

The Labor Market of Israeli Arabs Key Features and Policy Solutions

Executive Summary



December
2013

Eran Yashiv
Tel Aviv University

Nitsa Kasir (Kaliner)
Bank of Israel

Executive Summary¹

This aim of this policy paper is to characterize the main problems affecting the labor market of Israeli Arabs and to propose policy solutions. Our characterization of the problems is based on data from the Central Bureau of Statistics, and on a review of papers and studies devoted to the topic. The proposed policy solutions, which aim to address the problems described, are drawn from an existing body of knowledge – Israeli and global – on the relevant issues. They include a budget breakdown and simulations of future scenarios, including the anticipated return on the policy measures.

The key problems of the Israeli Arabs labor market are as follows. For men – a high degree of concentration in industries and occupations located at the bottom of the skill distribution. This fact has several consequences: early retirement due to the physical nature of work in the occupations in question, retirement that is premature even compared with Palestinian labor force participation patterns and with those of men in Muslim and Arab countries; below-average productivity and wages; underemployment in more highly-skilled occupations, even among those with appropriate skills; disincentives to study and acquire skills for the younger generation; Israeli Arabs rank among the country's poorest population sectors; and entrapment in a "poverty cycle."

For women – the headline issue is that of low rates of labor force participation. This fact has the following implications: women do not play a meaningful role in the economy's productive side; women do not (to a significant degree) help their

¹ The views expressed in this paper do not necessarily reflect those of the Bank of Israel. Details and media coverage are updated at <http://www.tau.ac.il/~yashiv/Policy%20Plan%20for%20Israeli%20Arabs.htm>. Contact details for the authors are provided on the last page below.

families escape the poverty cycle; and there is insufficient incentive for young women to pursue education and acquire skills – including social skills – necessary for labor market participation.

These problems are the result of many factors, including relatively low education levels, limited geographical distribution, inadequate resource allocation on the part of the public sector, and cultural differences.

The problems are exacerbated by two phenomena:

- a. Employment and wage discrimination, with many Arabs facing barriers to suitable employment.
- b. A high cost of getting to work, due to a lack of transportation or the absence of support services (e.g., child care facilities). These problems are related to Israeli Arabs' geographical dispersion and poor transportation infrastructure.

These problems create a vicious cycle: when the population is poor and its labor market participation is only partial (women) and subject to barriers (men), it is difficult to invest in basic and higher education and to develop jobs; this in turn leads to continued poor performance in the labor market. The physical and cultural distance from Jewish employment and residential hubs intensifies feelings of alienation and poses an obstacle to efforts that may reduce discrimination. When these problems compound each other over the course of time, the incentive and willingness to change the situation are negatively affected.

There are many, diverse policy solutions. Given the multiplicity of problems and their depth, these solutions entail significant fiscal costs. Table 11 of this paper offers a budget breakdown of the proposals. Expenditures run into the hundreds of millions or even billions of NIS for certain items. These budget numbers reflect the recognition that the proposed expenditures are meant to address structural problems of the economy from a long-term perspective, and with the expectation of significant returns in terms of increased employment, GDP and economic welfare. Quantification of the rates of return is presented in Table 14. It should be emphasized that these costs and return projections do not constitute a proposal to increase the government deficit or the national debt. Clearly, should the recommendations be adopted, it would be necessary to define where exactly they fall within the general order of priorities, and whether their funding should come from cutbacks on other expenditures or from additional taxes.

In this paper a wide range of solutions are presented that relate to different time horizons. The solutions span the spheres of education and higher education policy, matching jobseekers and job vacancies, taxation and subsidization, transportation, encouraging population dispersion, encouraging the employment of academic degree-holders and of women, and more. The proposed solutions include policy measures aimed at addressing issues within the Arab sector, and measures to increase integration with the Jewish sector.

Three points should be noted with regard to the proposed government policy:

First, a structural resolution of the problems faced by Israeli Arabs in the labor market would entail major policy changes in numerous spheres, such as those outlined above.

Second, a comprehensive solution would have to distinguish between the various sectors within the Arab population – Bedouin, non-Bedouin Muslim, Druze and Christian – and cater for their specific needs.

Third, fiscal limitations make it necessary for public spending priorities to be clearly defined with regard to encouraging employment. It is not easy to arrive at such a definition given the complexity of the problems and the magnitude of the measures needed to address them.

In addition to the detailed description of an array of policy measures, we provide an analysis of a limited-budget policy framework. We subsequently undertake an analysis of the return to be expected from the proposed policy measures, comparing the cost of these measures with their value in terms of increased GDP. The internal rate of return on the additional budgetary investment in encouraging Arab women's employment, over a horizon of 40 years, ranges from 5.7% to 10.8% per year, conservatively estimated, a most substantial return on the fiscal investment.

Contact details:

Prof. Eran Yashiv

The Eitan Berglas School of Economics
and Chair, The Department of Public Policy

Tel Aviv University

Tel Aviv 69978

Israel

<http://www.tau.ac.il/~yashiv/>

yashiv@post.tau.ac.il

Tel: 972-3-640-9233

Fax: 972-3-640-9908

Ms. Nitsa Kasir

Head, Labor and Welfare Section

Research Division

The Bank of Israel

P.O.B. 780

Jerusalem 91007

Israel

nitsa.kasir@boi.org.il

Tel: 972-2-6552-638