



NEW REPORT: The Labor Market in Israel, 2000–2016: Successful policy measures increased employment for all population groups

A [new IZA World of Labor report finds the](#) labor market in Israel doing remarkably well with unemployment at 4%. The employment rate of ultra-Orthodox woman increased by more than twenty percentage points since 2002. However, there remain serious challenges facing the two minority groups, Arabs and ultra-Orthodox Jews.

For almost two decades at the end of the last century Israel's total employment rate fell to exceptionally low levels, especially among men. The growing number of individuals outside the labor force led to a dramatic increase in welfare expenditure. The economists Tali Laron and Osnat Lifshitz of the Tiomkin School of Economics, and Aaron Institute for Economic Policy, Interdisciplinary Center Herzliya, Israel, describe an exceptional reversal of these trends in the last 15 years. Since 2002, the employment rate has increased by more than 10%, unemployment has fallen to its natural level of 4%, and real hourly wages have increased by eight percentage points. These positive developments can be attributed primarily to a series of successful policy measures that increased the incentives to work, lowered welfare payments and income tax, and increased the mandatory retirement age.

About 30% of the increase in employment can be attributed to the change in the education distribution. As a result a much higher proportion of the population now has a college degree. Since 2002, the welfare and benefit system in Israel has undergone a series of reforms aimed at increasing the incentive to work on the one hand, and decreasing the benefits of non-employment on the other. The levels of income support, child allowance, and entitlement were also cut dramatically. Prior to 2003, the child allowance increased with the number of children. Since the fertility level in Israel is high, especially among the Arab and ultra-Orthodox populations, the proportion of the child allowance in total household income reached about 35% for many poor families, thus reducing the incentive to work. Finally, the income tax system was also reformed. As a result of these reforms, income support and child allowance per household declined by 18% and 47% respectively, and the share of obligatory payments within household labor income declined from 24% to 18%.

There were positive employment effects of these measures on all population groups, the most dramatic and least expected change has occurred among ultra-Orthodox women. Their employment rate increased from 49.5% to 73.2% within 13 years (the employment rate of ultra-orthodox men is 50.2) Unlike Arab women, the fertility rate of ultra-Orthodox women has remained unchanged during this period (at an extremely high level of 2.9 children per woman). The proportion of college graduates among ultra-Orthodox women rose from 10.4% to 28.3%. It is interesting to note that this is the only group in Israel in which women are the main breadwinners of the family and wives work much more than their husbands.

However the Arab population (20% of Israel's total population) and the ultra-Orthodox Jewish population (10% of Israel's total population) still lag far behind the majority group (non-Orthodox Jews) in terms of employment and earnings. Hourly wages of Arabs and ultra-Orthodox Jews remain much lower than those of non-Orthodox Jews. There is high and growing income inequality between households of the different population groups. Lower employment rates and wages combined with higher fertility rates contributed to the size and growth of this gap. This constitutes a threat to the stability of society and should be a top priority for policymakers.



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Notes for editors:

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