The Committee for Employment Advancement

Towards 2030:

Final Report

Presented to the Minister of Labor, Social Affairs, and Social Services

August 2020

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Letter from the Committee Chair

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MK Itzik Shmuli

Minister of Labor, Social Affairs, and Social Services

It is my honor to present to you the report of The Committee for Employment Advancement Towards 2030, founded according to the charter bestowed upon its members on August 8, 2017 (see page 3). The committee's core mission was to formulate applicable recommendations for the government in general, and the ministry in particular, towards a policy targeted at individuals with secondary education, which would achieve measurable goals of increased employment and enhanced human capital in the Israeli workforce by 2030.

The committee held a series of meetings, both plenary and in smaller work teams, and its interim recommendations were presented at a round table discussion on March 28, 2018. Since that date, the drafting of the final report has been prolonged and delayed due to various reasons, stemming in part from disagreements among committee members.

The committee recommends setting goals in terms of employment rates as well as, for the first time, in terms of employment quality as measured by wages earned. Additionally, the committee proposes means to achieve these goals, which consist primarily of information and guidance schemes, training programs for skill enhancement, employment programs, and tools for addressing projected changes in the labor market. Our recommendations focus on population groups and issues where market failures are widely acknowledged, and it is generally agreed that government intervention is necessary to create a conducive environment for achieving the goals of increasing employment rates and enhancing the human capital of workers.

I wish to thank the members of the committee, as well as the various work teams, for their significant contribution to the formulation of our recommendations, and the professional teams for their rigorous efforts and for investing their utmost knowledge and proficiency to support the committee's activity and the publication of this report. I would like to especially commend the contribution and the exceptional dedication of the team leaders, current director of the ministry's Labor Division Mr. Moti Elisha and his predecessor, Ms. Michal Tzuk, and the professional staff at the Labor Division and the Budget Department. Also, special

mention to the contribution of all committee members and their aides, including the staff of the Accountant General Department at the Ministry of Finance, The National Economic Council, Bank of Israel, and senior figures in the private sector. I would like to thank the researchers at the Aaron Institute for Economic Policy who worked closely with all the various teams and played a valuable role in writing the final report.

Best regards,

Prof. Zvi Eckstein

Committee Chair

Summary and Key Recommendations

The Committee for Employment Advancement Towards 2030 (AKA Employment 2030 Committee) was founded in August 2017 by the Minister of Labor, Social Affairs and Social Services, MK Haim Katz, pursuant to Government Resolution no. 2594 of April 6, 2017 (see charter in page 3). The charter determines that the committee, headed by Prof. Zvi Eckstein, shall address "advancing employment and addressing the expected challenges of the next decade, both in regard to integration of diverse population groups into employment, and in terms of realizing the potential human capital of the existing workforce." The role of the committee is to draw policy recommendations and applicable proposals aiming to increase employment volumes among population groups who are currently underrepresented in the labor market, and encourage advancement of these groups; to enhance workers' skills and proficiency levels in order to better meet economic needs; and to strengthen government preparedness for the future labor market. To fulfill this role, the committee was composed of senior representatives from all sectors of the economy, including representatives of the various government offices concerned, employers' representatives, members of labor unions, and representatives from non-governmental organizations who specialize in this area.¹

From the outset, the committee defined its vision as follows: to nurture growth while reducing poverty through increasing employment; to optimize and enhance the human capital of workers in order to raise labor productivity, support stable economic growth, and optimally address the demographic shifts and the frequent changes in the labor market.

This vision engenders our objective: to provide practical recommendations which would serve the government, and particularly The Ministry of Labor, Social Affairs, and Social Services, to inform policies which aim to attain measurable targets indicating increased employment and enhanced human capital among Israeli workers by 2030. In regard to human capital, the committee focused on vocational and technological training for adults, although there is no denying the importance of under-18 education, in particular the vocational and technological education in this age bracket.

The work of the committee was conducted in plenary meetings chaired by Prof. Zvi Eckstein, as well as in four separate teams: Employment Targets, Productivity, and Structural Changes

¹ See list of committee members in page 4. Additional observers included Dr. Shelly Nordheim, Ministry of Labor, Social Affairs, and Social Services; Mr. Yoel Finkel, Israel Central Bureau of Statistics; Mr. Mark Feldman, Israel Central Bureau of Statistics; Dr. Sigal Shelach, JDC-TEVET; Mr. Aiman Saif, Authority for the Economic Development of Minorities in the Ministry for Social Equality; Ms. Naomi Blank, Association of Engineers, Architects, and Graduates in Technological Sciences in Israel.

Team, led by Prof. Zvi Eckstein; Human Capital and Training Infrastructures Team, led by Ms. Dita Bronicki; Preparedness for Changing Labor Market Team, led by Ms. Dalia Narkis and Mr. Haim Russo; and Employment Programs for Target Populations Team, led by Prof. Avi Simhon and Prof. Yossi Tamir.² This chapter summarizes the committee's key recommendations, on which there was broad agreement among its members and within the teams.

The measures detailed in this report reflect the recommendations drawn by the committee. Given the costs required to carry out these recommendations, their implementation (in part or in full) would be done according to the government's priorities, ergo according to the budget which the government decides to allocate or divert towards the various recommendations. Due to the importance and complexity of this matter, and in order to meet the long-term targets laid out for the next decade as per this report, it is imperative that the government starts implementing these recommendations in the immediate future.

http://www.molsa.gov.il/Employment/EmploymentCommittee.

² For a list of participants in the committee's meetings and teams, see Appendix 6. For details on the working procedures of the committee, summaries of plenary meetings with materials presented, and interim recommendations presented in the round table discussion, see:

The committee also issued a call for views, seeking input from the general public, and the materials received were discussed in the relevant teams and are summarily described in Appendix 7.

BACKGROUND

In July 2010, Government Resolution no. 1994 was ratified and set employment targets for the year 2020, based on the recommendations of the Committee for Examination of Employment Policy in Israel. Specific targets were set for employment rates in the 25-64 age bracket among ultra-Orthodox men and ultra-Orthodox women, Arab men and Arab women, as well as the overall employment rate. Accordingly, the policy enacted by the government in general, and the Ministry of Labor in particular, has focused over the last decade on the integration of individuals into the workforce. Examination of actual employment rates in the run up to the target year (2020) shows that as soon as 2018, employment rate targets have been already achieved or nearly achieved for the overall population, for Arab men and ultra-Orthodox women, and also for Arab women thanks to a significant leap in their employment volume during the preceding two years. However, the employment rate of ultra-Orthodox men is lagging markedly behind the prescribed targets, and over the last few years it has even been declining.

The Israeli labor market has been characterized by a dramatic increase in employment and participation rates since 2003. Employment among the 25-64 age group is currently at an all-time high of around 78%, and unemployment rate has reached a historic low of around 3.5%. This growth in employment covers all sectors, education levels and age brackets, but the rate of growth has been higher among groups with lower earning potential. Economic research shows that one of the main factors in increasing employment is a government policy which bolsters incentives for work across the entire workforce while providing hands-on employment programs targeted mainly at low-income workers. That increase in employment was accompanied by a sweeping rise in the income from work as well as the disposable income of all households, particularly those below the median, while poverty rates have also decreased over the last few years.³

Three population groups still exhibit low employment levels: ultra-Orthodox men, Arab women, and people with disabilities. Therefore, the committee recommends setting ambitious employment rate targets for these groups, along with tools and programs to support their integration and advancement in employment. Furthermore, Israel has low labor productivity (GDP per hour worked), and raising it is a serious challenge facing the Israeli economy. The main sources for improving productivity are human capital, private capital, and infrastructures, and the committee's recommendations highlight enhancing

³ References and further details are available in the various chapters of this report.

human capital, specifically for those below the median, through acquisition of skills and work experience.⁴ The committee's recommendations regarding government involvement focus on various features of the labor market whereupon it is widely agreed that market failures exist, and generally acknowledged that government involvement would uphold the vision of the committee.

RECOMMENDATIONS

The committee's recommendations are twofold: recommended employment targets according to population groups, which refer to employment rate and also to employment quality as indicated by wages; and recommended means to achieve these targets, which consist of information and guidance schemes, training programs for skill enhancement, and employment programs. Our recommendations focus on population groups and issues whereupon it is widely agreed that market failures exist, and that government involvement is necessary to create a conducive environment for achieving these targets. The main emphasis of the committee was on schemes and mechanisms which affect individuals.

⁴ This group refers to individuals whose skill level is below the median, and includes workers earning below the median income as well as unemployed individuals whose earning potential is below the median, particularly those who are not pursuing academic education.

EMPLOYMENT TARGETS

Adoption of measurable targets by the government has proven to be an effective tool. The targets proposed by the committee were chosen according to several criteria: macroeconomic impact; simplicity and availability of data; applicability within the core operations of the Labor Division; and wide agreement.

	2018	2020 Target	2030 Target, ages 25-66
Ultra-Orthodox Men*	50.2	63.0	65/70
Arab Women	38.2	41.0	53
People with Disabilities (over 20%)	41.9	-	51
Ultra-Orthodox Women*	76.1	63.0	81
Arab Men	76.3	78.0	83
Non-Ultra-Orthodox Jews (men and	85.0	83.0	86
women)			

Employment Rate Targets

* Many ultra-Orthodox men and women are employed part time at low capacities.

2018 data and 2020 target relate to 25-64 age group; 2030 target relates to 25-66 age group. Ultra-Orthodox as defined by the National Economic Council. People with disabilities as defined by the National Insurance Institute. Latest data regarding people with disabilities dates from 2016.

The emphasis is on ambitious targets for increasing employment among groups which still exhibit low employment levels – ultra-Orthodox men, Arab women, and people with disabilities. For ultra-Orthodox men, such a target constitutes a return to an upward trend of employment increase with a significant acceleration in the pace of increase, and achieving it depends largely on removal of the legal barriers and economic disincentives which limit the integration of young ultra-Orthodox men into the workforce, and particularly barrier removal which would facilitate the full integration into employment of ultra-Orthodox men aged 22 and over. For Arab women, achieving the target is predicated on the assumption that the rapid growth in education levels among Arab women will continue and even intensify, and simultaneously the barriers to the integration of Arab women in employment would be addressed, with an emphasis on substantial investment in improving their employability skills and Hebrew language proficiency. The target for people with disabilities is a recent addition, and reflects the great importance which the committee attaches to the integration of this group into the workforce, and the considerable potential to accomplish it.

Achieving these employment rate targets in their entirety is expected to bring the overall employment rate of the 25-66 cohort up to 80.4% by 2030 – the fifth place among OECD countries as of today.

Employment Quality Targets

	2030 Target, ages 25-39	
Ultra-Orthodox Women	3.3% annual increase in nominal monthly wage	
	Higher than the expected increase for non-ultra-Orthodox	
	Jewish women	
Arab Men	3% annual increase in nominal monthly wage	
	Higher than the expected increase for non-ultra-Orthodox	
	Jewish men	
Women	2.6% annual increase in nominal monthly wage	
Ultra-Orthodox Men	Similar rate of increase to non-ultra-Orthodox Jewish men	
Arab Women	Similar rate of increase to non-ultra-Orthodox Jewish women	

Ultra-Orthodox as defined by the National Insurance Institute.

Average rate of annual increase in the nominal monthly wage (in current prices).

The committee recommends the introduction of quality targets for employment, emphasizing ambitious targets for increasing the wages of groups with high employment levels, who nevertheless earn lower income and lack skills which are required for the labor market – namely, ultra-Orthodox women and Arab men. For ultra-Orthodox women, achieving this target should involve an emphasis on expanding their scope of employment through adjustment of incentives and opportunities. For Arab men, the focus should be on enhancing human capital, such as Hebrew language proficiency, and it is worth mentioning that increasing the quality of employment is likely to also have an indirect impact on employment rates, for instance by reducing the likelihood of early retirement from the workforce. In addition, the committee recommends setting employment quality targets for women in general, aiming to fulfill their employment potential with an emphasis on their participation in high productivity jobs.

Quality targets were set in terms of nominal monthly wages, in order to serve as an operative tool. These targets will be reviewed every three years and adjusted as necessary, with an allowance for inflation when applicable.

An additional target set by the committee for 2030 is **reducing the rate of workers in the 25-66 age group who earn less than minimum hourly wage down to 5% of employees**, from the current rate of 10%. This target reflects reduction by half of this phenomenon, which is particularly widespread among Arab and ultra-Orthodox workers.

Full realization of the aforementioned targets of employment volume and quality is expected to bring about reduction in poverty rates.

Employment Rate Targets for the 67-74 Age Group

The 2030 target set by the committee for increasing employment rate among the 67-74 age group is 43.5% for men and 28.5% for women. This target reflects an increase of around 10 percentage points, and achieving it requires enactment of policies which facilitate and support employment after retirement age, specifically by removing barriers and disincentives to work among this group.⁵

REFORM IN VOCATIONAL AND TECHNOLOGICAL TRAINING

The vision of the committee in this context is to improve the system so that it provides quality vocational and technological training for adults, as a primary mechanism for improving employees' productivity and income, particularly those below the median.⁶ This vision draws on international evidence that the return on a year of <u>high-quality</u> non-academic adult training is not lower than that of a year of academic education, considering learners' skill levels.

The committee supports the implementation of Government Resolution no. 3419 which calls for a reform in the technological education system. This reform is in accordance with the committee's recommendations, and includes: updating study programs in collaboration with employers, to make them more concise and focused; restructuring of the Technician accreditation course so that it fits into one academic year; setting a threshold for the size of technological colleges; and increasing funding. Any administrative attempt to obstruct the implementation of this reform in the technological education system would be contrary to the

⁵ As explained in Chapter 2, this target is not cardinal to the operations of the Labor Division.

⁶ See note 4 above for definition of "below he median".

recommendations of this report. The committee considers the vision of improving vocational trainings as an extension of this resolution.

The main target audiences of the proposed reform are unemployed and job seekers from target groups which are yet to enter the labor market, young adults entering the labor market who do not seek academic education, and workers facing danger of losing their jobs because their professions may become obsolete. Improving and strengthening the system according to the precepts of the reform, while reaching out to these target groups, are expected to lead to a substantial increase both in the quality and the quantity of training, and thus help achieving the targets of employment rate and quality outlined above.

The proposed reform in vocational training would be based on the following principles:

- Holistic view of vocational training as the starting point for a career path with no
 glass ceiling. The system should enable, among other things, continuity to further
 studies for Technician and Practical Engineer accreditation in relevant fields, as well
 as academic studies.
- Every training course will meet a quality criterion. The quality criterion for a course exceeding 400 hours would be at least 6% return,⁷ in terms of wages, vis-á-vis the expected salary for graduates had they not undergone the training. The quality criterion for shorter training courses would be a minimum return of 4%.
- Strengthening and expanding studies in all fields which have economic demand, while curtailing or even terminating the funding for courses which do not enhance the return for individuals. Specific fields to be strengthened are those with high economic demand and rising wages, including fields which are currently not covered by the system.
- Updating study programs according to economic demand and in collaboration with employers, to ensure all study programs are updated regularly.
- Incorporating practical work experience (internships) into training courses, as much as possible.
- Including studies of general human capital and soft skills which are necessary for work, to ensure the trainees' long-term success in the labor market and enable them to develop and update their skills along their career paths. Skills that should be taught include Hebrew and English languages, math, digital literacy, etc.

⁷ Training courses exceeding 1,000 hours would require a higher return accordingly. For additional details on the measurement of this criterion, see chapter 3.

 Accreditation continuity and the sequencing of courses in succession in every field where it is feasible, to allow every student entering the system an overview of their prospective professional development trajectory.

The committee recommends that along with the implementation of the proposed reform, and provided that the relevant subsidized training courses meet the return criterion, the numbers of participants in these training courses should be expanded vis-á-vis their numbers today. Thus, the committee recommends that the adoption of this report will be accompanied by the establishment of a professional team, led by the Labor Division and the Ministry of Finance, which would examine and determine a scheme for expanding the volume of training courses which meet the return criterion, in a manner that would serve the goals of the reform and the achievement of employment targets, subject to the State Budget Law.

To realize these principles, the system should be structured accordingly:

- Supervising (rather than governing) system based on qualitative criteria. Training
 providers should be allowed some flexibility in order to ensure rapid adaptation of
 course materials to the needs of the economy, along with greater independence in
 the design of study programs, as long as graduates pass an external exam at the end
 of their training.
- Advantages of scale continuity of learning and an incentive to cooperate with technological and academic colleges.
- Improving the system's image through affiliation with colleges, among other measures.
- **Competition among training providers** to ensure high quality of tuition and placement, as well as relevance to the employment market.
- Career guidance for trainees according to their skills and market requirements.
- Funding which is based on costs and contingent on return, accreditation, and integration in employment.
- From a professional perspective, and to support cohesive pedagogy and continuity of accreditation while ensuring high-quality service for trainees and employers alike, optimal enactment of the reform requires merging the operations of the Vocational Training Department with the Technological Training System in regard to study programs design, funds allocation, and supervision.

It should be noted that the committee did not engage with the topic of education and training for youth, despite the considerable importance of primary and secondary education

in regard to enhancing productivity and human capital, and imparting necessary skills for the labor market. This is partly due to the fact that this matter falls mostly under the responsibility of the Ministry of Education. In the long run, we support strengthening the education system in this aspect, and the committee calls for the establishment of a government task force dedicated to this topic, which would examine the effectiveness of under-18 training in terms of the labor market.⁸

ADAPTATIONS FOR THE CHANGING LABOR MARKET

The labor market in Israel and worldwide is characterized by technological changes. While the economic research agrees that technological development has always been a feature of the modern world, and is expected to continue over the coming years, there is substantial uncertainty regarding the pace of change; some claim that the pace of technological development is faster today and would accelerate significantly in the near future, while others hold that the pace of future change would be similar or even milder compared to the past. Either way, it is agreed that these changes may cause shifts in the quantity, the attributes, and the mix of available positions and necessary skills.

In the absence of accurate, reliable information regarding these changes, advance preparation is a complex task riddled with uncertainty. Therefore, a key recommendation of the committee in this regard is for the Ministry to closely monitor market trends. **The committee recommends setting up a platform for accessible information, guidance and diagnostics within the Labor Division**, which would provide information on the labor market, specifically information regarding supply and demand trends differentiated according to professions and economic sectors, return in terms of income for studies and training, as well as information on required skills. This platform would draw on close, detailed monitoring of changes in the labor market and information derived from employers in both the public and private sectors, primarily monitoring market fluctuations in the demand for workers with various skills. It would serve employees, employers, training providers, and policy makers.

The committee values the importance of **adapting workers' skills** to the needs of the labor market, with an emphasis on soft skills (such as teamwork) and basic skills. The information that would be gathered, and the identification and classification of required skills, should

⁸ Needless to say, this report does not discuss other elements which impact employment, such as policies in the following areas: transportation, healthcare, innovation, taxing, and investment.

serve as a basis for the development of tools – both pedagogic and otherwise – for imparting these skills, and for the examination of their implementation in training, education and employment schemes according to their level of effectiveness. In particular, the committee asserts the importance of advancing the acquisition of basic skills in population groups where a substantial shortage is identified, such as Hebrew language in Arab society.

The committee recommends reviewing and slackening the framework of labor laws to allow varied employment arrangements and mobility between different employers, in line with the changes in the labor market. This should be done while maintaining the protection of workers' rights and addressing new challenges in this area which stem from the changing labor market.

On the topic of lifelong learning, the committee recommends an applicable review of training, retraining and advancement programs for employees in the public and private sectors whose occupations are demonstratedly declining, placing them on the verge of unemployment, or in cases where training is not implemented due to a market failure.⁹ The committee attaches great importance to the advancement and retraining of every worker throughout their participation in the workforce. Such a process already exists today, and practiced by some employers and workers, and it is claimed that its importance will increase over the next decade due to the expected changes in the labor market.

EMPLOYMENT POROGRAMS FOR TARGET POPULATIONS

In order to achieve the aforementioned targets for employment rate and quality, and in addition to the reform in the vocational and technological training system which would support achieving these targets, the committee recommends devising employment programs which would focus on the population groups for whom targets have been set, and promote their integration and advancement in employment.¹⁰ All programs and devices should be accompanied by effectiveness assessment and constant evaluation.

For the Arab population, the committee recommends:

 Further honing of the activity of employment guidance centers (Rayan) among the women population and increasing their effectiveness, along with adjusting the geographical distribution of the centers to make them more accessible for Arab

⁹ Applicable review means learning from the experience accumulated locally and globally to determine how such programs should be applied, focusing on the worker's employability skills.
¹⁰ These groups, and others, are also cared for by the Commission for Equal Employment Opportunities.

population, if this adjustment is necessary to achieve employment targets, and provided they meet the effectiveness criterion.

- Developing programs for improving skills and human capital, with an emphasis on Hebrew language.
- Developing new programs for occupational advancement.
- Adapting daycare solutions on offer to the needs of the Arab population, to support the achievement of employment targets.
- Advancing programs for increasing the labor productivity of Arab men, according to the principles of the reform in vocational training, specifically in the sectors of traditional manufacturing and construction.
- A job retraining program for academics who face underemployment.
- Strengthening the programs for nurturing excellence in the public sector, governmental companies, and so forth.

For the ultra-Orthodox population, the committee recommends:

- For ultra-Orthodox men, adding an employment emphasis to the draft outline, so that the age of exemption from service would not exceed 22.
- Developing programs for improving skills and human capital, with an emphasis on English language and digital literacy.
- Devising tools for integration into employment in high-income sectors and for expansion of employment capacity for ultra-Orthodox women.
- Reducing financial barriers and disincentives which hinder integration of ultra-Orthodox men in employment, particularly government benefits which reduce the attractivity of seeking employment for ultra-Orthodox men.
- Adjusting employment mechanisms and procedures in a way that would support continued curtailment of teaching quotas and promotion of alternative training.

For people with disabilities, the committee recommends:

 Pursuant to the recent expansion, optimizing existing tools and adjusting them in line with employment targets, to be applied across all employment infrastructures – employment centers, support for employers, and training which is adapted to the needs of people with disabilities. • Coordination and optimization of the programs currently employed by various government offices, and consolidation of their activity under the authority of the Labor Division.

In regard to support for employers, the committee recommends:

Optimizing and enhancing the effectiveness of the support schemes offered to
employers, in order to boost the demands and the suitability for employees from
target populations (as highlighted in the employment targets). Support schemes
should be flexible and uncomplicated to use, while being strictly monitored to ensure
they are utilized to meet employment targets and do not cause rapid turnover of
employees between employers with the sole aim of exploiting the subsidy.

STRUCTURAL CHANGES

In order to make optimal use of the government resources channeled to employment, and as a necessary infrastructure for realizing the vision of the committee and achieving the prescribed targets, the committee recommends that the Labor Division in the Ministry of Labor, Social Affairs, and Social Services will be appointed to integrate and aggregate all pertinent information regarding the labor market and employment-related activity, in order to advance and optimize government activity in this area. In this framework, it is imperative that all employment-related programs conceived by the various government offices will be brought, upon their completion, to the knowledge of the Labor Division.¹¹

We recommend that The Department of Strategy and Policy Planning in the Labor Market will conduct economic research, with an emphasis on measuring the quality, the effectiveness, and the return yielded by employment and training programs, and will also be tasked with gathering and analyzing data and information related to the labor market, market demands, and the needs of the economy, including monitoring the achievement of employment targets. Undertaking these tasks necessitates an extensive, reliable database which contains accurate,

¹¹ Wherever this report mentions a recommendation for "integration" and "coordination", the meaning is according to the above. We do not recommend that any employment-related activity by government offices would require approval from the Labor Division, but professional dialogue should be conducted as necessary, in order for the activity to be optimally conducive to achieving the government's goals in regard to employment. We would like to stress that the receipt of feedback should not be a precondition for execution of the activity.

frequently updated information, hence there is a need to improve and optimize the information currently gathered in the surveys of the Central Bureau of Statistics, to expand and streamline the mechanisms of data transmission from administrative sources (particularly the National Insurance Institute, the Tax Authority, and the Ministry of Education) to the Central Bureau of Statistics, and to perform continuous merging and cross-checking between survey data and administrative data.

The committee recommends setting up a professional advisory forum reporting to the Director of the Labor Division.

As previously mentioned, optimal implementation of the reform in technological education and vocational training requires consolidation of the operations of the Vocational Training Department and the Technological Training System in regard to study programs design, funds allocation, and supervision.