

Labor Market Challenges

Facing Israel's Arab Society

During Normalcy and Emergency

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This is a short summary, for the full paper (in Hebrew) see

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Aaron Institute for Economic Policy

Dedicated to the memory of Aaron Dovrat

The vision of the Aaron Institute for Economic Policy in the Tiomkin School of Economics is to support sustainable economic growth and social resilience, along with poverty reduction. To achieve these goals, the institution strives to design a strategy based on measurable goals, which can be subjected to international comparison, and propose detailed plans for economic policies based on the most updated international knowledge. We focus primarily on reforms towards economic growth stemming from increasing employment and raising the GDP per hour worked (labor productivity) in Israel.

The key measure of sustainable economic growth – GDP per capita – is still low in Israel compared to leading developed countries, and so is labor productivity. Through its economic studies, the Aaron Institute presents goals, innovative policy tools, and reforms to promote growth, high-quality employment, and labor productivity.

The Institute's mission is to help shaping the socioeconomic policy in Israel through the development of long-term plans that address the full range of economic and social issues facing the Israeli economy. Our main focus is families with less than median income, who comprise significant parts of the Arab and Haredi (ultra-Orthodox) populations. In these groups specifically, increasing employment and productivity would greatly contribute to achieving the goals of growth, social resilience, and poverty reduction. In addition, our studies aim to influence the professional discourse, and to stimulate discussion based on reliable information and socioeconomic research that offers practical tools to achieve these goals.

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The Center for Economic Policy of the Israeli Arab Population

The Aaron Institute has established The Center for Economic Policy of the Israeli Arab Population with a vision of advancing the manufacturing and business economy in Israeli-Arab population, and enhancing its integration in the Israeli economy. The activity of this center is part of Aaron Institute's comprehensive economic strategy for the Israeli economy, which aims to achieve sustained growth in GDP and labor productivity, along with reduced poverty and inequality. The center's activity focuses on presenting government decision-makers with recommendations for implementation of long-term economic policies for Israel's Arab population, and promoting their enactment in practice.

In accordance with the center's vision, activity revolves around designing strategies and devising policies in the fields of education, employment, and infrastructure, through collaboration with various government offices, and particularly the Ministry of Finance and the Authority for Economic Development of the Minority Sectors. Policy recommendations include proposals for detailed programs which are based on up-to-date data regarding the Arab population in Israel, as well as economic knowledge acquired nationally and internationally, while taking into consideration existing customs and cultural norms in Israel, including political limitations. Research findings and recommendations are presented at public roundtable discussions held in Arab localities, with participants including Arab and Jewish professionals such as researchers, decision-makers, and senior figures from the business and public sectors. Our collaboration with government offices, especially the Ministry of Finance, enables us to enhance the center's impact and to translate its proposals into government decisions with allocated funds, which engender the implementation of long-term policies in various fields.

JDC-Tevet Partnership

The JDC-Tevet partnership is a broad governmental partnership led by the Ministry of Labor to promote activities within the employment and inclusive productivity challenge. The purpose of the partnership is to act with a comprehensive vision and promote central, innovative, and measurable processes within the challenge, which refers to improving productivity alongside the integration of populations into quality employment.

In order to shape the directions of action a strategic partnership was built with the Aaron Institute, which assists within the framework of the Tevet partnership in accompanying and implementing the processes, which will be promoted in accordance with the national goals set by the 2030 committee.

Labor Market Challenges Facing Israel's Arab Society During Normalcy and Emergency

This study portrays the gaps in the labor market between Israel's Jewish and Arab populations as reflected in an overview of employment rate and quality at times of normalcy and emergency. It examines the impact of the war on employment in Arab society and presents recommendations for policies that would address employment challenges and promote the integration of Arab men and women into high-quality employment.

Looking back at the labor market in 2022, it is evident that the starting conditions of Arab society were unfavorable even before the outbreak of the war on October 7, 2023, characterized by substantial disparities in comparison to the non-Haredi Jewish society in terms of education, employment rates, and labor income. Among men, the main employment challenges are low education rates, increasing gaps in employment compared to non-Haredi Jewish men at the younger ages (25-44), and a high concentration of workers in low-productivity sectors and occupations involving physical labor. Among women, the biggest challenge concerns low employment rates, particularly among those with lower educational attainment, along with a low rate of academic education and large wage gaps across all educational attainment levels.

These starting conditions place Israel's Arab society in a disadvantaged position at times of crisis, making it more vulnerable. The slump in employment during the war (between October 2023 and February 2024) is most pronounced in Arab society, and **the war has led to a dramatic decline in effective employment (excluding absentees due to economic and other reasons) of Arab society, in particular Arab men, completely erasing the uptick which had been seen among Arab men and women during the first three quarters of 2023, prior to the war.** In the first month of the war, there was also a new phenomenon of significant absence of Arab men and women from their workplace due to "other" reasons, other than economic reasons or military reserve duty, and we assume that this situation reflects tensions between Arabs and Jews and a diminished sense of personal safety which prevented them from showing up at their workplaces, as well as restrictions imposed on Arab workers which hindered their access to work. Among non-Haredi Jews and Arab women, the decline in employment at the beginning of the war had been temporary, diminishing and vanishing later on. **Among Arab men, who are the primary wage earners in most Arab households, employment rates have not yet fully returned to their pre-war levels at the time of writing.** It appears that in Arab society, the war may mark the

beginning of an ongoing shift in the labor market, which might lead to an even worse downturn in the medium and long term.

In order to reduce the gaps in the labor market and in labor income between Arab and non-Haredi Jewish households during normalcy, and abate the vulnerability of Arab workers during emergency, measures should be taken to increase employment rate and improve employment quality in Arab society, through: (1) **raising the rate of tertiary education, either academic or technological, in Arab society** – investing in the education system from daycare through high school, enhancing competencies and soft skills with an emphasis on improving Hebrew-language literacy, diagnosis, counselling and guidance for high-school students and young adults, gap year programs and pre-academic courses for acquiring skills and filling in skill gaps past the age of 18, developing vocational and technological training courses in line with labor market demands and in collaboration with employers, and addressing barriers to academic education; (2) **a significant increase in employment among non-educated Arabs, particularly non-educated women** – regional employment centers which are adapted to local needs and provide skill-based diagnosis and guidance services, filling in skill gaps, and support through training, job search, and placement, employment hubs in or around Arab communities, and addressing the unique barriers facing Arab women with an emphasis on those with low educational attainment; (3) **increasing the availability of high-quality employment opportunities** – encouraging entrepreneurship in Arab society to create high-productivity businesses, and supporting an increase in productivity among existing employers through the integration of technological as well as non-technological innovation and building management skills; (4) **building trustful relationships between Arab and Jewish workers, and between Arab workers and Jewish employers** – diversity and inclusion programs aimed at Arab workers, setting ambitious targets for the employment and promotion of Arab workers in the public sector and implementing policies to achieve these targets; (5) **adapting the entirety of policy measures to the needs and demands of each region** and each distinct group within Arab society; (6) **continuing the full implementation of government decisions and economic development plans for Arab society from previous years.**

1. Summary and Conclusions

The aim of this study is to portray the gaps in the labor market between Israel's Jewish and Arab populations as reflected in an overview of employment rate and quality at times of normalcy and emergency, examine the impact of the war on employment in Arab society, and present recommendations for policies that would address employment challenges and promote the integration of Arab men and women into high-quality employment.

Looking back at the labor market in 2022, it is evident that the starting conditions of Arab society were unfavorable even before the outbreak of the war on October 7, 2023, characterized by substantial disparities in comparison to the non-Haredi Jewish society:

- The employment rate of Arab men in the primary working age group (25-64) stands at 74%, around 13 percentage points lower than that of non-Haredi Jewish men, and the employment rate of Arab women has been increasing over the last two decades but is still much lower than that of Jewish women, at 43%.
- **77% of Arab men and 69% of Arab women have a high school education level or lower, and the employment gaps between Arab and non-Haredi Jewish societies are largest at this educational attainment level.**
- Tertiary education (academic or otherwise) greatly improves the likelihood of employment, and its impact among Arabs is larger compared to non-Haredi Jews.
- However, **even if educational attainment levels in Arab society match those of Jewish society, in particular an equal proportion of non-educated people, substantial employment gaps will still remain between the two groups**, due to the low employment rates of non-educated men, and even more so of non-educated women, in Arab society.
- Among workers with a high school education level or lower, 70% of Arab men and 30% of Arab women are employed in occupations involving physical labor, compared to 39% of non-Haredi Jewish men and 10% of non-Haredi Jewish women.
- While the two prominent employment sectors among non-Haredi Jewish men are high-tech and professional and financial services, which are characterized by high labor productivity, among Arab men the two leading sectors are construction and commerce, which are characterized by low productivity.
- The labor income of employees in Arab society is 63% of that of employees in non-Haredi Jewish society, for both men and women. This gap stems from differences in both the number of hours worked and hourly wages, and is most pronounced in the hourly wages of workers with a high school education level or lower.

- As a result of the gaps in education, employment rates, and wages, **the labor income of an Arab household is 60% of that of a non-Haredi Jewish household.**
- The most significant factor in household labor income gaps is women's employment, particularly women with low educational attainment levels. Closing the employment gaps between Arab women aged 25 to 44 and their non-Haredi Jewish counterparts across all educational attainment levels will lead to a 20% reduction in the income gap between households in these age group (Lifshitz and Larom, 2024).

These data indicate that the employment challenges facing Arab society in times of normalcy are numerous and large, differing between men and women. For men, the main challenges include low education rates, increasing gaps in employment compared to non-Haredi Jewish men at the younger ages (25-44), and a high concentration of workers in low-productivity sectors and occupations involving physical labor. For women, the biggest challenge concerns low employment rates, particularly among those with lower educational attainment, even in comparison to Haredi women whose employment rate has actually improved. Even the increase in the educational attainment level of Arab women in recent decades (Tehawkho et al., 2022) has only slightly reduced this gap. Other big challenges facing Arab women include a low rate of academic education (albeit still higher than it is among Arab men) and large income gaps across all educational attainment levels.

These starting conditions in the labor market place Israel's Arab society in a disadvantaged position at times of emergency, making it more vulnerable to crises. In particular, the war which started on October 7, 2023, and had a far-reaching impact on the Israeli society and economy as a whole, had a unique impact on employees from the Arab society, who suffered a harder blow than Jewish employees in the first month of the war (Tehawkho, Loewenthal, and Partush, 2023). In this paper, we present a new analysis of employment data during the war (between October 2023 and February 2024), which indicates that even after the first month, the population group most negatively affected in the labor market due to the war has been Arab men, followed by Arab women. **The war has led to a dramatic decline in the effective employment (excluding absentees due to economic and other reasons) of Arab society, in particular Arab men, completely erasing the uptick that had been seen among Arab men and women during the first three quarters of 2023, prior to the war.** Throughout the war, the share of Arab men aged 25 to 64 who were absent from their workplace due to economic reasons, including mostly furloughed workers, has been two to three times higher than that of Jewish men. The scope of absence due to economic

reasons has been larger than at any other time since records of monthly employment data began in 2012, with the exception of the COVID-19 pandemic.

This war has also given rise to a new phenomenon in the labor market, not witnessed in previous military campaigns, of significant workplace absence due to “other” reasons, other than economic reasons (e.g., furlough) or military reserve duty. Such absence was seen mainly during the first month of the war and was particularly dominant among Arab men and women, for whom it was the leading cause of absence. We assume that this situation reflects tensions between Arabs and Jews and a diminished sense of personal safety, which prevented them from showing up at their workplaces, as well as restrictions imposed by Jewish mayors on Arab workers which hindered their access to their workplaces, such as construction sites. In this context, we present a comparison between studies and public opinion polls conducted before and after the outbreak of the war, which shows an increase in negative sentiments between Jews and Arabs in workplaces and otherwise, but also suggests that positive encounters between Jews and Arabs in workplaces have helped to reduce such sentiments.

Among non-Haredi Jews and Arab women, the slump in employment at the beginning of the war had been temporary, diminishing and vanishing later on. **Among Arab men, who are the primary wage earners in most Arab households, employment rates have not yet fully returned to their pre-war levels at the time of writing, and there has also been a decrease in their official employment rate (which includes absentees).** It should be noted that a breakdown of absentees suggests that throughout the war, 40% of all Arab men who have been absent from their workplace due to economic or other reasons have been employed in the construction sector, and that the decline in employment has been more significant among non-educated men. It appears that in Arab society, the war marks the beginning of an ongoing shift in the labor market, which might lead to an even worse downturn in the medium and long term.

In order to reduce the gaps between Arab and non-Haredi Jewish households during normalcy, and abate the vulnerability of Arab workers during emergency, measures should be taken to increase employment rate and improve employment quality in Arab society, through:

1. **Raising the rate of tertiary education, either academic or technological, in Arab society,** in light of the findings regarding the contribution of such an education to employment. This is specifically pertinent to men, who have a particularly low rate of tertiary education. These measures include investing in the education system from daycare through high school, with intervention starting as early as possible and continuing throughout all age groups; enhancing competencies and soft skills with an emphasis on improving Hebrew-language literacy; diagnosis, counselling and guidance for high-school students and young adults; gap year programs and pre-academic courses for acquiring skills and filling in skill gaps past the age of 18; developing vocational and technological training courses in line with labor market demands and in collaboration with employers; addressing barriers to academic education.
2. **A significant increase in employment among non-educated Arabs, particularly non-educated women,** in light of the findings showing particularly low employment rates in this group. The main tool for achieving this goal consists of regional employment centers, which are adapted to local needs and provide skill-based diagnosis and guidance services, filling in skill gaps, support through training and education, and ongoing support in job search and placement. Additional measures include creating employment hubs in or around Arab communities, and addressing the unique barriers facing Arab women, with an emphasis on those with low educational attainment, such as transport access and childcare for young children.
3. **Increasing the availability of high-quality employment opportunities,** in light of the findings regarding the prevalence of low-quality employment among Arab workers, as reflected in their concentration in low-skill occupations and low-productivity sectors, as well as a mismatch between education and occupation, and substantial wage gaps in comparison to Jewish workers. Addressing this issue involves encouraging entrepreneurship in Arab society to create high-productivity businesses, supporting an increase in productivity among existing employers through the integration of technological as well as non-technological innovation and the building of management skills, and developing and empowering communities as an infrastructure which would support high-quality employment.

4. **Building trustful relationships between Arab and Jewish workers and between Arab workers and Jewish employers**, in light of the findings indicating an increase in negative sentiments between Jews and Arabs in workplaces and the role of positive encounters between Jews and Arabs in reducing such sentiments. Workplaces in the business and public sectors should invest in diversity and inclusion programs aimed at Arab workers and workers from other disadvantaged groups, while also setting ambitious targets for the employment and promotion of Arab workers in the public sector and implementing policies to achieve these targets.
5. **Adapting the entirety of policy measures to the needs and demands of each region** and each distinct group within Arab society, e.g., residents of the northern region, Bedouins in the south, or residents of mixed cities, to address the differences found in the employment characteristics of different regions.
6. **Continuing the full implementation of government decisions and economic development plans for Arab society from previous years.**