**Chapter 25: Israel’s Labor Market**

**Labor market participation rates**

Israel’s economy is based on human capital, not natural resources. As a result, the government needs to develop policies for extracting as much human potential as possible from the labor market. A country’s labor market is a function of its population size, age distribution, education, and specific work practices that affect labor force participation. As more and more people participate in the labor force, more products and services (outputs) can be produced, and private and public living standards will rise. Labor is not only necessary for citizens’ livelihoods; it is also an integral part of everyday life. People need to engage in labor in order to interact with others, realize their desires, and confer meaning on their lives. Undoubtedly, participating in the labor force and earning a wage are central to the everyday lives of citizens and families.

According to internationally-agreed convention, a country’s labor force potential (the measure for the labor supply available in an economy) is measured for people aged 15 and over who are employed or actively seeking employment, with the core of the labor force comprised of people aged 25–65. Labor force participation rate is affected by its specific age distribution, demographics, cultural and religious practices, education and professional training, and labor relations.

Until the 1990s, Israel’s labor force participation rate had been low relative to that of developed countries. From the 1950s through the 1980s, there were changes in the labor force participation rate among different population groups in the country. As a general trend, men’s labor force participation rates decreased while women’s increased. The drop in men’s labor force participation rates was due, among other things, to a rise in the number of boys and young men graduating high school and entering further education, and an increase in the number of men serving in the military. At the same time, the labor force participation rate among Jewish women rose. In the first decades of Israeli statehood, the proportion of boys aged 15–-18 in employment was relatively high. Rising high school attendance rates among girls and the introduction of free secondary education, as well as other social changes that emphasized the importance of education, led the number of boys in this age group in the labor market to fall below five percent.

Generally, society does no longer expects children below the age of 18 to work, but to devote their time to school studies and to acquiring the tools to allow them to fulfil their potential, according to their individual talents and personal desires, and join the workforce as skilled workers. On the other end of the spectrum, while some adults of retirement age continue to work, most still spend “golden years” engaged in unpaid activities.

In terms of its labor force participation rate, Israel stands out in comparison to other developed countries because of its security situation. Israel prides itself on its “people’s army model,” that is, the compulsory conscription of all high school graduates (at the age of 18) to the IDF. For many years, conscription rates were very high, and most young Jews, young men and women, aged 18–22 did not participate in the civilian workforce, unlike in Western countries, which do not have mandatory conscription. Conscripts and career soldiers were not included in Israeli labor market statistics until 2012, when Israel joined the OECD and began to be measured alongside other OECD countries, which added about two percent to Israel’s labor force participation rate.

Since the 1990s, there has been a rise in Israel’s labor force participation rate as a result of the Soviet Aliyah and the ongoing rise in the number of Israeli Jewish women working outside the home. However, there remain disparities between Israel’s labor force participation rate and those of other OECD countries, because of the low numbers of ultra-Orthodox men and Arab women who are active in the workforce.

In the 1950s and 1960s, labor force participation rates among both Jewish and Arab women in Israel were lower than in other countries, and lower than the labor force participation rates among Israeli men. In the 1990s, labor force participation rates among non-ultra-Orthodox Jewish women in Israel reached levels similar to those among women in developed countries, while labor force participation rates among ultra-Orthodox women in Israel caught up only in the 2020s. Labor force participation rates among Arab women in Israel remained lower than those of Jewish women in 2019–2022, even though there has been a continuous increase in Arab women working outside the home since the 1990s, a result of changes in their education and increased openness within this community to women seeking paid employment.

Between 1980–2000, there was a drop of about 6 percent in the labor force participation rate among men in Israel. This was a result of increases in the numbers of students (21 percent), yeshiva (ultra-Orthodox Jewish religious seminaries) students (21 percent), male pensioners (32 percent), and discouraged workers—those who have given up looking for employment (25 percent). The latter two groups have low levels of mainstream education. Disadvantaged groups, with less socioeconomic or political power, or less education and fewer skills, have been unable to cope with the entry of Palestinian and migrant workers into the labor market on the one hand, or with the demands the demands of Israel’s modern, competitive economy on the other. In the 2000s, Israel took steps that pushed up employment rates, including making cuts to child benefit and income support, which led to an increase in the number of Arabs, ultra-Orthodox, and other groups with lower levels of mainstream education in the labor force. When benefits rose again between 2010–2019, the labor force participation rate among ultra-Orthodox men shrank.

Working hours for senior workers in Israel are about 10 percent higher than in other OECD countries and over 25 percent higher than in the more-developed nations in Europe. Despite their generally longer working hours, Israeli workers produce less than in developed countries, which indicates low productivity rates (there has been little improvement in this area since 2015).

Until 2022, the retirement age for women in Israel was five years younger than that for men. Women’s life expectancy in Israel is two years higher than men, meaning that overall, women have less time to save for more years of retirement. A gradual correction to the retirement age for women began in 2021, as a result of which women will eventually retire with almost as much in pension savings as men. On average, the periods when women in Israel do not work are longer than those of men, mostly because of maternity leave. Further, because women usually work both inside and outside the home, they are more likely to work part-time jobs and for less than full salaries. Even women who work full-time are paid less than men on average, both because women are more likely to be in lower-paid occupations, such as teaching or nursing, and because of gender pay gaps, whereby men are paid more than women for equivalent roles. As a result, women in Israel tend to retire with relatively low pensions.

**Disadvantaged groups**

Israel’s low labor market participation rates are largely a reflection of low employment rates among two groups—ultra-Orthodox men and Arab women. The high fertility rates of the ultra-Orthodox community, their low levels of mainstream education in core curriculum subjects, and their employment patterns, all pose a real threat to the future of Israel’s economy and society. There is resistance within Israel’s ultra-Orthodox community, mainly for religious and cultural reasons, toward acquiring a mainstream education that would allow them to train for more skilled work. Resistance toward obtaining a mainstream education is far stronger among ultra-Orthodox men than among Arab women.

Labor force participation rates among ultra-Orthodox men are affected by the “Torah Umunato” (“Torah is his job”) agreement that the government made with ultra-Orthodox community leaders at the time of Israel’s independence. Under this agreement, the government set a quota for the number of young ultra-Orthodox yeshiva (religious seminary) students allowed to defer compulsory military service until they completed their yeshiva studies (in practice, most were never conscripted). In 1977, Menachem Begin’s newly-elected Likud government agreed to abolish the quota, and the number of yeshiva students who were not conscripted into the IDF gradually increased. In 2022, this figure stood at around 155,000 yeshiva students, a large part of whom do not work at all. The phenomenon whereby elementary school education for Israel’s ultra-Orthodox communities does not include, or severely limits, core curriculum (“secular”) subjects like science and English has negatively affected labor market participation rates among this demographic. Ultra-Orthodox men wishing to seek work face barriers because of their lack of job skills. Aware that they can secure only low-paying jobs, many prefer to continue to receive benefits and income support from the government and their own community. The Torah Umunato agreement, coupled with generous increases to child benefit in the 1990s, have meant that a significant part of the income of Israel’s ultra-Orthodox households has come from state benefits rather than employment.

In 1980, labor force participation rates among ultra-Orthodox men aged 25–64 was 63 percent, but by 2003, this had plummeted to 36 percent. Once the government slashed welfare payments in 2003, there was a rise in labor market participation rates among ultra-Orthodox men, as the loss of benefits pushed them into seeking paid work. Their labor force participation ultimate reached a record high of 54 percent in 2014–2015. However, in 2016, when state benefits were raised almost to earlier levels, labor force participation rates in this demographic began to fall, and stood at 52 percent in 2022. Already in 2020, the government had failed to meet its target of 63 percent for the labor force participation rate among ultra-Orthodox men.

There is evidence that labor force participation rates among young ultra-Orthodox men in Israel depends on whether they receive financial support in the form of welfare and other incentives that allow them to avoid work. The various incentives that the government provides to ultra-Orthodox men are rooted in the political power of the ultra-Orthodox community, and allow them to remain in yeshivas and to shun a basic mainstream education. As a result, Israel’s ultra-Orthodox community does not contribute to the labor market in proportion to its demographic weight, even though Israel has a labor shortage—a problem that the government has partly solved by bringing in migrant workers.

Until 2004, the increase in labor market participation rates among ultra-Orthodox women was lower than that for non-ultra-Orthodox Jewish women. The gap between these two groups increased from about 8 percentage points in 1980 to 20 in 2004. After 2004, the gap began to close as women became the main breadwinners in ultra-Orthodox households. In 2022, the gap between ultra-Orthodox and non-ultra-Orthodox women in terms of labor force participation was just 2 percentage points (about 80 percent for ultra-Orthodox women). However, average salaries for ultra-Orthodox women are about 30 percent lower than for non-ultra-Orthodox Jewish women, largely because more ultra-Orthodox women than non-ultra-Orthodox women tend to work part-time. The increase in the labor force participation rate among ultra-Orthodox women has occurred almost without any decrease in average family size, unlike the patterns often seen among other population groups.

In the 1970s, labor force participation rates among Arab men in Israel were about 75 percent, higher than among Jewish men, reflecting the fact that Arab citizens of Israel tended to join the workforce at a younger age than Jewish men, and unlike Jewish men, were not conscripted into the IDF. Also, fewer Arab men than Jewish men went onto higher education. After the 1970s, this rate began to drop. It began to rise again at beginning of the millennium, reaching 77 percent in 2022, but is still lower than among Jewish men. The drop in the labor force participation rate was greater among Arab men aged over 50 due to early retirement, reflecting the high number of manual laborers in this demographic.

Despite the growing number of Arab women in employment, as of 2022, the labor force participation rate among this group was about 42 percent, far lower than among Jewish women (82 percent). The increased number of Arab women into the labor market has been accompanied by a drop in the average number of children per family in the Arab sector. The percentage of married Arab women with three or more live births fell from 40 percent in 2002 to less than 30 percent in 2020. This reduction in birth rate has prompted an increase in the labor force participation rate among Arab women, which in turn reduced their fertility rates. The rise in younger Arab women in the labor market is a result of increased numbers of this demographic attaining a mainstream education, and a rise in women’s empowerment within this community. The government target for 2020 for Arab women in employment was 41 percent, which was achieved. Arab women still lag behind their Jewish counterparts in terms of salaries and rewarding employment opportunities.

**Employment sectors**

A fundamental goal of all governments is to achieve full employment, thereby providing a source of income and a reasonable standard of living for its citizens. Over the years, Israel has seen major changes in the sectoral structure of employment. Until the 1980s, around 50 percent of the Israeli workforce worked in productive branches of industry—manufacturing, agriculture, and construction. Indeed, Israel boasted that it had sparked a revolution that had changed the status of the Jewish Diaspora and made the Jewish people productive. From the 1980s, there was a continuous fall in the proportion of industrial, construction, and agricultural laborers in Israel’s workforce, and by 2022, these sectors comprised just 20 percent of the total labor market. In the second half of the 1950s, about 18 percent of Israel’s total workforce was employed in agriculture. By 2022, this had dropped to just a single percent. The proportion of the workforce employed in manufacturing and construction was 35 percent in the 1960s, but just 19 percent in 2022. In the 2000s, employment in service industries increased as Israel transitioned into a postindustrial economy. By 2022, only 17 percent of the workforce was employed in manufacturing.

Changing the structure of the so-called “inverted pyramid” of Jewish society had been a central tenet of early labor Zionism, whose vision was for Diaspora Jews to abandon the commerce and service industries for “productive” work in a Zionist state. However, this change was short-lived. Over time, Jews in Israel returned to their traditional and historic sources of employment in service professions, as Israel transitioned into a “normal” and open economy. The high-tech, finance, and service sectors became a modern expression of creativity and entrepreneurship that served the needs of the state. International openness and globalization have transformed Israel into a postindustrial economy where employment is concentrated in high tech and services. The proportion of high-tech workers in Israel’s workforce in 2022 was 11 percent, the highest in the world, and their contribution in terms of GDP, productivity, and salaries is higher than in most other employment sectors.

In 2022, about 80 percent of Israel’s workforce were employed in service jobs, compared to an OECD average of 73 percent. Most of Israel’s service workers are at the bottom of the salary, education, and productivity ladders. Clearly, Israel’s employment sectors have become polarized, as the country developed a “dual economy” split between competitive high-tech jobs with a high GDP per worker and high productivity, and services and traditional industries, whose workers have a low level of education and productivity, and which are protected from imports and non-competitive.

**Employment and education**

In the 1960s, after Israel had absorbed the mass influx of immigrants that arrived post-1948, the importance of education and skills to economic growth began to rise. Israel’s rapid transition from a country with a low per capita GDP to a modern state with membership in the “club of developed nations” was to a great extent the result of educating its workforce. **Human capital relies on the education and higher education system, professional training and retraining, and reflects a desire to secure equal opportunities in the labor market.**

In the 1990s, Israel’s high-tech sector was bolstered by an educated and skilled workforce—a result of the increase in homegrown university graduates and the influx of highly-educated Soviet immigrants. In Israel’s first decades of statehood, its higher education institutions were unable to supply all the **educated human resources** the developing nation required, and immigrants were therefore a much-needed and important source of human capital.Since the 2000s, however, the Israeli academy has become the main source of educated human resources for the economy and society. In 2022, about half of Israel’s working-age population had a post-secondary or higher education. The average income of Israelis with a post-secondary or higher education is 60 percent higher than those with no further or higher education, and labor force participation rates among the more educated group are also higher.

The increasing weight of Arab and ultra-Orthodox citizens in Israel’s population requires special treatment to improve their education and boost their occupational diversity. This helps cultivate a wide range of opinions and cultures, which fosters increased creativity, innovation, productivity, and profitability. Improving the education and skills of Israel’s ultra-Orthodox and Arab populations to levels comparable with mainstream Israeli society is essential if the country’s labor market is to continue to flourish. There is a growing need for digital literacy to be taught as a necessary skill for disadvantaged and less affluent populations, in particular the ultra-Orthodox and Arab populations, in order to boost their labor force participation and incomes. Meanwhile, a considerable proportion of Israeli schoolchildren are failing to acquire the digital skills they need to successfully integrate into the labor market. Israel needs to makes changes in its education system and emphasize the teaching of critical thinking, problem solving, self-study, and teamwork skills.

**Productivity and professional training**

The productivity gap between Israel and the developed world has remained almost static for about 40 years. A precondition for improving Israel’s productivity rates is the integration of its disadvantaged and less affluent population groups into the labor market. To do this, Israel must improve and strengthen the human capital of its ultra-Orthodox and Arab communities, and that of its geographic and social peripheries, not least because these demographics are expected to grow significantly. Education from a young age is needed in the country, along with continuous professional development and retraining for those in the workforce. The latter is required to ensure that workers can obtain and maintain up-to-date skills, in particular in view of rapid changes in technology.

Over the last few decades, Israel has failed to create a high-quality professional training system, despite technology’s emerging dominance in the workplace. Developing employees’ skills throughout their working lives is a necessary condition for achieving high productivity and work outputs. Europe actively invests in its workers via professional training schemes that allow employees to continue working without their incomes being affected. According to the OECD, the disparity between the investments that Israel and Europe make in their respective workforces explains the skill disparities between adults in Israel and those in other OECD countries. In the 2000s, Israel spent an annual average of just 0.16 percent of its GDP on an active labor market policy (ALMP) compared with the OECD average of 1 percent. Vocational training and retraining are of particular importance for Arab citizens of Israel, ultra-Orthodox Jews, Ethiopian Jews, and older adults who are facing redundancy due to industry and technological changes.

In a comprehensive survey[[1]](#footnote-1) of adults aged 16–65, the OECD found that Israelis scored poorly in terms of the basic skills needed to participate successfully in the economy and society. This is a worrying indication of the poor state of Israel’s education and professional training systems. Improving workforce skills requires effective use of technology and big data in partnerships between government, academia, employers, and recruitment agencies. The standard system in place around the world is that governments are responsible for providing education services from kindergarten through elementary, middle, and high school, and later in further education institutions (or in some cases, the military). Once people graduate from this system and enter the labor market, it is the employers’ responsibility to ensure continued training and education. Israel today is in need of a new partnership between the government and employers to maintain and develop workers’ skills.

The so-called “Wisconsin Plan” (so referred to in a nod to President Bill Clinton’s welfare-to-work plan in the United States, and officially known as Me-haLev, “From the Heart”) proposed by the Israeli government in 2005, was intended to help Israeli welfare recipients return to the labor market rather than live on state benefits, by providing them with appropriate tools, work habits, and basic professional training. Operated by private contractors, the program was eventually canceled after coming under strong criticism for taking a step too far in Israel’s privatization drive. However, its failure resulted in the launch of a flexible government program in 2014, dubbed Employment Circles and run by the Israeli Employment Service for people on unemployment benefits. The Employment Circles program taught unemployed Israelis basic skills, including computer and resume-writing skills, with the aim of helping them return to work and preventing a culture of welfare dependency and unemployment in the next generation.

The 21st century labor market is changing swiftly, as the rapid development of new technologies is rendering certain professions obsolete. This is a worldwide phenomenon, and Israel is not immune to its effects. While the emergence of new technologies has caused job obsolescence in the past, they have also created new opportunities, albeit in a painful process of change that not all workers have emerged from successfully. The advent of robotics and the artificial intelligence (AI) revolution are expected to wipe out certain jobs and create fewer new opportunities, which will transform the world of work and create a new challenge for humanity. Studies indicate demand for workers in professions that robotics and AI cannot replace, and there will be a continual need for relevant skills training that will enable workers to stay in their jobs.

The coronavirus pandemic hit Israel’s job market and businesses hard. At the height of the first lockdown in Israel in 2020, unemployment soared to 27 percent. However, the end of the lockdowns showed that the labor market was flexible. Employment had inevitably shrunk, but it bounced back quickly after pandemic restrictions were lifted. Unemployment fell to four percent in 2022, similar to pre-pandemic levels. The main damage was to disadvantaged, low-skilled communities in the geographic and social peripheries and to young people, ultra-Orthodox Jews, Arabs, small independent businesses, and freelancers, that latter who need professional training. Some of these hard-hit individuals now work in the gig economy, which is based on part-time and temporary work from contractors, without direct employment relationships or long-term commitment on either side, and which offers zero-hour contracts with no pension provisions, vacation days, social rights, or safety net. This represents negative employment flexibility without social rights that may increase the burden on society.

**Implications**

According to demographic trends[[2]](#footnote-2) for Israel’s three main population groups (non-ultra-Orthodox Jews, ultra-Orthodox Jews, and Arabs), the proportion of Arabs and ultra-Orthodox Jews will reach about 50 percent of the total population by 2060 (compared with around 33 percent in 2022). If these two groups (but mainly ultra-Orthodox Jews) continue to avoid acquiring a mainstream education that can prepare them for the world of work, Israel will see a drop in its overall employment rates, and the percentage of educational minorities (groups with educational goals distinct from those of the majority), and those who do not possess relevant skills for work will increase. This trend, combined with the overall aging of Israel’s population, will result in a drop in labor market participation. In light of the fact that most of Israel’s taxation revenue is generated from those with average and above average salaries (the three highest deciles), the government will need to considerably increase the tax burden on these workers to finance public spending, including for welfare payments to those who avoid participating in the labor market. The economic burden on Israel’s middle classes, the main contributors to the country’s GDP, will increase until it is socially unbearable.

In setting taxation rates and generating revenue from their citizens, governments are not acting in a vacuum. A global society will not tolerate large income tax disparities among free countries. Thus, if Israel increases the taxation burden on its educated and successful citizens in order to finance those who avoid work and/or who refuse to obtain a mainstream education that prepares them for work, young Israelis with in-demand skills and high earning capacities will emigrate to countries with lower taxation rates. The resulting erosion of human capital will harm economic growth (unless social pressures are able to affect change before the danger fully materializes), and Israel can expect to see a retreat from its achievements of the past decades. To prevent this development, the government must cease budgetary support for educational institutions that do not provide a mainstream education or relevant job skills. Such institutions prevent their students from integrating into society, and are reducing their chances of accessing postsecondary education.

In terms of Arab citizens of Israel, efforts will be required to increase their absorption into the labor force. This can be done by strengthening and expanding the nascent Arab middle class through improving the education system for this population, and by reducing the number of migrant workers in Israel. Maximizing the economic capabilities of Israel’s Arab population will greatly contribute to improving their sense of belonging to the country, and to the growth of its economy.

**Non-Israeli workers**

Israel’s labor market was officially opened to Palestinian workers in September 1970, a move that included arrangements for social rights. In a short period of time, there was a big shift in the Palestinian employment structure. A significant part of the Palestinian Authority’s national income began to be derived from work in Israel, where salaries were comparatively high compared with the Palestinian Authority. In the early 1970s, unemployment in Israel was less than three percent. Israel’s move to provide work permits to Palestinians stemmed from a demand for laborers and a sense of responsibility and concern for neighbors under Israeli control.

Prior to the Oslo Accords in 1993, including during the First Intifada that began on December 8, 1987 and lasted until September 13, 1993, the movement of Palestinian workers in Israel was almost unrestricted. The number of Palestinians with work permits who were involved in acts of terrorism was negligible, and the flow of Palestinian workers seemed natural and comfortable. Most returned to their homes in the Occupied Territories at night, although a minority remained illegally in Israel. At its peak, about a third of the Palestinian workforce was employed in Israel. Wage receipts accounted for 35–40 percent of the Palestinian Authority’s GDP. Until the terrorist acts of the 1990s, the Palestinians were considered a reliable workforce, whose availability and hard work could be trusted. When the terrorist incidents began, Palestinians began to be seen as untrustworthy and unreliable, because of closures that prevented them from traveling to jobs in Israel, and security considerations came to dominate decisions about employment them.

Meanwhile, the need for labor for construction projects, in particular amid the influx of Soviet immigrants, and the labor demands of Israel’s agriculture industry, pushed employers to pressure the government to grant permits for migrant workers. Prior to 1994, some 20,000 migrant workers were employed in Israel without a valid permit. After that date, the government allowed employers to legally employ tens of thousands of migrant workers, a policy that was considered wholly inadequate and which resulted in serious difficulties and problems that grew worse as time went on. The employment of migrant laborers was a new phenomenon in Israel. The ensuing widespread employment of migrant laborers, at the expense of Palestinian workers, also damaged the employment opportunities and wages of Israelis, mostly those with a high school education or below. In response, the government hiked unemployment and income support benefits. Now able to hire cheap migrant labor, Israeli employers had less of an incentive to invest in technology, especially in Israel’s construction industry, where productivity was already low.

Following a relative period of calm, in 1998–2000, around 130,000 Palestinians worked in Israel, both with and without permits, as well as a similar number of migrant workers, half of whom were legal. On the eve of the Second Intifada in 2000, the number of Palestinian and migrant workers in Israel reached over a quarter of a million, or about 13 percent of the workforce, a higher rate than in European countries. The Second Intifada (2000–2004) saw a reduction in the number of Palestinian workers in Israel and an increase in the number of migrant workers. In 2005, around 25,000 Palestinians worked in Israel. In that same year, the Israeli government, under Prime Minister Ariel Sharon, decided that the employment of Palestinians would be completely terminated by 2009. This move formed part of Israel’s disengagement from Gaza, its policy of unilateral separation from the Palestinians, and the construction of the West Bank separation barrier, which reflected a “we are here and they are there” mentality.

In 2019–2022, the number of Palestinians from the West Bank working in Israel was around 12 percent of the Palestinian workforce, and their share in the Palestinian GDP was around 20 percent. The Palestinians see the ability to work in Israel as a central component of their economy. Thus, in every negotiation with Israel, they strenuously demanded that the labor market be completely open to them, regardless of any future trade agreement. The 1994 Protocol on Economic Relations (the so-called Paris Protocol)[[3]](#footnote-3) between Israel and the Palestinian Liberation Organization, allowed for the “normal movement” of Palestinian workers and the right of Israel to limit their number for security or labor market reasons.

The fluctuations in the number of Palestinian workers in the 2000s demonstrated the need for a comprehensive policy toward them. In 2011, the Eckstein Committee[[4]](#footnote-4) recommended gradually reducing the number of Palestinians working in Israel and weakening the link between the two economies. The wage gap of at least 100 percent between the two economies had created a fundamental ambivalence within the Palestinian labor market. Even under conditions of political conflict and security tensions, the laws of economics continue operating. With the Israeli market offering greater rewards than the Palestinian market, skilled Palestinian workers prefer work in Israel over work in the Palestinian Authority, which, as a result, loses quality human resources to Israel.

In the medium- and long-term, it is essential to develop the Palestinian economy and create jobs through entrepreneurship and public and private investments. Most international aid to the Palestinians has been used to fund the public sector, rather than economic development. This situation has posed a political and economic dilemma for Israel. High employment and economic prosperity in the West Bank, which are basic preconditions for economic and political stability, rely on economic development. Hence, the number of Palestinian workers in Israels needs to be limited in order to create jobs in the West Bank.

The employment of Palestinian and migrant workers has created distortions in the Israeli labor market and given rise to a number of social problems. Palestinian and migrant laborers work for minimum wage and sometimes less. Their cheap labor has pushed unskilled Israeli workers out of the workforce and turned them into welfare recipients without the ability to return to the labor market. Among these welfare recipients are Arab citizens of Israel who can no longer find work in the construction industry. It is in Israel’s interest to reduce the number of migrant and Palestinian workers in the labor market, and, at the same time, to encourage Israeli citizens to seek work by raising low wages. Israel’s minimum wage, high by Palestinian standards, has created an incentive for Palestinians to come to Israel for work. At the same time, it has encouraged migrant workers to migrate and remain in Israel, even illegally. Palestinian and migrant workers have harmed Israel’s productivity. Without their cheap labor, employers would have had to invest capital in labor-saving technological improvements to compensate for the shortage of labor. An “addiction” to cheap labor and technological backwardness has created a situation where employers hire the same type of workers who are content with low wages, while traditional technology is never upgraded, and productivity remains low.

Economic migration to Israel is not just an economic issue, but also a demographic and social one, demanding that the government formulate an effective immigration policy. One major question concerns the fate of the children of migrant workers without a legal work permit. There is a large community of migrant workers in Israel, which at its peak included around 100,000 individuals without a valid work permit who had overstayed in Israel and risked deportation. This group was boosted by tens of thousands of undocumented immigrants from Africa (mostly from Eritrea, Sudan, Ethiopia, Ivory Coast, and Nigeria), and individuals who entered Israel on tourist visas, then overstayed and sought political asylum and work in Israel. The Israeli government finally realized the extent of the problem, and established an immigration police and an information campaign that reduced the number of migrant workers from about 300,000 in 2010 to less than 200,000 in 2022. These include around 150,000 legal and 20,000 migrant workers without a valid work permit, 30,000 economic migrants, and about 30,000 tourists working without a valid permit in Israel, in addition to some 160,000 Palestinian workers, including those with a work permit and those without. In total, in 2022, there were about 350,000 non-Israelis working in Israel—about 7.5 percent of the total workforce, a very high figure compared to other countries. Currently, the demand for migrant workers is mainly in private nursing and personal care services for the elderly, a result of the aging of Israel’s population. Businesses that make a profit from brokerage fees from employers seeking cheap labor will continue to import Palestinian and migrant workers.

From an economic perspective, Palestinian and migrant labor has benefitted Israel’s middle classes and those with high incomes by stemming increases in production costs in agriculture and construction. However, the use of cheap migrant labor has harmed low-skilled, low-paid Israeli manual laborers, who have been pushed into unemployment and poverty. These workers had previously lost manufacturing jobs as a result of globalization, when the industries employing them were exposed to competing imports from countries whose relative advantage is cheap labor. It was natural for these workers to then switch to jobs in industries whose outputs are not exposed to international competition, either because their products cannot be transported from one country to another (such as the construction industry or personal services), or because of a high level of protection against imports (such as agriculture). A combination of lobbying by employers seeking cheap labor and ineffective government enforcement of work permits has robbed the lowest paid Israeli workers of a significant number of the jobs that had been available to them. The resulting rise in social inequalities and income disparities has forced the government to bear the burden of increased unemployment and income support benefits. In the 1970s and 1980s, employing Palestinians on low wages benefited the Israeli economy and was estimated at a quarter of a percent of Israel’s GDP. Since the Oslo Accords, this benefit has disappeared, while indirect costs have risen as a result of pushing low-waged Israeli workers to the margins of the labor market. These added costs are on top of Israel’s defense spending burden, which has also increased.

1. The survey included 200,000 people in 32 countries as part of the OECD’s Program for the International Assessment of Adult Competencies (PIAAC). [↑](#footnote-ref-1)
2. Central Bureau of Statistics, Population Forecast for Israel, February 2019. [↑](#footnote-ref-2)
3. The economic agreement between Israel and the Palestinians following the Oslo Accords. [↑](#footnote-ref-3)
4. Report of the Committee for the Supervision and Enforcement of the Employment of Palestinian Workers in Israel, May 2011 (Eckstein Committee). [↑](#footnote-ref-4)