, language and problem-solving in the context of one's job. An even more radical approach opposes the specific analysis of occupations at the low end of the labor market and what it considers the over-use of the term "skills".

8. Identifying Needs and Skills

The traditional definition of job skills involves a simple model of rational information transfer from the seemingly knowledgeable employers, who accurately describe market needs. Job skills analysis has become a complex field of evaluations that take their inspiration from various disciplines.

New labor policy's experience shows that employers tend to describe in simplistic terms the skills they are interested in, without great differentiation and in language that expresses eternal disappointment in labor force quality. As we approach the level of the individual

business, a clearer understanding emerges regarding the needs for employee skills. A similar situation exists regarding the status of the public education system, which is supposed to provide, by the simplistic model, a skilled, flexible and responsible labor force, while in fact, public education and the school-to-work transition is much more complex. The golden age of "School-to-Work" was appropriate for the first half of the previous century, for part of that era's work technologies and particularly for the needs of industry of the time. The role of education is changing in relation to work, with the emphasis shifting towards the provision of soft skills and basic math, language and technology literacy.

9. Temporary Solutions vs. Policy Infrastructure

The labor market's dynamic nature and the multiplicity of external influences in the global age have produced the need for flexible intervention that aims to reduce risks and identify opportunities. Thus, for example, specific interventions can address trends or predicted crises in industry growth. It is very difficult to maintain static labor policy that is based on a fixed platform. On the other hand, a temporary labor policy may become an eclectic collection of random interventions. We must, therefore, balance fixed labor policy components and context-dependent interventions. Maintaining this kind of model requires strong tools for identifying and collecting knowledge, that are shared by all the government agencies involved.

10. Positioning or Substituting Traditional Tools

One of the basic issues of the new labor policy has to do with the positioning of active labor market policy programs in relation to the traditional labor policy tool box. One model may propose that "welfare-to-work" programs replace vocational training departments and public job placement services; another model keeps these services within the continuum of services and tools at the disposal of policy-shapers. The plan supports an active labor market policy that re-organizes the existing tool box of government intervention in the labor market and recruits traditional labor policy systems according to need, thereby preserving the employment service and vocational training in the framework of programs for integration into work.

11. Population Variation and Differentiation

A coherent labor policy addresses not only unemployed and non-participating populations, but also at-risk employees, temporary employees, low entry employees, and part-time employees. In a labor market that contains an unstable employee tier, focusing exclusively on the participation rate may create a "revolving door" syndrome with a multiplicity of entrances and exits to and from the labor force. Such short-term unemployment may cause despair, and especially hurt vulnerable populations such as women, the poor and minorities.

"Snap-shot" measurement of unemployment is insufficient. There needs to be clarification of how many employees have experienced unemployment or underemployment. Labor policy must also provide strong employees in stable jobs with life-long learning opportunities, and provide vulnerable employees with close support and opportunities for on-the-job mobility.

12. Accompanying Tools

The core of the new labor policy requires a supportive "envelope", addressing taxation, social security policy, labor laws, work immigration policy, housing policy and education.

Labor policy may be supported by various tools, some of which are controversial, such as negative income tax or minimum wage. It must also rely on enforcement mechanisms, as regards, for example, minimum wage, overtime and social benefits. The narrow margins of the new labor market and the complex nature of intervention require balancing and employing numerous tools. Universal, sweeping application of these tools may be inefficient and wasteful.

Some of the new labor policy's "envelope" pertains to social security policy. On the one hand, provision of social security benefits may create a poverty trap that debilitates labor policy due the non-profitability of giving up benefits in order to transition to work. On the other hand, governments sometimes harness labor policy in order to reduce the number of benefits recipients or to achieve other objectives. Labor policy requires that social security policy prevent the poverty trap and facilitate entry into the labor force. Such a social security policy demonstrates generosity towards those unable to work and encourages others to work. Broad consensus exists for a labor policy that is based on the cautious, selective use of enveloping tools.

If we adopt a supply-side, rather than a demand-side, core labor policy, then only in very exceptional cases may employers be subsidized. Work experience and employees' human capital must be promoted in partnership with employers and organizations.

Another part of the "envelope" involves creating support services, such as day care centers, facilitated and improved mobility, and housing assistance where employment opportunities are available.

13. Between Education and Work

The relationship between educational policy and labor policy is elusive and complex, and touches upon multiple realms. Adult education has undergone changes since its beginnings as teaching language and literacy to immigrants and the poor, through assisting workers in completing their education, to the culture of leisure and enrichment of the last quarter of the twentieth century. Education and labor policy converge at the point where culture

and infrastructure facilitate life-long learning. The shapers of education policy are also responsible for young people's transition into the labor force. Youth of 18-25 years of age can be assisted in completing their schooling and vocational education in a broader context. Vocational education, which involves human capital infrastructure and the economy's needs, addresses the labor market's "skills mismatch". The relationship between the needs of the labor market and employees and the school curriculum has to do with education policy, although some cast doubt whether we can even rely directly upon the public education system as a job-training element. In the Israeli reality, young people who graduate from ultra-Orthodox yeshivas without completing a core curriculum should have the opportunity to enter a track of completing their education.

14. Partnerships in the New Labor Age

In the past, labor policy was naturally created on the basis of the three-way government-unions-employers model. Today, labor policy-shapers are responsible for creating this partnership in a complex system, with a lower level of organized labor. Traditional players' place in policy shaping is being inherited by third sector organizations and businesses, creating an economy of involved, multi-player labor services.

15. Underemployment in the New World of Labor

Primarily as regards populations entering the lower end of the labor market, labor policy must address the issue of a new kind of employment – hourly, without benefits, for defined time periods. Regulatory policy will determine the scope of such kinds of work. A similar question arises regarding retirement age: a policy that encourages high participation must deal with contradictory positions vis-à-vis phenomena of change and variability in retirement. Pension policy pertains to welfare and social security policy, but interfaces with labor policy as well. An active labor policy that promotes the "work first" principle prefers – albeit with reservations - part-time employment and low job persistence over non-participation.

In summary, the once-stable labor world, efficiently regulated through simple, universal tools, is clearly changing. Labor policy has become individual-oriented, complex and directed towards treating vulnerable individuals in times of transition and risk. Labor policy is more crucial than in the past, while the challenge of achieving its objectives has increased. Only ongoing study and monitoring of the labor market can enable the application of new labor policy. Without an educated perception of the new labor world, the market alternative is preferable to an eclectic/political intervention.

Israel's Labor Policy: Challenges and Seeking a Way

The Weaknesses of Israel's Labor Policy

Israel has lacked a consistent labor policy for many years. Its labor policy was formulated primarily in the 1950s, 1960s and 1970s. In the 1970s, what remained of the historical Ministry of Labor was united with the Ministry of Welfare, in what was sometimes called "the merger that never happened". Similarly, a number of years ago, the Ministry of Labor's units were transferred to the Ministry of Industry and Trade (that became the Ministry of Industry, Trade and Labor, or IT&L), without the units' identity or functions being clarified in a systematic fashion. The activity of the department of vocational training soon shrunk from nearly NIS 1 billion to a few tens of millions a year. This was an expression of the Ministry of Labor's poor image in the eyes of national and economic policy-makers. The *Mehalev* program, which signaled a new direction in labor policy, was initially operated outside of the Ministry of IT&L, and was even meant to replace the Ministry's units. Economic and budget considerations determined the spirit of the program to a large degree.

For the past twenty years, the actions of Israel's governments in the labor realm have been characterized by lack of method, lack of priorities and changing objectives that appear secondary to benefits policies. Specific interests or special populations sometimes influenced policy, as in the case of the ultra-Orthodox, Arabs, single-parent families, the disabled, and immigrants. At times, policy was defined in terms of social rights; at other times, the emphasis was on increasing populations' participation rates or decreasing the number of benefits recipients. Israel's labor policy has been weakened considerably by its shifting nature, absence of priorities, lack of standards and frequent replacement of ministers. The *Mehalev* program did not substantively affect the lack of comprehensive labor policy.

The diagnosis of the dismal shape of Israel's labor policy leads to the conclusion that an overall organizing body is necessary. We believe that a government ministry is preferable to establishing an authority, considering our experience with some of those created in the past.

16. Knowledge Bases and Their Rehabilitation

In order to address the complex issues it faces, labor policy requires high-level professional knowledge and a considerable amount of information. Although the surviving professional knowledge and information have been stored in the large departments of former labor policy units, this is not expressed in the labor policy making of recent years. Recently, a great deal of knowledge is being amassed by third sector bodies, such as the JDC's Tabat (Tnufa Beta'asuka, "From Unemployment to Independence") partnership, which manages the development of labor policy and creation of knowledge, and adapts this policy to the

new labor market's structure. The Labor Ministry and its units should be rehabilitated and enabled to set and manage labor policy through pooling units that address policy from within the state service. A newly established independent Ministry of Labor should manage the *Mehalev* programs, in coordination with National Insurance and the Ministry of Welfare and in cooperation with third sector bodies such as *Tabat*. The Ministry will conduct program measurement, evaluation, and knowledge management, and the initiative will specialize in developing services according to the Ministry's work program.

17. Major Labor Ministry Institutions

The Labor Ministry must define its core activities in terms of increasing the participation rate and dealing with multi-dimensional unemployment, as well as supporting the labor market's vulnerable groups during economic or industry crises or personal employment transitions. The labor market will be examined by dividing it up into populations with differentiated employment characteristics.

- **The Manpower Planning Unit** currently serves as a professional institutional unit that enjoys a systemic view of the labor market and incorporates the ability to translate the data systems of the Central Bureau of Statistics, National Insurance, the Employment Service, the Ministry of Finance and the Bank of Israel into a picture of Israel's labor market, as well as to follow trends. This unit should serve as the Ministry's central knowledge and deliberation unit.
- **The Employment Service** was established as the state employment broker that provided counseling and evaluation as well. Increasingly, however, it is becoming a service that technically classifies benefits recipients who require the test of employment. This service needs to be adapted to the new labor market.
- **The Department of Vocational Training**, like similar units around the world, is experiencing an identity crisis. In the absence of an integrated labor policy, its path and goals are unclear. During the period of immigration absorption, in view of Israel's low participation rate, it served as a platform for emergency intervention by providing numerous courses. These activities, however, could not establish the department as a central tier of labor policy. Department knowledge and tools are no longer at the level of core needs, but are still required for purposes of authorization regarding special populations and in some branches. In contrast to the past, vocational training is no longer the core of labor policy but only another tool in labor policy's tool box. The significant budget cuts imposed on the department debilitated this important labor policy tool, which needs to be adapted to the new reality, but should not be abandoned as a potentially important tool for training employees and bringing them back to the labor market.

Increasing the Participation Rate and Addressing Multi-Dimensional Unemployment

In the coming years, labor policy's primary focus should be on increasing the participation rate in the labor force, as well as placing the unemployed.

1. Unemployed

Alongside the challenge of increasing the participation rate, we must address unemployment in terms of its multi-dimensional components:

- Part-time employees;
- Unemployed persons in the traditional sense: that is, individuals actively seeking work and wishing to work;
- Those who have despaired of finding work or who do not intend to work but continue to visit the employment bureau in order to receive benefits.

The traditional unemployed group comprised some 196,000 individuals (as of the fourth quarter of 2007); however, the cycle of individuals who experience unemployment of various types is twice this figure. The real number of unemployed persons in the Western world, including Israel, has increased four-fold over the course of one generation, due to technological, cultural and social changes. However, there are among them some 100,000 individuals who are classified under friction unemployment, or natural unemployment, typical of dynamic, vibrant labor markets.

This group, which experiences various types of unemployment, comprises about 18% of the labor force and will expand in the future, due to the structure of the lower-end labor market. It is characterized by a clear demographic profile, with Arabs, development town residents, and young people predominating. **The most prominent characteristic of the groups that are significantly represented among the "traditional" unemployed population is limited education.** Over the past decade, the average duration of unemployment of this population has increased by 50%, to 37 weeks. The partially unemployed group is characterized by a larger number of Jews residing in central Israel. This group is older than the traditionally defined unemployed and its education levels are higher, but still low.

The group of "detached" individuals, or those who have despaired of finding employment, makes up about one-third of the unemployed in the multi-dimensional sense. At any given moment, this population is experiencing 50 weeks of unemployment. Clearly, then, the traditional unemployment category has been replaced by greater variability, including those on the threshold of the labor market and those sinking deep into the bounds of non-participation. This variability and complexity requires new policy tools. Policy makers must

address both unemployment and non-participation, while the categories themselves are becoming more complex and the labor market unmanageable by macro tools. Distributing the effort between unemployed and non-participants should be done in a balanced manner, and adapted to social security and pension policies.

2. Rate of Participation

Israel has a relatively large group of non-participants. There are many reasons for this, as may be observed through analysis of the 24-65 year-old population. Israel's overall participation rate is less than 56%, about 10 percentage points lower than that seen in the Western world. The necessary goal for the coming years is to gradually but significantly increase Israel's participation rate. Our gradual objective is to increase participation from 56% to 58% in 2018 and to about 60% in 2028. As for ages 25-64, the target is to increase participation from 69% to 74% in 2018 as is customary in developed countries.

Over the years, the increase in the number of women entering Israel's labor force has been satisfactory, with the exception of **Arab women**, whose participation rate is particularly low. The second group is the **ultra-Orthodox**, with about 60,000 yeshiva students. The **disabled** group, which requires intensive labor policy intervention, comprises almost 200,000 individuals who do not participate due to disability or other health restriction. Nearly 150,000 additional individuals under age 65 do not participate in the labor force due to **early retirement**.

This picture becomes more complex when taking into account the increase in non-participants aged 45 and older. In the 35-44 year-old age group, the rate of participation is higher. Thus, alongside the reasons and causes for non-participation, certain age groups have low participation: **young people** entering the labor force, and **those approaching retirement age**. This is a universal phenomenon. When we examine non-participants' education, a clear picture emerges: the lesser-educated participate less - half of non-participants lack a matriculation certificate and less than 20% of them have an academic education. The impact of education on participation is more pronounced among women and the disabled.

Distribution of the participation rates by identity group shows that the rate of non-participants among Arabs is relatively high. Among the ultra-Orthodox as well, the rate of non-participation is high and signals a considerable future risk.

Increasing the participation rate should be attained through interventions on the basis of specialization in different groups and creating baskets of intervention per specific population. That is, management through population groups. We should, however, remember that a rise in the participation rate will not in itself increase productivity or significantly increase the income of those who enter the labor force. The economy needs primarily educated and

skilled manpower. Among non-participants and the unemployed there are few who have appropriate education for the upper labor market tier. Therefore, the important task of labor policy and education policy is to improve the human capital of non-participants and the unemployed.

Increasing the Participation Rate by Population Group

The first group to be addressed is that of **Arab women**, influenced primarily by traditional social mores of Arab society, which demand that women stay at home. A secondary factor is the lack of adequate public transportation infrastructure in the Arab sector, which particularly impairs women's access to the workplace. An ongoing but slow trend of educational and cultural change is increasing Arab women's participation rate, and must be complemented by a policy of directing jobs close to Arab villages for these women. Another means is developing infrastructure, including for transportation, in the Arab sector.

A second group requiring special treatment is the **ultra-Orthodox**. A variety of cultural, occupational and systemic obstacles stand in the way of increasing their participation rate. The ultra-Orthodox require appropriate human capital for the demands of the labor market, as well as acceptable academic and vocational certification. Improvement is needed in ultra-Orthodox men's job skills, in the areas of basic language, writing, English and mathematics literacy. Improving human capital and soft skills of the ultra-Orthodox may facilitate this group's liberation from the poverty trap. Alongside dealing with the individual, we also need to address **cultural resistance** to employment, which has weakened somewhat in the margins of the ultra-Orthodox community. Costly individual treatment may produce certain results. In the framework of labor policy vis-à-vis the ultra-Orthodox community, the window of opportunity for entering the labor force should not be missed, which may risk withdrawal back into the learner's society model for some ultra-Orthodox. During the coming years, systemic treatment will be needed, including community/social work in cooperation with the community's leaders, to focus on maintaining basic values important to this community's way of life, as well as individual treatment, to address the individual's distress and facilitate acquisition of the necessary tools for integration into the labor market.

Somewhat stronger and less complex are the groups of **young people, immigrants, single mothers and women re-entering the labor market**. These groups may be especially suited to active labor market policy programs or to the *Mehalev* program. **A significant portion of single mothers** have low human capital. Therefore, providing education should be combined with removing the obstacles created by parenting, and a policy that does not encourage avoidance of work should be employed. Among **young people**, there is a group that faces difficulties in finding work, due to a lack of military service. The over-45 age group includes two sub-groups: those suffering from deep unemployment and low human capital should be exempted from

work, while the stronger, better educated and more motivated group is appropriate for state intervention. This older population may be assisted primarily through vocational training and completion of education.

The *Mehalev* program's decision to exempt this entire age group from work is excessively sweeping, and ignores the various impacts this may have on this group. Part of the challenge is low work supply for older workers and employers' preference for younger persons, especially in the higher tiers of the labor market. Often family members are dependent upon a non-participant of this age. In such cases, employing a supportive envelope should be considered.

Increasing the participation rate of the severely disabled population should also be addressed, but at a lower priority. Efforts should be directed toward those able to work in a non-protected framework, and dealing with the **moderately disabled** through provision of benefits for working disabled persons. The disabled should be protected from inappropriate work. This approach disconnects the labor policy from social aspects, while respecting the huge integration efforts of the disabled and their organizations. The test for policy makers is employment that provides a living and is accessible, rather than work that serves emotional rehabilitation or the prevention of rejection. These aims should be promoted in other frameworks.

Another population, whose improved performance has to do with regional industrial policy rather than core labor policy, is that of non-participants and detached individuals **from the Jewish periphery**. This group needs to be addressed through job creation via tools of municipal, regional or national policy. The participation rate in development towns is similar to the national average, but if the unemployment rate is taken into account, then the participation is somewhat lower than elsewhere in Israel, and the depth of unemployment worse.

All parts of the future Israeli labor market will be competitive. We must, therefore, **refrain from importing foreign workers** that pull the low end of the labor market downward and fill the jobs of the neediest groups. In the past, globalization of trade exposed low-level workers in tradable economic sectors to competing import, reduced wages and loss of jobs. Importing foreign workers also exposed workers in sectors that are not internationally tradable - construction, agriculture, and various services - to unfair competition and horrendous conditions of exploitation. In 2006, about 190,000 foreign workers were employed in Israel, primarily in the nursing, construction and agriculture sectors. We cannot give up foreign nursing workers without reviving the domestic nursing sector. This is a complex cultural, social and economic issue that requires addressing the question of whether clients and workers in Israel are willing to build, utilize and work in a new sector. Social advocacy groups are placing counter-pressure against removing legal and illegal workers from the agriculture and construction sectors. Without such a change, however, labor policy will suffer greatly.

We recommend a crucial labor policy measure: significantly reducing the number of foreign and Palestinian workers in Israel to no more than 3% of the labor force at any given time, as opposed to the current 8% (and over 12% at the start of the 21st century). Within five years, the reduction is to be implemented until the 3% objective is reached. Implementation mechanisms are to be based on good monitoring, and fiscal measures taken primarily vis-à-vis employers in order to reduce transaction profitability. Cutting the numbers of foreign workers will quickly and significantly affect the unemployment rate and increase wages at the low end of the labor market.

Obstacles and Their Identification

The supply-side approach to labor policy gives first priority to **lack of job skills and low human capital** in terms of applying policy measures. These obstacles involve the lack of basic literacy skills and soft skills such as motivation, learning ability, teamwork, problem solving, flexibility and interpersonal skills. These areas present a challenge for many Israelis, including the ultra-Orthodox, immigrants, uneducated individuals and the disabled, whose lack of job skills may stem from various reasons and require different remedies.

In part, low skills may result from lack of formal education and credentials. Here we may utilize preparatory courses for completing education at the lower levels, and develop community colleges, partly based on technical and practical engineering colleges, which were formerly part of the Labor Ministry's tool box (we propose to upgrade these colleges in the framework of higher education reform – see Chapter VIII). The various preparatory courses can serve as a platform for improving basic labor market skills, and some are already engaged in the task of their development.

Another cluster of obstacles has to do with the **lack of social networks**. The Arab and ultra-Orthodox communities are disconnected from social networks that create labor market opportunities. In a state where the job search relies most often on informal systems, new immigrants face similar challenges. Under these circumstances, the third sector may be recruited to assist in connecting groups to the labor market, as well as to improve technological means and access to the extent possible.

Alongside the lack of social networks, another obstacle is **discrimination against various populations**, especially Arabs. This is a complex obstacle to deal with, but compensation may be made in the form of affirmative action in public positions and state service. It is relatively easy to enforce anti-discrimination laws in public institutions or large businesses, but at the level of the small plant or business, it is typically impossible to go beyond anti-discrimination education.

A significant obstacle to the labor market is the **language barrier** experienced by many groups, including Russian and Ethiopian immigrants, and sometimes Arabs as well. Occupational *ulpanim* (Hebrew language courses) have offered a way to deal with this issue relatively successfully. The challenge of dealing with the **cultural characteristics** of a workplace and work methods is particularly apparent with older immigrants. Often, the problem is exacerbated when the job involves giving up status. A challenge sometimes faced by Ethiopian immigrants is their lack of Western work habits, in terms of time management, reporting, and understanding the nature of employee-employer relations.

One of the largest obstacles to entering the labor market is that of **accessibility**. This term, obvious as regards the disabled, also pertains to the degree of mobility in getting to work. The low-end labor market in the periphery, for example, may face the challenge of distances existing between home and work. Part of the solution is found at the level of improved infrastructures. From other countries' experience, we learn that outsourcing cannot serve as a complete solution to the problem of periphery residents' limited mobility.

Another problem has to do with **motivation and persistence in the workplace**. This obstacle may stem from perceived non-legitimacy of work for the ultra-Orthodox; low wages; lack of perspective for single mothers; and sometimes culture-related difficulties. In these situations, the employee requires assistance in ensuring relatively high-quality placement, or at least a reasonable persistence level. A system of accompanying the employee, in addition to providing incentives for work, may serve the objective of increasing the participation rate.

The obstacle of **lack of jobs** does not have to do with core labor policy; also the government's ability to directly create jobs is over-estimated. The job supply is the outcome of macro-economic and industrial policies that are discussed in other chapters of this paper (see Chapters VI and VII). As stated, our plan does not recommend subsidizing employers. Through regional development policy, we can help increase employment in the Arab sector, the geographic periphery and the new ultra-Orthodox communities, although we must be aware of the dimension of re-division that this may involve.

The *Mehalev* (Wisconsin) Program as a Primary Tool

The *Mehalev* program lays down initial labor policy infrastructure adapted to the new labor era. It triggered public discourse; created an infrastructure of labor-related civil society organizations; provided new levels of information on the labor market; interpreted components of non-participation; revealed the weakness of evaluation; reduced an initial level of misuse of the benefits system; and above all, succeeded, according to various follow-up studies, in attaining relatively high rates of quality job placement, of over 10% during the initial operation period of the past two years.

In its initial stages, the program faced difficulties in conducting evaluations within the populations; did not remove obstacles adequately; failed to create tools and organized theory; relied upon an economic model that encouraged substandard placement; and, similar to other programs around the world, was not always able to find proper work in the community. Great tensions were caused by the mixed balance and right-left politics, subsequently producing compromises and a softening of various aspects of the program. The program's economic model was altered, sanctions were eased, and most importantly, customized tracks were created.

The *Mehalev* program is controversial, because it was planned according to a rigid model, employed inflexible objectives and used private contractors. Israel chose this rigorous Wisconsin model for its "Active Labor Market Policy" programs without understanding its context, or the lessons learned by other countries (e.g., Britain and some states in the US), which subsequently created softer models. The Israeli program was perceived as part of a policy directed at decreasing the number of individuals receiving benefits, rather than one that operated within the context of labor policy. The program for reducing the number of benefits recipients and integrating them into work during the first two years was excessively harsh for some of the vulnerable populations, and earned a cruel image among the public and various organizations. More moderate programs are aimed at increasing the participation rate among stronger groups while balancing incentives with temporary, limited sanctions that are more appropriate for Israel. Such programs may develop out of the recently-formulated recommendations for *Mehalev II* and for JDC's *Tabat* ("From Poverty to Independence") program. An even "softer" approach views such programs as part of the fabric of social rights, expressing the state's obligation to provide the disabled and other vulnerable individuals with employment and opportunities for labor participation, without imposing sanctions; some parts of *Mehalev* indeed reflect this position. Irrespective of the chosen model, research on active labor market policy programs indicates that the degree of their effectiveness is determined on the ground, at the level of the portfolio manager, in accordance with the quality of the employee's evaluation.

Mehalev's rigidity, along with the weakness of its evaluation system, created problems within the more vulnerable populations of benefits recipients in the trial areas. The program's uniform approach; its lack of differential sanctions; its reward system; its lack of work-supporting services; its failure at providing tools and skills; and the lack of civil service for those who do not work, all caused an uproar and a political aspiration to abolish the experiment. It was a threat to the very existence of systematic labor policy in Israel. A compromise was formulated, differentiating between more vulnerable groups, to be handled by the *Tabat* initiative in order to remove the significant obstacles they faced, and stronger non-participating groups. The decision to exempt individuals aged 45 and older from the program is problematic, as this population faces significant obstacles. While the idea of managing variability according to regular and specialized tracks signals an appropriate direction, we must ensure that most of the resources

will be directed to the groups most likely to participate, to make on-the-job improvements and to persist. It is essential to discuss this plan, as it substantially influences the labor market during much of the time period of the vision discussed here.

Quantitative Situation Report

Our plan's demographic analysis of the target population as regards labor policy intervention is based on Israel's labor market data, according to which the number of labor market participants in 2007 was about 2.8 million. The participants category lacks clear boundaries, due to the existence of a large group that straddles the boundary between participation and non-participation; the increasing complexity and multi-dimensionality of unemployment; and the inclusion of individuals who have despaired of finding work within the unemployed category. We must aspire to intervene and make an impact where vague boundaries exist; we must, then, create resource-based research policy, concentrate knowledge in the hands of the state, and translate it into a uniform language.

In 2007, the unemployment rate as it is traditionally measured (individuals who are not employed) was around 7%, consisting of some 200,000 individuals. The group's education level is low; 15% of individuals who lack a matriculation certificate are unemployed. The unemployment rate is about 13% in development towns. Among the Arabs, the unemployment rate is over 11%, and the percentage of non-participation and unemployment among Arab women who hold college degrees is 32%. In general the average depth of unemployment is 37 weeks; an increasing cycle of people experience unemployment within three years. They make up 18% of the labor force. There also exists a "hard core" of unemployed individuals, who have not been employed at all for 50 weeks or more. Multi-dimensional unemployment encompasses a much larger group, including the "traditional" unemployed group; part-time employees (not by choice); individuals who have despaired of finding work; and detached individuals. A strong indication of this group's complexity is the scale of individuals who have experienced unemployment over the past three years, reaching 18.5% and encompassing over 400,000. The unemployed category spans the range from underemployment, through traditional unemployment to despair of finding employment. The data on multi-dimensional unemployment partly explains Arab sector poverty and labor market characteristics. When considering the multi-dimensional unemployment perspective (rather than the traditional definition), the Arab population's unemployment rate is double that of the Jewish population. Similarly, when measuring multi-dimensional unemployment among young people and periphery residents, the unemployment rate is significantly higher, and the unemployment gap between these groups and other sectors, increases.

An initial analysis of the non-participants in the labor force indicates that women have a 40% higher potential than men for raising the participation rate. This phenomenon is partly explained by the familiar, universal occurrence of women exiting the labor force in order to raise children.

Good labor policy can deal with this issue. Women who left the labor market in their thirties often remain outside the labor market after their children have grown, as reflected by the increase in the number of women aged 45 and over who do not participate. This figure comes to about 300,000 women, nearly twice that of the men in this category. In the younger age group (up to age 34), the number of non-participant women is similar to that of the men, perhaps indicating the universality of obstacles facing this age group, regardless of gender. When we observe the gender data on non-participation alongside the reasons given for non-participation, a picture emerges whereby the choice to stay at home accounts for almost half of the non-participants: over 350,000 women.

Within the group of women, we emphasize the particularly low participation rate of Arab women, who have the highest potential for expanding employment in the long-term. Educated, urban, Christian, young women in the Arab community have a higher participation rate, and this rate is in a continuous upward trend. The data by age indicate a cultural norm whereby a proportion of women exit the labor force immediately following marriage.

The second-largest group among the non-participants is that of the learners. This group contains more men than women, given the presence of about 60,000 ultra-Orthodox men who study in yeshivas and kollels, on which we shall expand below.

The group of non-participants due to deformity, handicap, or disability comprises over 200,000 people, among whom lesser-educated individuals over 45 make up the majority. Among this group, there is a large degree of variability in motivation: 30% wish to work but are unable to overcome the obstacles.

The group of non-participants due to early retirement comprises about 140,000 people, two-thirds of which are women and one-third men. This older group is made up of people who have despaired of finding work, as well those who have chosen to retire. Among this group, low-income non-immigrant Jews residing in areas that offer employment, have a strong presence. The majority of this group was previously employed in the industry and services sectors.

The participation rate of immigrants from the former Soviet Union is higher than that of non-immigrants in most population groups, with the exception of the older groups. The participation rate of immigrants from Ethiopia is somewhat lower than the average. At the same time, their unemployment rates are particularly high, around 20%, especially in the uneducated group.

Uncovering the complexity of employment situations in the new labor market requires understanding the profile of those who enter and exit. This is characteristic of the changing labor market. A high employee turnover is prominent in medium-sized businesses that employ lesser-educated employees. Long-term employees are less vulnerable to this risk, while employees working less than five years are at higher risk. Numerous characteristics of the low end of the labor

market require deviating from the standard approach by which participation rate, unemployment and employment were customarily defined.

Under-employment and part-time work (not by choice) are defined as working less than 25 hours a week, a category that comprises about 400,000 individuals and affects a share of the low-end labor market, and to a lesser degree, some of the higher-end market. It comprises some 20% of employees, who are at risk for the "revolving door" syndrome. It is difficult to invest in this group and chances for making an impact are low.

Target Groups

We propose definitions for potential fields of intervention in demographic and social terms and by categories of labor policy. Two large groups require extensive treatment in order to be incorporated into the labor market:

1. **Arab women** – this group's realistic potential is 100,000 individuals, who currently suffer from the obstacles posed by a traditional society, discrimination in services and local infrastructures, and low demand. For this group, active labor policy and vocational training is not justified. Rather, appropriate conditions must be created by giving local-regional preference and addressing discrimination.
2. **Ultra-Orthodox men** – this group's realistic potential is currently at least 40,000 people, and these numbers are expected to increase in the coming years. In recent years, a small part of this group has shown openness to the labor market. The obstacles faced by this group have to do with social norms, lack of appropriate human capital, lack of motivation, and administrative and social traps. Encouraging ultra-Orthodox participation in the labor market involves enabling this group to acquire education and making changes in the Tal Law.

The following groups illustrate additional potential among the unemployed. The groups' data coincides; therefore, they should not be added up in a simple manner, as some figures relate to more than one of the groups specified below.

3. **Older people** – The 55-65 year-old age group has a realistic potential for 50,000 people. Its obstacles have to do with low motivation, lack of skills and low demand.
4. **Uneducated individuals with less than 12 years' schooling and no matriculation** – the realistic potential of this group is 100,000 people, including Arab men, immigrants and non-immigrant Jews. As for this group, active labor market policy, as well as traditional vocational training, can be applied.
5. **Ethiopian immigrants** – this group's potential is 20,000 people. Its obstacles have to do

low skills, lack of work skills, cultural gaps and low demand.

6. **Underemployed, part-time workers** – this group has the potential for 50,000 people, some of whom are interested in mobility but have come up against obstacles that have to do with skills and accessibility. Here, a policy of investment in on-the-job training, vocational training and completion of education may be applied.
7. **Arabs from the periphery and non-immigrant Jews from development towns** – a realistic potential of 200,000 people, some of whom are outside the context of direct labor policy. The solution requires general government budget allocations for domestic and regional development and affirmative action.
8. **"Hard-core" unemployed** – this group includes about 100,000 people, some of whom have a similar employment profile to the non-participants. This group should receive vocational training and active labor programs; it has a realistic potential of approximately 75,000 people.
9. **The severely disabled** - treatment of this group, which comprises 20,000 people, should incorporate elements of protection and subsidization, outside the context of the other populations, due to its distinctive needs regarding integrating into work. Disabled persons who are non-participants due to deformity or less-severe disability should be addressed within the framework of the other categories, while adapting their "envelope" to obstacle removal. This group has relatively low potential, but those disabled persons who wish to integrate into work should be given the conditions to do so, through National Insurance support budgets.

Required Budget

Taking action for each of these groups will require a labor policy budget of about NIS 600-700 million a year, in addition to the resources that currently exist for the *Mehalev* (Wisconsin) program. This financial estimate indicates the budgetary effort required in order to begin to move the processes along for the coming years. We must re-examine the budgets allocated for intervention in the ultra-Orthodox community, as well as the nature of participation in JDC's Tabat ("From Poverty to Independence") program, to ensure efficient allocation and consistent, priority-guided policy.

Condensed recommendations

1. Establish a Labor Ministry that will coordinate policy with the Education, Welfare and Finance Ministries, and with the National Insurance Institute.
2. Establish labor and employment objectives.
3. Intervene using new, supply-side labor policy tools, and develop population-based human capital; build a theory for and specialize in multiple work situations by population group.
4. Create an active labor market policy tool box (continuation of the *Mehalev* program, Part II); provide vocational training beyond those who receive income support; preserve some ability to serve as mediator and link with the labor market. Employers should not be subsidized; we should be wary of the false charms of outsourcing.
5. Monitored use the accompanying tool of "Disregard" in a controlled fashion; struggle against discrimination of Arabs and provide compensation though affirmative action in public service and publicly-supported bodies.
6. Improve evaluation standards; create theory that is adapted to the new labor market.
7. Enforce labor law generally, and minimum wage law in particular.
8. Reduce the number of foreign workers.
9. Establish a hierarchy of population groups; avoid emphases that are driven by political, sectoral or organizational interests.
10. Shape domestic and regional development policy as regards the periphery and the Arab sector.
11. Initiate life-long learning programs in partnership with employers and workers' organizations in the framework of supportive government policy.