



# The Impact of the War on Israel's Arab Society and the Necessary Policy Measures

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

<https://www.runi.ac.il/research-institutes/economics/aiep/policy-papers>

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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.

## The Impact of the War on Israel's Arab Society and the Necessary Policy Measures

The economic robustness of Israel's Arab society is important for the growth and prosperity of the Israeli economy. Even before the war started on October 7, there were already significant economic disparities between Jewish and Arab citizens. Gaps in education and human capital have contributed to low employment rates among Arabs in comparison to Jews, and even to abandonment of the labor market and increased idleness among young Arab men. In recent years, we have begun to see some implementation of government plans aiming to reduce these gaps and promote the economic development of Arab society. The war may erase the achievements of these plans and trigger further socio-economic decline in Israel's Arab society, which would only exacerbate the existing problems.

Analyzing data from the October 2023 Labor Force Survey conducted by the Central Bureau of Statistics (CBS) **shows that in the prime working age group (25-64), Arab men have been harmed more severely than any other group. 28.9% of employed Arab men in this age group were absent from their workplace due to war-related reasons:** around a third of them were absent due to furlough, and the rest were absent due to "other" reasons, which are likely to stem from the heightened tensions between Arabs and Jews. The sector with the highest absence rate is construction, as around half of Arab men employed in this sector were absent from work in October. Among Jewish men, only 8.9% of employees were absent due to furlough and "other" reasons. Among the 18-24 age group in Arab society, the absence rate (out of all employees) due to war-related reasons was even higher than in the primary working age group.

In addition to the impact of the overall damage suffered by the economy as a whole and by the economic sectors that have a high proportion of Arab workers, the increasing tension between Jews and Arabs may lead to the exclusion of Arab workers by firms and employers which operate in Jewish and mixed communities, thus reducing employment rates in Arab society, leading in turn to a widening of the economic disparities between the Arab and Jewish societies, an increase in the prevalence of violence and crime, and other deviant behaviors such as idleness among young adults and gravitation toward unscrupulous business and criminal organizations due to economic hardship.

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In order to prevent such a deterioration, we propose a set of measures meant to preserve existing workers, invest in incentives to work among the unemployed, strengthen municipal authorities, fight crime, and promote other key issues. These measures will not only help the Arab society and Israel as a whole to emerge from the war in a better economic situation, but will also enhance the Arab society's trust in the government and in the state's institutions.

## 1. Summary and Conclusions

The economic robustness of Israel's Arab society plays a substantial role in maintaining the growth trajectory of the Israeli economy, both in times of routine and emergency. Even before the war that started on October 7, 2023, there were already significant economic disparities between Jewish and Arab citizens. Gaps in education and human capital have contributed to low employment rates among Arabs in comparison to Jews, and even to the abandonment of the labor market by Arab men and increased idleness among younger men. In addition, residents of Arab communities and Arab neighborhoods in mixed towns and cities have been encumbered by low-quality infrastructures and public services, along with high rates of crime and violence. In recent years, there has been some initial implementation of government plans aiming to reduce these gaps and promote the economic development of Arab society.

The war may erase the achievements of these plans and trigger further socio-economic decline in Israel's Arab society, which would only exacerbate the existing problems.

Analyzing data from the October 2023 Labor Force Survey conducted by the CBS reveals a significant decrease in effective employment across the economy, manifested in the absence of workers due to conscription for military reserve duty; due to economic reasons, mainly furlough; and due to "other" reasons, presumably the temporary closure of children's educational institutions, refraining from going to workplaces out of concern for personal safety, and restrictions imposed on Arab workers which prevented them from reaching their workplaces (in the construction sector, for example).

**Breaking down the data by population groups shows that in the prime working age group (25-64), Arab men have been harmed more severely than any other group, with a dramatic drop of over 22 percentage points in effective employment, caused by the absence of 28.9% of employed Arab men due to war-related reasons:** around a third of them were absent due to furlough and the rest were absent due to "other" reasons, which probably stem from the heightened tensions between Arabs and Jews and from a sense of compromised personal safety which prevented them from getting to their workplaces, alongside restrictions imposed by mayors of Jewish municipalities which barred Arab workers from reaching their workplaces, such as construction sites. The corresponding figures for Jewish men show a decrease of only 7.8 percentage points in the effective employment rate, caused by the absence of 8.4% of employees due to furlough and "other" reasons (on top of a decrease of 7.1 percentage points due to the call-up of reserve soldiers).

**Table 1: Rate of absence from workplace due to war-related reasons (except for military reserve duty) out of all employees in October 2023, 25-64 and 18-24 age groups, by population groups**

	25-64	18-24
Arab Men	28.9%	32.4%
Non-Haredi Jewish Men	8.4%	7.4%
Arab Women	20.3%	36.0%
Non-Haredi Jewish Women	13.7%	14.2%

Segmentation of the numbers of Arab men aged 25 to 64 who were absent from work in October, by economic sectors and occupations, supports the aforementioned assumption, as the highest absence rate was observed in the construction sector, and indeed around half of Arab men employed in the construction sector were absent from their workplace in October. Unlike Arab women during the current crisis, and unlike Arab men during the COVID-19 crisis, for whom the decline in employment was mostly concentrated among those with lower educational levels, in the current crisis, the drop in employment among Arab men trickled upwards and affected a substantial decline in employment among individuals with a bachelor's degree as well.

In the 18-24 age group, the absence rates due to war-related reasons among young adults in Arab society were even higher than in the prime working age group, reaching 32.4% among men and 36.0% among women – significantly higher rates than those of their Jewish counterparts, which were 7.4% and 14.2%, respectively.

Since the current data represent short-term effects during the month of October, it is highly important to keep track of employment data over the coming months, in order to identify the effects of the war in the longer term, as ongoing decline in employment may have negative economic and political repercussions in the medium and long term. On top of the economic damage to the national economy and to the economic sectors which have a large proportion of Arab workers, ignoring and failing to address the rising tension between Jews and Arabs may lead to exclusion of Arab workers by firms and employers which operate in Jewish and mixed communities. Furthermore, the growing tension between Jews and Arabs may also have consequences for workplaces which employ highly educated workers, as well as academic institutions, where the exclusion of Arab students may push them to drop out. In the long run, such a decline in the employment of Arab workers will cause the economic gaps between Arab and Jewish societies to grow, and the ensuing economic hardship is likely to increase the prevalence of violence and crime, as well as other deviant behaviors such as idleness among young adults and gravitation toward unscrupulous businesses and criminal organizations due to economic hardship.

In order to prevent such a deterioration, we propose a set of immediate measures meant to preserve existing workers in the short term and enhance employment in the medium and long run, along with investment in improving the quality of employment, aiming to **achieve the targets set by the Employment 2030 Committee**. In addition to investment in education, strengthening of skills including Hebrew literacy, and incentives for integration into academic education, we recommend developing and subsidizing technological and vocational training in low productivity sectors with high demand for workers, in order to enhance the employment quality of existing workers and boost the attractiveness of entering the labor market for non-employed individuals with low human capital. In addition, as part of the necessary budgetary responsibility, adjustments should be made in the budgets allocated to the Arab society, with an emphasis on growth engines and particularly the strengthening of municipal authorities, fighting crime, and promoting other key issues. These measures will not only help the Arab society and Israel as a whole to emerge from the war in a better economic situation, but will also enhance the Arab society's trust in the government and in the state's institutions.